2007

İllik Hesabat
Annual Report

Mündəricat / Contents

Hörmətli xanımlar və cənablar,

2007-ci ildə Azərbaycan iqtisadiyyatının, bank sektorunun və Bank Respublika-nın sürətli inkişafı davam etmişdir.

Ölkədə Ümumi Daxili Məhsulun həcmi 2007-ci ildə 25% artmışdır, bu isə dünyada ən yüksək göstəricilərdəndir. İqtisadiyyatın mühüm sahələrindən biri olan bank sektorunun ümumi aktivləri 2007-ci ildə 78% artmışdır.

2007-ci il Bank Respublika üçün də uğurlu olmuşdur. Bankın aktivləri 124% artmış və 249 mln. manatı keçmişdir. Əsas göstəricilərin 2 dəfədən də çox artması Bankın mövqelərini ölkənin aparıcı bankları sırasında daha da gücləndirmişdir.

2007-ci ildə Bankın ümumi kapitalı 20 mln. AZN məbləğini keçmişdir. Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT 2005-ci ildən etibarən "25% + 1 səhm" payla Bankın səhmdarlarıdır və bu nisbət 2007-ci ildə də saxlanılmışdır.

Bank Respublika-nın 2007-ci ildə reytinq göstəriciləri də yaxşılaşmışdır. Bank hazırda Moody's Investors Service agentliyinin "pozitiv" proqnozlu B2 reytinqinə malikdir.

Bank Respublika üçün beynəlxalq maliyyə təşkilatları tərəfindən açılmış kredit xətlərinin həcmi 2007-ci ildə 120 mln. USD məbləğini keçmişdir, bu isə Banka beynəlxalq səviyyədə etibarı göstərir.

Bank Respublika 2007-ci ildə xidmət şəbəkəsini də genişləndirmişdir. Bankın hazırda 14 filialı və 10 şöbəsi müştərilərə xidmət göstərir.

2007-ci ildə Bank Respublika qiymətli kağızlar bazarında fəaliyyət göstərən "Respublika İnvest" şirkətini təsis etmiş və "Bakı Sığorta" şirkətinin əsas səhmdarı olmuşdur.

2007-ci ilin uğurlu nəticələri ilə Bankın Səhmdarlarını, Əməkdaşlarını, Müştərilərini və Tərəfdaşlarını təbrik edirəm və gələcək işlərində onlara yeni nailiyyətlər arzulayıram.

Hörmətlə,
Elçin Quliyev
Müşahidə Şurasının Sədri

Dear ladies and gentlemen,

The development of the Azerbaijan economy, the banking sector and Bank Respublika continued in 2007.

The country's GDP increased by 25%, which is among the highest indicators in the world. The gross assets of the banking sector, one of the most important sectors of the economy, increased by 78% in 2007.

2007 was significant for Bank Respublika as well. The Bank's assets increased by 124% and amounted to over 249 mln. AZN. As a result, the Bank's position among the group leading banks was further strengthened.

The Bank's capital exceeded 20 mln. AZN in 2007. The DEG, a member of the KfW banking group, and SIDT, a member of the Sparkassen-Finanzgruppe, have been the shareholders of the Bank since 2005, with a share package of '25% + 1 share'.

Bank Respublika's rating indicators also improved in 2007. The Bank currently holds a Moody's Investors Service B2 rating, with a "positive" outlook.

The total amount of credit lines of international organizations for Bank Respublika exceeded 120 mln. USD that reflects the confidence to the Bank on the international level.

Bank Respublika expanded its service network in 2007, which currently consists of 14 branches and 10 service points.

Bank Respublika established "Respublika Invest", operating on the securities market, and became the main shareholder of "Baki Sigorta" insurance company in 2007.

I congratulate the Bank's Shareholders, Employees, Customers and Partners on the outstanding achievements of 2007 and wish them further success in their activities.

Respectfully,
Elchin Guliyev
Chairman of Supervisory Board

Hörmətli xanımlar və cənablar,

2007-ci ili Azərbaycan iqtisadiyyatının və bank sektorunun dinamik inkişafı baxımından növbəti əlamətdar il hesab etmək olar.

Bank Respublika üçün də 2007-ci il çox uğurlu olmuşdur. Bankın aktivləri il ərzində 124,2% artaraq 249,5 mln. AZN, kredit portfeli 109,5% artaraq 158,0 mln. AZN, müştəri depozitləri isə 113,3% artaraq 111,7 mln. AZN məbləğini keçmişdir.

2007-ci ildə Moodys Investors Service agentliyi Bank Respublika-nın reytinq göstəricilərini yüksəltmişdir - Bankın B2 dərəcəli uzunmüddətli reytinqi "pozitiv" proqnozu ilə qiymətləndirilmişdir.

Bank Respublika sahibkarlığın kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, Beynəlxalq Maliyyə Korporasiyası, FMO, DEG, Sumitomo Mitsui, Qara Dəniz Ticarət və İnkişaf Bankı, Alman-Azərbaycan Fondu, Raiffeisen Bank, Commerzbank AG və digər maliyyə təşkilatları ilə əməkdaşlığı genişləndirmişdir.

2007-ci ildə Bank Respublika-nın Avropa Yenidənqurma və İnkişaf Bankı ilə 24 mln. ABŞ dolları məbləğində sindikatlaşdırılmış kredit müqaviləsi isə Azərbaycan bank sektoru tarixində ən iri müqavilələrdən olmuşdur.

Bank Respublika-nın xidmət şəbəkəsi genişlənmişdir. Bankın Bakı, Gəncə, Sumqayıt, Əli Bayramlı, Quba, Xaçmaz, Lənkəran, Masallı, Yevlax, Bərdə, Şəmkir və Göyçay şəhərlərində 14 filialı və 10 şöbəsi mövcuddur.

2007-ci ildə əldə edilmiş nailiyyətlərə görə Bankın Səhmdarlarına və Əməkdaşlarına, Müştərilərinə və Tərəfdaşlarına təşəkkür edirəm, onları təbrik edirəm və gələcək fəaliyyətlərində yeni uğurlar arzu edirəm.

Ən xoş arzularla,
Xədicə Həsənova
İdarə Heyətinin Sədri

Dear ladies and gentlemen,

2007 may be considered as another significant year for Azerbaijan economy and banking sector.

It was also a successful year for Bank Respublika. The Bank's assets increased by 124.2% to exceed 249.5 million AZN; its credit portfolio reached over 158.0 million AZN, a growth of 109.5%; and its customer deposits increased by 113.3% to more than 111.7 million AZN.

In 2007, Moody's Investors Service gave Bank Respublika an improved rating of B2 with a "positive" outlook.

Bank Respublika expanded its cooperation with the European Bank for Reconstruction and Development, the Asian Development Bank, the International Finance Corporation, FMO, DEG, Sumitomo Mitsui, the Black Sea Trade and Development Bank, the Germany-Azerbaijan Fund, Raiffeisen Bank, Commerzbank AG and other organizations on the business lending and trade financing.

An agreement on a syndicated loan in the amount of 24 million USD signed in 2007 between Bank Respublika and the European Bank for Reconstruction and Development became one of the biggest contracts in the Azerbaijan banking sector.

The year also saw the expansion of Bank Respublika's service network. At present, the Bank has 14 branches and 10 service points, located in Baku, Ganja, Sumgait, Ali Bayramli, Guba, Khachmaz, Lenkoran, Masalli, Yevlakh, Barda, Shamkir and Goychay.

I congratulate the Bank's Shareholders, Staff, Customers and Partners on the achievements of 2007, thank them for this result and wish for new accomplishments in our future operations.

With best wishes,
Khadija Hasanova
Chairperson of Executive Board

Bankın İdarə Heyəti
Executive Board of the Bank

1. Rafael Qasımov, Sədr Müavini
   Rafael Gasimov, Deputy Chairman
2. Aslan Abasov, Sədr Müavini
   Aslan Abasov, Deputy Chairman
3. Xədicə Həsənova, Sədr
   Khadija Hasanova, Chairperson
4. Asəf Namazov, Sədrin 1-ci Müavini
   Asaf Namazov, First Deputy Chairman
5. Aqşin Əmirov, Üzv
   Agshin Amirov, Member

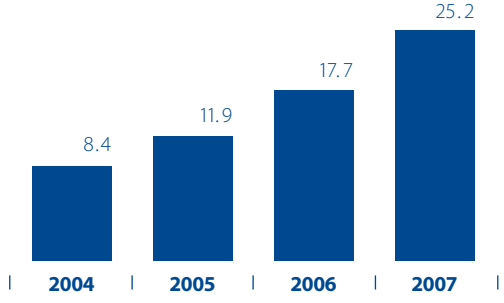
2007-ci ildə Azərbaycan iqtisadiyyatı

Economy of Azerbaijan in 2007

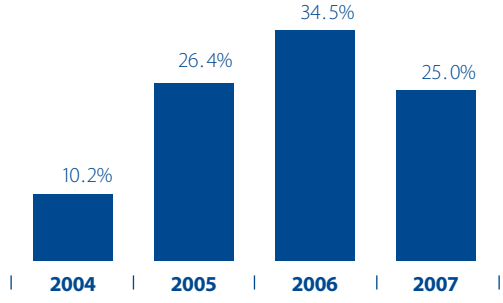
2007-ci ildə Azərbaycan iqtisadiyyatı dünyada ən sürətli inkişaf templərini saxlamışdır. Ümumi Daxili Məhsulun real həcmi 2007-ci ildə 25% artaraq 25,2 mlrd. AZN, adambaşına düşən ÜDM həcmi isə 2981 AZN olmuşdur.

In 2007, Azerbaijan's economy displayed the highest growth rate in the world. The actual amount of the Gross Domestic Product increased by 25% and totaled 25.2 billion AZN, while the GDP per capita was 2981 AZN.

