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OPEN JOINT STOCK COMPANY BANK OF BAKU

Consolidated Financial Statements
For the Year Ended December 31, 2011

OPEN JOINT STOCK COMPANY BANK OF BAKU

TABLE OF CONTENTS

OPEN JOINT STOCK COMPANY BANK OF BAKU

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Open Joint Stock Company Bank of Baku and its subsidiary (the "Group") as at December 31, 2011, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2011 were approved by management on May 16, 2012:

On behalf of the Management Board:

Chairman
Mr. Farid Alizade

May 16, 2012
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

May 16, 2012
Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Bank of Baku and its subsidiary (collectively – the "Group"), which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements of the Group for the year ended December 31, 2011 present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group as at December 31, 2010 and for the year then ended were audited by another auditor who expressed an unmodified opinion on those statements on May 10, 2011.

Deloitte & Touche.

May 16, 2012
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Interest income			
Loans to customers, excluding finance lease receivables		61,094	41,562
Finance lease receivables		961	724
Amounts due from banks and other credit institutions		258	380
Investment securities available-for-sale		251	230
Guarantees issued		176	126
Other debt securities		152	110
	24	**62,892**	**43,132**
Interest expense			
Amounts due to customers		(20,647)	(14,104)
Amounts due to banks and other financial institutions		(2,466)	(4,384)
Subordinated debts		(412)	(374)
	24	**(23,525)**	**(18,862)**
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		**39,367**	**24,270**
Provision for loan impairment losses	5, 24	(1,304)	(2,143)
NET INTEREST INCOME		**38,063**	**22,127**
Net fee and commission income	6, 24	3,966	2,421
Net gains/(losses) from foreign currencies:			
- dealing		492	560
- translation differences		(102)	56
Other income	7	2,442	1,385
NET NON-INTEREST INCOME		**6,798**	**4,422**
Personnel expenses	8, 24	(13,332)	(10,318)
Depreciation and amortization	8	(1,400)	(1,297)
Other operating expenses	8, 24	(4,406)	(3,251)
NON-INTEREST EXPENSES		**(19,138)**	**(14,866)**
PROFIT BEFORE INCOME TAX		25,723	11,683
Income tax benefit/(expense)	9	521	(86)
NET PROFIT FOR THE YEAR		26,244	11,597
Other comprehensive income/(loss)		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		26,244	11,597

Bank of Baku OJSC

On behalf of the Management Board:

Chairman
Mr. Farid Alizade

May 16, 2012
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

May 16, 2012
Baku, the Republic of Azerbaijan

The notes on pages 8-47 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011
(in thousands of Azerbaijan Manats)

	Notes	December 31, 2011	December 31, 2010
ASSETS			
Cash and cash equivalents	10	17,976	17,055
Amounts due from banks and other credit institutions	11	5,574	4,946
Loans to customers	12, 24	257,580	178,176
Investment securities available-for-sale	13	8,691	26,616
Other debt securities	14	5,012	3,617
Property and equipment	15	9,684	8,620
Intangible assets	16	290	292
Other assets	17	2,490	605
TOTAL ASSETS		**307,297**	**239,927**
LIABILITIES AND EQUITY			
LIABILITIES:			
Amounts due to banks and other financial institutions	18	37,990	39,584
Amounts due to customers	19, 24	206,158	155,756
Current income tax liabilities		86	18
Deferred income tax liabilities	9	708	1,433
Other liabilities	20, 24	2,323	3,975
Subordinated debt	21, 24	2,816	2,856
Total liabilities		**250,081**	**203,622**
EQUITY:			
Share capital	22	26,180	12,852
Property revaluation reserve		4,424	4,788
Retained earnings		26,612	18,665
Total equity		**57,216**	**36,305**
TOTAL LIABILITIES AND EQUITY		**307,297**	**239,927**

On behalf of the Management Board:

Bank of Baku OJSC

Chairman
Mr. Farid Alizade

May 16, 2012
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

May 16, 2012
Baku, the Republic of Azerbaijan

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OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Azerbaijan Manats)

	Notes	Share capital	Property revaluation reserve	Retained earnings	Total equity
December 31, 2009		6,800	5,156	20,904	32,860
Total comprehensive income for the year		-	-	11,597	11,597
Depreciation of revaluation reserve			(368)	368	-
Capitalization of profit for the year 2009 to share capital	22	6,052	-	(6,052)	-
Dividend tax on capitalized profit of 2009 and 2010		-	-	(2,152)	(2,152)
Dividends declared	22	-	-	(6,000)	(6,000)
December 31, 2010		12,852	4,788	18,665	36,305
Total comprehensive income for the year		-	-	26,244	26,244
Depreciation of revaluation reserve		-	(364)	364	-
Capitalization of profit for the year 2010 to share capital	22	13,328	-	(13,328)	-
Dividends declared	22	-	-	(5,333)	(5,333)
December 31, 2011		26,180	4,424	26,612	57,216

On behalf of the Management Board:

Chairman
Mr. Farid Alizade

May 16, 2012
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

May 16, 2012
Baku, the Republic of Azerbaijan

Bank of Baku ASC
Bank of Baku OJSC

The notes on pages 8-47 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		65,521	43,615
Interest paid		(21,188)	(16,665)
Fees and commissions received		5,168	3,506
Fees and commissions paid		(1,202)	(1,085)
Net realized gains from dealing in foreign currencies		492	560
Other income received		2,453	1,356
Personnel expenses paid		(13,093)	(9,147)
Other operating expenses paid		(4,447)	(3,111)
Cash flows from operating activities before changes in operating assets and liabilities		33,704	19,029
Net (increase)/decrease in operating assets			
Amounts due from banks and other credit institutions		(659)	2,392
Loans to customers		(84,133)	(52,349)
Other assets		(412)	(51)
Net increase /(decrease) in operating liabilities			
Amounts due to banks and other financial institutions		(508)	(12,309)
Amounts due to customers		48,436	61,563
Other liabilities		(1,286)	(405)
Net cash (outflow)/inflow from operating activities before income tax		(4,858)	17,870
Income tax paid		(136)	-
Net cash (outflow)/inflow from operating activities		(4,994)	17,870
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities available-for-sale		(83,311)	(120,468)
Proceeds from sale and redemption of investment securities available-for-sale		101,147	108,264
Purchase of other debt securities		(1,354)	(3,589)
Purchase of property and equipment		(3,911)	(724)
Proceeds from sale of property and equipment		9	11
Acquisition of intangible assets	16	(48)	-
Net cash inflow/(outflow) from investing activities		12,532	(16,506)

OPEN JOINT STOCK COMPANY BANK OF BAKU

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(4,794)	(5,126)
Withholding tax paid on capitalization		(1,481)	(672)
Net cash outflow from financing activities		(6,275)	(5,798)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(342)	(91)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		921	(4,525)
CASH AND CASH EQUIVALENTS, beginning of the year	10	17,055	21,580
CASH AND CASH EQUIVALENTS, end of the year	10	17,976	17,055

Significant non-cash financing transaction

Non-cash transactions performed by the Bank during 2011 comprised the capitalization of its 2010 profit and issuance of share capital for AZN 13,328 thousand (2010 – capitalization of 2009 profit and issuance of share capital for AZN 6,052 thousand).

