İLLİK HESABAT
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Mündəricat / Contents

Hörmətli xanımlar və cənablar,

2006-cı il Azərbaycan tarixində və eləcə də Bank Respublika-nın 15 illik fəaliyyəti dövründə bir çox nailiyyətlərlə yadda qalan il olmuşdur.

Azərbaycan iqtisadiyyatı 2006-cı ildə sürətlə inkişaf etmişdir. Ötən il Ümumi Daxili Məhsulun real həcmi 34,5% artmışdır və bu bütün dünya üzrə çox yüksək göstəricidir. Ölkədə aparılan iqtisadi siyasətin nəticəsində sürətli inkişaf iqtisadiyyatın əksər sahələrini əhatə etmişdir.

2006-cı ildə bank sektorunun da dinamik inkişafı davam etmişdir. Ötən il milli valyutanın denominasiyası, ipoteka kreditləşməsi üzrə dövlət proqramının icrası, bankların maliyyə göstəricilərinin artımı, beynəlxalq maliyyə institutlarının Azərbaycan bank sektorunda daha fəal iştirakı, bankların xidmət şəbəkəsinin genişlənməsi və digər uğurlarla yadda qalmışdır.

Azərbaycan bank sektorunun aparıcı banklarından olan Bank Respublika 2006-cı ildə də mühüm nailiyyətləri və sürətli inkişaf dinamikası ilə seçilmişdir.

Bank Respublika-nın ümumi aktivləri 2006-cı ildə 94% artmışdır. Maliyyə göstəricilərinin əhəmiyyətli artımı nəticəsində Bank Respublika-nın Azərbaycan bank sektorunda mövqeləri daha da güclənmişdir.

Bank Respublika-nın mühüm nailiyyətlərindən biri də ötən il Moody's Investors Service beynəlxalq reytinq agentliyindən reytinqlər almasıdır. Bank Respublika Azərbaycanda beynəlxalq reytinq alan ilk banklardandır və Bankın reytinqləri Azərbaycanın özəl bank sektorunda ən yüksək reytinqlərdir.

2006-cı ildə Bankın nizamnamə kapitalı da artırılmışdır. Bu artım həm yerli səhmdarlar, həm də 2005-ci ildən "25% + 1 səhm" payla Bankın səhmdarları olan Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT tərəfindən yeni sərmayələr hesabına olmuşdur.

Dear Ladies and Gentlemen,

2006 was a remarkable year with many achievements in the history of Azerbaijan, as well as in 15 years of operation of Bank Respublika.

The economy of Azerbaijan developed rapidly in 2006. The real volume of Gross Domestic Product increased by 34.5% last year, which is a very high index in the world. As a result of the economic policy conducted in the country, the development has covered most sectors of the economy.

In 2006, the banking sector continued its development. Last year was notable with denomination of the national currency, execution of the state program on mortgage lending, the growth of financial indicators of banks, participation of the international financial institutions in Azerbaijan banking sector, the expansion of service network of banks and other successes.

Bank Respublika, one of the leading banks in Azerbaijan banking sector, has excelled with important achievements and rapid development.

The total assets of Bank Respublika increased by 94% in 2006. Bank Respublika has further strengthened its position in the banking sector of Azerbaijan due to significant increase of its financial indicators.

One of the most important achievements of Bank Respublika is a rating from the international rating agency Moody's Investors Service. Bank Respublika is one of the first banks to receive international rating in Azerbaijan, and its ratings are the highest ones in the private banking sector of Azerbaijan.

In 2006, the charter capital of the Bank was also increased. This increase was possible due to new shares from local shareholders, as well as German KfW banking group member DEG and Sparkassen-Finanzgruppe member SIDT, the shareholders of the Bank since 2005 with "25% plus 1 share" stake.

Bank Respublika dünyanın aparıcı maliyyə institutları ilə sahibkarlığın kreditləşməsi və ticarət maliyyələşdirilməsi üzrə əməkdaşlığı da genişləndirmişdir. Bank bu istiqamətlərdə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, FMO, DEG, Qara Dəniz Ticarət və İnkişaf Bankı, Alman-Azərbaycan Fondu, Raiffeisen Bank, Commerzbank AG və digər maliyyə təşkilatları ilə əməkdaşlıq edir. Bank Respublika üçün açılmış kredit xətlərinin həcmi 70 mln. USD məbləğini keçmişdir.

Bank Respublika sahibkarlığın kreditləşdirilməsi və ipoteka kreditləşməsi üzrə dövlət proqramları üzrə Sahibkarlığa Yardım Milli Fondu və Azərbaycan İpoteka Fondu ilə də fəal əməkdaşlıq edir.

2006-cı ildə Bank Respublika yeni 2 filial və 4 şöbə hesabına müştəri xidməti şəbəkəsini genişləndirmişdir. 2007-ci ildə Bankın yeni ofislərinin açılışı üçün də ötən il bir çox işlər görülmüşdür.

Ötən il Bankda müştəri xidməti səviyyəsinin daha da yüksəldilməsi məqsədi ilə müştərilərə yeni xidmətlərin təqdim edilməsini, yeni bank proqramının tətbiqini, ixtisaslaşdırılmış məlumat mərkəzinin yaradılmasını, CRM sisteminin tətbiqi sahəsində işləri də qeyd etmək olar.

2006-cı ildə həyata keçirilən fəaliyyət Bankın müştəri bazasının genişlənməsini və Bankın maliyyə göstəricilərinin artımını təmin etmişdir.

Ötən ilin uğurlu nəticələrinə görə Bankın bütün Səhmdarlarına, Əməkdaşlarına, Müştərilərinə və Tərəfdaşlarına təşəkkür edirəm və gələcək işlərində yeni nailiyyətlər arzulayıram.

Hörmətlə,
Elçin Quliyev
Müşahidə Şurasının Sədri

Bank Respublika expanded its cooperation with leading financial institutions of the world on the business lending and trade financing. The Bank collaborates on these directions with the European Bank for Reconstruction and Development, Asian Development Bank, FMO, DEG, Black Sea Trade and Development Bank, German-Azerbaijan Fund, Raiffeisen Bank, Commerzbank AG and other financial organizations. The volume of credit lines established for Bank Respublika exceeded USD 70 mln.

Bank Respublika actively cooperates with the National Fund for Support of Entrepreneurship and Azerbaijan Mortgage Fund on the state programs on crediting entrepreneurship and mortgage lending.

In 2006 Bank Respublika broadened its customer services network by opening 2 new branches and 4 service points. Much work was done last year to open the Bank's new offices in 2007.

The new services for customers, a new bank software, creation of a specialized information center and work on the application of CRM system were aimed at further improving the level of customer service of the Bank.

Activity in 2006 has assured the expansion of client base and the growth of financial indexes of the Bank.

I thank all the Shareholders, Employees, Customers and Partners of the Bank for last year's successful results and wish new achievements in your future endeavors.

Respectfully,
Elchin Guliyev
Chairman of Supervisory Board


Bank Respublika

Hörmətli xanımlar və cənablar,

2006-cı il Azərbaycanın sürətli inkişafı baxımından əlamətdar il olmuşdur. Dinamik inkişaf bank sektorunda da özünü göstərmişdir.

Ötən il Bank Respublika üçün də uğurlu olmuşdur. Bankın aktivləri ötən il 94% artaraq 111 mln. AZN məbləğini keçmişdir. Bankın kredit portfeli isə 2006-cı ildə 2,4 dəfə artaraq 75,4 mln. AZN olmuşdur.

Bank Respublika sahibkarlığın kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə beynəlxalq maliyyə təşkilatları ilə əməkdaşlığı da genişləndirmişdir. 2006-cı ildə Avropa Yenidənqurma və İnkişaf Bankının bu istiqamətlərdə Bank Respublika üçün ayırdığı kredit xətləri 18 mln. USD məbləğinədək artmışdır.

Hollandiya İnkişaf Maliyyə Şirkəti (FMO) və Bank Respublika arasında 10 mln. USD məbləğində kredit xəttinin açılması üzrə ötən il imzalanmış müqavilə isə Azərbaycanın özəl bank sektorunda bu sahədə ən iri müqavilə olmuşdur.

Bank Respublika sahibkarlığın kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə Asiya İnkişaf Bankı, DEG, Qara Dəniz Ticarət və İnkişaf Bankı, Alman-Azərbaycan Fondu, Raiffeisen Bank, Commerzbank AG və digər maliyyə təşkilatları ilə də əməkdaşlıq edir. Bank Sahibkarlığa Yardım Milli Fondu və Azərbaycan İpoteka Fondu ilə də əməkdaşlıq edir.

Bank Respublika 2006-cı ildə Moody's Investors Service agentliyindən milli və xarici valyutada əmanətlər üzrə B2 dərəcəli uzunmüddətli və NP dərəcəli qısamüddətli reytinqlər almışdır. Reytinqlər "stabil" proqnozuna malikdir. Bank Respublika ölkədə beynəlxalq reytinq alan ilk banklardandır və bu reytinqlər Azərbaycanın özəl bank sektorunda ən yüksək reytinqlərdir.

Bank Respublika-da müştəri depozitlərinin ötən il 2,3 dəfə artması və 52 mln. AZN məbləğini keçməsi Bankın nüfuzunun və fəallığının daha bir göstəricisidir.

Dear Ladies and Gentlemen,

2006 was a remarkable year for Azerbaijan in terms of its rapid development. The dynamic development covered the banking sector, too.

Last year was also successful for Bank Respublika. The Bank's assets increased by 94% last year exceeding AZN 111 mln. Its credit portfolio rose 2.4 times and amounted to AZN 75.4 mln.

Bank Respublika expanded its cooperation with the international financial organizations on the business lending and trade financing. In 2006 credit lines for these purposes established for Bank Respublika by the European Bank for Reconstruction and Development were up to USD 18 mln.

The credit line agreement worth USD 10 mln, which was signed last year between the Netherlands Development Finance Company (FMO) and Bank Respublika was the largest agreement in this area in the private banking sector of Azerbaijan.

Bank Respublika also collaborates on the business lending and trade financing with Asian Development Bank, DEG, Black Sea Trade and Development Bank, German-Azerbaijan Fund, Raiffeisen Bank, Commerzbank AG and other financial organizations. The Bank also collaborates with the National Fund for Support of Entrepreneurship and Azerbaijan Mortgage Fund.

In 2006, Bank Respublika received B2 long-term and NP short-term ratings on national and foreign currency deposits from Moody's Investors Service. The ratings are with "stable" forecast. Bank Respublika is one of the first banks in the country to receive international ratings, which are the highest ratings in the private bank sector of Azerbaijan.

The Bank's customer deposits grew 2.3 times and exceeded AZN 52 mln. last year, which is another sign of the Bank's reputation and activeness.

2006-cı ildə Bank Respublika yeni səhmlərin və 2 dəfə ümumilikdə 3 mln. AZN məbləğində istiqrazların emissiyasını aparmışdır.

Ötən il Bank xidmət şəbəkəsini də genişlənmişdir. Bankın Bakı, Gəncə, Sumqayıt, Quba, Xaçmaz, Lənkəran, Yevlax, Bərdə və Şəmkir şəhərlərində 12 filialı və 4 şöbəsi mövcuddur. 2007-ci ilin əvvəlində Bakı və Göyçay şəhərlərində yeni 3 şöbənin açılışı da gözlənilir.

Bank Respublika VISA International sisteminin assosiativ üzvü, MasterCard International sisteminin isə prinsipial üzvüdür. Bank Respublika ötən il müştərilərə yeni kredit, plastik kart və pul köçürmə xidmətləri təqdim etmişdir.

2006-cı ildə Bankın 14 illiyi ilə bağlı reklam və PR kampaniyaları keçirilmişdir. 2007-ci ilin yanvar ayında istifadəyə verilməsi nəzərdə tutulan Bankın yeni İnternet səhifəsi də hazırlanmışdır.

Ötən il müştərilər arasında uduş kampaniyaları da keçirilmişdir. Bank müştərilərlə işi gücləndirmək üçün "banka zəng 144" adlı Azərbaycan bank sektorunda yeni informasiya xidməti yaratmışdır. Bank proqramının yenilənməsi həmçinin müştərilərlə daha səmərəli işin aparılmasına yönəlibdir.

Ötən il Bankın əməkdaşlarının sayı da artmışdır və onların peşəkarlıq səviyyəsinin daha da yüksəldilməsində də yaxşı nəticələr əldə edilmişdir.

Ötən ilin uğurlu olması münasibəti ilə Bankın Səhmdarlarını və Əməkdaşlarını təbrik edirəm, onlara və həmçinin Müştərilərimizə və Tərəfdaşlarımıza təşəkkür edirəm və yeni nailiyyətlər arzulayıram.

Xoş arzularla,
Xədicə Həsənova
İdarə Heyətinin Sədri

Bank Respublika issued new shares, and new bonds twice in 2006.

The Bank further expanded its services network last year. It has now 12 branches and 4 service points in Baku, Ganja, Sumgayit, Guba, Khachmaz, Lankaran, Yevlakh, Barda and Shamkir. The opening of 3 new service points in Baku and Goychay is expected in early 2007.

The Bank is the associative member of VISA International system, and the principal member of the MasterCard International system. Bank Respublika offered the customers new credit, plastic cards and money transfer services last year.

On the occasion of its 14th anniversary in 2006, the Bank held advertising and PR campaigns. The Bank's new web site, expected to be launched in January of 2007, was also created.

The Bank held winning campaigns among the customers last year. It introduced a new information service in the banking sector of Azerbaijan named "Call the Bank 144" to closely work with customers. The bank software was also updated in an attempt to conduct more efficient work with the customers.

The number of the Bank's employees increased in the year under review and better results were achieved in their professional development.

I congratulate the Shareholders and Employees of the Bank on the successful past year, and thank them and our Customers and Partners, and wish new accomplishments.

With best wishes,
Khadija Hasanova
Chairperson of Executive Board

İdarə Heyəti
Executive Board

1. Asəf Namazov
   Asaf Namazov
2. Rafael Qasımov
   Rafael Gasimov
3. Xədicə Həsənova
   Khadija Hasanova
4. Aslan Abasov
   Aslan Abasov
5. Aqşin Əmirov
   Agshin Amirov

1

2006-cı ildə Azərbaycan iqtisadiyyatı

Economy of Azerbaijan in 2006

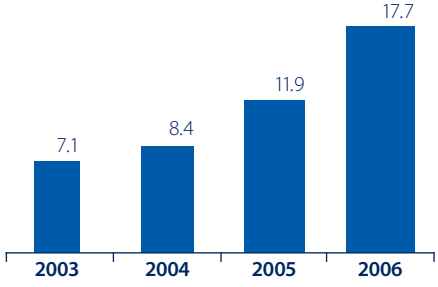
2006-cı ildə Azərbaycan iqtisadiyyatının inkişaf sürəti müasir dünyada ən yüksək səviyyəyə qalxmışdır. İqtisadi artım makroiqtisadi göstəricilərdə öz əksini tapmışdır.

Ötən il ölkədə Ümumi Daxili Məhsulun həcmi 17,7 mlrd. AZN, adambaşına düşən ÜDM-in həcmi isə 2120 AZN məbləğini keçmişdir. ÜDM-in real artımı ötən il 34,5% olmuşdur.

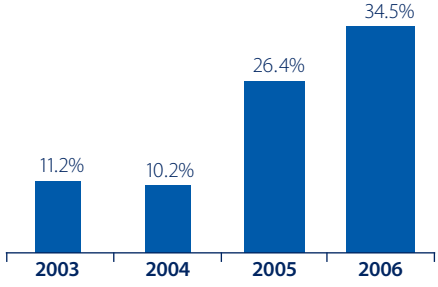
In 2006, the economic development rate of Azerbaijan reached the highest level in the modern world. The economic growth was reflected in the macroeconomic indicators.

The volume of Gross Domestic Product exceeded AZN 17.7 bln, and the volume of GDP per capita exceeded AZN 2120 respectively, last year. GDP's real growth was 34.5%.

Ümumi Daxili Məhsul (mlrd. AZN)
Gross Domestic Product (bln. AZN)



ÜDM-nin real artımı
Real growth rate of GDP



ÜDM-də sənayenin payı 58,3%, kənd, ovçuluq və meşə təsərrüfatı – 7,1%, tikinti – 7,5%, nəqliyyat – 5,3%, topdan və pərakəndə ticarət – 5,6%, rabitə – 1,8%, sosial sahə və digər xidmətlər – 7,9%, məhsula və idxala xalis vergilər – 6,5% olmuşdur.