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



ÜDM-nin real artımı
Real growth rate of GDP



Azərbaycanın neft və qaz ixracı, Bakı-Tbilisi-Ceyhan neft və Bakı-Tbilisi-Ərzurum qaz kəmərinin istismarı, digər beynəlxalq enerji və nəqliyyat layihələri dünyada Azərbaycanın rolunu artırmışdır. Bu layihələr və artan neft gəlirləri Azərbaycanda və bütün regionda sabitliyi və inkişafı təmin etməkdədir.

The export of oil and gas, the operations of the Baku-Tbilisi-Ceyhan oil and the Baku-Tbilisi-Erzurum gas pipelines, other international energy and transport projects increased Azerbaijan's role in the world's economy. These projects and increased oil profits ensure stability and development both in Azerbaijan and in the entire region.

Göstəricilər / Indicators	2004	2005	2006	2007
İstehlak qiymətlərinin artımı (%) Consumer price change (%)	6.7	9.6	8.3	16.7
AZN-in USD-yə orta illik nisbəti Average AZN rates to USD	0.98	0.95	0.89	0.85
Orta aylıq əmək haqqının illik artımı (%) Average monthly wage growth (%)	26.2	21.9	19.8	42.0
Büdcə gəlirlərinin illik artımı (%) Budget revenues annual growth (%)	20.8	26.4	88.8	155.3
Büdcə kəsri / profisiti (ÜDM üzrə %) Budget deficit / proficit (% from GDP)	−0.2	−0.7	+0.5	+0.2
Dövlət borcu (ÜDM üzrə %) Gross governmental debt (% from GDP)	18.6	12.6	11.0	8.2
Valyuta ehtiyatları (mlrd. USD) Currency reserves (bln. USD)	1.8	2.4	3.4	4.2

Ölkədə qeyri-neft sektorunun, sahibkarlığın və regionların inkişafı üzrə proqramlar da həyata keçirilir. 2007-ci ildə qeyri-neft sektorunda 12,1% artım olmuşdur.

Qeyri-neft sektorunun və ölkə regionlarının sürətli inkişafı iqtisadiyyatın tarazlı inkişafı üçün mühüm əhəmiyyətə malikdir.

2007-ci ildə ölkə iqtisadiyyatına sərmayələrin həcmi 17,8% artmışdır. Bununla yanaşı Azərbaycan şirkətlərinin xarici ölkələrə sərmayələrinin həcmi də artmışdır, bu isə ölkənin artan iqtisadi potensialını göstərir.

2007-ci ildə Azərbaycan dünyanın 137 ölkəsi ilə 11,8 mlrd. USD məbləğində ticarət əməliyyatları həyata keçirmişdir. İl ərzində ixracın həcmi 6,1 mlrd. USD, idxalın həcmi isə 5,7 mlrd. USD olmuşdur.

İqtisadiyyatın inkişafı üzrə dövlət siyasəti, görülən işlər və əldə olunan nailiyyətlər nəticəsində Azərbaycan regionun iqtisadi mərkəzinə çevrilmişdir.

Projects for the development of the non-oil sector, entrepreneurship and the regions are also being implemented across the country. In 2007, a growth of 12.1 % was observed in the non-oil sector.

The rapid development of the non-oil sector and the country's regions is very important to the balanced development of our economy.

In 2007, investments in the country's economy exceeded 17.8%. Local company investments abroad also grew, demonstrating the country's increased economic potential.

Azerbaijan realized trade operations with 137 countries worth USD 11.8 bln in 2007. Export volume reached USD 6.1 bln and import was USD 5.7 bln.

With the implementation of the state policy on economic development, the work carried out in this area and the achievements thus accomplished, Azerbaijan has become the economic center of the region.

2

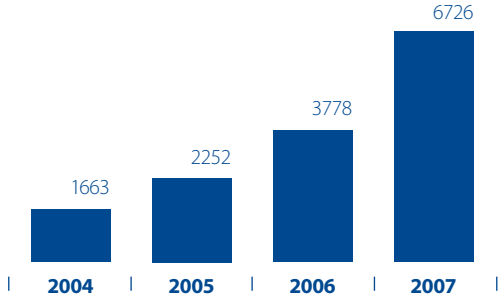
2007-ci ildə Azərbaycan bank sektoru

Banking sector of Azerbaijan in 2007

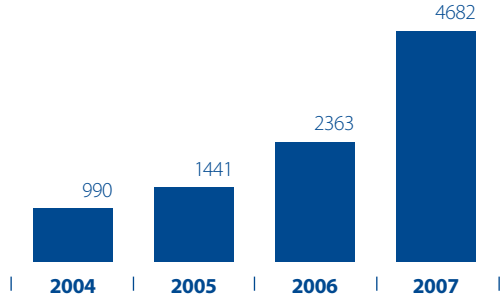
2007-ci il ölkənin bank sektoru üçün uğurlu olmuşdur. Ölkədə 46 kommersiya bankı fəaliyyətdə olub: 44 özəl və 2 qismən dövlət bankları. Bankların kapitalı 2007-ci ildə 82% artmışdır, 1 banka orta hesabla düşən kapitalın həcmi isə 23,9 mln. AZN olmuşdur. Bankların filial və şöbələrinin sayı il ərzində 18% artmışdır.

The year 2007 saw the rapid development of the country's banking sector. 46 commercial banks are operating in the country, of which 44 are private and 2 are partial state banks. The banks' capital increased by 82%, and the average capital per bank was 23.9 mln AZN. In 2007, the number of branches and service points increased by 18%.

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



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



Bankların aktivləri 2007-ci ildə 78% artmışdır, onların ÜDM-yə nisbəti isə 26,7% olmuşdur. Bu bank sektorunun inkişafı üçün böyük potensialı göstərir. Bank sektoru üzrə kreditlərin həcmi il ərzində 98% artmışdır. İpoteka və sahibkarlığın kreditləşdirilməsi üzrə dövlət proqramları bu sahəyə dövlət dəstəyini göstərir.

Banklarda müştəri depozitləri 2007-ci ildə 50% artaraq 3184 mln. AZN olmuşdur, bunun 54%-i hüquqi, 46%-i isə fiziki şəxslərin depozitləridir. Depozitlərin 62%-i müddətli, 38%-i isə tələbli depozitlərdir. 2007-ci ildə dövlət qanunu ilə ölkədə Əmanətlərin Sığortalanması Fondu yaradılmış və əmanətlərin sığortalamasına başlanmışdır, bu isə bank sisteminə etimadı artırmışdır.

Ölkə bankları 2007-ci ildə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, Beynəlxalq Maliyyə Korporasiyası, KfW Bank Qrupu, FMO və digər beynəlxalq maliyyə təşkilatları ilə kredit xətləri və kapitala sərmayə üzrə əməkdaşlığı genişləndirmişlər.

Ölkə rəhbərliyinin, Azərbaycan Respublikası Milli Bankının və kommersiya banklarının fəaliyyəti, eləcə də mövcud inkişaf potensialı gələcək illərdə də Azərbaycan bank sektorunun sürətli inkişafının davam edəcəyinə əsas verir.

In 2007, the banks' assets increased by 78% and their ratio to GDP were 26.7%, giving evidence of the growth potential of the banking sector. During the year, the loan portfolio increased by 98%. State mortgage and business lending programs reflect the government's support for development in these areas.

2007 also saw an increase of 50% in customer deposits, reaching 3184 mln AZN, 54% of which are deposits of legal entities and 46% of individuals. 62% of the deposits are term, while 38% are demand deposits. In 2007, the Deposit Insurance Fund was founded and a deposit insurance scheme was launched in the country in accordance with state law.

In 2007, Azerbaijan banks expanded their cooperation on the establishment of credit lines and capital investing with the European Bank for Reconstruction and Development, Asian Development Bank, International Finance Corporation, KfW Banking group, FMO and others.

The activities of the country's authorities, the National Bank of Azerbaijan, and the commercial banks, as well as the growth potential ensure that the rapid development of banking sector will 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.

Bankın səhmdarları

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%

Bankın beynəlxalq reytinqi

Bank Respublika Moody's Investors Service agentliyindən B2 dərəcəli "pozitiv" proqnozlu uzunmüddətli reytinqə malikdir. Bankın reytinqi Azərbaycanın özəl bank sektorunda ən yüksək reytinqlərdəndir.

Bankın əsas maliyyə göstəriciləri

(31 dekabr 2007-ci il tarixinə)

Ümumi aktivlər	249,5 mln. AZN
Müştərilərə verilmiş kreditlər	158,0 mln. AZN
Müştərilərin depozitləri	111,7 mln. AZN
Ümumi kapital	20,0 mln. AZN

Bankın xidmət şəbəkəsi

(31 dekabr 2007-ci il tarixinə)

Bankın xidmət şəbəkəsi Bakı, Gəncə, Sumqayıt, Əli Bayramlı, Quba, Xaçmaz, Lənkəran, Masallı, Yevlax, Bərdə, Şəmkir və Göyçay şəhərlərində fəaliyyət göstərən 14 filial və 10 şöbədən ibarətdir.

Establishment of the Bank

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

Shareholders of the Bank

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%

International rating of the Bank

Bank Respublika's long-term rating, as assigned by Moody's Investors Service, is B2, with a "positive" outlook. The Bank's rating is one of the highest in Azerbaijan private banking sector.

Main financial indicators

(as of December 31, 2007)

Total assets	249.5 mln AZN
Loans to customers	158.0 mln AZN
Customer deposits	111.7 mln AZN
Total equity	20.0 mln AZN

Service network

(as of December 31, 2007)

The Bank's service network consists of 14 branches and 10 service points operating in Baku, Ganja, Sumgait, Ali Bayramli, Guba, Khachmaz, Lenkoran, Masalli, Yevlakh, Barda, Shamkir and Goychay.