On behalf of the Management Board:

Bank of Baku OJSC

Chairman
Mr. Farid Alizade

May 16, 2012
Baku, the Republic of Azerbaijan

Chief Accountant
Mrs. Rena Efendiyeva

May 16, 2012
Baku, the Republic of Azerbaijan

The notes on pages 8-47 form an integral part of these consolidated financial statements.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

OJSC Bank of Baku is the parent company of the Group. On February 18, 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 ("CBAR") on February 18, 2005. The Bank changed its name from Open Joint Stock Commercial Bank "Bank of Baku" to Open Joint Stock Company "Bank of Baku" on May 15, 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 18 branches (2010: 15) in Baku and other cities in Azerbaijan (2010: 1 servicing outlet). The Bank's registered legal address is 42 Ataturk Avenue, Baku, AZ 1069, Azerbaijan.

Starting from July 30, 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 CBAR banking licence.

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

Name	Country of operation	Proportion or ownership interest/voting rights (%) 2011	2010	Type of operation
Bank of Baku OJSC	*The Republic of Azerbaijan*	*parent*		*Banking*
BOB Broker Ltd.	*The Republic of Azerbaijan*	100	100	*Broker services*

"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 February 28, 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 May 15, 2007.

As at December 31, 2011 and 2010, the following shareholders owned issued shares of the Bank:

Shareholder	**December 31, 2011, %**	**December 31, 2010, %**
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**	**100**

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.

These consolidated financial statements were authorized for issue on May 16, 2012 by the Management Board.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Other basis of presentation criteria

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Azerbaijan Manats ("AZN"), unless otherwise indicated. These consolidated financial statements have been prepared on the historical cost basis except for buildings and certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Bank and its consolidated companies, registered in the Republic of Azerbaijan, maintain their accounting records in accordance with local accounting practice. These consolidated financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 27.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entity controlled by the Bank (its subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

When necessary, adjustments are made to the financial statements of subsidiary to bring its accounting policies into line with those used by the Group.

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

Recognition of interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability or group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

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

Interest earned on assets at fair value is classified within interest income.

Recognition of revenue – other

Recognition of fee and commission income

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 profit or loss 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 profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided.

All other commissions are recognized when services are provided.

Recognition of dividend income

Dividend income is recognized on the ex-dividend date (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Cash and cash equivalents

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

Financial assets

Financial assets of the Group are classified into the following specified categories: 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Notes of the Central Bank of the Republic of Azerbaijan held by the Group that are traded in an active market are classified as AFS and are stated at fair value.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Other debt securities

This classification includes unquoted non-derivative financial assets with fixed or determinable payments and fixed maturities. Management determines the classification of other debt securities at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Other debt secutities are carried at amortised cost and are classified as loans and receivables category under IAS 39.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as default or delinquency in interest or principal payments
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation or
- Disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of loans and receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a loan or a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss.

Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Renegotiated loans

Where possible, the Group 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 any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually 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.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Group and after the Group has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery. In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Board and, in certain cases, with the respective decision of the Court.

Derecognition of financial assets

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

- Rights to receive cash flows from the asset has expired;
- The Group 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 Group 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.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer required that the Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to receive the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Group reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Group assesses whether of not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Group retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instrument

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as 'other financial liabilities'

Other financial liabilities

Other financial liabilities, including amounts due to banks and other financial instructions, amounts due to customers, other liabilities and subordinated debt, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. 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. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets ; and
- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Property and equipment

Buildings and other real estate held for use in the production or supply of goods or services, or for administrative purposes, land is stated at cost and buildings are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Furniture and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

	December 31, 2011
Buildings	5%
Furniture and equipment	20%
Computers and communication equipment	25%
Vehicles	20%
Other	20%

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Intangible assets are amortized over 10 years useful life,

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Operating taxes

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognised in profit or loss.

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

	December 31, 2011	**December 31, 2010**
AZN/1 US Dollar	0.7865	0.7979
AZN/1 Euro	1.0178	1.0560

Collateral

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

Repossessed collateral is measured at the lower of their previous carrying amount and fair value less costs to sell.

Equity reserves

The reserve recorded in equity on the Group's consolidated statement of financial position includes revaluation reserves which comprise change in fair value of buildings.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

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

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

As at December 31, 2011 and 2010 the gross loans to customers totaled AZN 265,674 thousand and AZN 186,638 thousand, respectively, and allowance for impairment losses amounted to AZN 8,094 thousand and AZN 8,462 thousand, respectively.

Valuation of financial instruments

As described in Note 25, the Group uses valuation techniques that include inputs that are not based on observable market date to estimate the fair value of certain types of financial instruments. Note 25 provide detailed information about the key assumptions used in the determination of the fair value of financial instruments, as well as the detailed sensitivity analysis for these assumptions. The Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

Useful lives of property and equipment

As described above, the Group reviews the estimated useful lives of property and equipment at the end of each annual reporting period.

Property and equipment carried at revalued amounts

Certain property (buildings) is measured at revalued amounts. The latest full scope appraisal was as of December 31, 2009. The indicative value market approximation was as of December 31, 2010. The next full scope revaluation is preliminary scheduled as at December 31, 2012. The carrying value of revalued property amounted to AZN 6,867 thousand and AZN 6,977 thousand as at December 31, 2011 and 2010, respectively.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

The Group has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Group's annual consolidated financial statement for the year ended December 31, 2011:

- IFRS 3 (2008) "Business Combinations" / IAS 27 "Consolidated and Separate Financial Statements" — amendments resulting from May 2010 Annual Improvements to IFRSs: 1) transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; 2) clarification on measurement of non-controlling interests;
- IFRS 7 "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
- IAS 24 "Related Party Disclosures" — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Group, and all have been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

Amendments to IAS 24 – The disclosure exemptions introduced in IAS 24 (as revised in 2010) do not affect the Group because the Group is not a government-related entity.