Share of industry in GDP was 58.3%, agriculture, hunting and forestry – 7.1%, construction – 7.5%, transportation – 5.3%, wholesale and retail trade – 5.6%, communication – 1.8%, social sector and other services – 7.9%, net taxes on product and import – 6.5%.

Göstəricilər / Indicators	2003	2004	2005	2006
İstehlak qiymətlərinin artımı (%) Consumer price change (%)	2,6	6,7	9,6	8,3
AZN-in USD-yə orta illik nisbəti Average AZN rates to USD	0,98	0,98	0,95	0,89
Büdcə gəlirlərinin illik artımı (%) Budget revenues annual growth (%)	34,1	20,8	26,4	88,8
Büdcə kəsri / profisiti (ÜDM üzrə %) Budget deficit / proficit (% from GDP)	–0,2	–0,2	–0,7	+0,5
Dövlət borcu (ÜDM üzrə %) Gross governmental debt (% from GDP)	23,4	18,6	12,6	11,0
Valyuta ehtiyatları (mlrd. USD) Currency reserves (bln. USD)	1,6	1,8	2,4	3,4

Yüksək iqtisadi artım həm böyük neft-qaz layihələrinin həyata keçirilməsi, həm də qeyri-neft sektorunun davamlı inkişafı ilə bağlıdır.

Beynəlxalq layihələr üzrə Azərbaycanın neft və qaz yataqlarının işlənilməsi, Bakı-Tbilisi-Ceyhan neft kəmərinin istismara verilməsi, Bakı-Tbilisi-Ərzurum qaz kəmərinin tikintisi bu sahənin və bütövlükdə iqtisadiyyatın inkişafını təmin etmişdir.

Neft ixracı dünyada enerji təhlükəsizliyi baxımından Azərbaycanın rolunu artırmışdır. Neft-qaz layihələri Azərbaycanda və bütün regionda sabitliyin və inkişafın təminatına çevrilmişdir. Dövlət Neft Fondunda toplanan neft gəlirləri mühüm iqtisadi və sosial proqramların həyata keçirilməsində də istifadə edilir.

2006-cı ildə sənaye məhsulunun həcmi 36,6%, kənd təsərrüfatı məhsullarının həcmi 0,9%, əsas kapitala yönəldilən sərmayələr 14,8%, nəqliyyat sektorunda yük daşınması 13,0%, rabitə xidmətlərinin həcmi 24,0%, əmtəə dövriyyəsi 13,5%, əhaliyə göstərilən pullu xidmətlərin həcmi isə 42,1% artmışdır.

İqtisadiyyatın hərtərəfli inkişafının daha bir göstəricisi 2006-cı ildə qeyri-neft sektorunda 12,1% artımın olmasıdır. Ölkədə qeyri-neft sektorunun, sahibkarlığın və regionların inkişafı üzrə proqramlar və tədbirlər həyata keçirilir.

2006-cı ildə Azərbaycan 139 ölkə ilə 11,6 mlrd. USD məbləğində ticarət əməliyyatları aparmışdır. Ötən il ixracın həcmi 46,6% artaraq 6,37 mlrd. USD, idxalın həcmi isə 25,0% artaraq 5,27 mlrd. USD olmuşdur.

Beynəlxalq neft-qaz və nəqliyyat layihələri, xarici sərmayələrin Azərbaycanda yerləşdirilməsi, "Avropada qonşuluq siyasəti" üzrə görülən işlər, digər ölkələrlə iqtisadi əlaqələr Azərbaycanın dünya iqtisadiyyatına inteqrasiyasını dərinləşdirmişdir.

Ölkədə aparılan iqtisadi siyasətin nəticəsində son 12 ildə davam edən inkişaf 2006-cı ildə daha da güclənmiş və beləliklə Azərbaycan regionun iqtisadi mərkəzinə çevrilmişdir.

High economic growth is connected with the implementation of large oil and gas projects, as well as the sustainable development of non-oil sector.

The development of Azerbaijan's oil and gas fields, exploitation of Baku-Tbilisi-Ceyhan oil export pipeline, construction of Baku-Tbilisi-Erzurum gas pipeline within international projects ensured the development of this sector and the overall economy.

Oil export increased the role of Azerbaijan in terms of global energy security. Oil and gas projects became guarantee for stability and development in Azerbaijan, and the entire region. Oil revenues accumulated in the State Oil Fund are also used for the realization of important economic and social programs.

In 2006 the volume of industrial products increased by 36.6%, agricultural products – 0.9%, fixed capital investments – 14.8%, cargo shipment in transportation sector – 13.0%, volume of communication services – 24.0%, trade turnover – 13.5%, volume of chargeable customer services – 42.1%.

Another indicator of the comprehensive development of economy is 12.1% growth in the non-oil sector in 2006. Programs and measures are carried out on the development of non-oil sector, entrepreneurship and on the development of the regions.

Azerbaijan realized trade operations with 139 countries worth USD 11.6 bln in 2006. Export volume reached USD 6.37 bln with an increase of 46.6% and import was USD 5.27 bln with an increase of 25.0%.

International oil-gas and transportation projects, foreign investing in Azerbaijan, the work carried out on the "European Neighborhood Policy" and economic relations with other countries deepened Azerbaijan's integration into the world economy.

Sustainable development over the last 12 years as a result of the economic policy pursued in the country was further strengthened and Azerbaijan became the economic center of the region.

2

2006-cı ildə Azərbaycan bank sektoru

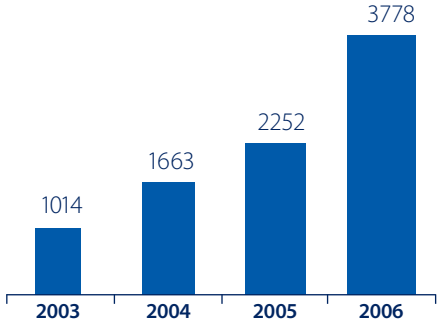
Banking sector of Azerbaijan in 2006

Azərbaycan bank sektoru 2006-cı ildə öz sürətli inkişafını davam etdirmişdir. Bu inkişaf bank sektorunun həm maliyyə göstəricilərinin artımında, həm də keyfiyyətcə daha yüksək səviyyəyə qalxmasında görünür.

2006-cı ildə ölkədə 44 kommersiya bankı fəaliyyət göstərib və bunlardan 42-si özəl banklar, 1 tam və 1 qismən dövlət banklarıdır. Son 3 ildə bankların ümumi sayı sabit qalsa da, bankların filial və şöbələrinin sayı təkcə ötən il 23% artmışdır.

Ötən il bankların kapitalı 55,4% artmışdır, 1 banka orta hesabla düşən kapitalın həcmi isə 13,7 mln. AZN məbləğini keçmişdir. Azərbaycanda 20 tam və ya qismən xarici kapitallı bank mövcuddur ki, bu da xarici və beynəlxalq maliyyə təşkilatlarının Azərbaycan bank sektorunda iştirakının göstəricisidir.

Ümumi aktivlər (mln. AZN)
Total assets (mln. AZN)



Bankların aktivləri ötən il 67,8% artmışdır, onların ÜDM-yə nisbəti isə 2006-cı ilin yekunlarına əsasən 21,3% olmuşdur. Bankların aktivlərinin hər il sürətli artımı və onların ÜDM-yə nisbətdə yüksək olmaması, Azərbaycanda bank sektorunun inkişafı üçün böyük potensialı göstərir.

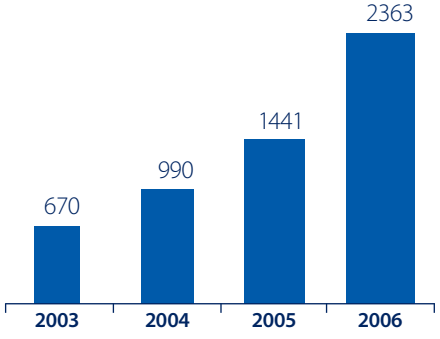
Bank sektoru üzrə ümumi kredit portfeli ötən il 64,0% artmışdır. Ümumi kredit portfelində dövlət banklarının payı 45,2%, özəl bankların payı 52,1%, qeyri-bank kredit təşkilatlarının payı isə 2,7% təşkil etmişdir.

The banking sector of Azerbaijan continued its rapid development in 2006. This development is obvious both in the increase of financial indicators and higher quality of the banking sector.

44 commercial banks operated in the country in 2006. 42 out of them are private, 1 is fully and 1 is partially state-owned bank. Only last year the number of banks' branches and service points grew by 23%, while general number of the banks remained unchanged during the last 3 years.

Capital of banks rose by 55.4% and the average capital per bank exceeded AZN 13.7 mln. Currently, 20 banks with full or partial foreign capital operate in Azerbaijan. That indicates participation of foreign and international financial organizations in Azerbaijan banking sector.

Ümumi kredit portfeli (mln. AZN)
Total credit portfolio (mln. AZN)



Banks' assets rose by 67.8% last year and their ratio to GDP was 21.3% according to the last year's results. The rapid growth of banks' assets every year and their low ratio to GDP illustrate a great potential for the development of the banking sector in Azerbaijan.

Total credit portfolio on the banking sector increased by 64.0% last year. The share of state banks in the total credit portfolio was 45.2%, share of private banks – 52.1% and share of non-bank credit organizations was 2.7%.

Banklarda müştəri depozitləri 2006-cı ildə 64,5% artaraq 2129,2 mln. AZN olmuşdur. Bu məbləğin 56,8% hissəsi hüquqi şəxslərin, 43,2% hissəsi isə fiziki şəxslərin depozitləridir. Ötən ilin sonuna müştəri depozitlərinin 49,2% hissəsi müddətli, 50,8% hissəsi isə tələbli depozitlər olmuşdur.

Azərbaycan bank sektorunda 2006-cı ildə kəmiyyət göstəricilərinin artımı ilə yanaşı keyfiyyət dəyişiklikləri də olmuşdur.

2006-cı ilin əvvəlində milli valyutanın denominasiyası aparılmışdır: yeni Azərbaycan manatı (AZN) dövriyyəyə buraxılmış və qiymətlər miqyası 5000 dəfə kiçilmişdir. Ötən ilin dekabr ayında orta aylıq məzənnəyə görə 1 ABŞ dolları 0,87 AZN, 1 avro isə 1,15 AZN olmuşdur.

Ölkə Prezidentinin təsdiq etdiyi İpoteka Kreditləşməsi üzrə Dövlət Proqramına əsasən İpoteka Fondunun yaradılması və müvəkkil banklar vasitəsi ilə ipoteka kreditlərinin verilməsi də 2006-cı ilin vacib nailiyyətlərindəndir. Ötən il Dövlət proqramı ilə sahibkarlığın inkişafına ayrılan kreditlərin həcmi də artırılmışdır.

2006-cı ildə bank sektorunda edilmiş yeniliklərdən biri də "Millikart" prosessinq mərkəzinin özəlləşdirilməsi və özəl bankların idarəçiliyinə verilməsi olmuşdur.

Bank sistemi üzrə hüquqi-normativ bazanın təkmilləşməsi və banklarda korporativ idarəetmənin gücləndirilməsi Azərbaycan bank sisteminin inkişafını və Avropa standartlarına yaxınlaşmasını təmin etmişdir.

2006-cı ildə xarici və beynəlxalq maliyyə təşkilatlarının Azərbaycana marağı artmışdır. Bir sıra Azərbaycan bankları Avropa Yenidənqurma və İnkişaf Bankı, Beynəlxalq Maliyyə Korporasiyası, Asiya İnkişaf Bankı, KfW Bank Qrupu, FMO və digər təşkilatlarla kredit xətlərinin açılması və / və ya kapitala sərmayə qoyulması üzrə əməkdaşlığı genişləndirmişlər.

Ölkə rəhbərliyinin, Azərbaycan Milli Bankının və kommersiya banklarının fəaliyyəti və səyləri nəticəsində ölkənin bank sektorunda sürətli inkişafın gələcək illərdə də davam edəcəyi gözlənilir.

Customer deposits in banks grew by 64.5% in 2006 and amounted to AZN 2129.2 mln. 56.8% of this amount belongs to legal entities and 43.2% belongs to individuals. By the end of the last year 49.2% of customer deposits was term deposits and 50.8% was demand deposits.

There were quality changes in Azerbaijan banking sector along with the growth of quantity indicators.

Denomination of national currency was implemented in early 2006: new manat (AZN) was put into circulation and the price rate was reduced 5000 times. According to average monthly rate of December 2006, USD 1 was equal to AZN 0.87, and euro – AZN 1.15.

The creation of the Mortgage Fund and mortgage lending through authorized banks in accordance with the State Program on the Mortgage Lending, approved by President, is an important achievement of 2006. Credit allocation under the State Program for the entrepreneurship development increased too.

One of the innovations in the banking sector in 2006 is the privatization of the "MilliKart" processing center and its management by private banks.

The improvement of legal-normative base and corporate management in Azerbaijan banking system ensured its development and convergence to European standards.

In 2006 the interest of foreign and international financial organizations to Azerbaijan was increased. A number of Azerbaijani banks expanded their cooperation on the establishment of credit lines and/or capital investing with the European Bank for Reconstruction and Development, International Finance Corporation, Asian Development Bank, KfW banking group, FMO and other organizations.

Thanks to the activity and efforts of the country's leadership, the National Bank of Azerbaijan and commercial banks, the rapid development of the banking sector is expected to continue in the coming years.

3

Bank Respublika haqqında ümumi məlumat

General information about Bank Respublika

Bankın yaranması

Bank Respublika 22 may 1992-ci il tarixdə Azərbaycan Respublikası Milli Bankının lisenziyası əsasında fəaliyyətə başlamışdır.

Establishment of the Bank

Bank Respublika started its operation on May 22, 1992 on the basis of the license issued by the National Bank of the Republic of Azerbaijan.

Səhmdarlar

Yerli səhmdarlar	75%
Almaniyanın maliyyə təşkilatları	25%+1 səhm
– DEG İnvestisiya Şirkəti (KfW bank qrupunun üzvü)	16,67%
– SIDT (Sparkassen-Finanzgruppe maliyyə qrupunun üzvü)	8,33%

Shareholders

Local shareholders	75%
Financial organizations of Germany	25%+1 share
– DEG Investment Company (KfW banking group member)	16.67%
– SIDT (Sparkassen-Finanzgruppe financial group member)	8.33%

Bankın beynəlxalq reytinqi

Bank 2006-cı ildə Moody's Investors Service agentliyindən milli və xarici valyutada əmanətlər üzrə B2 dərəcəli uzunmüddətli və NP dərəcəli qısamüddətli reytinqlər almışdır. Bütün reytinqlər "stabil" proqnozuna malikdir. Bu reytinqlər Azərbaycanın özəl bank sektorunda ən yüksək reytinqlərdir.

International rating of the Bank

In 2006 Bank Respublika received B2 long term and NP short term ratings from Moody's Investors Service on national and foreign currency deposits. All ratings are with "stable" forecast. These ratings are the highest ratings in the private banking sector of Azerbaijan.

Əsas maliyyə göstəriciləri
(31 dekabr 2006-cı il tarixinə)

Ümumi aktivlər	111,3 mln. AZN
Müştərilərə verilmiş kreditlər	75,4 mln. AZN
Müştərilərin depozitləri	52,4 mln. AZN
Ümumi kapital	11,9 mln. AZN

Main financial indicators
(as of December 31, 2006)

Total assets	AZN 111.3 mln.
Loans to customers	AZN 75.4 mln.
Customer deposits	AZN 52.4 mln.
Total capital	AZN 11.9 mln.

Xidmət şəbəkəsi (31 dekabr 2006-cı il tarixinə)

Bankın xidmət şəbəkəsi Bakı, Gəncə, Sumqayıt, Quba, Xaçmaz, Lənkəran, Yevlax, Bərdə və Şəmkir şəhərlərində fəaliyyət göstərən 12 filial və 4 şöbədən ibarətdir.

Service Network (as of December 31, 2006)

The Bank's service network consists of 12 branches and 4 service points operating in Baku, Ganja, Sumgayit, Guba, Khachmaz, Lankaran, Yevlakh, Barda and Shamkir.