Bankın törəmə şirkətləri

2007-ci ildə Bank Respublika qiymətli kağızlar bazarında fəaliyyət göstərən "Respublika İnvest" MMC-ni təsis etmiş və "Bakı Sığorta" şirkətinin əsas səhmdarı olmuşdur.

Subsidiaries of the Bank

Bank Respublika established "Respublika İnvest", operating on the securities market, and became the main shareholder of "Baki Sigorta" insurance company in 2007

Bankın əməkdaşların sayı

(31 dekabr 2007-ci il tarixinə)

380 nəfər

Number of the Bank's employees

(as of December 31, 2007)

380

Bankın Müşahidə Şurası

- Elçin Quliyev — Sədr
- Nail Şahverdiyev — Üzv
- Murad Rəhimov — Üzv
- Reinhard Bollmann (DEG) — Üzv
- Karsten Steffan (SIDT) — Üzv

Supervisory Board of the Bank

- Elchin Guliyev — Chairman
- Nail Shahverdiyev — Member
- Murad Rahimov — Member
- Reinhard Bollmann (DEG) — Member
- Carsten Steffan (SIDT) — Member

Bankın İdarə Heyəti

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

Executive Board of the Bank

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

4

2007-ci ildə Bankın əsas maliyyə göstəriciləri

Main financial indicators of the Bank in 2007

Bank Respublika 2007-ci ildə maliyyə göstəricilərinin 2 dəfədən də çox artımına nail olmuşdur və bununla da Azərbaycanda aparıcı banklar sırasında öz mövqeyini daha da möhkəmlətmişdir.

Bankın inkişafı onun əsas maliyyə göstəricilərinin artımında əks olunub.

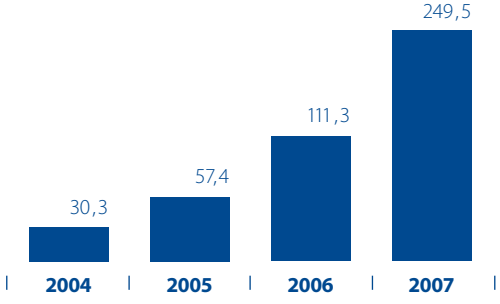
By attaining a more than two-fold increase in its financial highlights in 2007, Bank Respublika further strengthened its position among Azerbaijan's leading banks.

The development of the Bank is reflected in the dynamics of its main financial indicators.

Aktivlər

Bank Respublika-nın ümumi aktivləri 2007-ci ildə 124,2% artaraq 249,5 mln. AZN olmuşdur. Bankın aktivlərinin artım sürəti ölkənin bank sektoru üzrə ən yüksək göstəricilərdən biridir və bu Bankın uğurlu fəaliyyətini əks etdirir.

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



Bank sektoru üzrə ümumi aktivlərdə Bank Respublika-nın payı 2006-cı ildə 3,0% olmuşdursa, 2007-ci ilin yekunlarına əsasən 3,7% təşkil etmişdir.

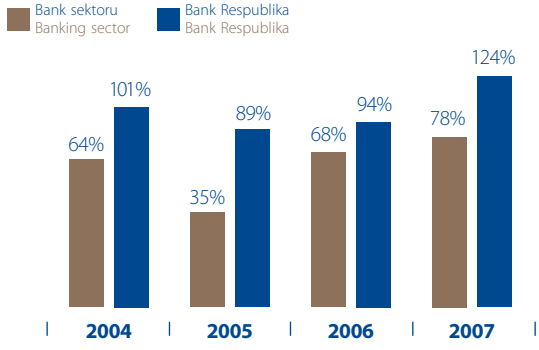
2007-ci ilin yekunlarına əsasən Bank Respublika-nın ümumi aktivlərinin 63,3% hissəsi müştərilərə verilmiş kreditlərin payına düşür. Bankın kredit portfelinin həcmi 2007-ci ildə 2 dəfədən də çox artmışdır.

Bank sektoru üzrə kredit portfelində Bank Respublika-nın payı 2006-cı ildə 3,2% olmuşdursa, 2007-ci ilin sonuna bu göstərici 3,4% təşkil etmişdir. Bankın kredit siyasəti haqqında ətraflı məlumat Hesabatın "Kredit siyasəti" bölməsində verilir.

Assets

In 2007, Bank Respublika's total assets increased by 124.2%, totaling 249.5 million AZN. The growth rate of the Bank's assets is one of the highest in the country's banking sector and reflects the Bank's successful performance.

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

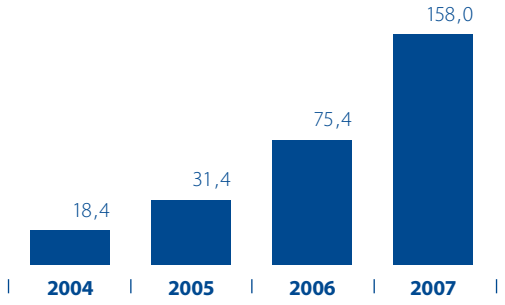


While Bank Respublika's share in the total assets of the banking sector was 3.0% in 2006, in 2007, according to the year's financial results, this figure reached 3.7%.

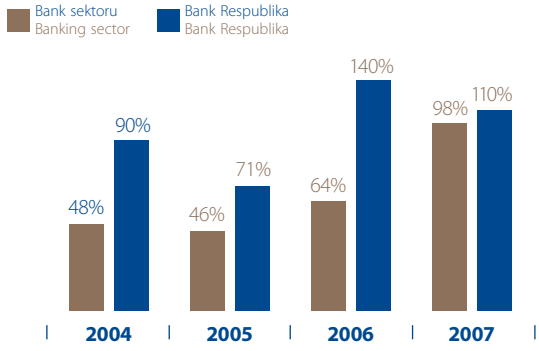
The 2007 results also show that 63.3% of Bank Respublika's total assets were accounted for by customer loans, reflecting an increase of more than two-fold in the Bank's loan portfolio.

While in 2006, Bank Respublika's share in the total loan portfolio in the banking sector was 3.2%, in 2007 this figure reached 3.4%. More detailed information on the Bank's loan policy is provided in the 'Loan Policy' section of this Report.

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



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



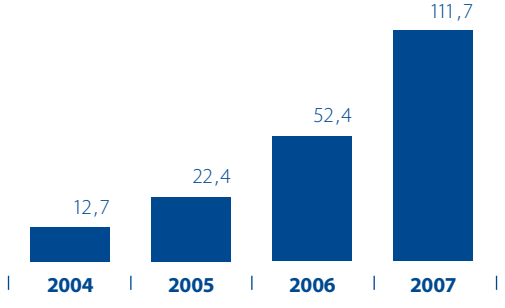
Passivlər

Bankın passivlərinin strukturunda müştəri depozitləri 44,8% paya malikdir. 2007-ci ildə Bankda müştəri depozitlərinin həcmi 113,3% artmışdır.

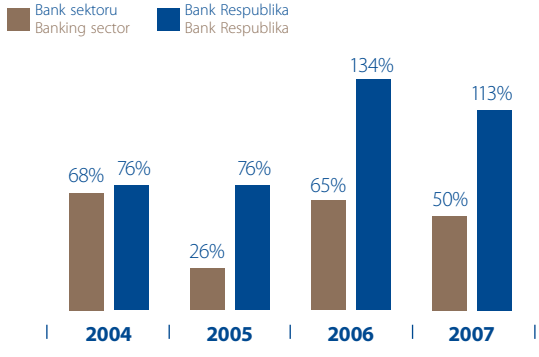
Liabilities and equity

44.8% of the Bank's liabilities and equity are accounted for by customer deposits. In 2007, customer deposits in the Bank increased by 113.3%.

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 2006-cı ildə 2,5% olmuşdursa, 2007-ci ilin yekunlarına əsasən 3,5% təşkil etmişdir. Müştəri depozitlərinin il ərzində 2 dəfədən də çox artımı müştərilərin Banka olan etimadını və Bankın bu istiqamətdə uğurlu fəaliyyətini əks etdirir.

Bank Respublika beynəlxalq təşkilatlardan vəsaitlərin cəlb edilməsi üzrə də uğurlu nəticələr qazanmışdır. Bankın istifadə etdiyi kredit xətləri haqqında ətraflı məlumat "Beynəlxalq Əməkdaşlıq" bölməsində verilir.

While, in 2006, Bank Respublika's share in the total customer deposits in the banking sector was 2.5%, in 2007 this figure reached 3.5%. This more than two-fold increase in customer deposits during the year reflects the customers' trust towards the Bank, and its successful performance in this area.

Bank Respublika was also successful in raising funds from international organizations. A more detailed account of the credit lines used by the Bank is provided in the 'International Cooperation' section of the Report.

2007-ci ildə Bank Respublika kapitalını da artırmışdır. Bankın ümumi kapitalı il ərzində 75,65% artaraq 20 mln. AZN məbləğini keçmişdir. Bankın nizamnamə kapitalı isə 75,67% artaraq 12,6 mln. AZN olmuşdur. Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT 2005-ci ildən etibarən "25% + 1 səhm" paketi ilə Bankın səhmdarlarıdır.

In 2007, Bank Respublika's capital also increased. During the year, the Bank's total capital increased by 75.65%, exceeding 20 million AZN. The Bank's share capital increased by 75.67%, totaling 12.6 million AZN. Since 2005, DEG, a member of the German KfW banking group, and SIDT, a member of Sparkassen-Finanzgruppe, have held a '25% + 1 share' interest in the Bank.

Mənfəət

Bank Respublika-nın gəlirləri 2007-ci ilin yekunlarına əsasən 30,160 mln. AZN olmuşdur. Ümumi gəlirlərdə faiz gəlirlərinin payı 82%, əməliyyat gəlirlərinin payı isə 18% təşkil etmişdir. Bankın xərcləri 2007-ci ildə 23,472 mln. AZN olmuşdur.