3.1 New and revised IFRSs in issue but not yet effective

At the date of authorization of this financial information, the following new standards and interpretations were in issue, but not yet effective, and which the Group has not early adopted:

- IFRS 7 "Financial Instruments: Disclosures" — amendments enhancing disclosures about transfers of financial assets [1];
- IFRS 9 "Financial Instruments" [2];
- IFRS 10 "Consolidated Financial Statements" [3];
- IFRS 11 "Joint Arrangements" [3];
- IFRS 12 "Disclosure of Interest in Other Entities" [3];
- IFRS 13 "Fair Value Measurement" [2];
- IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented [4];
- IAS 12 "Income Taxes" — Limited scope amendment (recovery of underlying assets) [5];
- IAS 27 - reissued as IAS 27 "Separate Financial Statements" (as amended in May 2011) [3];
- IAS 28 - reissued as IAS 28 "Investments in Associates and Joint Ventures" (as amended in May 2011) [3].
- IAS 32 – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements[7].

[1] Effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.

[2] Effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

[3] Each of the five standards becomes effective for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the other standards in the 'package of five' are also early applied (except for IFRS 12 that can be applied earlier on its own).

[4] Effective for annual periods beginning on or after July 1, 2012, with early adoption permitted.

[5] Effective for annual periods beginning on or after January 1, 2012, with earlier application permitted.

[6] Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

[7] Effective for annual periods beginning on or after January 1, 2014. The new offsetting disclosure requirements are effective for annual periods beginning on or after January 1, 2013.

Amendments to IFRS 7 – The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before July 1, 2011. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 9 – was issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Group management anticipates that IFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 10 Consolidated Financial Statements – replaces all of the guidance on control and consolidation in IAS 27 and SIC-12 by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights or through other contractual arrangements as is common in special purpose entities).

Under IFRS 10, the single definition of control, accompanied by extensive application guidance, is based on whether an investor has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the returns.

IFRS 11 Joint Arrangements – replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures (the 'jointly controlled assets' classification exists no more).

- In recognising their rights and obligations arising from the arrangement, the parties should no longer focus on the legal structure of the joint arrangement, but rather on how rights and obligations are shared by them.
- A joint operation gives parties to the arrangement direct rights to the assets and obligations for the liabilities. Thus, a joint operator recognises its interest based on its involvement in the joint operation (ie based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement. A party to a 'joint operation' recognises assets, liabilities, revenues and expenses arising from the arrangement.
- A joint venture gives the parties rights to the net assets or outcome (profit or loss) of the arrangement. Joint ventures are accounted for using the equity method in accordance with IAS 28 "Investments in Associates". Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. A party to a 'joint venture' recognises an investment.

IFRS 12 Disclosure of Interests in Other Entities – requires enhanced disclosures about both consolidated and unconsolidated entities in which an entity has involvement, so that financial statement users are able to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Thus, IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11 and replaces the disclosure requirements currently found in IAS 28.

IAS 27 (2011) Separate Financial Statements – includes the provisions on separate financial statements that are left almost unchanged after the control provisions of IAS 27 have been replaced with the new IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures – now includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

The Group intends to adopt this package of standards as of January 1, 2013 and is currently assessing the impact of adoption.

IFRS 13 Fair Value Measurement – aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

- defines fair value;
- sets out in a single IFRS a framework for measuring fair value;
- requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 "Share-based Payment", leasing transactions within the scope of IAS 17 "Leases", and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 "Inventories" or value in use in IAS 36 "Impairment of Assets".

The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements – revise the way other comprehensive income is presented.

The amendments to IAS 1:

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The Group does not expect this amendment to have a material effect on its financial position or results of operations.

Amendment to IAS 12 Income Taxes – provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale.

Retrospective application is required in accordance with IAS 8.

Amendments to IAS 32 Financial Instruments: Presentation - provide clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 *Financial Instruments: Disclosure* require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Bank's financial position.

The Group is considering the impact of these amendments on the consolidated financial statements and the timing of their application.

4. RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at December 31, 2010 and for the year then ended to conform to the presentation as at December 31, 2011 and for the year then ended as current year presentation provides better view of the consolidated financial position of the Group.

The effect of reclassifications made to the consolidated statement of financial position as at December 31, 2010 is as follows:

	As previously reported	Reclassification amount	As reclassified
Investment securities available-for-sale	30,233	(3,617)	26,616
Other debt securities	-	3,617	3,617

The effect of reclassifications made to the consolidated statement of comprehensive income for the year ended December 31, 2010 is as follows:

	As previously reported	Reclassification amount	As reclassified
Interest income on investment securities available-for-sale	340	(110)	230
Interest income on other debt securities	-	110	110

No reclassifications have been made in the consolidated statement of financial position as at December 31, 2009 and consolidated statement of comprehensive income for the year then ended since the Group did not have such long-term notes of the Azerbaijan Mortgage Fund in 2009.

5. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers
December 31, 2009	6,829
Additional provisions recognized	2,143
Write-off of assets	(577)
Recoveries of assets previously written off	67
December 31, 2010	**8,462**
Additional provisions recognized	1,304
Write-off of assets	(1,903)
Recoveries of assets previously written off	231
December 31, 2011	**8,094**

6. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2011	Year ended December 31, 2010
Fee and commission income:		
Cash operations	3,365	2,238
Plastic card operations	1,177	876
Currency conversion operations	401	194
Settlements	211	164
Guarantee letters	5	15
Other operations	9	19
Total fee and commission income	**5,168**	**3,506**
Fee and commission expense:		
Plastic card operations	(656)	(469)
Settlements	(367)	(377)
Guarantees	(100)	(65)
Securities operations	(54)	(62)
Cash operations	(14)	(94)
Other operations	(11)	(18)
Total fee and commission expense	**(1,202)**	**(1,085)**
Total net fee and commission income	**3,966**	**2,421**

7. OTHER INCOME

Other income comprises:

	Year ended December 31, 2011	Year ended December 31, 2010
Fines and penalties received in relation to loans to customers	2,375	1,320
Dividend income	13	20
Other	54	45
Total other income	**2,442**	**1;385**

8. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2011	Year ended December 31, 2010
Salaries and bonuses	(11,257)	(8,382)
Social security costs	(1,972)	(1,857)
Other employment expenses	(103)	(79)
Personnel expenses	**(13,332)**	**(10,318)**
Depreciation charge	(1,350)	(1,248)
Amortization charge	(50)	(49)
Depreciation and amortization charge	**(1,400)**	**(1,297)**
Occupancy and rent	(1,303)	(958)
Marketing and advertising	(859)	(417)
Taxes other than income tax	(317)	(174)
Security	(310)	(249)
Office supplies	(283)	(193)
Deposit insurance fee	(275)	(450)
Repair and maintenance of property and equipment	(222)	(111)
Legal and consultancy	(168)	(273)
Communications	(158)	(141)
Utilities	(102)	(84)
Business travel and related expenses	(67)	(39)
Printing	(43)	(25)
Insurance	(40)	(24)
Vehicle running costs	(38)	(35)
Membership fees	(21)	(21)
Other expense	(200)	(57)
Other operating expenses	**(4,406)**	**(3,251)**

9. INCOME TAXES

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Group and its subsidiary operate, which may differ from IFRS.