Əməkdaşların sayı
(31 dekabr 2006-cı il tarixinə)

305 nəfər

Number of employees
(as of December 31, 2006)

305

Müşahidə Şurası

- Elçin Quliyev — Sədr
- Nail Şahverdiyev — Üzv
- Çingiz Mehdiyev — Üzv
- Qudrun Buş (DEG) — Üzv
- Karsten Steffan (SIDT) — Üzv

Supervisory Board

- Elchin Guliyev — Chairman
- Nail Shahverdiyev — Member
- Chingiz Mehdiyev — Member
- Gudrun Busch (DEG) — Member
- Carsten Steffan (SIDT) — Member

İdarə Heyəti

- Xədicə Həsənova — Sədr
- Asəf Namazov — Sədrin 1-ci Müavini
- Rafael Qasımov — Sədr Müavini
- Aslan Abasov — Sədr Müavini
- Aqşin Əmirov — Üzv

Executive Board

- Khadija Hasanova — Chairperson
- Asaf Namazov — First Deputy Chairman
- Rafael Gasimov — Deputy Chairman
- Aslan Abasov — Deputy Chairman
- Agshin Amirov — Member

4

Bankın beynəlxalq reytinqi

International rating of the Bank

2006-cı ildə Bank Respublika-nın mühüm nailiyyətləri sırasında beynəlxalq reytinqin alınması xüsusi əhəmiyyətə malikdir.

Bank Respublika beynəlxalq reytinqi 2006-cı ilin dekabr ayında Moody´s Investors Service agentliyindən almışdır.

Bank Respublika milli və xarici valyutada olan əmanətlər üzrə B2 dərəcəli uzunmüddətli və NP dərəcəli qısamüddətli reytinqlər almışdır. Bütün reytinqlər "stabil" proqnozuna malikdir.

Bank Respublika Azərbaycanda beynəlxalq reytinq almış ilk banklardandır. Bank Respublika-ya təqdim edilmiş reytinqlər Azərbaycanın özəl bank sektorunda ən yüksək reytinqlərdir.

Bank Respublika-nın Azərbaycanın özəl bank sektorunda ən yüksək olan B2 dərəcəli beynəlxalq reytinq alması Bankın 14 illik fəaliyyətinin nəticələrinə və hazırkı inkişaf səviyyəsinə verilmiş qiymətdir.

Almaniyanın böyük maliyyə institutlarının (KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe maliyyə qrupunun üzvü SIDT) Bank Respublika-nın səhmdarları sırasında olması, həmçinin onların strateji idarəetmədə iştirakı və onlar tərəfindən göstərilən texniki dəstək də Banka verilmiş reytinqə müsbət təsir göstərən amillərdəndir.

Moody's Investors Service agentliyi Bank Respublika-nın Azərbaycanın müxtəlif regionlarında filial şəbəkəsini genişləndirmək, Bankın kiçik və orta biznes, həmçinin istehlak kreditləri sektorlarına istiqamətlənməsini də müsbət dəyərləndirmişdir.

1914-cü ildən fəaliyyət göstərən və hazırda dünyanın əsas aparıcı beynəlxalq reytinq agentliklərindən olan Moody´s Investors Service tərəfindən Bank Respublika-ya təqdim edilmiş reytinqlər Bankın nailiyyətlərini və etibarlığını əks etdirməklə yanaşı onun gələcək inkişafı üçün də yeni imkanlar yaratmışdır.

Receiving international rating is of special importance among significant achievements of Bank Respublika in 2006.

Bank Respublika received international rating from Moody's Investors Service in December of 2006.

Bank Respublika received B2 long term and NP short term ratings on national and foreign currency deposits. All ratings are with "stable" forecast.

Bank Respublika is one of the first banks in Azerbaijan to receive international rating. The ratings given to Bank Respublika are the highest ratings in the private banking sector of Azerbaijan.

Receiving B2 international rating, the highest in the private banking sector of Azerbaijan, is a esteem for the results of the Bank's 14 years of operation and its current development rate.

The participation of large financial institutions of Germany (KfW banking group member DEG and Sparkassen-Finanzgruppe financial group member SIDT) in the shareholders capital of Bank Respublika and their engagement in the strategic management and technical support are factors positively affecting the rating given to the Bank.

Moody's Investors Service also positively assessed Bank Respublika's efforts in expanding its branch networks in various regions of Azerbaijan, targeting at small and medium business and consumer loans sectors.

The ratings given to Bank Respublika by Moody's Investors Service, which has been operating since 1914 as one of the leading international rating agencies in the world, on the one hand, reflect the Bank's achievements and reliability and, on the other hand, offer new opportunities for its future development.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2006-cı ildə Bankın əsas maliyyə göstəriciləri

Main financial indicators of the Bank in 2006

Bank Respublika 2006-cı ildə uğurlu fəaliyyəti nəticəsində maliyyə göstəricilərinin yüksək artımına və mövqelərinin Azərbaycanın aparıcı bankları sırasında daha da güclənməsinə nail olmuşdur.

Bankın inkişafını əsas maliyyə göstəricilərinin dinamikasında müşahidə etmək olar.

As a result of its successful activity, Bank Respublika achieved high financial indexes and further strengthened its positions among the leading banks of Azerbaijan.

The development of the Bank can be observed in the dynamics of its major financial indicators.

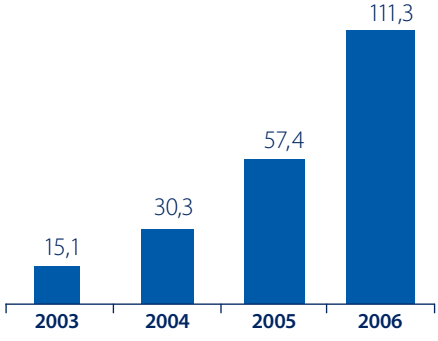
Aktivlər

Bank Respublika-nın aktivləri 2006-cı ilin sonuna 111,3 mln. AZN olmuşdur. Bankın aktivləri ötən il 94% artmışdır və bu bank sektoru üzrə orta göstəricidən yüksəkdir.

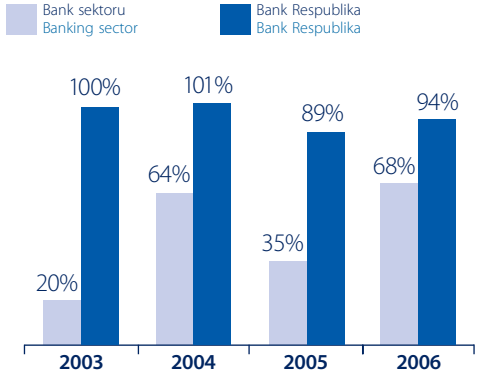
Assets

The assets of Bank Respublika made up AZN 111.3 mln based on the results of 2006. The assets increased by 94% last year, being higher compared with the average indicator in the banking sector.

Bankın aktivləri (mln. AZN)
Assets of the Bank (mln. AZN)



Aktivlərin illik artım tempi, %
Annual growth rate of the assets, %



Bank sektoru üzrə ümumi aktivlərdə Bank Respublika-nın payı 2005-ci ildə 2,5% olmuşdursa, 2006-cı ilin yekunlarına əsasən 3,0% təşkil etmişdir.

Aktivlər üzrə Bank Respublika-nın bank sektorunda payının artımı ötən ildə uğurlu fəaliyyəti və bank sektorunda mövqelərinin güclənməsini əks etdirir.

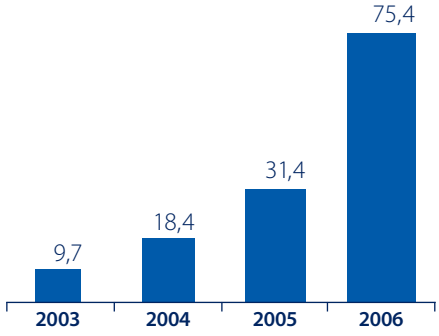
Bank Respublika-nın aktivlərində əsas hissəni müştərilərə verilmiş kreditlər təşkil edir. 2006-cı ilin sonuna Bankın aktivlərində müştərilərə verilmiş kreditlərin payı 67,8% olmuşdur. Bankın kredit portfelinin həcmi 2006-cı ildə 2,4 dəfə artmışdır.

According to the results of 2006, Bank Respublika's share in the total assets in the banking sector was 3.0% compared with 2.5% in 2005.

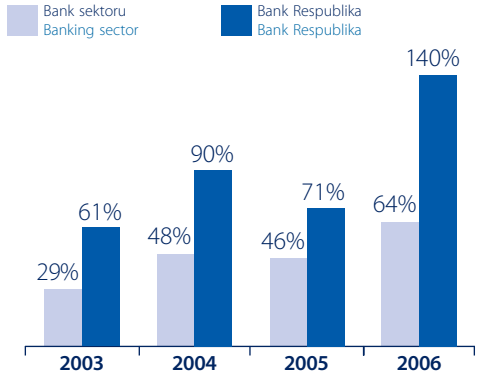
The growth of Bank Respublika's share in the assets reflects its successful activity and consolidation of its position in the banking sector.

The main part of Bank Respublika's assets is loans to customers. Share of loans to customers in the Bank's assets was 67.8% towards the end of 2006. The volume of the Bank's loan portfolio multiplied 2.4 times last year.

Bankın kredit portfeli (mln. AZN)
Loan portfolio of the Bank (mln. AZN)



Kredit portfelinin illik artım tempi, %
Annual growth rate of loan portfolio, %



Bank sektoru üzrə kredit portfelində Bank Respublika-nın payı 2005-ci ildə 2,2% olmuşdursa, 2006-cı ilin sonuna bu rəqəm 3,2%-ə çatmışdır. Bankın kredit siyasəti ilə Hesabatın "Kredit siyasəti" bölməsində tanış ola bilərsiniz.

Bank Respublika's share in the loan portfolio of the banking sector reached 3.2% by the end of 2006 compared with 2.2% in 2005. For more information about the Bank's credit policy, see "Credit Policy" Chapter of the Report.

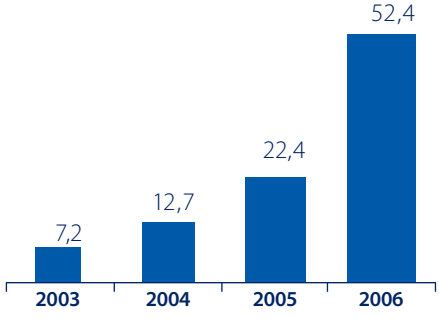
Passivlər

Bank Respublika-nın 2006-cı ildə inkişafını passivlərin də artımında müşahidə etmək olar. Bankın passivlərinin strukturunda 47,1% paya malik olan müştəri depozitlərinin həcmi 2006-cı ildə 2,3 dəfə artmışdır.

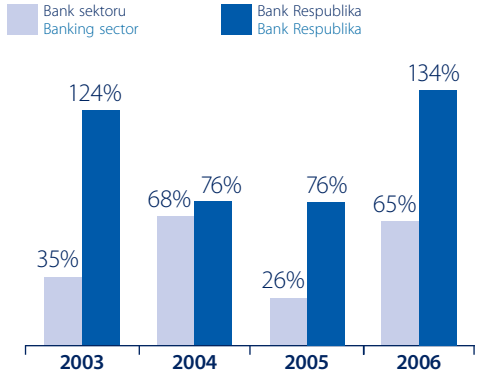
Liabilities

The progress of Bank Respublika in 2006 can also be observed in the increase in its liabilities. The volume of customer deposits with 47.1% share in the structure of Bank's liabilities increased 2.3 times in 2006.

Müştərilərin depozitləri (mln. AZN)
Customer deposits (mln. AZN)



Müştərilərin depozitlərinin illik artım tempi, %
Annual growth rate of customer deposits, %



Bank sektoru üzrə müştəri depozitlərində Bank Respublika-nın payı 2005-ci ildə 1,7% olmuşdursa, 2006-cı ilin yekunlarına əsasən 2,5% təşkil etmişdir.

Müştəri depozitlərinin sürətli artımı Bankın tanınması, müştərilərin Banka etibarının artması, Bankın xidmət şəbəkəsinin genişlənməsi və müştərilərlə daha fəal iş aparması ilə bağlıdır.

2006-cı ildə xarici və beynəlxalq maliyyə təşkilatları tərəfindən Bank Respublika üçün ayrılmış vəsaitlərin məbləği də artmışdır. Bankın istifadə etdiyi kredit xətləri haqqında Hesabatın "Beynəlxalq Əməkdaşlıq" bölməsində tanış ola bilərsiniz.

2006-cı ildə Bank Respublika-nın kapitalında da artım olmuşdur. İlin sonuna Bankın ümumi kapitalı 11,9 mln. AZN məbləğini keçmişdir və bu 2005-ci ilin yekunlarından 20,4% çoxdur. Ümumi kapitalın artımı 2006-cı ildə Bankın nizamnamə kapitalının və gəlirlərinin artımı ilə bağlıdır.

Bankın nizamnamə kapitalı həm yerli səhmdarlar, həm də 2005-ci ildən "25% + 1 səhm" payla Bankın səhmdarları olan Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT tərəfindən yeni sərmayələr hesabına artmışdır.

Mənfəət

Bank Respublika 2006-cı ildə 13,3 mln. AZN gəlir əldə etmişdir. Ümumi gəlirlərin 81% hissəsini faiz gəlirləri, 19% hissəsini isə əməliyyat gəlirləri təşkil etmişdir. Bankın xərcləri 2006-cı ildə 10,3 mln. AZN olmuşdur.

2006-cı ildə Bankın balans mənfəəti 3,0 mln. AZN, xalis mənfəəti isə 2,35 mln. AZN olmuşdur. Xalis mənfəətin aktivlərə nisbəti (RoA) 2,1%, məcmu kapitala nisbəti isə (RoE) 19,7% olmuşdur.

Beləliklə, 2006-cı ildə maliyyə göstəricilərinin dinamik artımı Bank Respublika-nın inkişafını və nailiyyətlərini əks etdirir. Maliyyə planlarına əsasən 2007-ci ildə də Bankın sürətli inkişafının davam edəcəyi gözlənilir.

In the banking sector, Bank Respublika's share in the customer deposits was 2.5% according to the results of 2006 compared with 1.7% in 2005.

The rapid growth of customer deposits is a result of the recognition of the Bank, enhanced trust of customers, expansion of the service network of the Bank and its more active work with the customers.

The amount of funds allocated by foreign and international financial institutions for Bank Respublika increased in 2006. For more information about credit lines used by Bank Respublika, see "International Cooperation" Chapter of the Report.

Bank Respublika's capital also grew in 2006. The Bank's total capital exceeded AZN 11.9 mln towards the end of the year and is 20.4% higher compared to 2005. The growth in total capital is connected with growth of the Bank's charter capital and incomes.

An increase in the charter capital of the Bank was possible due to new shares from local shareholders, as well as the KfW banking group member DEG and Sparkassen-Finanzgruppe member SIDT of Germany, the shareholders of the Bank since 2005 with "25% plus 1 share"

Profit

Bank Respublika's income totaled AZN 13.3 mln in 2006. 81% of this amount was interest income and 19% was operational income. The Bank's expenditures were AZN 10.3 mln in 2006.

The Bank's balance-sheet profits amounted to AZN 3.0 mln, with net profit of AZN 2.35 mln in 2006. Return on assets (RoA) made up 2.1%, return on equity (RoE) was 19.7%.

The dynamic growth of financial indicators reflects Bank Respublika's progress and achievements. According to financial plans, the rapid development of the Bank is expected to continue in 2007.

6

Kredit siyasəti

Credit policy

Kredit əməliyyatları Bank Respublika-nın fəaliyyətində ən vacib sahələrdəndir. Bankın ümumi kredit portfeli 2006-cı ildə 2,4 dəfə artaraq 75,4 mln. AZN məbləğini keçmişdir. Bankın kredit portfelinin artım sürəti ötən il bank sektorunun ümumi artım göstəricisindən 2,2 dəfə çox olmuşdur.

Bank Respublika-nın kredit siyasətinin əsas məqsədi minimal risklər çərçivəsində maksimal gəlir əldə edilməsi və likvidliyin zəruri səviyyədə saxlanılması şərti ilə pul vəsaitlərinin effektiv və səmərəli yerləşdirilməsindən ibarətdir. Bankın kredit siyasətində kreditlərin verilməsi üçün prioritet sahələr və arzu olunmayan istiqamətlər də müəyyən edilmişdir.

Kredit portfelinin diversifikasiyasını və optimal strukturunu təmin etmək məqsədi ilə kredit məhsulları, məbləğlər, müddətlər, regionlar, filiallar, bir müştəri və ya müştəri qrupuna verilən kreditlər və sair meyarlar üzrə limitlər və hədəflər də müəyyən edilmişdir və buna müvafiq olaraq portfelin inkişafı həyata keçirilir.

Bank müştərilərə verdiyi kreditləri müxtəlif növlərə bölür: kreditləşmənin subyektinə görə - fiziki və hüquqi şəxslərə verilən kreditlər; müddətə görə - qısamüddətli və uzunmüddətli kreditlər; məbləğə görə – mikro, kiçik, orta və iri kreditlər; təyinata görə – istehlak, ipoteka və biznes kreditləri.