Bankın balans mənfəəti 2007-ci ildə 6,688 mln. AZN, xalis mənfəəti isə 5,088 mln. AZN olmuşdur. Xalis mənfəətin aktivlərə nisbəti (RoA) 2,04%, ümumi kapitala nisbəti isə (RoE) 23,42% təşkil etmişdir.

Bankın əsas maliyyə göstəricilərinin il ərzində 2 dəfədən çox artımı və əldə olunan mənfəət 2007-ci ilin Bank Respublika üçün uğurlu olmasını göstərir. Bank Respublika-nın inkişafının gələcək illərdə də davam edəcəyi gözlənilir və bu Bankın Strateji İnkişaf Planında əks olunubdur.

Profit

According to the 2007 results, Bank Respublika's income was 30.160 million AZN. Within the total income, the interest and operating incomes were 82% and 18% respectively. The Bank's expenses for the year amounted to 23.472 million AZN.

The Bank's balance-sheet profit in 2007 was 6.688 million AZN, while the net profit was 5.088 million AZN. The Return on Assets (RoA) was 2.04%, while the Return on Equity (RoE) was 23.42%.

The Bank's financial highlights showed a more than two-fold increase in the course of the year and the profit attained suggests that 2007 was a successful year for Bank Respublika. The development of Bank Respublika is expected to continue in the future, as reflected in the Bank's Strategic Plan.

5

Kredit siyasəti

Loan policy

Bank Respublika-nın kredit portfeli 2007-ci ildə 2,1 dəfə artaraq 158 mln. AZN məbləğini keçmişdir. Bankın kredit portfelinin yüksək artım sürəti onun düzgün kredit siyasətinin və fəal kredit əməliyyatlarının nəticəsidir.

Bank Respublika-nın kredit siyasətinin əsas məqsədi minimal risklər çərçivəsində maksimal gəlir əldə edilməsi və likvidliyin zəruri səviyyədə saxlanılması şərti ilə pul vəsaitlərinin səmərəli yerləşdirilməsindən ibarətdir.

Bankın kredit siyasətində kreditlərin verilməsi üçün prioritet sahələr və arzu olunmayan istiqamətlər müəyyən edilmişdir.

Kredit portfelinin diversifikasiyası 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 mövcuddur və onlara əsasən kredit portfeli inkişaf etdirilir.

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.

Bankın kredit siyasətində mühüm məsələlərdən biri də kredit portfelinin keyfiyyətidir. 2007-ci ilin sonuna risk altında olan kredit portfeli Bankın ümumi kredit portfelinin 1,1% hissəsini təşkil etmişdir və bu Azərbaycan bank sektorunda ən yaxşı göstəricilərdəndir.

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

Bank Respublika biznes kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, Beynəlxalq Maliyyə Korporasiyası, FMO, DEG, Sumitomo Mitsui, Qara Dəniz Ticarət və İnkişaf Bankı, Alman-Azərbaycan Fondu, Raiffeisen Bank, Commerzbank AG və digər beynəlxalq maliyyə təşkilatları ilə əməkdaşlıq edir. Bu əməkdaşlıq haqqında ətraflı məlumat Hesabatın "Beynəlxalq Əməkdaşlıq" bölməsində verilir.

In 2007, Bank Respublika's loan portfolio increased 2.1 fold, exceeding 158 million AZN. The high growth rate of the Bank's loan portfolio is a result of its correct loan policy and dynamic loan operations.

The key objective of Bank Respublika's loan policy is to obtain maximum profits while minimizing all risks and to ensure the effective allocation of funds while adhering to the condition of maintaining the required level of liquidity.

The Bank's loan policy specifies both priority areas and undesirable directions for lending.

In order to diversify the loan portfolio and ensure its optimal structure, amongst the criteria for the granting of loans, limits were set on the loan products, amounts, terms, regions, branches, and loans issued to one customer or a group of customers; the loan portfolio is duly being expanded in accordance with these limits.

The Bank divides loans issued to its customers into various groups: by borrower, into loans issued to individual and legal entities; by term, into short-term and long-term loans; by amount, into micro, small, medium and large loans; and by purpose, into consumer, mortgage and business loans.

Another important issue covered by the Bank's Loan Policy is the quality of the loan portfolio. By the end of 2007, the loan portfolio at risk constituted 1.1% of the Bank's total loan portfolio, which is one of the best results in Azerbaijan's banking sector.

Business lending is one of the important directions in Bank Respublika's activity. The Bank issued business loans from both its own funds and funds obtained from various local and international financial organizations.

Bank Respublika cooperates with the European Bank for Reconstruction and Development, Asian Development Bank, International Finance Corporation, FMO, DEG, Sumitomo Mitsui, Black Sea Trade and Development Bank, Germany-Azerbaijan Fund, Raiffeisen Bank, Commerzbank AG and other organizations on business lending and trade financing. A detailed account of this cooperation can be found in the 'International Cooperation' section of the Report.

Bank Respublika 2007-ci ildə Sahibkarlığa Kömək Milli Fondu və Azərbaycan İpoteka Fondu ilə əməkdaşlıq edərək sahibkarlığın kreditləşməsi və ipoteka kreditləşməsi üzrə dövlət proqramlarında fəal iştirak etmişdir.

Bank Respublika ipoteka kreditləşməsinə böyük önəm verdiyi üçün dövlət proqramından başqa öz fərdi proqramını da tətbiq etmişdir. Bank öz fərdi proqramı üzrə əhaliyə 10 il müddətinə ipoteka kreditləri verir.

Bankın kredit fəaliyyətində istehlak kreditləri də mühüm rol oynayır. Bank Respublika əhaliyə "Avtomobil", "Ev təmiri", "Təhsil", "Səyahət", "Məişət avadanlığı", "Mebel", plastik kartla kredit və sair kredit məhsulları təklif edir.

Fəal kredit əməliyyatları nəticəsində Bank Respublika kredit sahəsi üzrə də Azərbaycanda aparıcı banklardandır və Bankın mövqeləri bu sahədə hər il güclənir.

The year 2007 was marked by Bank Respublika's active participation in the state programs for business and mortgage lending, in cooperation with the National Fund for Entrepreneurship Support and Azerbaijan Mortgage Fund.

Since mortgage lending is a matter of great importance to the Bank, it introduced its own separate program along with the state program. Within the framework of its own separate program, the Bank issues 10-year mortgage loans to individuals.

Consumer loans also play an important role in the Bank's lending activities. Bank Respublika offers 'Car', "Home repair', 'Education', 'Trip', 'Home appliances', 'Furniture' and plastic cards, as well as other loan products.

As a result of its active lending operations, Bank Respublika has become one of Azerbaijan's leading banks in this area, a position which is strengthening year by year.

6

Risklərin idarə edilməsi

Risk management

2007-ci il Risklərin İdarə edilməsi Departamentinin struktur inkişafının təməlinin qoyulması ili kimi yadda qaldı.

Bu il ərzində bir sıra mühüm sahələrin inkişafı üzrə mühüm qərarlar qəbul olundu. Bu ilk növbədə Bankın istehlak bazarına aktiv daxil olması ilə əlaqədar kredit risklərinin idarə edilməsinin təkmilləşdirilməsi ilə bağlıdır.

Belə ki, istehlak kreditləşməsinin genişləndirilməsi kredit portfelinin sürətli artımına, bu isə yeni risklərinin yaranmasına gətirib çıxarır. Kredit risklərinin idarə edilməsi sahəsində bir sıra tədbirlər görülür.

İlk növbədə, kreditlərin təsnifatı sistemləri hazırlanır. Bu sistemlər kreditlərin verilməsinə kimi risklərin qiymətləndirilməsinə imkan verəcəkdir ki, bu da öz növbəsində yüksək riskli müştərilərin kreditləşməsi hallarının minimuma düşməsinə gətirib çıxaracaqdır.

2007-ci ildə üzərində iş aparılan Skorinq sistemi istehlak kreditlərinin sürətli və keyfiyyətli verilməsi üçün nəzərdə tutulmuşdur. Skorinq sisteminin bankın ofislərində və kənar tərəfdaşların satış mərkəzlərində quraşdırılması nəzərdə tutulmuşdur.

Eyni zamanda bu il ərzində korporativ müştərilər və banklar üzrə sifarişlərin avtomatlaşdırılmış işlənilməsi və onlara reytinqlərin verilməsi sistemləri üzərində iş aparılmışdır.

2007-ci ildə bankda mövcud olan limitlər sisteminin təkmilləşdirilməsi istiqamətində iş aparılmışdır. Belə ki, risklərin diversifikasiyasına imkan verən çox səviyyəli limitlər sisteminin yaradılmasına başlanılmışdır.

Limitlər sistemi yalnız kredit risklərini deyil, həmçinin kreditlərin baxılması, təhlili və qərarların qəbulu sahəsində də nəzarəti həyata keçirməyə imkan verir.

Eyni zamanda kredit risklərinin əməliyyat riskləri ilə çox sıx əlaqəli olması nəzərə alınaraq, kredit risklərinin yaranmasına səbəb olan insan amilindən yaranan əməliyyat risklərinin minimuma endirilməsi üzrə limitlərin və nəzarət mexanizmlərinin həyata keçirilməsinə hazırlıq işləri aparılmışdır.

Kredit risklərinin azaldılması üçün bank tərəfindən hazırlanan qayda və təlimatların bankın risk siyasətinə

2007 was marked by the structural development of the Risk Management Department.

During that year, important resolutions were adopted to ensure development in a number of areas, primarily in relation to the improvement of loan risks management as the Bank gains a foothold in the consumer market.

The enhancement of consumer lending leads to a rapid growth of the loan portfolio, which, in turn, results in the emergence of new risks. A number of measures are thus being taken in the area of loan risks management.