The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2011 and 2010 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% (2010: 20%) payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

Temporary differences as at December 31, 2011 and 2010 comprise:

	December 31, 2011	December 31, 2010
Tax effect of deductible temporary differences:		
Loans to customers	261	-
Other iiabilities	4	-
Deferred tax assets	**265**	-
Tax effect of taxable temporary differences:		
Property and equipment	(973)	(1,433)
Deferred tax liabilities	**(973)**	**(1,433)**
Net deferred tax liability	**(708)**	**(1,433)**

The effective tax rate reconciliation is as follows for the years ended December 31, 2011 and 2010:

	Year ended December 31, 2011	Year ended December 31, 2010
Profit before income tax	25,723	11,683
Tax at the statutory tax rate 20% (2010: 20%)	(5,145)	(2,337)
Current income tax liability not payable as a result of capitalisation of profit (*)	5,695	2,684
Under-provision of income tax in prior years	44	-
Non-deductible expenses	(73)	(433)
Income tax benefit/(expense)	**521**	**(86)**
Current income tax expense	(160)	(86)
Under-provision of income tax in prior years	(44)	-
Change in deferred tax liabilities	725	-
Income tax benefit/(expense)	**521**	**(86)**

(*) - On October 28, 2008, the Government of the Republic of Azerbaijan adopted a Law on "Stimulation of increase of capitalization of banks, insurance and reinsurance companies". According to the Law, part of the profit of banks, insurance and reinsurance companies directed to increase of their share capital is not subject to income tax for three years beginning from January 1, 2009.

Deferred income tax liabilities	**2011**	**2010**
As at January 1 – deferred tax liabilities	**(1,433)**	**(1,433)**
Change in deferred income tax balances recognized in consolidated profit or loss	725	-
As at December 31 – deferred tax liabilities	**(708)**	**(1,433)**

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	December 31, 2011	December 31, 2010
Cash on hand	7,723	8,707
Current accounts with the Central Bank of the Republic of Azerbaijan	2,350	1,368
Current accounts with other credit institutions	7,903	6,980
Total cash and cash equivalents	**17,976**	**17,055**

As of December 31, 2011, current accounts with other credit institutions included AZN 2,713 thousand placed with two internationally recognized Organization for Economic Co-operation and Development ("OECD") banks (2010 – AZN 2,654 thousand placed with two internationally recognized OECD banks).

As of December 31, 2011, current accounts with other credit institutions included AZN 4,105 thousand placed with three Azerbaijani banks (2010 – AZN 3,961 thousand placed with three Azerbaijani banks).

11. AMOUNTS DUE FROM BANKS AND OTHER CREDIT INSTITUTIONS

Due from banks and other credit institutions comprise:

	December 31, 2011	December 31, 2010
Obligatory reserve with the Central Bank of the Republic of Azerbaijan	4,560	709
Blocked accounts	556	353
Loans to credit institutions	258	1,500
Time deposits for more than 90 days	200	2,384
Total amounts due from banks and other credit institutions	**5,574**	**4,946**

Credit institutions in Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR, 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.

As of December 31, 2011, time deposits included AZN 200 thousand (2010 - AZN 2,260 thousand) placed with one (2010: two) Azerbaijani bank (2010: Azerbaijani and other CIS banks) with effective annual interest rate of 8% (2010 - 2.5%-14%) maturing in April 2012 (2010 - January and April 2011).

Blocked accounts represent security deposits in the amount of AZN 347 thousand placed to secure settlement operations through MasterCard International (2010 - AZN 353 thousand) and blocked correspondent account with one OECD bank in the amount of AZN 209 thousand to secure guarantees issued.

As of 31 December 2010, the loan to a credit institution of AZN 1,500 thousand was placed with one Azerbaijani bank with an effective annual interest rate of 9.5% maturing in January 2011.

12. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2011	December 31, 2010
Loans to customers	265,674	186,638
Less: allowance for impairment losses	(8,094)	(8,462)
Total loans to customers	**257,580**	**178,176**

Movements in the allowance for impairment losses for the years ended December 31, 2011 and 2010 are disclosed in Note 5.

Loans have been extended to the following types of customers:

	December 31, 2011	December 31, 2010
Individuals	253,475	174,782
Private companies	12,199	11,856
Gross loans to customers	**265,674**	**186,638**

The table below summarizes carrying value of loans to customers analyzed by industry sector:

	December 31, 2011	December 31, 2010
Analysis by sector:		
Individuals	253,475	174,782
Trade and services	7,450	7,616
Agriculture and food processing	4,346	3,265
Manufacturing	302	564
Real estate construction	101	411
	265,674	186,638
Less: allowance for impairment losses	(8,094)	(8,462)
Total loans to customers	**257,580**	**178,176**

Loans to customers comprise the following products:

	December 31, 2011	December 31, 2010
Consumer loans	153,842	74,194
Auto loans	60,270	61,291
Business loans	24,370	28,302
Microloans	19,888	16,560
Cards	7,304	6,291
	265,674	186,638
Less allowance for impairment losses	(8,094)	(8,462)
Total loans to customers	**257,580**	**178,176**

As at December 31, 2011 and 2010 a significant amount of loans (100% of total loans to customers) is granted to companies operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

As at December 31, 2011 and 2010 loans to customers included loans totaling AZN 127 thousand and AZN 342 thousand, respectively, whose terms were renegotiated. Otherwise these loans would be past due or impaired.

The table below summarizes an analysis of loans to customers by impairment:

	December 31, 2011			December 31, 2010		
	Carrying value before allowance	Allowance for impairment losses	Carrying value	Carrying value before allowance	Allowance for impairment losses	Carrying value
Loans to customers collectively assessed for impairment:						
Consumer loans	156,459	(2,622)	153,837	74,194	(1,538)	72,656
Auto loans	60,270	(2,172)	58,098	61,291	(1,750)	59,541
Business loans	22,759	(2,291)	20,468	27,797	(3,292)	24,505
Microloans	19,888	(464)	19,424	16,560	(1,332)	15,228
Cards	4,687	(136)	4,551	6,291	(295)	5,996
	264,063	(7,685)	256,378	186,133	(8,207)	177,926
Loans to customers individually assessed for impairment:						
Business loans	1,611	(409)	1,202	505	(255)	250
Total	**265,674**	**(8,094)**	**257,580**	**186,638**	**(8,462)**	**178,176**

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended December 31, 2011, comprised AZN 320 thousand (2010 – AZN 137 thousand).