Bank Respublika-nın xüsusi diqqət verdiyi məsələlərdən biri də kredit portfelinin keyfiyyətidir. 2006-cı ilin sonuna risk altında olan kredit portfeli Bankın ümumi kredit portfelinin 0,5% hissəsini təşkil edir və bu Azərbaycan bank sektorunda ən yaxşı göstəricilərdəndir.

Bankın fəaliyyətində biznes kreditləşməsi vacib istiqamətlərdəndir. Müştərilərə biznes kreditlərini Bank həm özünün, həm də müxtəlif yerli və beynəlxalq maliyyə institutlarından cəlb etdiyi vəsaitlərdən verir.

Bank Respublika biznes kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, FMO, DEG, Qara Dəniz Ticarət və İnkişaf Bankı, Alman-Azərbaycan Fondu, Raiffeisen Bank, Commerzbank AG və digər maliyyə

Lending operations are one of the important areas for Bank Respublika. The Bank's total loan portfolio exceeded AZN 75.4 mln increasing 2.4 times in 2006. The increase rate of the Bank's total loan portfolio was 2.2 times higher than the general increase index of the banking sector.

The key goal of Bank Respublika's credit policy is the effective and efficient placement of monetary assets provided maximum profit within the minimal risks and maintaining the necessary liquidity level. The Bank's credit policy has defined priority lending areas and undesirable directions accordingly.

Credit products, amounts, terms, regions, branches, loans given to one customer or to a group of customers and limits and targets on other criteria were established with the purpose of ensuring diversification and optimal structure of loan portfolio.

Customer credits granted by the Bank are divided into various types: credits for individuals and legal entities depending on the subject of loan; short term and long term credits depending on terms; micro, small, medium and large credits depending on the amount; consumer, mortgage and business loans depending on the purpose.

Bank Respublika also gives a special attention to the quality of loan portfolio. Portfolio at risk as of the end of 2006 constitutes 0.5% of the total loan portfolio of the Bank which is one of the best indexes in the banking sector of Azerbaijan.

Business lending is another important direction in Bank Respublika's activity. The Bank grants business loans to customers from its own funds and from the resources derived from various local and international financial institutions.

Bank Respublika cooperates on the business lending and trade financing with the European Bank for Reconstruction and Development, Asian Development Bank, FMO, DEG, Black Sea Trade and Development Bank, German-Azerbaijan Fund, Raif-

təşkilatları ilə əməkdaşlıq edir. Bu əməkdaşlıq haqqında Hesabatın "Beynəlxalq Əməkdaşlıq" bölməsində tanış ola bilərsiniz.

Bank həmçinin Sahibkarlığa Yardım Milli Fondu ilə əməkdaşlıq edərək sahibkarlığın kreditləşməsi üzrə Dövlət Proqramında da fəal iştirak edir. Bank Respublika 2006-cı ildə ölkənin müxtəlif regionlarında kreditləşməni də xeyli genişləndirmişdir.

Bankın kredit fəaliyyətinin digər mühüm istiqamətləri əhaliyə istehlak və ipoteka kreditlərinin verilməsidir. Bu sahədə Bank Respublika müxtəlif kredit məhsulları təklif edir – "Avtomobil krediti", "Ev təmiri", "İpoteka", "Təhsil", "Faydalı səyahət", "Yeni ailə", plastik kartla kredit və sair məhsullar.

Bank Respublika 2006-cı ildən icrasına başlanmış İpoteka Kreditləşməsi üzrə Dövlət Proqramının da fəal iştirakçısıdır. Proqrama əsasən yaradılmış Azərbaycan İpoteka Fondunun vəsaiti hesabına Bank əhaliyə uzunmüddətli ipoteka kreditləri verir.

Bank Respublika Azərbaycanın bank sektorunda kredit əməliyyatları üzrə də aparıcı banklardan biridir və bu sektorda Bank öz mövqelərini ildən ilə daha da gücləndirir.

feisen Bank, Commerzbank AG and other financial organizations. For more information about this cooperation, see "International Cooperation" Chapter of the Report.

Collaborating with the National Fund for Support of Entrepreneurship the Bank takes active part in the State Program on Crediting Entrepreneurship. Bank Respublika significantly expanded crediting in various regions of the country in 2006.

Other important directions of the Bank's credit activity are consumer and mortgage loans to individuals. In this context, Bank Respublika offers various loans – "Car", "House Renovation", "Mortgage", "Education", "Useful Trip", "New Family", loans by credit cards and other products.

Bank Respublika is also an active participant of the State Program on Mortgage Lending, which started in 2006. The Bank grants long-term mortgage loans to individuals from the resources of Azerbaijan Mortgage Fund, established in accordance with the Program.

Bank Respublika being one of the leading banks on loan operations in the banking sector of Azerbaijan boosts its positions in this sector from year to year.

7

Risklərin idarə edilməsi

Risk management

Bank Respublika risklərin idarə edilməsi sistemlərinin inkişafı istiqamətində 2006-cı ildə fəaliyyətini davam etdirmişdir.

2006-cı ildə Bankda risk limitlərinin təyin edilməsi layihəsinə başlanılmışdır. Risklərin İdarə Edilməsi Departamenti (RİD) Almaniyalı ekspertlə müxtəlif risklər üzrə limitlərin təyin edilməsi işini aparmışdır. RİD-in Direktoru Almaniyada uzunmüddətli səfərdə olmuş və Sparkassen-Finanzgruppe üzvü olan bankda riskləri idarəetmə təcrübəsini öyrənmişdir. Beləliklə, risk limitləri sistemi Bankda tətbiq olunmuş və bir sıra risklər üzrə ilkin hesablamalar aparılmışdır.

Bank Respublika-da "Risk Capital" və cari il üçün risklərdən gözlənən məruzqalma hesablanmışdır. Risk Capital-ın hesablanması zamanı müxtəlif risklərin (kredit, valyuta, faiz, əməliyyat, likvidlik və s.) bağlanılması üçün zəruri kapital müəyyən edilmişdir. Cari illər ərzində risklərdən gözlənilən məruzqalmanı qiymətləndirmək üçün 3 ssenari (pis, real, yaxşı) hazırlanmış və onların baş verməsi halında ehtimal edilən itkilərin məbləğləri hesablanmışdır.

2006-cı ildə gələcək illər üçün risklərin idarə edilməsi üzrə yeni fəlsəfə qəbul edilmişdir. Bu fəlsəfə 3 faktorun optimal vəhdətini özündə ehtiva edir: Mənfəət, Risk və Kapital. Beləliklə, risklərin idarə edilməsi sistemi bu 3 faktorun assosiasiyasının təmin edilməsi istiqamətində inkişaf etdiriləcəkdir.

2006-cı ildə müxtəlif məbləğlərlə və səlahiyyətlərlə ifadə edilən risk limitləri, bank fəaliyyətində risklərin azaldılması üçün müxtəlif metodikaların tətbiq edilməsi və sair məsələlər üzrə qərarlar qəbul edilmişdir.

Bankda likvidlik riskinin idarə edilməsi vacib istiqamətlərdəndir. RİD likvidlik riskinin səviyyəsini hesablayır, onun məlumatları əsasında isə Xəzinədarlıq Departamenti likvidliyi idarə edir.

2006-cı ildə kredit risklərinin idarə edilməsi üzrə də yeniliklər edilmişdir: kredit portfelinin müxtəlif limitləşdirmə sisteminin tətbiqi; portfelin məbləği, kreditlərdən faiz gəlirləri və ehtiyat normaları üzrə li-

Bank Respublika continued to develop risk management system in 2006.

During 2006 the Bank has also launched a project to define risk limits. The Risk Management Department (RMD) conducted work with a German expert on defining limits on various types of risks. The Director of RMD visited Germany for extended period of time to learn risk management experience of a Sparkassen-Finanzgruppe member bank. Thus, a system of risk limits was applied in the Bank and preliminary assessments were made on several risks.

Bank Respublika assessed Risk Capital and expectations from the current year's risks. Capital necessary for management of various risks (credit, currency, interest, operation, liquidity, etc.) was defined during the assessment of Risk Capital. 3 scenarios (bad, real, good) were designed to assess subjection expected from the risks during the current year and the amount of expected loss was assessed in case of real risks.

In 2006 a new conception was adopted on risk management for the years to come. This conception incorporates optimal harmony of 3 factors: Profit, Risk and Capital. Accordingly, risk management system will be developed to ensure combination of these 3 factors.

Decisions on risk limitations, expressed in various amounts and responsibilities, on the application of various methodologies for risk reduction in the bank activity and on other issues were made in 2006.

The management of liquidity risk in the Bank is one of the important directions. RMD assesses the level of liquidity risk, and based on its information the Treasury Department manages the liquidity.

Innovations on the credit risk management in 2006 include the application of various limitation systems of loan portfolio; use of limitation systems on the amount of portfolio, interest income and reserve norms; streamlining of mathematical models of portfolio diversification, etc.

mitlər sisteminin tətbiqi; portfelin diversifikasiyasının riyazi modellərinin təkmilləşdirilməsi və sair.

Kredit portfelinin risklilik dərəcəsini müəyyən etmək üçün 2006-cı ildə VAR (Value at Risk) modelinin tətbiqinə başlanmışdır. VAR-ın sadə modeli tətbiq edilmiş və ilkin hesablamaların aparılmasına başlanmışdır. Kredit portfelində iri kreditlərin konsentrasiya səviyyəsinin hesablanması üçün beynəlxalq praktikada tətbiq edilmiş əmsalların tətbiqinə də başlanmışdır.

2006-cı ildə valyuta risklərinin idarə edilməsi, açıq valyuta mövqeyinin mövcud vəziyyət və gələcək gözləmələrə uyğun istiqamətləndirilməsi təcrübəsinin tətbiqinə başlanılmışdır. Valyuta məzənnələrinin dəyişmə ssenarilərinin öyrənilməsi davam etmişdir. Valyuta bazarında gözləmələrdən və Bankın valyuta mövqeyindən asılı olaraq, kreditlərin maliyyələşdirilməsində AZN və ya USD-yə üstünlük verilmişdir.

2006-cı ildə Bazel II tövsiyələri əsas götürülməklə və baza indikator metodunun istifadəsi ilə əməliyyat risklərinin səviyyəsinin dövrü olaraq hesablanmasına başlanılmışdır və bu riski yaradan amillərin azaldılması üçün tədbirlər görülmüşdür. Növbəti illərdə əməliyyat risklərinin idarə edilməsi üçün Bazel II tövsiyə edilən standart yanaşmanın tətbiq edilməsi üzrə işlər aparılacaqdır.

Bank ötən ildə çirkli pulların yuyulmasının və terrorizmin maliyyələşdirilməsinin qarşısının alınması tədbirlərini davam etdirmişdir. Bankın bu sahədə siyasəti və daxili qaydaları mövcuddur. Bu istiqamətdə Bank beynəlxalq maliyyə təşkilatları ilə əməkdaşlıq edir və müxbir banklarla məlumat mübadiləsi aparır. Əməkdaşlara bu sahədə treninqlər də keçirilmişdir.

2006-cı ildə ekoloji və sosial risklərin idarə edilməsi üzrə işlər davam etdirilmişdir. Bank Ekoloji və Sosial Siyasətə riayət edilməsi və risklərin azaldılması üçün müştərilərə tələblər və tövsiyələr təqdim edir.

2006-cı il Bank Respublika-da risklərin idarə edilməsi sistemlərinin inkişafı və yeni səviyyəyə çıxarılması istiqamətində mühüm bir il olmuşdur.

The VAR (Value at Risk) system was introduced in 2006 to determine risk levels of loan portfolio. A simple VAR model was applied and initial assessment is already under process. For the assessment of large credit concentration level, the Bank commenced application of coefficients used in the international experience.

In 2006, the Bank started the application of experience on currency risk management, targeting open currency position in compliance with current and future expectations. Studies of scenario changes of currency rates were continued in 2006. The preference was given to AZN or USD in credit financing depending on expectations in the currency market and the Bank's currency position.

In 2006, taking into account Basel II recommendations, the assessment of operation risks level with the use of base indicator method was periodically made, and to reduce the factors creating these risks certain measures were taken. To the manage operation risks in the coming years, the work will be carried on the application of the standard approach recommended by Basel II.

The Bank continued taking measures to prevent money laundering and terrorism financing in the past year. The Bank has a policy and internal rules on this point. The Bank cooperates with international financial organizations in this direction and has exchange of information with correspondent banks. The employees of the Bank got trainings in this field.

Work on the management of ecological and social risks continued in 2006. The Bank makes demands and recommendations to clients to observe of Ecological and Social Policy and reduce risks.

2006 has been an important year for Bank Respublika in terms of development of risk management system and reaching a new level.

8

Beynəlxalq əməkdaşlıq

International cooperation

2006-cı ildə Bank Respublika beynəlxalq əməkdaşlıq üzrə müxtəlif istiqamətlərdə bir sıra mühüm nailiyyətlər əldə etmişdir.

Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe maliyyə qrupunun üzvü SIDT-nin 2005-ci ildən "25% + 1 səhm" payla Bank Respublika-nın səhmdarları sırasında olması 2006-cı ildə Bankın xarici və beynəlxalq təşkilatlarla əməkdaşlığının genişlənməsinə də müsbət təsir göstərmişdir.

Bank Respublika 2006-cı ildə Moody's Investors Service agentliyindən milli və xarici valyutada əmanətlər üzrə B2 dərəcəli uzunmüddətli və NP dərəcəli qısamüddətli reytinqlər almışdır. Reytinqlər "stabil" proqnozuna malikdir.

Bank Respublika ölkədə beynəlxalq reytinq alan ilk banklardandır və bu reytinqlər Azərbaycanın özəl bank sektorunda ən yüksək reytinqlərdir.

2006-cı ildə Bank sahibkarlığın kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə xarici və beynəlxalq maliyyə təşkilatları ilə əməkdaşlığı genişləndirmişdir. Avropa Yenidənqurma və İnkişaf Bankının (AYİB) bu istiqamətlərdə Bank Respublika üçün ayırdığı kredit xətləri ötən il ərzində 18 mln. USD məbləğinədək artmışdır.

Hollandiya İnkişaf Maliyyə Şirkəti (FMO) və Bank Respublika arasında 10 mln. USD məbləğində kredit xəttinin açılması üzrə 2006-cı ildə imzalanmış müqavilə isə Azərbaycanın özəl bank sektorunda bu sahədə ən iri müqavilə olmuşdur.

Bank Respublika sahibkarlığın kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə Asiya İnkişaf Bankı (AİB), DEG, Qara Dəniz Ticarət və İnkişaf Bankı (QDTİB), Alman-Azərbaycan Fondu (AAF), Raiffeisen Bank, Commerzbank AG və digər təşkilatlarla da əməkdaşlıq edir.

Xarici və beynəlxalq maliyyə təşkilatlarından cəlb edilmiş kredit xətlərinin həcminə görə Bank Respublika Azərbaycanda aparıcı banklardandır, bu isə Banka beynəlxalq səviyyədə etibarı əks etdirir.

In 2006 Bank Respublika had several important achievements in various directions in terms of international cooperation.

The presence of Germany's KfW banking group member DEG and Sparkassen-Finanzgruppe member SIDT among the Bank's shareholders since 2005 with "25% plus 1 share" stake positively affected the expansion of the Bank's cooperation with foreign and international organizations in 2006.

In 2006 Bank Respublika received B2 long-term and NP short term ratings on national and foreign currency deposits from the Moody's Investors Service agency. The ratings are with "stable" forecast.

Bank Respublika is one of the first banks in the country to receive international ratings, which are the highest in the private bank sector of Azerbaijan.

The Bank broadened its cooperation with foreign and international financial organizations on the business lending and trade financing in 2006. Lines of credit allocated by the European Bank for Reconstruction and Development (EBRD) reached USD 18 mln last year.

An agreement on the establishment of credit lines worth USD 10 mln signed in 2006 between the Netherlands Development Finance Company (FMO) and Bank Respublika is the largest contract in the private banking sector of Azerbaijan in this area.

Bank Respublika also cooperates on business lending and trade financing with the Asian Development Bank (ADB), DEG, the Black Sea Trade and Development Bank (BSTDB), German-Azerbaijan Fund (GAF), Raiffeisen Bank, Commerzbank AG and other organizations.

Bank Respublika is one of the leading banks in Azerbaijan for the volume of credit lines from foreign and international financial organizations, and this reflects the confidence to the Bank on the international level.