First of all, this involves the preparation of a loan classification system. These systems will allow the assessment of risks associated with the issue of loans, which will, in turn, reduce lending to high-risk customers to minimum.

The Bank's credit scoring system, developed in 2007, is intended to ensure speedy and highly professional loan issuing process. It is planned to implement the scoring system at the Bank's offices and its partners' sales centers.

At the same time, in the course of 2007, the Bank focused on the automatization of order processing for corporate customers and banks, as well as the assigning of ratings.

During the year, the Bank made efforts to improve its existing system of limits. Toward that end, it began preparations for the establishment of a multiple-level system of limits that will allow for the diversification of risks.

The system of limits allows the Bank to implement control not only over loan risks, but also over the examination and appraisal of loans and the adoption of resolutions.

At the same time, in consideration of the close link between loan risks and operating risks, preparations were made in order to implement limits and control mechanisms in order to minimize the operating risks, caused by the human factor and resulting in the emergence of loan risks.

In order to reduce loan risks, the Bank's Risk Management Department checks the Bank's rules and gui-

uyğunluğunu təmin etmək məqsədi ilə onların risk yaratma ehtimalı üzrə təftişi Risklərin İdarə edilməsi Departamenti tərəfindən aparılır.

2007-ci ildə bank çirkli pulların yuyulmasına qarşı siyasətini davam etdirmiş və bu sahədə fəaliyyəti gücləndirmişdir. Belə ki, xarici və yerli müxbir banklarla aparılan müxtəlif əməliyyatlara nəzarət gücləndirilmiş və zərurət yarandıqca bu sahədə təcrübə mübadiləsi aparılmışdır. Bu sahədə müxtəlif beynəlxalq maliyyə qurumlarına müvafiq hesabatlar hazırlanıb təqdim edilmişdir.

2007-ci ildə bank öz üzərinə götürdüyü və çox böyük önəm verdiyi, sosial funksiya olan ekoloji və sosial risklərə nəzarəti gücləndirilmiş, bu sahədə təkmilləşdirmə işləri aparmışdır. Bankın müştəriləri ekoloji və sosial riskləri yaratma ehtimalı üzrə qiymətləndirilmişdir. Bu sahədə illik hesabat hazırlanmış və müvafiq maliyyə institutlarına təqdim edilmişdir.

delines, evaluating all potential risks in order to ensure that they comply with the Bank's Risk Policy.

In 2007, the Bank continued to pursue its anti-money laundering policy and intensified its activities in this area, implementing stricter controls over operations with foreign and local correspondent banks and, when necessary, exchanging experience with other organizations. The relevant reports were drawn up and presented to various international financial organizations.

In the same year, the Bank implemented stricter controls over environmental and social risk, as part of the social commitment it has undertaken and to which it attaches great value. Assessment of the Bank's loan customers is performed with consideration of the potential environmental and social risks they may pose. An annual report concerning this area was drawn up and presented to the relevant financial institutions.

Beynəlxalq əməkdaşlıq

International cooperation

Beynəlxalq əməkdaşlıq Bank Respublika-nın fəaliyyətində və inkişafında mühüm əhəmiyyətə malikdir.

Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT 2005-ci ildən etibarən Bank Respublika-nın "25% + 1 səhm" payla səhmdarlarıdır. Bu amil Bankın beynəlxalq səviyyədə nüfuzunun artmasına və xarici / beynəlxalq təşkilatlarla əməkdaşlığının genişlənməsinə müsbət təsir edir.

Bank Respublika-nın daha bir nailiyyəti Moody's Investors Service agentliyindən milli və xarici valyutada əmanətlər üzrə B2 uzunmüddətli reytinqidir. Banka bu reytinq 2006-cı ildə "stabil" proqnozu ilə verilmişdir, 2007-ci ildə isə Bankın B2 reytinqi "pozitiv" proqnozu ilə qiymətləndirilmişdir. Bank Respublika-nın B2 reytinqi Azərbaycanın bank sektorunda ən yüksək reytinqlərdəndir.

Bank Respublika-nın xarici və beynəlxalq təşkilatlarla əməkdaşlığında mühüm istiqamətlərdən biri də biznes kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə proqramlardır. Bu istiqamətdə Bank 2007-ci ildə bir sıra uğurlar qazanmışdır.

2007-ci ildə Bank Respublika Avropa Yenidənqurma və İnkişaf Bankı ilə 24 mln. ABŞ dolları məbləğində sindikatlaşdırılmış kredit müqaviləsi bağlamışdır və bu müqavilə Azərbaycan bank sektorunda ən iri müqavilələrdən olmuşdur.

Bank Respublika sahibkarlığın kreditləşməsi və ticarətin maliyyələşdirilməsi üzrə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, Beynəlxalq Maliyyə Korporasiyası, FMO, DEG, Sumitomo Mitsui, Qara Dəniz Ticarət və İnkişaf Bankı, Alman-Azərbaycan Fondu, Raiffeisen Bank, Commerzbank AG və digər təşkilatlarla da əməkdaşlıq edir.

Bank Respublika xarici və beynəlxalq təşkilatlardan cəlb edilmiş kredit xətlərinin həcminə görə Azərbaycanda aparıcı banklardandır.

International cooperation plays an important role in the activities and development of Bank Respublika.

Since 2005, DEG, a member of the German KfW banking group, and SIDT, a member of Sparkassen-Finanzgruppe have held a '25% + 1 share' interest in the Bank. This fact wields a positive influence on the Bank's reputation at the international level and on its cooperation with foreign/international organizations.

Another accomplishment for Bank Respublika was the long-term B2 rating assigned by Moody's Investors Service for deposits in national and foreign currency. This rating was assigned to the Bank in 2006 with a 'stable' outlook; in 2007, the Bank's rating was changed to B2 with a positive outlook. The B2 rating held by Bank Respublika is one of the highest in Azerbaijan's banking sector.

Among the key directions in Bank Respublika's cooperation with foreign and international organizations are business lending and trade financing programs. The Bank accomplished a number of significant moves in this direction in 2007.

Bank Respublika and the European Bank for Reconstruction and Development entered into an agreement on the issue of a syndicated loan to the sum of 24 million US dollars; this agreement became one of the biggest contracts in Azerbaijan's banking sector in 2007.

Bank Respublika cooperates with the European Bank for Reconstruction and Development, the Asian Development Bank, the International Finance Corporation, FMO, DEG, Sumitomo Mitsui, the Black Sea Trade and Development Bank, the Germany-Azerbaijan Fund, Raiffeisen Bank, Commerzbank AG and other organizations in the area of business lending.

Bank Respublika is one of Azerbaijan's leading banks in terms of the amount of funds obtained from foreign and international organizations.

Bank Respublika üçün açılmış əsas beynəlxalq kredit xətləri (31 dekabr 2007-ci il tarixinə)
Main credit lines opened for Bank Respublika (as of December 31, 2007)

Təşkilatlar Organizations	Məbləğ Amount
Avropa Yenidənqurma və İnkişaf Bankı European Bank for Reconstruction and Development	42 mln USD 42 mln USD
Hollandiya İnkişaf Maliyyə Şirkəti (FMO) Netherlands Development Finance Company (FMO)	25 mln USD 25 mln USD
Asiya İnkişaf Bankı Asian Development Bank	18 mln USD 18 mln USD
DEG Almaniya İnvestisiya Şirkəti German Investment Company DEG	8 mln USD 8 mln USD
Beynəlxalq Maliyyə Korporasiyası International Finance Corporation	7 mln USD 7 mln USD
Qara Dəniz Ticarət və İnkişaf Bankı Black Sea Trade and Development Bank	2,3 mln EUR və 3 mln USD 2.3 mln EUR and 3 mln USD
Raiffeisen Bank Raiffeisen Bank	5 mln EUR 5 mln EUR
OFİD OFID	5 mln USD 5 mln USD
Commerzbank AG Commerzbank AG	2 mln EUR 2 mln EUR
Alman-Azərbaycan Fondu German-Azerbaijan Fund	2 mln EUR 2 mln EUR
Sumitomo Mitsui Bank Korporasiyası Sumitomo Mitsui Banking Corporation	2 mln USD 2 mln USD
Parexbank Parexbank	2 mln USD 2 mln USD

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. Bank Respublika Western Union, Contact, Migom, Bıstraya Poçta, Coinstar, Xpress Money, PrivatMoney, Blizko və Allure beynəlxalq təcili pul köçürmə sistemlərinə qoşulubdur.

Beynəlxalq əməkdaşlıq Bank Respublika-nın inkişafı üçün yeni imkanlar yaratdığı üçün Bank bu istiqamətdə gələcək fəaliyyətini daha da gücləndirməyi planlaşdırır.

Bank Respublika maintains correspondent relations with American Express Bank, Commerzbank AG, Dresdner Bank, Wachovia Bank, Raiffeisen Zentralbank Österreich, Alfa-Bank, Parexbank and other international banks.

The Bank is also a principal member of the MasterCard International system and an associate member of the VISA International system. Bank Respublika has also joined the Western Union, Contact, Migom, Bistraya Pochta, Coinstar, Xpress Money, PrivatMoney, Blizko and Allure international express money transfer systems.

As international cooperation creates new opportunities for Bank Respublika's development, the Bank plans to intensify its activities in this area in the future.

8

Müştəri xidməti
və müştərilərlə əlaqələr

Customer service and
customer relations

Bank Respublika müştəri xidmətinə və müştərilərlə əlaqələrə böyük önəm verir. Bank müştərilərə ünvanlanmış "Sizə faydalı" sloqanına uyğun olaraq müştərilərə faydalı olmağa çalışır. Bank müştəri xidməti keyfiyyətinin, xidmətlərin çeşidinin və şərtlərinin yaxşılaşdırılması istiqamətində daimi iş aparır.