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at December 31, 2011 amounts to AZN 2,262 thousand (2010 – AZN 600 thousand).

During the years ended December 31, 2011 and 2010 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2011 and 2010 such assets in amount of AZN 104 thousand and AZN 87 thousand, respectively, are included in other assets. 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.

Finance lease receivables

Included in the corporate lending portfolio are finance lease receivables. The analysis of finance lease receivables at December 31, 2011 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	178	407	558	1,143
Unearned future finance income on finance leases	(18)	(94)	(309)	(421)
Net investment in finance leases	**160**	**313**	**249**	**722**

The analysis of finance lease receivables at December 31, 2010 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**

13. INVESTMENT SECURITIES AVAILABLE-FOR-SALE

Investment securities available-for-sale comprises:

	December 31, 2011	December 31, 2010
Debt securities	8,501	26,449
Equity investments	190	167
Total investment securities available-for-sale	**8,691**	**26,616**

	Nominal interest rate	December 31, 2011	Nominal interest rate	December 31, 2010
Debt securities				
Notes issued by the Central Bank of the Republic of Azerbaijan	2.58% - 2.60%	8,501	1.30%-2.20%	10,690
Notes of the Ministry of Finance of the Republic of Azerbaijan	-	-	1.50%-2.99%	15,759
Total debt securities		**8,501**		**26,449**

Equity investments	Ownership,%	December 31, 2011	Ownership,%	December 31, 2010
International Bank of Azerbaijan OJSC	0.2%	90	0.2%	67
Baku Stock Exchange LLC	5.0%	60	5.0%	60
"MilliKart" LLC	0.8%	40	0.8%	40
Total available-for-sale investments		**190**		**167**

14. OTHER DEBT SECURITIES

Other debt securities comprise:

	Nominal interest rate	December 31, 2011	Nominal interest rate	December 31, 2010
Long-term notes issued by Azerbaijan Mortgage Fund	3.00% - 3.15%	5,012	3.00% - 3.10%	3,617
Total other debt securities		**5,012**		**3,617**

15. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land and buildings	Furniture and equipment	Computers and communication equipment	Vehicles	Other	Construction in progress	Total
At initial/revalued cost							
December 31, 2009	11,241	1,932	1,663	396	25	-	15,257
Additions	-	219	329	45	1	-	594
Disposals	-	(146)	(35)	(21)	-	-	(202)
December 31, 2010	11,241	2,005	1,957	420	26	-	15,649
Additions	453	742	576	156	89	402	2,418
Disposals	-	(31)	(51)	(33)	-	-	(115)
December 31, 2011	11,694	2,716	2,482	543	115	402	17,952
Accumulated depreciation							
December 31, 2009	(3,528)	(1,201)	(1,060)	(169)	(9)	-	(5,967)
Depreciation charge	(567)	(300)	(308)	(69)	(4)	-	(1,248)
Eliminated on disposal	-	146	19	21	-	-	186
December 31, 2010	(4,095)	(1,355)	(1,349)	(217)	(13)	-	(7,029)
Depreciation charge	(563)	(327)	(364)	(91)	(5)	-	(1,350)
Eliminated on disposal	-	31	51	29	-	-	111
December 31, 2011	(4,658)	(1,651)	(1,662)	(279)	(18)	-	(8,268)
Net book value							
As at December 31, 2011	**7,036**	**1,065**	**820**	**264**	**97**	**402**	**9,684**
As at December 31, 2010	**7,146**	**650**	**608**	**203**	**13**	**-**	**8,620**

As at December 31, 2011 and 2010 included in property and equipment were fully depreciated assets of AZN 1,891 thousand and AZN 1,251 thousand, respectively.

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

	December 31, 2011	**December 31, 2010**
Cost	2,022	2,022
Accumulated depreciation	(632)	(531)
Net carrying amount	**1,390**	**1,491**

16. INTANGIBLE ASSETS

Intangible assets comprise:

	Licenses	Computer software	Total
At cost			
December 31, 2009	151	352	503
Additions	-	-	-
December 31, 2010	151	352	503
Additions	24	24	48
December 31, 2011	175	376	551
Accumulated amortization			
December 31, 2009	(54)	(108)	(162)
Charge for the year	(16)	(33)	(49)
December 31, 2010	(70)	(141)	(211)
Charge for the year	(13)	(37)	(50)
December 31, 2011	(83)	(178)	(261)
Net book value			
December 31, 2011	**92**	**198**	**290**
December 31, 2010	**81**	**211**	**292**

17. OTHER ASSETS

Other assets comprise:

	December 31, 2011	December 31, 2010
Other financial assets:		
Settlements on money transfers	377	300
	377	**300**
Other non-financial assets:		
Prepayments for the purchase of property and equioment	1,645	148
Deferred expenses	359	18
Properties received in satisfaction of non-performing loans	104	87
Other	5	52
	2,113	**305**
Total other assets	**2,490**	**605**

18. AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Amounts due to banks and other financial institutions comprise:

	December 31, 2011	December 31, 2010
Time deposits	18,768	15,626
Loans from financial institutions	18,277	20,190
Demand deposits	945	915
Blocked accounts	-	2,853
Total amounts due to banks and other financial institutions	**37,990**	**39,584**

As of December 31, 2011, time deposits and loans included balances of AZN 27,799 thousand (2010 – AZN 26,148 thousand) due to seven (2010 - ten) OECD and non-OECD financial institutions.

As of December 31, 2011, demand deposits included balances of AZN 725 thousand (2010 – AZN 615 thousand) due to two (2010 - two) Azerbaijani financial institutions.

As of December 31, 2010, 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:

	December 31, 2011	December 31, 2010
Insurance companies	12,187	12,832
Investment companies	7,384	3,029
Banks	37	64
Other financial institutions	105	616
Demand and time deposits	**19,713**	**16,541**

As of December 31, 2011, time deposits were due to financial institutions with effective annual interest rates of 6.0%-19.0% (2010 – 9.0% -17.0%) and mature in 2012-2017 (2010: 2011 - 2012).

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

	December 31, 2011	December 31, 2010
The National Fund for Entrepreneurship Support	6,432	6,463
Banks	4,942	3,581
Azerbaijan Mortgage Fund	3,069	1,745
German Azerbaijan Fund	2,201	2,378
European Bank for Reconstruction and Development	901	3,118
Asian Development Bank	732	1,443
Investment companies	-	1,462
Loans from financial institutions	**18,277**	**20,190**

The Group is obligated to comply with financial covenants in relation to certain balances in amounts due to banks and other financial institutions disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended December 31, 2011 and 2010.