Bank Respublika üçün açılmış əsas beynəlxalq kredit xətləri
The main international credit lines established for Bank Respublika

Təşkilatlar Organizations	Proqramlar üzrə məbləğlər Amount by programs		
	Sahibkarlığın kreditləşməsi Business lending	Ticarətin maliyyələşdirilməsi Trade financing	Cəmi Total
AYİB EBRD	13 mln. USD	5.5 mln. USD	18.5 mln. USD
FMO FMO	10 mln. USD	2 mln. USD	12 mln. USD
DEG DEG	5 mln. USD	–	5 mln. USD
AİB ADB	0.5 mln. USD	3.5 mln. USD	4 mln. USD
QDTİB BSTDB	–	2.3 mln. EUR	2.3 mln. EUR
AAF GAF	2.2 mln. EUR	–	2.2 mln. EUR
Raiffeisen Bank Raiffeisen Bank	–	5 mln. EUR	5 mln. EUR
Commerzbank AG Commerzbank AG	–	2 mln. EUR	2 mln. EUR

Bank Respublika 2006-cı ildə 2 dəfə ümumilikdə 3 mln. AZN məbləğində istiqrazların emissiyasını aparmışdır və istiqrazları 2 xarici şirkət almışdır.

Bank Respublika American Express Bank, Commerzbank AG, Dresdner Bank, Wachovia Bank, Raiffeisen Zentralbank Österreich, Alfa-Bank, Parexbank və digər xarici banklarla müxbir əlaqələrə malikdir. Bank həmçinin MasterCard International sisteminin prinsipial və VISA International sisteminin assosiativ üzvüdür.

Almaniyanın böyük maliyyə təşkilatlarının Bank Respublika-nın kapitalında iştirakı, Bankın beynəlxalq reytinq alması və xarici/beynəlxalq maliyyə təşkilatları ilə geniş əməkdaşlıq Bankın inkişafı üçün yeni imkanlar yaratmışdır.

Bank Respublika realized the emission of bonds twice in 2006 totally worth AZN 3 mln and the bonds were purchased by 2 foreign companies.

The Bank has got correspondent relations with American Express Bank, Commerzbank AG, Dresdner Bank, Wachovia Bank, Raiffeisen Zentralbank Osterreich, Alfa-Bank, Parexbank and other foreign banks. The Bank is a principal member of MasterCard International and associative member of VISA International system.

Participation of large financial organizations of Germany in the Bank's capital, Bank's international ratings and broad cooperation with foreign and international financial organizations opened new opportunities for the development of the Bank.

9

Müştəri xidməti və müştərilərlə əlaqələr

Customer service and customer relations

Bank Respublika müştərilərə maksimal dərəcədə faydalı olmağa çalışır və bu həm Bankın sloqanında - "Sizə faydalı", həm də fəaliyyətində öz əksini tapmışdır. Bank müştəri xidmətinin keyfiyyətinə, xidmətlərin çeşidinə və şərtlərinə böyük önəm verir. Bank 2006-cı ildə müştərilərə bir sıra yeni məhsullar təqdim etmişdir.

Bank Respublika korporativ müştərilərlə işə böyük diqqət verir. Bununla yanaşı Bankın strateji məqsədlərindən biri də fərdi müştərilər sektorunda fəaliyyətinin gücləndirilməsi və inkişafıdır.

Bank Respublika müştərilərə fərdi yanaşmanı təmin etmək məqsədi ilə müxtəlif xidmətlər üzrə müştərilərə geniş seçim imkanları təqdim edir. Bunun ən bariz nümunəsi "Əmanət Şərtlərinin Sərbəst Seçimi" depozit proqramıdır. Bank əmanətçiləri arasında uduş kampaniyası da keçirir.

Bank Respublika müştərilərə MasterCard və VISA kartlarını təklif edir. Kartların müştərilərə xidmət haqqı olmadan pulsuz verilməsi, kartla 35 günədək faizsiz kredit verilməsi, kartlar üzrə əlavə xidmətlər və uduş kampaniyaları Bankın Azərbaycan kredit kartları bazarında aparıcı mövqelərini təmin etmişdir.

Bank korporativ müştərilərə biznes kreditləri, fərdi müştərilərə isə "Avtomobil", "Ev təmiri", "İpoteka", "Təhsil", "Faydalı səyahət", "Yeni ailə", plastik kartla kredit və sair kredit məhsulları təklif edir. Beynəlxalq maliyyə təşkilatları ilə əməkdaşlıq Bankın biznes kreditləri və ticarət maliyyələşdirilməsi üzrə daha münasib şərtlərlə xidmətlər göstərməsi üçün imkanlarını artırmışdır.

Bank Respublika əhaliyə Western Union, Travelex, Contact, Migom, PrivatMoney, Bıstraya poçta, Blizko və Xpress Money sistemləri ilə təcili pul köçürmə xidmətləri, həmçinin American Express yol çekləri üzrə xidmətlər də təqdim edir.

Bank müştərilərə İnternet-Bank, Müştəri-Bank və Home Banking distant xidmətlər də göstərir.

Bank Respublika-nın xidmətlərindən sənaye, telekommunikasiya, maliyyə, tikinti, nəqliyyat, kənd tə-

Bank Respublika tries to be of maximum usefulness to the customers, which is reflected both in the Bank's slogan "Beneficial to You" and in its activities. The Bank attaches great importance to the quality of customer services, range and terms of services. The Bank offered a series of new services to the customers in 2006.

Bank Respublika gives much attention to relations with corporate clients. At the same time, one of the strategic goals of the Bank is to strengthen and develop work with individual clients.

Bank Respublika provides a wide choice of various services to ensure individual approach to the clients. The best example of it is a deposit program "Free Choice of Deposit Terms". The Bank also holds winning campaigns among its depositors.

Bank Respublika offers MasterCard and VISA cards to the clients. The issuing of free of service charge cards to the clients, interest free credit cards for a period of up to 35 days, additional services on cards and winning campaigns have ensured the Bank's leading position in the credit cards market of Azerbaijan.

The Bank offers business loans to corporate clients, and "Car", "House Renovation", "Mortgage", "Education", "Useful Trip", "New Family", credit cards and other products to individuals. Cooperation of the Bank with international financial organizations made it possible to provide services on business loans and trade financing on more favorable conditions.

Bank Respublika offers urgent money transfer services by systems of Western Union, Travelex, Contact, Migom, PrivatMoney, Bistraya Pochta, Blizko and Xpress Money, and services on American Express travel cheques.

The Bank also offers the customers Internet-Bank, Client-Bank and Home Banking distant services.

A great number of companies and organizations from various sectors, such as the industry, telecommunication, finance, construction, transportation,

sərrüfatı, ticarət, xidmət və sair sahələrdə fəaliyyət göstərən çoxlu şirkətlər və təşkilatlar, eləcə də minlərlə fərdi müştərilər istifadə edir.

Müştərilərlə işi gücləndirmək üçün 2006-cı ildə Bank Respublika-da Biznesin İnkişafı və Müştərilərlə Əlaqələri İdarəetmə Departamenti yaradılmışdır. Bank-da Azərbaycan bank sektoru üçün yeni olan 3 rəqəmli telefon nömrəsi ilə "banka zəng 144" adlı bank məlumat xidməti də tətbiq edilmişdir.

Bank Respublika 2006-cı ildə xidmət şəbəkəsini də genişləndirmişdir. Bankın Bakı, Gəncə, Sumqayıt, Quba, Xaçmaz, Lənkəran, Yevlax, Bərdə və Şəmkir şəhərlərində 12 filialı və 4 şöbəsi fəaliyyət göstərir. Bakıda Bankın Baş Ofisi, "Mərkəz", "Azadlıq", "Azneft", "Nərimanov", "Nəsimi" və "Əhmədli" filialları mövcuddur. 2007-ci ildə Bankın Bakı, Əli-Bayramlı və Göyçayda yeni filial və şöbələrinin açılışı planlaşdırılır.

Bank Respublika Ofis24 layihəsi üzrə Azərbaycanda fiziki şəxslərə həftənin bütün günləri 24 saat fasiləsiz xidmət göstərən yeganə bankdır və bu müştərilərə xüsusi qayğının bariz göstəricisidir.

2006-cı ildə görülən işlər müştəri xidmətinin və müştərilərlə işin inkişafını təmin etmişdir.

agriculture, trade, service and others, as well as the thousands of individual clients make use of Bank Respublika's services.

In 2006, Bank Respublika established a new Business Development and Customer Relations Management Department for strengthening its work with clients and introduced a bank information service "Call the Bank 144" by dialing a three digit phone number, which is a new service in banking sector of Azerbaijan.

Bank Respublika expanded its service network in 2006. The Bank has 12 branch offices and 4 service points in Baku, Ganja, Sumgayit, Guba, Khachmaz, Lankaran, Yevlakh, Barda and Shamkir. The Bank's head office and "Merkez", "Azadlig", "Azneft", "Narimanov", "Nasimi" and "Ahmedli" branches are located in Baku. The Bank plans to open new branches and service points in Baku, Ali Bayramli and Goychay in 2007.

Bank Respublika is the only bank in Azerbaijan providing 24-hour uninterrupted service to individual clients 7 days a week on Ofis24 project, which is a brilliant example of unmatched care for clients.

Work done in 2006 assured the development of customer services and customer relations.

10

Marketinq fəaliyyəti

Marketing activity

Bank Respublika-nın inkişafının mühüm amillərindən biri də marketinq fəaliyyətidir. Bu fəaliyyətin əsas məqsədləri Bankın müştəri bazasının genişləndirilməsi, müştərilərə göstərilən xidmətlərin keyfiyyətinin və həcminin artırılmasıdır.

Bankın marketinq fəaliyyəti 3 əsas istiqamətdən ibarətdir: araşdırma və təhlil; reklam; ictimaiyyətlə əlaqələr. Bu istiqamətlərdə 2006-cı ildə görülmüş işlər və əldə edilmiş nəticələr uğurlu olmuşdur.

Bankda müxtəlif xidmətlər üzrə göstəricilərin dinamikası izlənilir. Digər bankların məhsul və xidmətlərinin şərtləri, maliyyə göstəriciləri və bazardakı mövqeləri də təhlil olunur. Bunlarla yanaşı cari və potensial müştərilərin müxtəlif məsələlərə dair münasibətləri, ehtiyacları və istəkləri də öyrənilir. Araşdırmalar həmçinin Bankın əməkdaşlarının fikirlərini də əhatə edir.

Aparılan araşdırma və təhlillərə əsasən müştəri xidməti, məhsul və xidmətlərin şərtləri, yeni məhsulların tətbiqi və digər məsələlərlə bağlı qərarlar verilir. 2006-cı ildə cari xidmətlərin şərtləri, yeni xidmətlərin tətbiqi və müştəri xidmətinin yaxşılaşdırılması istiqamətində bir sıra işlər görülmüşdür.

2006-cı ildə Bankın 14 illiyi ilə bağlı "Faydalı rəqəmlər" reklam kampaniyası keçirilmişdir. Bu kampaniya çərçivəsində TV, radio, qəzet, jurnal, İnternet və küçə reklamlarından istifadə edilmişdir.

Kampaniyada Bank Respublika-nı müsbət fərqləndirən faydalı rəqəmlər əksini tapmışdır: 14 illik təcrübə, 24 saat fasiləsiz xidmət, 0,00 pulsuz kartlar, 35 günədək faizsiz kredit və 25% Alman kapitalı. Kampaniya Bankın tanınma səviyyəsinə və imicinə müsbət təsir göstərmişdir.

Bankın filial və şöbələrinin zahiri və daxili reklam tərtibatı üzrə də 2006-cı ildə iş aparılmışdır. Müxtəlif filialların fəaliyyətini gücləndirmək məqsədi ilə lokal reklam tədbirləri də həyata keçirilmişdir.

Bank Respublika əmanət və plastik kart müştəriləri arasında uduş kampaniyaları keçirir. 2006-cı ildə

One of the development factors of Bank Respublika is the marketing activity. The main purposes of this activity are to expand the Bank's customer base and increase customer services volume and quality.

The marketing activity of the Bank is carried out in 3 directions: researches and analyses; advertising; public relations. The work and achieved results in these directions were successful in 2006.

The Bank monitors the dynamics of indicators on various services. Provided terms of services and products, financial indicators of other banks and their positions in the market are analyzed as well. Meanwhile, the opinion, requirements and wishes of current and potential clients are studied. The studies also include opinions of the employees of the Bank.

Based on the studies and analyses the Bank makes decisions on customer services, terms of services and products, introduction of new products, etc. In 2006 much work was done on the terms of current services, introduction of new services and improvement of customer services.

On the 14th anniversary of the Bank, an advertising campaign "Useful numbers" was held in 2006. TV, radio, newspaper, magazine, Internet and outdoor advertising was used within this campaign.

The campaign illustrated useful numbers positively distinguishing Bank Respublika: a 14 year experience, 24-hours uninterrupted service, 0.00 free cards, interest free loans for period of up to 35 days, and 25% German capital. The campaign positively affected the level of the Bank's popularity and image.

The Bank carried out a work on the external and internal advertising design of its branches and service points in 2006. Some local advertising campaigns were also held to strengthen the activity of various branch offices.

Bank Respublika holds winning campaigns among its deposit and plastic card clients. In 2006 the Bank's 36

"Faydalı Əmanət" və "İtaliya Səyahəti" kampaniyaları üzrə Bankın 36 müştərisi müxtəlif hədiyyələr qazanmışdır. Uduş kampaniyaları da müxtəlif vasitələrlə reklam olunur.

2006-cı ildə Bankda Azərbaycan bank sektoru üçün yeni olan 3 rəqəmli telefon nömrəsi ilə "banka zəng 144" brendi ilə məlumat xidməti yaradılmış və bu xidmətin də reklam kampaniyası keçirilmişdir.

Bank Respublika-da 2006-cı ildə ictimaiyyətlə əlaqələr üzrə də işini gücləndirmişdir. 2006-cı ildə Kütləvi İnformasiya Vasitələri ilə Bankın fəaliyyəti haqqında 70-dən çox pres-reliz verilmişdir və bu Azərbaycan bank sektorunda ən yüksək göstəricilərdəndir.

2006-cı ildə media nümayəndələrinin iştirakı ilə yeni filialların açılışı, böyük müqavilələrin imzalanması və digər müxtəlif korporativ tədbirlər keçirilmişdir. Bu tədbirlərin bir çoxu TV reportajlar və məqalələr vasitəsi ilə də işıqlandırılmışdır.

Bank Respublika bank işi sahəsində konfrans və sərgilərdə də fəal iştirak edir.

Bank Respublika-nın bu sahədə daha bir layihəsi "Faydalı Səhifə" informasiya bülletenidir. Bülletendə Bankın fəaliyyəti, nailiyyətləri, xidmətləri, kampaniyaları, həmçinin Azərbaycan bank sektorunun inkişafı haqqında məqalələr dərc edilir. Bülletenin buraxılışları 10 - 12 min tirajla nəşr edilir, cari və potensial müştərilər arasında pulsuz paylanılır.

2006-cı ildə tanınmış müğənninin ifasında Bankın korporativ mahnısı da yazılmışdır. Bu mahnı Bankın korporativ tədbirlərində, həmçinin bayram günlərində TV və radio ilə verilən təbrik çarxlarında səsləndirilir.

Bank Respublika-nın 2007-ci ilin yanvar ayında istifadəyə verilməsi nəzərdə tutulan yeni İnternet səhifəsi də 2006-cı ildə hazırlanmışdır.

Digər istiqamətlərdə olduğu kimi 2006-cı ildə marketinq və ictimaiyyətlə əlaqələr sahəsində də Bankın fəaliyyəti güclənmişdir.

clients won various prizes in two winning campaigns, "Useful deposit" and "Trip to Italy". These winning campaigns were advertised in different ways.

The Bank introduced a bank information service, new in Azerbaijan banking sector, with brand name "Call the Bank 144" by dialing a three digit phone number and held this service advertising campaign.

Bank Respublika intensified its work on public relations in 2006. It published more than 70 press releases through the mass media in 2006, which is one of the highest indicators in Azerbaijan banking sector.

The Bank concluded large contracts and held openings of new branches and other corporate events with participation of media representatives in 2006. Most of these events were covered on TV and newspapers.

Bank Respublika actively participates in conferences and exhibitions on banking.

Another project of Bank Respublika on PR development is the "Faydalı Səhifə" ("Useful Page") information bulletin. The bulletin provides information on the Bank's activity, achievements, services, campaigns, and the development of the banking sector of Azerbaijan. The bulletins come out with circulation of 10 - 12 thousand copies and are distributed for free among the current and potential clients.

The Bank's recorded its corporate song performed by a popular singer in 2006. This song is performed at the Bank's corporate events, as well as its congratulatory clips on TV and radio on the holidays.