Bankın mühüm məqsədləri sırasında fərdi müştərilər sektorunda fəaliyyətinin inkişafıdır. Bununla yanaşı Bank korporativ müştərilərlə işə də böyük diqqət verir.

Bank Respublika müxtəlif istehlak, ipoteka və biznes kreditləri, depozitlər, plastik kartlar, pul köçürmələri, yol çekləri, bank seyflərinin icarəsi, İnternet-Bank və sair müxtəlif bank xidmətləri göstərir.

Bank Respublika-nın "Əmanət Şərtlərinin Sərbəst Seçimi" depozit proqramı müştərilərə geniş seçim imkanları və bununla da ən yüksək səviyyədə fərdi yanaşmanı təmin etmişdir. Bank əmanətçiləri arasında uduş kampaniyası da keçirir.

Bank Respublika müştərilərə MasterCard və VISA plastik kartlarını təklif edir. Kartların müştərilərə xidmət haqqı olmadan pulsuz verilməsi, kartla 45 günədək faizsiz kredit verilməsi, kartlar üzrə əlavə xidmətlər və uduş kampaniyaları Bankın Azərbaycan kredit kartları bazarında aparıcı mövqelərini təmin etmişdir.

Bank fərdi müştərilərə "Avtomobil", "Ev təmiri", "İpoteka", "Təhsil", "Faydalı səyahət", "Məişət avadanlığı", "Kompüter avadanlığı", plastik kartla kredit və sair kredit məhsulları təklif edir.

Bank korporativ müştərilərə biznes kreditləri və ticarətin maliyyələşdirilməsi üzrə də xidmətlər göstərir. Beynəlxalq maliyyə təşkilatları ilə əməkdaşlıq Bankın bu istiqamətlərdə imkanlarını artırmışdır.

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

Bankın 2007-ci ildə tətbiq etdiyi yeni xidmətlər sırasında ən yüksək 999.9 əyarlı qızıl külçələrin alışı və satışı xidməti olmuşdur. Bank Respublika Azərbaycanda qızıl ilə əməliyyatlar aparan 2 bankdan biridir.

Bank Respublika attaches great value to customer service and customer relations. Staying true to the slogan 'Sizə faydalı' ('Beneficial to you'), the Bank makes every effort to bring benefits to the customers. The Bank is constantly engaged in improving the quality of its customer service, as well as the terms and flexibility of the services it offers.

One of the Bank's key objectives is to develop its operations in the individual customer sector, while also paying close attention to its corporate customers.

Bank Respublika offers various banking services such as consumer, mortgage and business loans, deposits, plastic cards, money transfer, travel checks, the renting of safe deposit boxes, Internet-Bank and other services.

Bank Respublika's 'Free Choice of Deposit Terms' program has provided customers with a wide range of choices, ensuring the highest level of tailored approach. The Bank holds prize draws for its depositors.

Bank Respublika offers MasterCard and VISA plastic cards to its customers. The free issue of cards with no service fee, interest free credit cards for a period of up to 45-day, as well as additional services and prize draws related to the cards has reasserted the Bank's leading position on Azerbaijan's credit card market.

Bank Respublika offers its customers loans in the categories of 'Car', "Home repair', 'Education', 'Trip', 'Home appliances' and 'Computer' and plastic cards, as well as other loan products.

The Bank also offers its corporate customers services related to business lending and trade financing. The Bank's cooperation with international financial organizations has enhanced the Bank's potential in this area.

Bank Respublika offers express money transfers using the Western Union, Coinstar, Contact, Migom, PrivatMoney, Bistraya pochta, Blizko, Xpress Money and Allure systems as well as American Express travel checks.

Among the services that the Bank introduced in 2007 was the purchase and sale of pure, 24 carat, gold bullion. Bank Respublika is one of the 2 banks that conduct operations with gold in Azerbaijan.

Bank müştərilərə İnternet-Bank, Müştəri-Bank və Home Banking distant xidmətlər göstərir. Bankda Azərbaycan bank sektorunda ilk dəfə tətbiq edilmiş 3 rəqəmli telefon nömrəsi ilə "banka zəng 144" məlumat xidməti fəaliyyət göstərir.

Bank Respublika 2007-ci ildə xidmət şəbəkəsini də genişləndirmişdir. Bankın Bakı, Gəncə, Sumqayıt, Əli Bayramlı, Quba, Xaçmaz, Lənkəran, Masallı, Yevlax, Bərdə, Göyçay və Şəmkir şəhərlərində 14 filialı və 10 şöbəsi fəaliyyət göstərir.

Bakıda Bankın Baş Ofisi, "Mərkəz", "Azadlıq", "Azneft", "Nərimanov", "Nəsimi", "Əhmədli" və "Bakıxanov" filialları, həmçinin "Ağa Neymətulla", "Alatava", "Memar Əcəmi" və "Yasamal" şöbələri mövcuddur.

Bank Respublika Ofis24 layihəsi üzrə Azərbaycanda fiziki şəxslərə həftənin bütün günləri 24 saat fasiləsiz xidmət göstərən yeganə bankdır və bu müştərilərə xüsusi diqqətin bariz göstəricisidir. Bankın "Əhmədli" filialı və "Gəncə" şöbəsi də müştərilərin rahatlığı məqsədi ilə uzadılmış iş rejimi üzrə işləyirlər.

2007-ci ildə görülən işlər müştəri xidmətinin və müştərilərlə əlaqələrin inkişafını təmin etmişdir. Növbəti ildə bu sahədə fəaliyyət daha da gücləndiriləcəkdir.

The Bank offers its customers the Internet-Bank, Client-Bank and Home Banking distance services as well as being the first in Azerbaijan's banking sector to introduce a three-digit hotline service, 'Call the Bank on 144'.

In 2007, Bank Respublika also expanded its service network. The Bank now has 14 branches and 10 service points, located in Baku, Ganja, Sumgait, Ali Bayramli, Guba, Khachmaz, Lenkoran, Masalli, Yevlakh, Barda, Shamkir and Goychay.

The Bank's headquarters are situated in Baku, as are the Merkez, Azadliq, Azneft, Narimanov, Nasimi, Ahmedli and Bakikhanov branches and the Aga-Neymatulla, Alatava, Memar Adjemi and Yasamal service points.

Under the Ofis24 project, Bank Respublika provides its customers with services 24 hours a day, 7 days a week. No other bank in Azerbaijan offers such a service; a clear sign of the Bank's special care for its customers. In addition, the Bank's Ahmedli branch and Ganja service point offer extended hours of work to ensure customer convenience.

The Bank's efforts in 2007 have ensured the development of the Bank's customer service and customer relations. In the next year, activities in this area will be further intensified.

Marketinq fəaliyyəti

Marketing activity

Bank Respublika-nın marketinq fəaliyyətinin əsas məqsədləri Bankın müştəri bazasının genişləndirilməsi, müştərilərə göstərilən xidmətlərin keyfiyyətinin və həcminin artırılmasıdır.

Bankda müxtəlif istiqamətlər üzrə marketinq araşdırmaları və monitorinqlər keçirilir - müxtəlif xidmətlər üzrə göstəricilərin dinamikası, digər bankların xidmətlərinin şərtləri və bazardakı mövqeləri, müştəri münasibətləri və ehtiyacları. Araşdırmalar həmçinin Bankın əməkdaşlarının fikirlərini də əhatə edir.

2007-ci ildə Bankın 15 illiyi ilə bağlı əməkdaşların və müştərilərin iştirakı ilə müxtəlif tədbirlər keçirilmişdir. Bankın bir sıra müştərilərinin və tərəfdaşlarının iştirakı ilə Bakıda yubiley mərasimi, və Bankın bütün əməkdaşlarının iştirakı Azərbaycanın gözəl yerlərindən olan Qubada korporativ istirahət tədbiri də keçirilmişdir.

Bank Respublika əmanət və plastik kart müştəriləri arasında mütəmadi uduş kampaniyaları keçirir. 2007-ci ildə "Faydalı Əmanət", "Paris Səyahəti" və "Antalya Səyahəti" uduş kampaniyaları keçirilmişdir. Bu kampaniyalar üzrə TV, radio, İnternet, qəzet və sair vasitələrlə reklam tədbirləri də həyata keçirilmişdir.

Bankın müxtəlif filiallarının, eləcə də yeni filialların fəaliyyətini gücləndirmək məqsədi ilə 2007-ci ildə lokal reklam tədbirləri də davam etdirilmişdir.

Bank Respublika-da 2007-ci ildə ictimaiyyətlə əlaqələr üzrə fəaliyyətini gücləndirmişdir. İl ərzində Kütləvi İnformasiya Vasitələri ilə Bankın fəaliyyəti haqqında 70-dən çox pres-reliz verilmişdir və bu Azərbaycan bank sektorunda ən yüksək göstəricilərdəndir.

Yeni filialların açılışı, böyük müqavilələrin imzalanması və digər müxtəlif korporativ tədbirlər media nümayəndələrinin iştirakı ilə keçirilmişdir. Bir sıra tədbirlər TV reportajlar və məqalələr vasitəsi ilə işıqlandırılmışdır.

Bank Respublika-nın "Faydalı Səhifə" və "Faydalı Xəbərlər" informasiya bülletenləri də Bankın fəaliyyəti, nailiyyətləri, xidmətləri, kampaniyaları haqqında cari və potensial müştərilərə məlumatların çatdırılması məqsədinə xidmət edir.

The key objectives of Bank Respublika's marketing activities are the expansion of its customer base and the increase in the quality and range of services offered to the customers.

The Bank carries out monitoring and studies in various areas; the dynamics of indexes for various services, the market positions of other banks and the terms of services that they offer, and the opinions and needs of customers. These studies also include the opinions of the Bank's staff.