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

	December 31, 2011		December 31, 2010	
	Annual interest rate	**Maturity**	**Annual interest rate**	**Maturity**
The National Fund for Support of Entrepreneurship	1.0%	2012 – 2016	1.0%	2011 – 2015
Banks	8.0% - 13.2%	2012 – 2017	8.0% - 10.0%	2011
Azerbaijan Mortgage Fund	2.0% - 10.0%	2012 – 2041	2.0 %	2014 – 2032
German Azerbaijan Fund	4.8%	2015	4.7% - 4.8%	2011 – 2015
European Bank for Reconstruction and Development	5.9% - 16.0%	2012 – 2013	4.9% - 16.0%	2011 - 2013
Asian Development Bank	6.9%	2012	6.9%	2011 – 2012
Investment companies	8.0% - 12.0%	2012	9%-18%	2011-2012

19. AMOUNTS DUE TO CUSTOMERS

Amounts due to customers comprise:

	December 31, 2011	December 31, 2010
Time deposits	187,178	134,357
Repayable on demand	18,980	21,399
Total amounts due to customers	**206,158**	**155,756**

As at December 31, 2011 and 2010 amounts due to customers totaling AZN 102 thousand and AZN 122 thousand, respectively, were held as security against guarantees issued, AZN 44 thousand and AZN 174 thousand, respectively, as security against loans and AZN 1,006 thousand and AZN 2,535 thousand as security against undrawn credit facilities.

As of December 31, 2011, time deposits were due to customers with effective annual interest rates of 1.0% - 21.0 % (2010: 1.0% - 21.0%) and mature in 2012-2024 (2010: mature in 2011 - 2024).

As of December 31, 2011, amounts due to customers of AZN 23,626 thousand (11%) were due to the ten (2010 - ten) largest customers of the Bank (2010 – AZN 25,916 thousand (17%)).

Included in time deposits are deposits of individuals of AZN 183,354 thousand (2010 – AZN 131,666 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.

An analysis of customer accounts by economic sector follows:

	December 31, 2011	December 31, 2010
Analysis by sector:		
Individuals and employees	192,459	141,539
Trade and service	7,328	4,675
Energy	2,476	7,170
Construction	1,749	1,419
Manufacturing	1,087	64
Transport and communication	1,059	889
Total amounts due to customers	**206,158**	**155,756**

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

	December 31, 2011	December 31, 2010
Individuals	192,257	140,764
Private enterprises	13,401	13,770
Employees	202	775
State and budgetary organizations	298	447
Total amounts due to customers	**206,158**	**155,756**

20. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2011	December 31, 2010
Other financial liabilities:		
Payables to shareholders on ordinary shares	1,413	874
Liabilities in the course of settlement	325	354
Other creditors	149	882
	1,887	**2,110**
Other non-financial liabilities:		
Operational taxes	436	384
Accrued tax on capitalized profit of 2010	-	1,481
	436	**1,865**
Total other liabilities	**2,323**	**3,975**

21. SUBORDINATED DEBT

Subordinated debt comprises:

	Issue date	Maturity date	Interest rate	December 31, 2011	December 31, 2010
Subordinated debt from foreign credit institutions - third parties (JSC Bank of Georgia, USD 2,500,000, semi-annual payment)	18 November 2007	18 November 2017	six month LIBOR plus 10.0%	1,990	2,019
Subordinated debt from related parties (NAB Dış Ticaret, USD 1,000,000, semi-annual payment)	19 March 2008	19 March 2018	19.45%	826	837
Total subordinated debt				**2,816**	**2,856**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

22. SHARE CAPITAL

As of December 31, 2011 and 2010 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 26,180 thousand and AZN 12,852 thousand, respectively and comprised 3,400,000 ordinary shares with a par value of AZN 7.70 and AZN 3.78, respectively. Each share entitles one vote to the shareholder.

During 2011 share capital of the Group was increased by AZN 13,328 thousand through capitalization of 2010 profits (2010 – AZN 6,052 thousand through capitalization of 2009 profits).

In 2011 the Group declared dividends on ordinary shares amounted to AZN 5,333 thousand from its 2009 and 2010 earnings (2010: AZN 6,000 thousand from its 2008 earnings).

23. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

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

As at December 31, 2011 and 2010 contingent liabilities comprise:

	December 31, 2011	December 31, 2010
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	9,117	4,534
Guarantees issued	2,510	4,223
Other transaction related contingent obligations	1,244	1,187
Total contingent liabilities and credit commitments	**12,871**	**9,944**

Operating lease commitments – Where the Group is the lessee, the future minimum lease payments under non cancelable operating leases of buildings are as follows:

	December 31, 2011	December 31, 2010
Less than one year	83	63
Total operating lease commitments	**83**	**63**

Commitments and contingencies (before deducting collateral)	12,954	10,007
Less: Cash held as security against guarantees issued (Note 19)	(102)	(122)
Less: Cash held as security against undrawn credit facility (Note 19)	(1,006)	(2,535)
Commitments and contingencies	**11,846**	**7,350**

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

Taxation – Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Group believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated financial statements.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. In the case of criminal investigation statute of limitation may be extended up to seven years based on the court decision.

Operating environment – Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Azerbaijan and the Azerbaijan's economy in general.

Laws and regulations affecting businesses in Azerbaijan continue to change rapidly. Tax, currency and customs legislation within Azerbaijan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Azerbaijan. The future economic direction of Azerbaijan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Azerbaijan's economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects.

Because Azerbaijan produces and exports large volumes of oil and gas, Azerbaijan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

24. TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and its subsidiary, which is related party of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below:

		December 31, 2011		December 31, 2010	
	Note	**Related party balances**	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Loans to customers	12		265,674		186,638
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		167		1,820	
- key management personnel of the Group		55		105	
Allowance for impairment losses	12		(8,094)		(8,462)
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		(3)		(14)	
- key management personnel of the Group		(2)		(3)	
Amounts due to customers	19		206,158		155,756
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		2,543		2,952	
- key management personnel of the Group		4,485		4,503	
Other liabilities	20		2,323		3,975
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		1,413		874	
Subordinated debt	21		2,816		2,856
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		826		837	
Commitments on loans and unused credit lines	23		9,117		4,534
- key management personnel of the Group		59		-	
Guarantees issued	23		2,510		4,223
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		567		-	

The remuneration of directors and other members of key management were as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation (Note 8)				
- *salaries and other short-term benefits*	(3,517)	(11,257)	(2,872)	(8,382)
- *social security costs*	(774)	(1,972)	(632)	(1,857)
Total key management personnel compensation	**(4,291)**	**(13,229)**	**(3,504)**	**(10,239)**

Included in the consolidated statement of comprehensive income for the years ended December 31, 2011 and 2010 are the following amounts which were recognized in transactions with related parties:

		Year ended December 31, 2011		Year ended December 31, 2010	
	Note	**Related party transactions**	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Interest income			62,892		43,132
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		95		388	
- *key management personnel of the Group*		13		28	
Interest expense			(23,525)		(18,862)
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		(232)		(442)	
- *key management personnel of the Group*		(655)		(293)	
Provision for loan impairment losses	5		(1,304)		(2,143)
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		11		(134)	
- *key management personnel of the Group*		1		(13)	
Fee and commission income	6		5,168		3,506
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		24		19	
- *key management personnel of the Group*		2		2	
Operating expenses	8		(4,406)		(3,251)
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		(471)		(271)	

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

Assets for which fair value approximates carrying value

For financial assets and liabilities that have a short term maturity (less than 3 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 maturity.