Also, Bank Respublika's new web-site to be launched in January of 2007 was designed in 2006.

As well as in other directions, the Bank's activity in the marketing and public relations area was also strengthened.

11

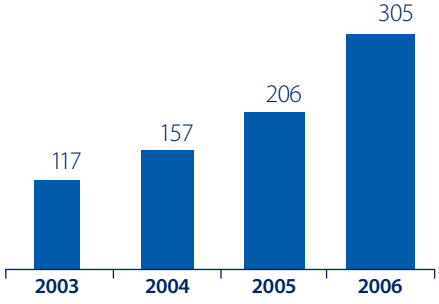
İnsan resursları

Human resources

İnsan resursları Bank Respublika-nın inkişafı baxımından xüsusi əhəmiyyətə malik sahələrdəndir.

2006-cı ildə Bank Respublika-nın əməkdaşlarının sayı 48,1% artaraq 305 nəfərə çatmışdır və bu Bankın fəaliyyətinin genişlənməsini əks etdirir. Bankın 1 əməkdaşına düşən aktivlərin həcmi 2006-cı ildə 31% artmış və ilin sonuna 365 min AZN məbləğinə çatmışdır.

Əməkdaşların sayı
Number of the employees



2006-cı ildə əməkdaşların sayının artımı əsasən Bankın yeni filial və şöbələrinin açılışı və bir sıra struktur bölmələrinin genişlənməsi ilə bağlıdır. Kadr potensialının artırılması Bankın insan resursları sahəsində fəaliyyətinin əsas istiqamətlərindəndir.

Bankda mövcud vakansiyalara əməkdaşların təyin edilməsi İnsan Resursları Departamenti tərəfindən müvafiq struktur bölməsinin iştirakı ilə aparılır.

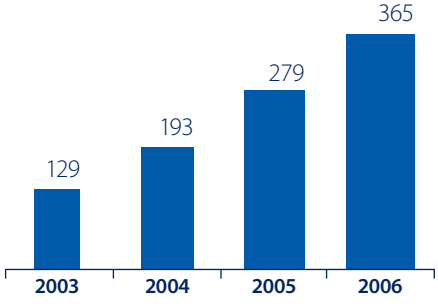
Bankda orta menecment sahəsində yaranan vakansiyaların doldurulması üçün ilk növbədə Bankın daxili resursları nəzərdən keçirilir. Bu mövcud əməkdaşların irəli çəkilməsi və professional inkişafı istiqamətində Bankın siyasəti ilə bağlıdır.

Əməkdaşların peşəkarlığının artırılması məqsədi ilə Bankın əməkdaşları müxtəlif bankdaxili və bankdan kənar treninqlərə və seminarlara cəlb edilirlər. Bankın bir sıra əməkdaşları 2006-cı ildə Almaniyada, Hollandiyada, Rusiyada və digər ölkələrdə də treninq və seminarlarda iştirak etmiş, bəzi hallarda isə Avropanın qabaqcıl banklarında kurs keçmişlər.

Human resources management is of particular importance for the development of Bank Respublika.

In 2006, the number of Bank Respublika's employees increased by 48.1% and made up 305 people, thus reflecting expansion of the Bank's activity. The amount of assets per employee rose by 31% in 2006 and reached AZN 365 thousand by the end of the year.

1 əməkdaşa düşən aktivlər (min AZN)
Assets per employee (thsd. AZN)



The increase in the number of employees in 2006 is connected with the opening of the Bank's new branches and service points, and expansion of several structural divisions. To increase human resources potential is one of the key directions in human resources management in the Bank.

The HR Department is in charge of the recruitment to fill up staff vacancies in the Bank getting relevant structural divisions to take part in making recruits.

The internal resources of the Bank are given preference to fill up middle management staff vacancies according to the Bank's policy on professional development of current employees.

The employees of the Bank are offered internal and external trainings and seminars for the purpose of increasing professionalism. Some of the Bank's employees attended trainings and seminars in Germany, the Netherlands, Russia and other countries in 2006, and in some cases attended courses in leading banks of Europe.

Bankın insan resursları üzrə siyasətinin mühüm istiqamətlərindən biri də əməkdaşların motivasiyasıdır. Bankın əməkdaşları struktur bölmələri üzrə hər ay nəticələrdən asılı olaraq məvacibin müəyyən nisbətində mükafat alırlar. Bir sıra xidmətlər üzrə əməkdaşların fərdi motivasiya sistemi də mövcuddur. Bank ilin maliyyə yekunlarına əsasən əməkdaşlara 13-cü məvacib də verir.

Bank Respublika əməkdaşlarına sosial paket də təqdim edir və bu paketə nahar yeməyi və nəqliyyat xərclərinin ödənilməsi, əməkdaşların tibbi sığortası və idman-sağlamlıq tədbirləri daxildir.

Korporativ mədəniyyətin gücləndirilməsi üçün Bankda bütün əməkdaşların iştirakı ilə korporativ tədbirlər də keçirilir. Bu sırada 2006-cı ilin may ayında Bankın 14 illiyi münasibəti ilə Azərbaycanın gözəl məkanlarından olan Lənkəranda 2 günlük korporativ istirahəti və Yeni il münasibəti ilə ötən ilin sonunda bayram tədbirini qeyd etmək olar. İlin yekunlarına əsasən müxtəlif nominasiyalarda ilin ən yaxşı filialları, departamentləri və əməkdaşları təltif edilmişdir.

Aparılan işlər nəticəsində Bankın insan resursları 2006-cı ildə həm kəmiyyət, həm də keyfiyyət baxımından daha da inkişaf etmişdir.

Motivation is another important direction of the Bank's policy on human resources. The Bank's employees every month based on the results of structural divisions, receive bonuses amounted to a certain percent of salary. There are individual motivation systems on different services. The Bank pays out 13th salary based on the financial results.

Bank Respublika also offers a social package for the Bank employees. The package includes lunch and transportation costs, medical insurance, sports and recreation.

The Bank hosts various corporate events with participation of all employees in order to strengthen the corporate culture. A two-day corporate trip to Lankaran, one of the beautiful cities of Azerbaijan, was organized on the 14th anniversary of the Bank in May 2006, and a New Year party - at the end of the year. According to the results of the last year, the best branches, departments and employees were awarded on various nominations.

In 2006, as a result of the conducted work, the Bank's human resources capacity was improved in terms of qualification and quantity.

12

Joint stock commercial
Bank Respublika

Independent auditors' report and financial statements

For the Year Ended 31 December 2006

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's report set out on page 63, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Joint Stock Commercial Bank Respublika (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank at 31 December 2006, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the consolidated interim financial statements of the Bank 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 Bank; and
- Detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2006 were authorised for issue on 10 April 2007 by the Executive Board.

On behalf of the Executive Board

Chairperson
Khadija Hasanova
10 April 2007

Director of Financial Department
Elnur Hasanov
10 April 2007

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Executive Board of Joint Stock Commercial Bank Respublika:

Report on the Financial Statements

We have audited the accompanying financial statements of JSCB Respublika, which comprise the balance sheet as at 31 December 2006, and the income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

Deloitte.

INDEPENDENT AUDITORS' REPORT (Continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of JSCB Respublika as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche.

10 April 2007

Audit Tax Consulting Financial Advisory

Member of
Deloitte Touche Tohmatsu

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006
(in New Azerbaijan Manats and in thousands, except for earnings per share which is in Manats)

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Interest income	4, 29	10,773	5,842
Interest expense	4, 29	(4,633)	(2,241)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		6,140	3,601
Provision for impairment losses on interest bearing assets	5, 29	(802)	(279)
NET INTEREST INCOME		5,338	3,322
Net gain on financial assets at fair value through profit or loss	6	14	–
Net gain on foreign exchange operations	7	415	205
Fee and commission income	8, 29	2,983	1,552
Fee and commission expense	8, 29	(917)	(495)
Other income	9	16	36
NET NON-INTEREST INCOME		2,511	1,298
OPERATING INCOME		7,849	4,620
OPERATING EXPENSES	10, 29	(4,842)	(2,257)
OPERATING PROFIT		3,007	2,363
Recovery of provision for impairment losses on other transactions	5, 29	–	4
Recovery of provision/(provision) for guarantees and credit commitments	5, 29	14	(41)
PROFIT BEFORE INCOME TAX		3,021	2,326
Income tax expense	11	(675)	(594)
NET PROFIT		2,346	1,732
EARNINGS PER SHARE Basic(AZN)	12	0.732	0.765

On behalf of the Executive Board

Chairperson
Khadija Hasanova
10 April 2007

Director of Financial Department
Elnur Hasanov
10 April 2007

The notes on pages 70 to 107 form an integral part of these financial statements.
The Independent Auditors' Report is presented on pages 63 to 64.

BALANCE SHEET
AS AT 31 DECEMBER 2006
(in New Azerbaijan Manats and in thousands)

	Notes	31 December 2006	31 December 2005
ASSETS:			
Cash and balances with the National Bank of the Republic of Azerbaijan	13	13,488	6,872
Derivative financial instruments	14	14	–
Due from banks	15	9,297	10,613
Loans to customers	16, 29	75,428	31,417
Investments available-for-sale	17	4,508	2,514
Property, equipment and intangible assets	18	7,306	5,745
Non-current assets held for sale	19	133	–
Other assets	20, 29	1,092	202
TOTAL ASSETS		111,266	57,363
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	21	7,002	15,790
Customer accounts	22, 29	52,366	22,363
Debt securities issued	23	3,022	–
Loans received from government agencies and foreign institutions	24, 29	36,136	8,693
Provisions	5, 29	82	96
Income tax liabilities	11	211	249
Other liabilities	25, 29	541	281
Total liabilities		99,360	47,472
EQUITY:			
Share capital	26	7,161	5,808
Fixed assets revaluation reserve		2,317	2,317
Retained earnings		2,428	1,766
Total equity		11,906	9,891
TOTAL LIABILITIES AND EQUITY		**111,266**	**57,363**

On behalf of the Executive Board

Chairperson
Khadija Hasanova
10 April 2007

Director of Financial Department
Elnur Hasanov
10 April 2007

The notes on pages 70 to 107 form an integral part of these financial statements.
The Independent Auditors' Report is presented on pages 63 to 64

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

(in New Azerbaijan Manats and in thousands)

	Notes	Share capital	Fixed assets revaluation reserve	Retained earnings	Total equity
31 December 2004		**2,966**	**–**	**1,369**	**4,335**
Share capital increase	26	2,842	–	–	2,842
Gain on revaluation of fixed assets		–	2,317	–	2,317
Dividends paid	26	–	–	(1,335)	(1,335)
Net profit		–	–	1,732	1,732
31 December 2005		**5,808**	**2,317**	**1,766**	**9,891**
Share capital increase	26	1,353	–	–	1,353
Dividends paid	26	–	–	(1,684)	(1,684)
Net profit		–	–	2,346	2,346
31 December 2006		**7,161**	**2,317**	**2,428**	**11,906**

On behalf of the Executive Board

Chairperson
Khadija Hasanova
10 April 2007

Director of Financial Department
Elnur Hasanov
10 April 2007

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006
(in New Azerbaijan Manats and in thousands)

	Notes	31 December 2006	31 December 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		3,021	2,326
Adjustments for:			
Provision for impairment losses on interest bearing assets		802	279
Recovery of provision for impairment losses on other transactions		–	(4)
(Recoveryof provision)/provisions for off-balance sheet and other commitments		(14)	41
Unrealized (gain)/loss and amortization of discounts on securities		3	11
Net unrealized (gain)/loss arising from changes in foreign currency exchange rates		(1)	193
Amortization of discount on issued securities		73	–
Depreciation and amortisation		701	384
Change in interest accruals, net		208	(115)
Loss/(gain) on fixed assets disposal		4	(3)
Net change in recovery value of derivative financial instruments		(14)	–
Cash flows from operating activities before changes in operating assets and liabilities		4,783	3,112
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Azerbaijan		(3,739)	(352)
Due from banks		2,636	(5,208)
Loans to customers		(45,618)	(14,153)
Other assets		(946)	(181)
(Decrease) / increase in operating liabilities			
Due to banks		(8,560)	8,385
Customer accounts		30,551	10,499
Loans received from the government agencies and foreign credit institutions		27,378	4,506
Other liabilities		187	33
Cash inflow from operating activities before taxation		6,672	6,641
Income tax paid		(713)	(589)
Net cash inflow from operating activities		5,959	6,052

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

	Notes	31 December 2006	31 December 2005
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed and intangible assets		(2,521)	(1,221)
Proceeds on sale of fixed and intangible assets		122	4
Net proceeds on sale of investments available-for-sale		(1,997)	(2,525)
Net cash outflow from investing activities		(4,396)	(3,742)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issure of ordinary share capital		1,353	2,842
Proceeds from debt securities issued		2,949	–
Dividends paid		(1,684)	(1,335)
Net cash inflow from financing activities		2,618	1,507
Effect of foreign exchange rate changes on cash and cash equivalents		(156)	(355)
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,025	3,462
CASH AND CASH EQUIVALENTS, beginning of year	13	10,903	7,441
CASH AND CASH EQUIVALENTS, end of year	13	14,928	10,903

Interest paid and received by the Bank during the year ended 31 December 2006 amounted to AZN 3,981 thousand and AZN 10,315 thousand, respectively. Interest paid and received by the Bank during the year ended 31 December 2005 AZN 2,081 thousand and AZN 5,566 thousand, respectively.

On behalf of the Executive Board

Chairperson
Khadija Hasanova
10 April 2007

Director of Financial Department
Elnur Hasanov
10 April 2007

The notes on pages 70 to 107 form an integral part of these financial statements.
The Independent Auditors' Report is presented on pages 63 to 64

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006
(in New Azerbaijan Manats and in thousands)

1. ORGANISATION

JSC Bank Respublika (the "Bank") is a joint-stock commercial bank, which was incorporated in the Republic of Azerbaijan in 1992. The Bank is regulated by the Ministry of Justice of the Republic of Azerbaijan and conducts its business under license of the National Bank of the Republic of Azerbaijan number 83. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.
The registered address of the Bank is 21 Khagani Street, AZ1000, Baku, Azerbaijan.
The Bank has 11 branches and 5 service points in the Republic of Azerbaijan.
As at 31 December 2006, the following shareholders owned the issued shares:

Shareholders	%
DEG (Deutsche Ivestitions- und Entwicklungsgesellshaft mbH)	16.67%
Natig Saday oglu Gouliyev	16.50%
Elchin Saday oglu Gouliyev	14.88%
Sevda Saday gızı Gouliyeva	14.45%
Saday Asad oglu Gouliyev	14.28%
Mariya Heydar gızı Gouliyeva	13.99%
Sparkassen International Development Trust GmbH	8.33%
Other	0.90%
Total	**100.00%**

These financial statements were authorized for issue by the Bank's Executive Board on 10 April 2007.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").
These financial statements are presented in thousands of New Azerbaijan Manats ("AZN"), unless otherwise indicated. These financial statements have been prepared on accrual basis and under the historical cost conversion, except for the measurement at fair value of certain financial instruments and revaluation of certain properties according to International Accounting Standard ("IAS") No. 16 "Property, Plant and Equipment".
The Bank maintains its accounting records in accordance with Azerbaijan law, which in majority complies with IFRS. These financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform with IFRS.

Key assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

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

	31 December 2006	31 December 2005
Loans to customers	75,428	31,417
Investments available-for-sale	4,508	2,514

Loans to customers and investments available-for-sale are measured at amortized cost/cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgment. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of the Republic of Azerbaijan with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"), except

for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time. For purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Azerbaijan is not included as a cash equivalent due to restrictions on its availability (note 13).

Due from banks

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

Derivative financial instruments

The Bank enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes. Derivatives entered into by the Bank include forwards and swaps on foreign foreign currency. No derivatives are used by the Bank for hedging purposes.

Derivative financial instruments are initially recorded and subsequently measured at fair value which approximates the fair value of the consideration given, with their subsequent re-measurement to fair value. Fair values are obtained from the interest rates model. Most of the derivatives the Bank enters into are of a short-term nature. The results of the valuation of derivatives are reported in assets (aggregate of positive market values) or liabilities (aggregate of negative market values), respectively. Both positive and negative valuation results are recognized in the profit and loss for the year in which they arise under net gain on financial instruments at fair value through profit or loss.

Loans to customers

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

Loans granted by the Bank with fixed maturities are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

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

Allowance for impairment losses

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

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

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

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

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If such quotes do not exist, management use appropriate valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been

demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Dividends received are included in dividend income in the income statement.