In 2007, various events were held to mark the occasion of the Bank's 15th anniversary. An anniversary ceremony was held in Baku, with the participation of a number of the Bank's customers and partners, and a corporate trip to Guba, one of Azerbaijan's resort areas, was arranged, in which the entire staff participated.

Bank Respublika regularly holds prize draws for its depositors and plastic card holders. The prize draws held in 2007 were 'A Useful Deposit', 'A Trip to Paris'' and 'A Trip to Antalya'. The draws were accompanied by campaigns on the TV and radio, as well as in newspapers and other media.

The Bank continued its local promotional campaigns in 2007, in order to enhance the activities of its various branches, including those which are newly-opened.

In 2007, Bank Respublika intensified its activities in the area of public relations. The mass media featured more than 70 press-releases concerning the Bank's activities in 2007; the highest figure in Azerbaijan's banking sector.

The opening of new branches, the signing of major contracts and a variety of other corporate activities were held, with the participation of media representatives. A number of events were covered in TV commentaries and articles.

Bank Respublika's 'Faydalı Səhifə' and 'Faydalı Xəbərlər' newsletters also play their part in the delivery, to both its current and potential customers, of information concerning the Bank's activities, accomplishments, services and campaigns.

2007-ci ilin yanvar ayında Bank Respublika-nın yeni tərtibatda İnternet səhifəsi istifadəyə verilmişdir. Bankın internet səhifəsi 4 dildə fəaliyyət göstərir və səhifəyə daxil olmaların sayına görə yüksək göstəricilərə malikdir.

Bank Respublika 2007-ci ildə sponsorluq layihələrində də iştirak etmişdir. Bu sırada Bakıda keçirilən Bədii Gimnastika üzrə 23-cü Avropa Çempionatı, Güləş üzrə Dünya Çempionatı və digər tədbirləri qeyd etmək olar.

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

2007-ci ildə tanınmış müğənnilərin ifasında Bankın 2-ci korporativ mahnısı yazılmışdır. Bankın korporativ mahnıları Bankın korporativ tədbirlərində, həmçinin bayram günlərində TV və radio ilə verilən təbrik çarxlarında da səsləndirilir.

Digər istiqamətlərdə olduğu kimi 2007-ci ildə marketinq, reklam və ictimaiyyətlə əlaqələr sahəsində də Bankın fəaliyyəti güclənmişdir.

In January 2007, Bank Respublika launched its new website. The website of Bank Respublika is available in 4 languages and receives a high number of hits, according to the site statistics.

In 2007, Bank Respublika also sponsored a number of projects, such as the 23rd Rhythmic Gymnastics European Championship Baku 2007, the Wrestling World Championship Baku 2007 and other events.

Bank Respublika actively participates in conferences and exhibitions on banking.

The year 2007 saw the recording of the Bank's second corporate song, performed by popular singers. These corporate songs are played at the Bank's corporate events, as well as in celebration commercials on TV and radio during public holidays.

As with all its operations, marketing, advertising and public relations activities of Bank Respublika were also intensified in 2007.

İnsan resursları

Human resources

Bank Respublika-nın insan resursları sahəsində siyasəti Bankın strateji planının həyata keçirilməsinə yönəlib. Bankın kadr siyasəti işçi heyətinin qoyulmuş məqsəd və vəzifələrin yerinə yetirilməsində mühüm rol oynadığına əsaslanır.

Bank Respublika-nın kadr siyasəti şəffaflıq, aktivlik, effektiv motivasiya, əməkdaşların karyer və professional inkişafı prinsiplərinə əsaslanır.

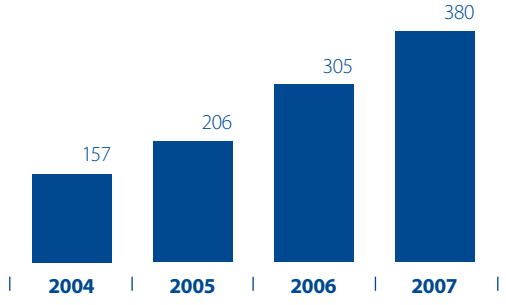
2007-ci ildə Bank Respublika-nın əməkdaşlarının sayı 25% artaraq 380 nəfər olmuşdur. Bankın 1 əməkdaşına düşən aktivlərin həcmi 2007-ci ildə 80% artmış və ilin sonuna 657 min AZN məbləğinə çatmışdır.

Bank Respublika's policy on human resources has been developed to serve the implementation of the Bank's strategic plan. The policy is based on the importance of performing the tasks and functions assigned to the Bank's employees.

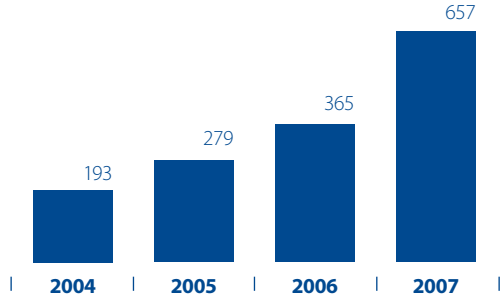
The staff policy at Bank Respublika is based on the principles of transparency, activity, efficiency and motivation, as well as on both career and professional development.

In 2007, the number of Bank Respublika's employees increased by 25%, totaling 380. The amount of assets per 1 employee of the Bank increased by 80%, amounting to 657 thousand AZN by the end of the year.

Əməkdaşların sayı
Number of the employees



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



Əməkdaşların sayının artımı Bankın yeni filial və şöbələrinin açılışı, eləcə də bir sıra struktur bölmələrinin genişlənməsi ilə bağlıdır.

2007-ci ildə Bankda işçilərin təlimi və tədrisi üzrə fəal işlər aparılmışdır. Bankın əməkdaşları üçün təlim-tədris tədbirləri təşkil olunmuş, bir sıra əməkdaşlar dünyanın qabaqcıl banklarında qısamüddətli təcrübə keçmişdir. Bu istiqaməti 2008-ci ildə daha da gücləndirmək planlaşdırılır.

2007-ci ilin əvvəlində yaradılmış Bank Respublika-nın daxili tədris mərkəzi də fəal işlər aparmışdır. Tədris mərkəzində Bankın cari əməkdaşlarının professional səviyyəsinin artırılması ilə yanaşı yeni filial və şöbələr üçün də işçi heyəti hazırlanır. Daxili tədris mərkəzində 150 nəfər işçi müxtəlif təlimlər keçmişdir.

The increase in the number of employees is related to the opening of the Bank's new branches and service points and the expansion of a number of structural divisions.

In 2007, the Bank carried out an extensive employee training and education program. Courses were arranged for employees, a number of whom underwent short-term practical training programs in the world's leading banks. The Bank plans to further intensify its activities in this direction in 2008.

The Bank's educational center, founded in early 2007, was also very active. Aside from increasing the professional level of current employees, the center also trains new staff for the Bank's branches and departments. 150 employees underwent various training courses at the Bank's educational center in 2007.

2007-ci ildə Bank üzrə işçi heyətinin əməyinin qiymətləndirilməsi keçirilmişdir. Həyata keçirilmiş qiymətləndirmə kadr rezervinin yaradılmasına, işçilərin məvacibinin artırılmasına, təlim proqramının hazırlanmasına, hər bir işçinin motivasiyasına və işçilərin karyer planlamasına təsir göstərmişdir.

2007-ci ildə Bankın bütün əməkdaşlarının ümumi motivasiya proqramından başqa xüsusi sahə və istiqamətlər üzrə motivasiya proqramları tətbiq edilmişdir. Həyata keçirilmiş tədbirlər kadr axarlığının qarşısının alınmasında öz rolunu oynamışdır.

Bankda korporativ ruhun gücləndirilməsi üçün bütün əməkdaşların iştirakı ilə müxtəlif korporativ tədbirlər də keçirilir. 2007-ci ilin may ayında Bankın 15 illiyi münasibəti ilə ölkənin gözəl istirahət məkanlarından olan Qubada 2 günlük korporativ istirahət və ilin sonunda Bakıda Yeni il bayram tədbiri keçirilmişdir.

2007-ci ilin yekunlarına əsasən müxtəlif nominasiyalarda ilin ən yaxşı filialları, şöbələri, departamentləri və əməkdaşları təltif edilmişdir.

In 2007, the Bank conducted an staffing assessment, the results of which influenced the establishment of staff reserves, salary increases, the preparation of educational programs and the motivation of, and career planning for, every employee.

During the year, as a complement to the general motivation program for all employees, the Bank introduced motivation programs for employees in specific fields of work; these measures have played their part in the prevention of a high staff turnover.

In order to reinforce the corporate spirit, the Bank holds various corporate events in which all employees participate. In May 2007, on the occasion of its 15th anniversary, the Bank arranged a 2-day corporate trip to Guba, one of the region's resort areas, and a New Year party was held in Baku at the end of the year.

The year's best branches, service points, departments and employees were selected on the basis of their activities and results in 2007.

Open Joint Stock Company BANK RESPUBLIKA

Independent Auditors' Report

Consolidated Financial Statements

For the Year Ended 31 December 2007

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 55-56, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Bank Respublika (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2007, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2007 were authorized for issue on 10 April 2008 by the Management Board.

On behalf of the Management Board

Chairperson
Khadija Hasanova
10 April 2008

Director of Financial Department
Elnur Hasanov
10 April 2008

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Bank Respublika, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statements of changes in equity and cash flows for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company Bank Respublika as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

As disclosed in Note 4 the accompanying financial statements have been restated.

Deloitte & Touche.