Loans and advances to banks and other debt securities

The fair value of loans and advances to banks and other debt securities has been estimated using the same valuation technique for financial instruments accounted for at fair value as described in the valuation techniques below.

Loans and advances to customers and other debt securities

Loans and advances to personal customers and other debt securities are made both at variable and at fixed rates. As there is no active secondary market in the Republic of Azerbaijan for such loans and advances, there is no reliable market value available for this portfolio.

(a) Variable rate – Management believes that carrying rate may be assumed to be fair value.
(b) Fixed rate – Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the reporting date for similar loans of maturity equal to the remaining fixed period.

Financial investments – available for sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value.

The fair value of equity securities included in equity available-for-sale investments cannot be measured reliably. As at December 31, 2011 and 2010 the carrying value of them was AZN 190 thousand and AZN 167 thousand, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate fair value.

The Bank's valuation approach and fair value hierarchy categorization for available-for-sale investments recognized at fair value is valuation techniques using observable inputs (Level 2). Valuation techniques using observable inputs (Level 2) – valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.

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 ratios established by the CBAR in supervising the Bank.

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by CBAR, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Compliance with capital adequacy ratios set by CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant and Chairman of the Management Board. The other objectives of capital management are evaluated annually.

CBAR capital adequacy ratio

The CBAR requires each bank or banking group to:

a) hold the minimum level of share capital of AZN 10,000 thousand (2010: AZN 10,000 thousand);
b) maintain a ratio of total regulatory capital to risk-weighted assets (the 'total capital ratio') at or above the prescribed minimum of 12% (2010: 12%); and
c) maintain a ratio of tier 1 capital to risk-weighted assets (the 'Tier 1 capital ratio') at or above the prescribed minimum of 6% (2010: 6%).

Management believes that the Bank was in compliance with the statutory capital adequacy ratio throughout 2011.

As of December 31, 2011 and 2010, the Bank's capital adequacy ratio on this basis was as follows:

	2011	2010
Tier 1 capital	52,792	20,780
Tier 2 capital	7,241	19,847
Less: deductions from capital	(290)	(446)
Total regulatory capital	**59,743**	**40,181**
Risk-weighted assets	**283,680**	**198,705**
Tier 1 capital adequacy ratio	18.51%	10.30%
Total capital adequacy ratio	21.03%	20.20%

27. RISK MANAGEMENT POLICIES

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

- Credit exposures
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the risks the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

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

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

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

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

Maximum exposure of credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets. For financial assets in the consolidated statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure December 31, 2011	Maximum exposure December 31, 2010
Cash and cash equivalents (excluding cash on hand)	10,253	8,348
Amounts due from banks and other credit institutions	5,574	4,946
Loans to customers	257,580	178,176
Investment securities available-for-sale	8,501	26,449
Other debt securities	5,012	3,617
Other financial assets	377	300
Commitments and contingencies	12,871	9,944

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, liens 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.

Off – balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

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 consolidated statement of financial position, based on the Bank's credit rating system. In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a government guarantee or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. Investment securities of high grade are those issued by government and its agencies with very low default probability and at risk free rate.

		Neither past due nor impaired					
	Note	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total 2011
Amounts due from banks and other credit institutions	11	556	5,018	-	-	-	5,574
Loans to customers:	12						
Auto loans		-	55,386	-	4,884	-	60,270
Business loans		-	20,229	-	2,530	1,611	24,370
Consumer loans		2,151	150,004	-	4,304	-	156,459
Microloans		3	19,431	-	454	-	19,888
Cards		1,608	2,891	-	188	-	4,687
		3,762	**247,941**	-	**12,360**	**1,611**	**265,674**
Investment securities available-for-sale	13	8,501	190	-	-	-	8,691
Other debt securities	14	5,012	-	-	-	-	5,012
Total		17,831	253,149	-	12,360	1,611	284,951

		Neither past due nor impaired					
	Note	High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total 2010
Amounts due from banks and other credit institutions	11	477	4,469	-	-	-	4,946
Loans to customers:	12						
Auto loans		1,617	55,719	-	3,955	-	61,291
Business loans		74	22,581	-	5,142	505	28,302
Consumer loans		870	70,923	-	2,401	-	74,194
Microloans		6	15,113	-	1,441	-	16,560
Cards		944	4,841	-	506	-	6,291
		3,511	**169,177**	-	**13,445**	**505**	**186,638**
Investment securities available-for-sale	13	26,449	167	-	-	-	26,616
Other debt securities	14	3,617	-	-	-	-	3,617
Total		34,054	173,813	-	13,445	505	221,817

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.

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

	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total 2011
Loans to customers:					
Auto loans	115	970	605	3,194	4,884
Business loans	465	23	154	1,888	2,530
Consumer loans	83	559	415	3,247	4,304
Microloans	21	46	14	373	454
Cards	36	18	2	132	188
Total	**720**	**1,616**	**1,190**	**8,834**	**12,360**

	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total 2010
Loans to customers:					
Auto loans	163	753	451	2,588	3,955
Business loans	966	730	143	3,303	5,142
Consumer loans	192	359	122	1,728	2,401
Microloans	25	36	30	1,350	1,441
Cards	72	46	16	372	506
Total	**1,418**	**1,924**	**762**	**9,341**	**13,445**

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:

	2011	2010
Loans to customers:		
Auto loans	-	146
Business loans	-	-
Consumer loans	113	172
Microloans	14	-
Cards	-	24
Total	**127**	**342**

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.