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

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

Non-current assets held-for-sale

A non-current asset is classified as held-for-sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held-for-sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell of an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Property, equipment and intangible assets

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

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

Buildings	5%
Furniture & equipment	20%, or 25%
Computers and office equipment	15%
Vehicles and other assets	20%, or 25%
Intangible assets	25%

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

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

Buildings held by the Bank are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.
Any revaluation increase arising on the revaluation of buildings is credited to the fixed assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the profit and loss account to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of buildings is charged as an expense 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 charged to income statement. 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.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.
The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.
Azerbaijan also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

Deposits from banks and customers

Deposits from banks and customers are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Debt securities issued

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

Provisions

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

Finance leases

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

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

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

Financial guarantee contracts issued and letters of credit

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

Share capital

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

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

Retirement and other benefit obligations

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

Recognition of income and expense

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

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

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

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

Foreign currency translation

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

Rates of exchange

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

	31 December 2006	31 December 2005
AZN/1 US Dollar	0.8714	0.9186
AZN/1 Euro	1.1471	1.0918
AZN/1 GBP	1.7113	1.5858
AZN/1 RUR	0.0331	0.0320

Offset of financial assets and liabilities

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

Adoption of new standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years. The following standards were adopted in 2006:

The IASB's amendment to IAS 39, 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions', published in April 2005, amended IAS 39 to permit the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in consolidated financial statements. The amendment, effective for annual periods beginning on or after 1 January 2006, had no material effect on the financial statements of the Bank.

The IASB's amendment to IAS 39, 'Financial Guarantee Contracts', published in August 2005, amended IAS 39 and IFRS 4. The amendment defines a financial guarantee contract and requires such contracts to be recorded initially at fair value and subsequently at higher of the provision determined in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less amortisation. The amendment, effective for annual periods beginning on or after 1 January 2006, had no material effect on the Bank.

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations applicable to the Bank were issued but not yet effective:

The IASB issued IFRS 7 'Financial Instruments: Disclosures' in August 2005. The standard replaces IAS 30 'Disclosures in the Financial Statements of Banks and Similar Financial Institutions' and the disclosure provisions in IAS 32. IFRS 7 requires disclosure of the significance of financial instruments for an entity's financial position and performance and of qualitative and quantitative information about exposure to risks arising from financial instruments. The standard is effective for annual periods beginning on or after 1 January 2007.

In August 2005, the IASB issued an amendment, 'Capital Disclosures', to IAS 1 'Presentation of Financial Statements'. It requires disclosures about an entity's capital and the way it is managed. This amendment is also effective for annual periods beginning on or after 1 January 2007.

The IFRIC issued interpretation IFRIC 9 'Reassessment of Embedded Derivatives' in March 2006. Entities are required to assess financial instruments for the existence of embedded derivatives; this interpretation prohibits subsequent reassessment unless there is a change of terms that significantly changes the terms of the financial instrument. The interpretation is effective for accounting periods starting on or after 1 June 2006.

The IASB issued IFRS 8 'Operating Segments' in December 2006. This will replace IAS 14 'Segment Reporting' for accounting periods beginning on or after 1 January 2009. IFRS 8 requires entities to report segment information as reported to management and reconcile it to the financial statements.

Management of the Bank is currently assessing the impact of the adoption of these new and revised Standards and Interpretations in future periods.

4. NET INTEREST INCOME

Net interest income comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Interest income		
Interest on loans to customers	10,081	5,565
Interest on loans and advances to banks	340	106
Interest on debt securities	271	67
Interest income on guarantees	66	83
Interest on reverse repurchase transactions	–	5
Other interest income	15	16
Total interest income	**10,773**	**5,842**
Interest expense		
Interest on customer accounts	2,305	1,313
Interest on due to banks	2,126	928
Interest on debt securities issued	184	–
Other interest expenses	18	–
Total interest expense	**4,633**	**2,241**
Net interest income before provision for impairment losses on interest bearing assets	6,140	3,601

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
31 December 2004	–	**760**	**760**
Provision	–	279	279
Write-off of assets	–	(177)	(177)
31 December 2005	–	**862**	**862**
Provision	6	796	802
Write-off of assets	–	(17)	(17)
31 December 2006	**6**	**1,641**	**1,647**

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

	Other assets	Guarantees and other commitments	Total
31 December 2004	**8**	**55**	**63**
Write-off of assets	(4)	41	37
31 December 2005	**4**	**96**	**100**
Write-off of assets	–	(14)	(14)
31 December 2006	**4**	**82**	**86**

6. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial assets at fair value through profit or loss comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Fair value adjustment on financial assets at fair value through profit or loss, net		
- Derivative financial instruments on foreign currency	14	–
Total net gain on financial assets at fair value through profit or loss	**14**	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Dealing, net	414	398
Translation differences, net	1	(193)
Total net gain on foreign exchange operations	415	205

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Fee and commission income:		
Cash operations	1,257	539
Settlements	839	657
Credit cards operations	527	287
Documentary operations	281	8
Foreign exchange and securities operations	61	53
Other	18	8
Total fee and commission income	2,983	1,552
Fee and commission expense:		
Bank cards services	389	233
Correspondent bank services	225	113
Documentary operations	142	40
Cash operations	81	78
Foreign currency and securities operations	54	12
Other	26	19
Total fee and commission expense	917	495

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

9. OTHER INCOME

Other income comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Finder's fee from insurance companies	10	13
Income from liabilities written off after limitation period expiry	–	12
Income from use of the Bank's server lines	3	5
Income from sale of fixed assets	1	3
Fines and penalties received	–	2
Other	2	1
Total other income	16	36

10. OPERATING EXPENSES

Other income comprises:

	Year ended 31 December 2006	Year ended 31 December 2005
Staff costs	2,417	1,017
Depreciation and amortization	701	384
Advertising costs	326	78
Communications	249	136
Operating and finance lease	201	103
Taxes, other than income tax	176	125
Stationery	126	90
Security	114	64
Fixed assets maintenance (buildings, intangibles, vehicles, etc.)	114	58
Professional services	109	86
Business trip expenses	93	22
Insurance	75	9
Occupancy costs	38	24
Entertainment	20	15
Membership fee	9	3
Loss from fixed assets disposal	5	0
Other expenses	69	43
Total operating expenses	4,842	2,257

11. INCOME TAXES

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Azerbaijan statutory tax regulations that differ from International Financial Reporting Standards. The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses.
Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2006 and 2005 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2006 and 2005 comprise:

	Year ended 31 December 2006	Year ended 31 December 2005
Deferred assets:		
Due to banks	36	–
Fixed assets, less accumulated depreciation	106	–
Other assets	7	–
Total deferred assets	149	–
Deferred liabilities:		
Loans from banks	–	(21)
Provisions under guarantees and letters of credit	(146)	–
Derivative financial instruments	(14)	–
Other assets	–	(8)
Total deferred liabilities	(160)	(29)
Net deferred liabilities	(11)	(29)
Deferred tax liability at the statutory tax rate 22%	(2)	(6)
Net deferred tax liability	(2)	(6)

Relationships between tax expenses and accounting profit for the years ended 31 December 2006 and 2005 are explained as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit before income tax	3,021	2,326
Tax at the statutory tax rate	665	558
Change in valuation allowance	–	(5)
Tax effect of permanent differences	10	41
Income tax expense	675	594
Current income tax expense	679	588
(Recovery)/provision for deferred tax liabilities	(4)	6
Income tax expense	675	594

	2006	2005
Deferred income tax liabilities		
1 January	6	–
Deferred income tax (benefit)/expense	(4)	6
31 December	**2**	**6**

Income tax liabilities consist of the following:

	Year ended 31 December 2006	Year ended 31 December 2005
Current income tax liabilities	209	243
Deferred income tax liabilities	2	6
Income tax liabilities	211	249

12. EARNINGS PER SHARE

The earnings per share are calculated as follows:

	Year ended 31 December 2006	Year ended 31 December 2005
Profit:		
Net profit for the year	2,346	1,732
Weighted average number of ordinary shares for basic earnings per share	3,202,940	2,264,722
Change in valuation allowance	0.732	0.765

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

13. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC OF AZERBAIJAN

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

	31 December 2006	31 December 2005
Cash	6,517	4,350
Balances with the National Bank of the Republic of Azerbaijan	6,971	2,522
Total cash and balances with the National Bank of the Republic of Azerbaijan	13,488	6,872

The balances with National Bank of the Republic of Azerbaijan as at 31 December 2006 and 2005 include AZN 4,536 thousand and AZN 852 thousand, respectively, which represents the permanent minimum reserve deposits required by the NBA. The Bank is required to maintain the reserve balance at the NBA at all times.

Cash and cash equivalents for the purposes of the statement of cash flows are comprised of the following:

	31 December 2006	31 December 2005
Cash and balances with the National Bank of the Republic of Azerbaijan	13,488	6,872
Due from banks in OECD countries	5,976	4,883
	19,464	11,755
Less minimum reserve deposits and foreign currency deposits with the National Bank of Azerbaijan	(4,536)	(852)
Total cash and cash equivalents	14,928	10,903

14. DERIVATIVE FINANCIAL INSTRUMENTS

The earnings per share are calculated as follows:

	31 December 2006			31 December 2005		
	Nominal amount	Net fair value		Nominal amount	Net fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts						
Forwards	5	14	–	–	–	–
	5	14	–	–	–	–

15. DUE FROM BANKS

Due from banks comprise:

	31 December 2006	31 December 2005
Loans and deposits from other banks	6,678	6,163
Correspondent accounts with other banks	2,625	4,450
	9,303	10,613
Less allowance for impairment losses	(6)	–
Total loans and advances to banks, net	9,297	10,613

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

Included in due from banks is accrued interest in the amount of AZN 19 thousand and AZN 2 thousand as at 31 December 2006 and 2005, respectively.

As at 31 December 2006 and 2005 the Bank had loans and advances to 2 and 4 banks, respectively, which individually exceeded 10% of the Bank's equity. As at 31 December 2006 the Bank's exposure to 2 banks comprised 65% of the total balance due from banks, which represents significant concentration.

As at 31 December 2006 and 2005 maximum credit risk exposure of loans and advances to banks amounted to AZN 9,303 and AZN 10,613 thousand, respectively.

As at 31 December 2006 the Bank pledged under SWAP agreement AZN 1,147 thousand (EUR 1,000,000) against the loan received in amount of AZN 945 thousand (USD 1,084,137). As at 31 December 2005 the Bank pledged under SWAP agreements AZN 5,794 thousand (EUR 3,935,000 and USD 1,630,000) against deposits received in amount of AZN 5,396 thousand (USD 4,471,640 and EUR 1,180,000).

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2006	31 December 2005
Originated loans	77,069	32,279
Less allowance for impairment losses	(1,641)	(862)
Total loans to customers, net	75,428	31,417

As at 31 December 2006 and 2005 accrued interest income included in loans to customers amounted to AZN 988 thousand and AZN 544 thousand, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

	31 December 2006	31 December 2005
Loans collateralized by real estate	38,674	12,278
Loans collateralized by vehicles	15,502	10,579
Loans collateralized by equipment	5,066	1,395
Loans collateralized by deposits	2,209	680
Loans collateralized by shares of other companies	1,896	2,846
Loans collateralized by guaranties of individuals	1,394	–
Loans collateralized by guaranties of legal entities	1,301	731
Loans collateralized by guarantees of financial institutions	619	14
Loans collateralized by precious metals	557	441
Other	3,922	526
Unsecured loans	4,288	1,927
Total loans to customers, net	75,428	31,417

Loans to customers (continued)

	31 December 2006	31 December 2005
Analysis by sector:		
Individuals	24,367	14,664
Production	18,531	3,497
Trade and services	16,794	9,962
Construction	8,529	1,001
Agriculture	4,513	2,144
Transport and communication	989	59
Other	1,705	90
Total loans to customers, net	75,428	31,417

As at 31 December 2006 and 2005 the Bank provided loans to 6 and 1 clients, respectively, which individually exceeded 10% of the Bank's equity.

A significant amount of loans (99% of total portfolio) is granted to companies operating in the Republic of Azerbaijan, which represents significant geographical concentration in one region.

As at 31 December 2006 and 2005 maximum credit risk exposure of loans to customers amounted to AZN 77,069 and AZN 32,279 thousand, respectively.

17. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	Interest to nominal %	31 December 2006	Interest to nominal %	31 December 2005
Debt securities				
National Bank of the Republic of Azerbaijan	13.87%	4,108	10.01%	2,514
Total investments available-for-sale		4,108		2,514

	Share %	31 December 2006	Share %	31 December 2005
Equity investments				
"Milli Kart" Ltd	10.00%	400	–	–
Total investments available-for-sale, net		400		–

18. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Furniture and equipment	Computers and office equipment	Vehicles and other assets	Leasehold improve-ments	Intangible assets	Construc-tion in progress	Total
At cost								
31 December 2005	4,348	942	450	220	1	257	243	6,461
Additions	657	457	266	221	98	195	627	2,521
Transfers	299	–	–	–	455	–	(754)	–
Disposals	(133)	(14)	(52)	(13)	–	–	(116)	(328)
31 December 2006	5,171	1,385	664	428	554	452	–	8,654
Accumulated								
31 December	–	343	173	98	–	102	–	716
Charge for the year	239	227	119	52	2	62	–	701
Eliminated on disposals	–	(13)	(50)	(6)	–	–	–	(69)
Transfers	–	–	–	–	–	–	–	–
31 December 2006	239	557	242	144	2	164	–	1,348
Net book value								
31 December 2006	4,932	828	422	284	552	288	–	7,306
Net book value								
31 December 2005	4,348	599	277	122	1	155	243	5,745

19. NON-CURRENT ASSETS HELD FOR SALE

In December 2006 the Executive Board of the Bank made a decision to dispose of the building of Devechi branch, a two-storey stone building with total area of 576 square meters located in Devechi city, ME Rasulzade Street. Following this decision the Bank initiated a plan and implemented actions to locate a buyer to complete the sale within twelve months from the date of the decision. The Bank started the process of active marketing of the property and negotiating terms of the sale with potential buyers. As at 31 December 2006 the carrying amount of the asset was AZN 133 thousand.

20. OTHER ASSETS

Other assets comprise:

	31 December 2006	31 December 2005
Prepayments and other debtors	688	151
Prepaid expenses	70	–
Prepayments for fixed assets	334	51
Repossessed collateral	4	4
	1,096	206
Less allowance for impairment losses on other assets	(4)	(4)
Total other assets, net	1,092	202

Movements in allowances for impairment losses for the years ended 31 December 2006 and 2005 are disclosed in Note 5.

21. DUE TO BANKS

Due to banks comprise:

	31 December 2006	31 December 2005
Correspondent accounts of other banks	348	2,443
Deposits of banks	200	5,763
Loans from banks	6,454	7,584
Total due to banks	7,002	15,790

As at 31 December 2006 and 2005 accrued interest expenses included in due to banks amounted to AZN 58 thousand and AZN 61 thousand, respectively.
As at 31 December 2006 and 2005 the Bank received loans and advances from 4 and 6 banks and financial institutions, respectively, which individually exceeded 10% of the Bank's equity.

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2006	31 December 2005
Time deposits	30,436	14,076
Repayable on demand	21,930	8,287
Total customer accounts	52,366	22,363

As at 31 December 2006 and 2005 accrued interest expenses included in customers accounts amounted to AZN 599 thousand and AZN 217 thousand, respectively.

	31 December 2006	31 December 2005
Analysis by sector:		
Individuals	39,350	15,528
Trade and services	10,434	4,349
Transport and communication	786	1,202
Construction	90	300
Agriculture	338	162
Production	33	113
Public organizations	136	19
Energy	–	2
Other	1,199	688
Total customer accounts	52,366	22,363

21. DUE TO BANKS

Due to banks comprise:

	Maturity date month/year	Annual coupon rate %	31 December 2006	31 December 2005
Manat-denominated bonds	May-07	13.90%	2,008	–
Manat-denominated bonds	Nov-07	13.63%	1,014	–
Total debt securities issued			3,022	–

As at 31 December 2006 accrued interest expense included in debt securities issued amounted to AZN 73 thousand.

24. LOANS RECEIVED FROM GOVERNMENT AGENCIES AND FOREIGN CREDIT INSTITUTIONS

Loans received from government agencies and foreign credit institutions comprise:

	31 December 2006	31 December 2005
National Fund for Entrepreneurship Development	11,982	3,302
FMO - Netherlands Development Finance Company	8,713	–
European Bank for Reconstruction and Development	6,112	1,839
DEG - Deutsche Investitions- Entwicklungsgeselschaft	3,952	1,653
Black Sea Trade and Development Bank	2,664	–
German-Azerbaijan Fund	2,179	1,899
Asian Development Bank	423	–
Azerbaijan Mortgage Fund	111	–
Total loans received from government agencies and foreign credit institutions	36,136	8,693

As at 31 December 2006 and 2005 accrued interest expense is included in other borrowed funds amounting to AZN 292 thousand and AZN 2 thousand, respectively.

25. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2006	31 December 2005
Settlements payable	206	101
Liabilities under finance lease	152	93
Accrued expenses	174	40
Taxes payable, other than income tax	–	30
Dividends payable	5	4
Other creditors	4	13
Total other liabilities	541	281

The future minimum lease payments under finance leases of fixed assets are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Not later than 1 year	75	39	67	28
Later than 1 year and not later than 5 years	93	73	85	65
Less: future finance charges	(16)	(19)	N/A	N/A
Present value of lease obligations	152	93	152	93
Less: Amount due for settlement within 12 months			(67)	(28)
Amount due for settlement after 12 months not later than 5 years			85	65

26. SHARE CAPITAL

As at 31 December 2006 and 2005 the Bank's authorized and paid share capital comprised of ordinary shares amounting to AZN 7,161 and AZN 5,808 thousand, respectively.
In 2006 and 2005 the shareholders of the Bank increased its share capital by AZN 1,353 and AZN 2,842, respectively. On 27 July 2006 the Bank issued 676,492 ordinary shares with par value of AZN 2 each. As at 31 December 2006 and 2005 share capital consisted of 3,580,492 and 2,904,000 ordinary shares with par value of AZN 2 each.
In 2006 and 2005 the Bank declared dividends of AZN 1,684 thousand and AZN 1,335 thousand for 2005 and 2004 financial years, respectively, on ordinary shares.

27. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.
The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.
The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.
Provision for losses on letters of credit and guarantees amounted to AZN 82 thousand and AZN 96 thousand as at 31 December 2006 and 2005, respectively.
The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2006 and 2005, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2006		31 December 2005	
	Nominal amount	Risk Weighted Amount	Nominal amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	7,345	7,345	2,671	2,671
Letters of credit and other transaction related contingent obligations	995	498	791	–
Commitments on credits and unused credit lines	3,701	–	2,619	–
Total contingent liabilities and credit commitments	12,041	7,843	6,081	2,671

Capital commitments – The Bank had no material commitments for capital expenditure outstanding as at 31 December 2006.

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

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

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Rebuplic of Azerbaijan. As at 31 December 2006 and 2005, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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

28. SUBSEQUENT EVENTS

On 7 March 2007 the Bank received from its shareholder DEG (Deutsche Investitions- Entwicklungsgeselschaft) USD 5,000,000 in subordinated debt. The loan is repayable on 15 March 2017 and bears 11% annual interest rate. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

29. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank; have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

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

(c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at 31 December 2006 and 2005 with related parties:

	31 December 2006		31 December 2005	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	1,302	77,069	288	32,279
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	989		251	
– key management personnel of the entity	313		37	
Allowance for impairment losses	12	1,641	6	862
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	5		5	
– key management personnel of the entity	7		1	
Other assets	552	1,092	51	202
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	–		–	
– key management personnel of the entity	552		51	

	31 December 2006		31 December 2005	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Customer accounts	271	52,366	209	22,363
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	229		44	
– key management personnel of the entity	42		165	
Loans from government agencies and foreign financial institutions	3,952	36,136	1,653	8,693
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	3,952		1,653	
– key management personnel of the entity	–		–	
Other liabilities	31	541	4	281
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	4		4	
– key management personnel of the entity	27		–	
Unused loan commitments	62	3,701	96	2,619
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	27		96	
– key management personnel of the entity	35		–	
Guarantees given	22	7,345	22	2,671
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	22		22	
– key management personnel of the entity	–		–	

	31 December 2006		31 December 2005	
	Related party trans-actions	Total category as per financial statements caption	Related party trans-actions	Total category as per financial statements caption
Key management personnel compensation:				
short-term employee benefits	593	2,417	205	1,017

Included in the profit and loss account for the years ended 31 December 2006 and 2005 are the following amounts which arose due to transactions with related parties:

	31 December 2006		31 December 2005	
	Related party trans-actions	Total category as per financial statements caption	Related party trans-actions	Total category as per financial statements caption
Interest income	175	10,773	56	5,842
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	147		50	
– key management personnel of the entity	28		6	
Interest expense	324	4,633	76	2,241
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	323		66	
– key management personnel of the entity	1		10	
Allowance for impairment losses	6	802	4	279
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	–		4	
– key management personnel of the entity	6		–	

	31 December 2006		31 December 2005	
	Related party trans-actions	Total category as per financial statements caption	Related party trans-actions	Total category as per financial statements caption
Commission income	21	2,983	–	1,552
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	21		–	
– key management personnel of the entity	–		–	
Operating expense	29	4,842	147	2,257
– shareholders and entities in which a substantial interest is owned by shareholders of the Bank	29		147	

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exists for a large part of the Bank's financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

	31 December 2006		31 December 2005	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank of the Azerbaijan Republic	13,488	13,488	6,872	6,872
Due from banks	9,297	9,297	10,613	10,613
Due to banks	7,002	7,002	15,790	15,790
Customer accounts	52,366	52,366	22,363	22,363
Loans received from government agencies and foreign institutions	36,136	36,136	8,693	8,693

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.
The fair value of available-for-sale securities and debt securities issued can not be measured reliably since these shares and bonds are not publicly traded and the range of reasonable fair value estimates is significant.

31. REGULATORY MATTERS

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

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

Estimate	Description of position
0%	Cash and balances with the Central bank of the Republic of Azerbaijan6,163
0%	State debt securities
20%	Due from banks for up to 1 year
100%	Loans to customers
100%	Guarantees issued
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

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

Capital amounts and ratios	Actual Amount	For Capital Adequacy purposes	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As at 31 December 2006				
Total capital	11,906	11,906	13.42%	8%
Tier 1 capital	9,589	9,589	10.91%	4%
As at 31 December 2005				
Total capital	9,891	9,891	24.53%	8%
Tier 1 capital	7,574	7,574	18.40%	4%

32. RISK MANAGEMENT POLICIES

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

The Bank manages the following risks:

Liquidity risk

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

The Assets and Liabilities Committee ("ALCO") controls these types of risks by means of maturity analysis, determining the Bank'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 optimisation.

The Executive 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.

Cash flow interest rate risk

Cash flow interest rate risk - the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

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

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

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

	31 December 2006			31 December 2005		
	AZN	USD	Other currencies	AZN	USD	Other currencies
ASSETS						
Due from banks	17.00%	4.33%	2.88%	–	5.10%	2.92%
Loans to customers	18.38%	20.45%	17.46%	15.60%	20.58%	19.31%
Investments available-for-sale	13.87%	–	–	10.84%	–	–
LIABILITIES						
Due to banks	13.00%	8.07%	6.72%	9.05%	7.01%	1.79%
Customer accounts	12.46%	11.77%	9.67%	10.98%	11.12%	8.92%
Debt securities issued	13.81%	–	–	–	–	–
Loans received from government agencies and foreign institutions	1.06%	9.73%	7.41%	1.25%	9.38%	5.60%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

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

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2006 Total
ASSETS								
Due from banks	2,938	5,007	803	523	–	–	26	9,297
Loans to customers	7,988	8,646	31,938	26,236	349	271	–	75,428
Investments available-for-sale	4,108	–	–	–	–	–	400	4,508
Total interest bearing assets	15,034	13,653	32,741	26,759	349	271	426	89,233
Cash and balances with the National Bank of the Republic of Azerbaijan	8,952	–	–	–	–	–	4,536	13,488
Derivative financial instruments	14	–	–	–	–	–	–	14
Property, equipment and intangible assets	–	–	–	–	–	–	7,306	7,306
Non-current assets held for sale	–	–	133	–	–	–	–	133
Other assets	758	–	–	–		–	334	1,092
TOTAL ASSETS	24,758	13,653	32,874	26,759	349	271	12,602	111,266
LIABILITIES								
Due to banks	543	2,751	3,708	–	–	–	–	7,002
Customer accounts	25,751	8,535	16,807	1,227	2	–	44	52,366
Debt securities issued	–	14	3,008	–	–	–	–	3,022
Loans received from government agencies	293	505	6,403	28,824	111	–	–	36,136
Total interest bearing liabilities	26,587	11,805	29,926	30,051	113	–	44	98,526
Provisions	–	–	–	–	–	–	82	82
Income tax liabilities	209	–	–	2	–	–	–	211
Other liabilities	400	10	46	85	–	–	–	541
TOTAL LIABILITIES	27,196	11,815	29,972	30,138	113	–	126	99,360
Liquidity gap	(2,438)	1,838	2,902	(3,379)	236	–	–	–
Interest sensitivity gap	(11,553)	1,848	2,815	(3,292)	236	–	–	–
Cumulative interest sensitivity gap	(11,553)	(9,705)	(6,890)	(10,182)	(9,946)	–	–	–
Cumulative interest sensitivity gap as a percentage of total assets	–10%	–9%	–6%	–9%	–9%	–	–	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 Total
ASSETS								
Due from banks	5,699	1,474	3,348	28	–	–	64	10,613
Loans to customers	3,916	5,010	14,778	7,495	–	218	–	31,417
Investments available-for-sale	2,514	–	–	–	–	–	–	2,514
Total interest bearing assets	12,129	6,484	18,126	7,523	–	218	64	44,544
Cash and balances with the National Bank of the Republic of Azerbaijan	6,020	–	–	–	–	–	852	6,872
Property, equipment and intangible assets	–	–	–	–	–	–	5,745	5,745
Other assets	202	–	–	–	–	–	–	202
TOTAL ASSETS	18,351	6,484	18,126	7,523	–	218	6,661	57,363
LIABILITIES								
Due to banks	8,138	3,443	4,209	–	–	–	–	15,790
Customer accounts	6,631	2,671	6,197	6,402	–	51	411	22,363
Loans received from government agencies and foreign institutions	–	–	1,365	7,328	–	–	–	8,693
Total interest bearing liabilities	14,769	6,114	11,771	13,730	–	51	411	46,846
Provisions	–	–	–	–	–	–	96	96
Income tax liabilities	249	–	–	–	–	–	–	249
Other liabilities	189	7	20	65	–	–	–	281
TOTAL LIABILITIES	15,207	6,121	11,791	13,795	–	51	507	47,472
Liquidity gap	3,144	363	6,335	(6,272)	–	–	–	–
Interest sensitivity gap	(2,640)	370	6,355	(6,207)	–	–	–	–
Cumulative interest sensitivity gap	(2,640)	(2,270)	4,085	(2,122)	(2,122)	–	–	–
Cumulative interest sensitivity gap as a percentage of total assets	–5%	–4%	7%	–4%	–4%	–	–	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)
(in New Azerbaijan Manats and in thousands)

Currency risk

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

The ALCO controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of national bank.

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

	AZN	USD USD 1 = AZN 0.8714	EUR EUR 1 = AZN 1.1471	Other currency	31 December 2006 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	7,578	5,632	273	5	13,488
Derivative financial instruments	14	–	–	–	14
Due from banks	293	2,400	6,555	49	9,297
Loans to customers	36,593	35,681	3,154	–	75,428
Investments available-for-sale	4,508	–	–	–	4,508
Property, equipment and intangible assets	7,306	–	–	–	7,306
Non-current assets held for sale	133	–	–	–	133
Other assets	486	586	6	14	1,092
TOTAL ASSETS	56,911	44,299	9,988	68	111,266
LIABILITIES					
Due to banks	200	3,727	3,074	1	7,002
Customer accounts	28,889	21,357	2,119	1	52,366
Debt securities issued	3,022	–	–	–	3,022
Loans received from government agencies and foreign institutions	12,094	19,199	4,843	–	36,136
Provisions	82	–	–	–	82
Income tax liabilities	211	–	–	–	211
Other liabilities	450	88	3	–	541
TOTAL LIABILITIES	44,948	44,371	10,039	2	99,360
NET OPEN BALANCE SHEET	11,963	(72)	(51)	66	–

Derivative financial instruments

Fair value of derivative financial instruments are included in the currency analysis presented above and the following table presents further analysis of currency risk by types of derivative financial instruments as at 31 December 2006:

	AZN	USD USD 1 = AZN 0.8714	EUR EUR 1 = AZN 1.1471	Other currency	31 December 2006 Total
Accounts payable on derivative contracts	–	1,041	–	–	1,041
Accounts receivable on derivative contracts	1,046	–	–	–	1,046
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	1,046	(1,041)	–	–	–
TOTAL NET POSITION	13,009	(1,113)	(51)	66	–

	AZN	USD USD 1 = AZN 0.9186	EUR EUR 1 = AZN 1.0918	Other currency	31 December 2005 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	2,709	3,984	175	4	6,872
Due from banks	–	5,825	4,778	10	10,613
Loans to customers	12,782	18,542	93	–	31,417
Investments available-for-sale	2,514	–	–	–	2,514
Property, equipment and intangible assets	5,745	–	–	–	5,745
Other assets	151	51	–	–	202
TOTAL ASSETS	23,901	28,402	5,046	14	57,363
LIABILITIES					
Due to banks	4,400	9,876	1,514	–	15,790
Customer accounts	5,623	15,378	1,362	–	22,363
Loans received from government agencies and foreign institutions	3,302	3,487	1,904	–	8,693
Provisions	96	–	–	–	96
Income tax liabilities	249	–	–	–	249
Other liabilities	180	101	–	–	281
TOTAL LIABILITIES	13,850	28,842	4,780	–	47,472
OPEN BALANCE SHEET POSITION	10,051	(440)	266	14	–

Price Risk

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

Fair value interest rate risk

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

The Bank manage fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

Credit risk

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.
The Credit Committee and the Bank's Management perform risk management and monitoring within set limits of authority. Before the Credit Committee makes any approvals, it analyses all cases on credit appraisal (borrower's financial statements, loan amount and maturity, proposed collateral, etc.). The Head of Credit Department and Branch Credit Divisions perform daily risk management.
The Bank structures the level of credit risk and undertakes it by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry (and geographical) segments. The Executive Board approves limits on the level of credit risk by a borrower and a product (by industry sector, by region) yearly. The exposure to any one borrower 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.
In the case of most loans, the Bank obtains collateral, as well as corporate and personal guarantees but a significant portion is real estate. 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 Bank 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 Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

Geographical concentration

The ALCO exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The Bank's Commercial Directorate sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.
The geographical concentration of assets and liabilities is set out below:

	Republic of Azerbaijan	CIS countries	Other non-OECD countries	OECD countries	31 December 2006 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	13,465	23	–	–	13,488
Derivative financial instruments	14	–	–	–	14
Due from banks	1,720	263	1	7,313	9,297
Loans to customers	75,418	3	–	7	75,428
Investments available-for-sale	4,508	–	–	–	4,508
Property, equipment and intangible assets	7,306	–	–	–	7,306
Non-current assets held for sale	133	–	–	–	133
Other assets	797	285	–	10	1,092
TOTAL ASSETS	103,361	574	1	7,330	111,266
LIABILITIES					
Due to banks	2,692	429	200	3,681	7,002
Customer accounts	52,004	83	100	179	52,366
Debt securities issued	–	1,014	2,008	–	3,022
Loans received from government agencies and foreign institutions	14,273	–	423	21,440	36,136
Provisions	82	–	–	–	82
Income tax liabilities	211	–	–	–	211
Other liabilities	541	–	–	–	541
TOTAL LIABILITIES	69,803	1,526	2,731	25,300	99,360
NET POSITION	33,558	(952)	(2,730)	(17,970)	–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

(in New Azerbaijan Manats and in thousands)

	Republic of Azerbaijan	CIS countries	Other non-OECD countries	OECD countries	31 December 2005 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	6,872	–	–	–	6,872
Due from banks	3,171	353	–	7,089	10,613
Loans to customers	31,398	–	18	1	31,417
Investments available-for-sale	2,514	–	–	–	2,514
Property, equipment and intangible assets	5,745	–	–	–	5,745
Other assets	202	–	–	–	202
TOTAL ASSETS	49,902	353	18	7,090	57,363
LIABILITIES					
Due to banks	12,557	–	–	3,233	15,790
Customer accounts	21,104	743	115	401	22,363
Loans received from government agencies and foreign institutions	3,302	–	–	5,391	8,693
Provisions	96	–	–	–	96
Income tax liabilities	249	–	–	–	249
Other liabilities	281	–	–	–	281
TOTAL LIABILITIES	37,589	743	115	9,025	47,472
OPEN BALANCE SHEET POSITION	12,313	(390)	(97)	(1,935)	–