Geographical concentration

The Risk Management Committee exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

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

	The Republic of Azerbaijan	Other non-OECD countries	OECD countries	December 31, 2011 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	15,133	64	2,779	17,976
Amounts due from banks and other credit institutions	5,018	-	556	5,574
Loans to customers	257,580	-	-	257,580
Investment securities available-for-sale	8,691	-	-	8,691
Other debt securities	5,012	-	-	5,012
Other financial assets	377	-	-	377
Total non-derivative financial assets	**291,811**	**64**	**3,335**	**295,210**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Amounts due to banks and other financial institutions	30,214	732	7,044	37,990
Amounts due to customers	206,158	-	-	206,158
Other financial liabilities	1,887	-	-	1,887
Subordinated debt	-	1,990	826	2,816
Total non-derivative financial liabilities	**238,259**	**2,722**	**7,870**	**248,851**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**53,552**	**(2,658)**	**(4,535)**	**46,359**

	The Republic of Azerbaijan	Other non-OECD countries	OECD countries	December 31, 2010 Total
NON-DERIVATIVE FINANCIAL ASSETS				
Cash and cash equivalents	14,109	71	2,875	17,055
Amounts due from banks and other credit institutions	3,410	1,059	477	4,946
Loans to customers	178,176	-	-	178,176
Investment securities available-for-sale	26,616	-	-	26,616
Other debt securities	3,617	-	-	3,617
Other financial assets	300	-	-	300
Total non-derivative financial assets	**226,228**	**1,130**	**3,352**	**230,710**
NON-DERIVATIVE FINANCIAL LIABILITIES				
Amounts due to banks and other financial institutions	27,717	6,282	5,585	39,584
Amounts due to customers	155,756	-	-	155,756
Other financial liabilities	2,110	-	-	2,110
Subordinated debt	-	2,019	837	2,856
Total non-derivative financial liabilities	**185,583**	**8,301**	**6,422**	**200,306**
NET POSITION ON NON-DERIVATIVE FINANCIAL INSTRUMENTS	**40,645**	**(7,171)**	**(3,070)**	**30,404**

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity risk based on contractual undiscounted cash outflows is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

Financial liabilities As at December 31, 2011	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to banks and other financial institutions	7,195	15,193	16,547	2,578	41,513
Amounts due to customers	46,946	106,490	82,195	5	235,636
Other liabilities	-	1,887	-	-	1,887
Subordinated debt	166	309	1,647	3,181	5,303
Total undiscounted financial liabilities	**34,468**	**124,341**	**100,847**	**5,764**	**284,339**

Financial liabilities As at December 31, 2010	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Amounts due to banks and other financial institutions	12,336	15,736	9,717	2,026	39,815
Amounts due to customers	50,674	73,597	56,424	14	180,709
Other liabilities	2,109	1	-	-	2,110
Subordinated debt	78	286	1,455	3,598	5,417
Total undiscounted financial liabilities	**65,197**	**89,620**	**67,596**	**5,638**	**228,051**

The table below shows an analysis of assets and liabilities according to contractual maturity.

	December 31, 2011			December 31, 2010		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	17,976	-	17,976	17,055	-	17,055
Amounts due from banks and other credit institutions	453	5,121	5,574	4,946	-	4,946
Loans to customers	181,848	75,732	257,580	119,706	58,470	178,176
Investment securities available-for-sale	8,501	190	8,691	26,449	167	26,616
Other debt securities	5,012	-	5,012	3,617	-	3,617
Property and equipment	-	9,684	9,684	-	8,620	8,620
Intangible assets	-	290	290	-	292	292
Other assets	2,386	104	2,490	518	87	605
Total assets	**216,176**	**91,121**	**307,297**	**172,291**	**67,636**	**239,927**
Amounts due to banks and other financial institutions	22,641	15,349	37,990	29,287	10,297	39,584
Amounts due to customers	140,759	65,399	206,158	112,596	43,160	155,756
Current income tax liability	86	-	86	18	-	18
Deferred income tax liabilities	-	708	708	-	1,433	1,433
Other liabilities	910	1,413	2,323	3,101	874	3,975
Subordinated debts	64	2,752	2,816	64	2,792	2,856
Total liabilities	**164,460**	**85,621**	**250,081**	**145,066**	**58,556**	**203,622**
Net	**51,716**	**5,500**	**57,216**	**27,225**	**9,080**	**36,305**

Financial liabilities As at December 31, 2010	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Amounts due to banks and other financial institutions	12,336	15,736	9,717	2,026	39,815
Amounts due to customers	50,674	73,597	56,424	14	180,709
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Cash and cash equivalents	17,976	-	17,976	17,055	-	17,055
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Loans to customers	181,848	75,732	257,580	119,706	58,470	178,176
Investment securities available-for-sale	8,501	190	8,691	26,449	167	26,616
Other debt securities	5,012	-	5,012	3,617	-	3,617
Property and equipment	-	9,684	9,684	-	8,620	8,620
Intangible assets	-	290	290	-	292	292
Other assets	2,386	104	2,490	518	87	605
Total assets	**216,176**	**91,121**	**307,297**	**172,291**	**67,636**	**239,927**
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Amounts due to customers	140,759	65,399	206,158	112,596	43,160	155,756
Current income tax liability	86	-	86	18	-	18
Deferred income tax liabilities	-	708	708	-	1,433	1,433
Other liabilities	910	1,413	2,323	3,101	874	3,975
Subordinated debts	64	2,752	2,816	64	2,792	2,856
Total liabilities	**164,460**	**85,621**	**250,081**	**145,066**	**58,556**	**203,622**
Net	**51,716**	**5,500**	**57,216**	**27,225**	**9,080**	**36,305**

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.

Currency	Increase in % rate 2011	Sensitivity of net interest income 2011	Sensitivity of equity 2011	Increase in % rate 2010	Sensitivity of net interest income 2010	Sensitivity of equity 2010
USD	1.0%	(34)	-	1.0%	(57)	-
EUR	1.0%	(22)	-	1.0%	(24)	-

Currency	Decrease in % rate 2011	Sensitivity of net interest income 2011	Sensitivity of Equity 2011	Decrease in % rate 2010	Sensitivity of net interest income 2010	Sensitivity of Equity 2010
USD	(1.0%)	34	-	1.0%	57	-
EUR	(1.0%)	22	-	1.0%	24	-

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 CBAR 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 % 2011	Effect on profit before tax 2011	Increase in currency rate in % 2010	Effect on profit before tax 2010
USD	10%	(598)	8.35%	(157)
EUR	10%	1	14.70%	(199)

Currency	Decrease in currency rate in % 2011	Effect on profit before tax 2011	Decrease in currency rate in % 2010	Effect on profit before tax 2010
USD	(10%)	598	(8.35%)	157
EUR	(10%)	(1)	(14.70%)	199

Price risk-own products

The Group is exposed to price risks of its products which are subject to general and specific market fluctuations.

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

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 Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

28. SUBSEQUENT EVENTS

On March 5, 2012, the General Meeting of Shareholders declared:

- Capitalization of 2011 statutory profit in the amount of AZN 26,690 thousand. The number of authorized ordinary shares remains 3,400,000 with an increased nominal value per share of AZN 15.55;
- Dividends of AZN 710 thousand or AZN 0.21 per share before tax on dividend from its 2011 earnings.

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