10 April 2008

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

(in Azerbaijan Manats and in thousands, except for earnings per share which is in Manats)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	6, 36	24,721	10,773
Interest expense	6, 36	(11,692)	(4,633)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		13,029	6,140
Provision for impairment losses on interest bearing assets	7, 36	(2,062)	(802)
NET INTEREST INCOME		10,967	5,338
Net (loss)/gain on financial assets and liabilities at fair value through profit or loss	9	(4)	14
Net gain on foreign exchange operations	10	731	415
Net gain on gold operations	11	60	–
Fee and commission income	12, 36	5,125	2,983
Fee and commission expense	12, 36	(1,677)	(917)
Insurance premium earned	8	1,355	–
Premiums ceded on reinsurance	8	(172)	–
Other expenses		(18)	–
Other income	13	39	16
NON-INTEREST INCOME		5,439	2,511
Gross claims paid	8	(66)	–
Change in provision for unearned premiums, net of reinsurance	7, 8	(736)	–
Change in loss provision, net of reinsurance	7, 8	(225)	–
NET NON-INTEREST INCOME		4,412	2,511
OPERATING INCOME		15,379	7,849
OPERATING EXPENSES	14, 36	(8,663)	(4,842)
OPERATING PROFIT		6,716	3,007

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 **(Continued)**

(in Azerbaijan Manats and in thousands, except for earnings per share which is in Manats)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
(Provision)/recovery of provision for impairment losses on guarantees and other commitments	7	(28)	14
PROFIT BEFORE INCOME TAX		6,688	3,021
Income tax expense	15	(1,600)	(675)
NET PROFIT		5,088	2,346
Attributable to:			
Equity holders of the parent		5,034	2,346
Minority interest		54	–
		5,088	2,346
EARNINGS PER SHARE			
BASIC (AZN)	16	1.182	0.732

On behalf of the Management Board

Chairperson
Khadija Hasanova
10 April 2008

Director of Financial Department
Elnur Hasanov
10 April 2008

The notes on pages 64 to 115 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on pages 55-56.

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Azerbaijan Manats and in thousands)

	Notes	31 December 2007	31 December 2006 * (restated)
ASSETS:			
Cash and balances with the National Bank of the Republic of Azerbaijan	17	18,342	13,488
Gold		5	–
Financial assets at fair value through profit or loss	18	10	14
Due from banks	19	38,471	9,297
Loans to customers	20, 36	158,044	75,428
Investments available-for-sale	21	22,417	4,508
Goodwill	22	388	–
Property and equipment	23	9,605	7,018
Intangible assets	24	293	288
Non-current assets held for sale	25	–	133
Other assets	26, 36	1,916	1,092
TOTAL ASSETS		249,491	111,266
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	27	9,777	7,002
Customer accounts	28, 36	111,673	52,366
Debt securities issued	29	–	3,022
Loans received from government agencies and foreign institutions	30, 36	87,338	36,136
Current income tax liabilities	15	689	209
Deferred income tax liabilities	15	541	512
Provision for impairment losses on other operations	7, 8	1,175	82
Obligations under finance lease	31	160	152
Other liabilities	32, 36	948	389
Subordinated debt	33, 36	17,172	–
Total liabilities		229,473	99,870

CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2007 **(Continued)**

(in Azerbaijan Manats and in thousands)

	Notes	31 December 2007	31 December 2006 * (restated)
EQUITY:			
Share capital	34	12,580	7,161
Property revaluation reserve		1,807	1,807
Retained earnings		5,263	2,428
Minority interest		368	–
Total equity		20,018	11,396
TOTAL LIABILITIES AND EQUITY		**249,491**	**111,266**

* As disclosed in Note 4, the financial statements have been restated.

On behalf of the Management Board

Chairperson
Khadija Hasanova
10 April 2008

Director of Financial Department
Elnur Hasanov
10 April 2008

The notes on pages 64 to 115 form an integral part of these consolidated financial statements.
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2007

(in Azerbaijan Manats and in thousands)

	Share capital	Property revaluation reserve * (restated)	Retained earnings	Minority interest	Total equity
31 December 2005 as previously reported	**5,808**	**2,317**	**1,766**	**–**	**9,891**
Restatement (Note 4)	–	(510)	–	–	(510)
31 December 2005 as restated	**5,808**	**1,807**	**1,766**	**–**	**9,381**
Share capital increase by cash contribution	1,353	–	–	–	1,353
Dividends declared	–	–	(1,684)	–	(1,684)
Net profit	–	–	2,346	–	2,346
31 December 2006 as restated	**7,161**	**1,807**	**2,428**	**–**	**11,396**
Share capital increase by cash contribution	3,789	–	–	–	3,789
Dividends declared	–	–	(569)	–	(569)
Capitalization of dividends (retained earnings)	1,630	–	(1,630)	–	–
Minority interest on acquisition date	–	–	–	314	314
Net profit		–	5,034	54	5,088
31 December 2007	**12,580**	**1,807**	**5,263**	**368**	**20,018**

* As disclosed in Note 4, the financial statements have been restated.

On behalf of the Management Board

Chairperson
Khadija Hasanova
10 April 2008

Director of Financial Department
Elnur Hasanov
10 April 2008

The notes on pages 64 to 115 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on pages 55-56.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

(in Azerbaijan Manats and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		6,688	3,021
Adjustments for:			
Provision for impairment losses on interest bearing assets		2,062	802
Provision/(recovery of provision) for impairment losses on guarantees and other commitments		28	(14)
Provision for impairment losses on other transactions		961	–
Write-off of assets		(20)	(17)
Unrealized loss and amortization of discounts on securities		–	3
Net unrealized gain arising from changes in foreign currency exchange rates		(30)	(1)
Net unrealized gain arising from changes on prices on gold		(8)	–
Amortization of (premiums)/discount on issued securities		(73)	73
Depreciation and amortization		1,120	701
(Gain)/loss on property and equipment disposal		(3)	4
Change in interest accruals, net		154	225
Net change in fair value of derivative financial instruments		4	(14)
Cash flows from operating activities before changes in operating assets and liabilities		10,883	4,783
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Azerbaijan		676	(3,739)
Gold		3	–
Due from banks		(115)	2,636
Loans to customers		(84,356)	(45,618)
Other assets		(967)	(946)
Increase/(decrease) in operating liabilities			
Due to banks		2,546	(8,560)
Customer accounts		58,921	30,551
Loans received from the government agencies and foreign credit institutions		51,057	27,378
Obligations under finance lease		8	59
Other liabilities		584	128
Cash inflow from operating activities before taxation		39,240	6,672

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2007

(in Azerbaijan Manats and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Income tax paid		(1,089)	(713)
Net cash inflow from operating activities		38,151	5,959
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets		(3,394)	(2,521)
Proceeds on sale of property, equipment and intangible assets		16	122
Purchase of investments available-for-sale		(17,986)	(1,997)
Acquisition of subsidiaries, net of cash acquired		(822)	–
Net cash outflow from investing activities		(22,186)	(4,396)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		3,789	1,353
(Repayment)/proceeds from debt securities issued		(2,949)	2,949
Dividends paid		(568)	(1,684)
Subordinated debt		16,906	–
Net cash inflow from financing activities		17,178	2,618
Effect of foreign exchange rate changes on cash and cash equivalents		(172)	(156)
NET INCREASE IN CASH AND CASH EQUIVALENTS		32,971	4,025
CASH AND CASH EQUIVALENTS, beginning of year	17	14,928	10,903
CASH AND CASH EQUIVALENTS, end of year	17	47,899	14,928

Interest paid and received by the Group in cash during the year ended 31 December 2007 amounted to AZN 9,780 thousand and AZN 22,862 thousand, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2006 amounted to AZN 3,981 thousand and AZN 10,315 thousand, respectively.

On behalf of the Management Board

Chairperson
Khadija Hasanova
10 April 2008

Director of Financial Department
Elnur Hasanov
10 April 2008

The notes on pages 64 to 115 form an integral part of these consolidated financial statements.
The Independent Auditors' Report is on pages 55-56.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007
(in Azerbaijan Manats and in thousands)

1. ORGANISATION

Joint Stock Commercial Bank Respublika ("the Bank") was established in the Republic of Azerbaijan in 1992. The address of its registered office is as follows: 21, Khaqani Street, Baku AZ 1000, Azerbaijan. The Bank is regulated by the National Bank of the Azerbaijan Republic (the "NBA") and conducts its business under license number 83. On 6 October 2006 the Bank was re-organized to Open Joint Stock Company Bank Respublika. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees.
The Bank had 13 branches and 10 service points in Azerbaijan as at 31 December 2007.
The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	The Bank ownership interest/voting rights, %		Type of operation
		2007	2006	
Baki Sigorta OJSC	Azerbaijan Republic	51	–	Insurance
Respublika Invest LLC	Azerbaijan Republic	100	–	Securities market transactions

Open Joint Stock Company Baki Sigorta is an open joint-stock company registered in the Republic of Azerbaijan on 28 August 2007. The principal activity of the Company is insurance services. The Company operates under insurance licenses issued by the Ministry of Finance of the Republic of Azerbaijan dated 12 February 2004. Insurance business written by the Company includes, but is not limited to, cargo, property, casualty, third party liability, automobile and reinsurance. The address of its registered office is as follows: 21, Khaqani Street, Baku AZ 1000, Azerbaijan.
Respublika Invest LLC is a limited liability company registered in the Republic of Azerbaijan on 1 March 2007. The company's principal activity is operations with securities, broker and dealer operations. The company operates under broker and dealer licenses number 84 and 85 issued by the State Securities Committee of the Republic of Azerbaijan dated 24 September 2007.
As at 31 December 2007 and 2006 the following individuals owned the share capital of the Bank:

	31 December 2007 Ownership interest, %	**31 December 2006 Ownership interest, %**
DEG (Deutsche Ivestitions - und Entwicklungsgesellshaft mbH)	16.67	16.67
Quliyev Natiq Saday oglu	16.61	16.50
Quliyev Elchin Saday oglu	15.06	14.88
Quliyeva Sevda Saday qizi	14.48	14.45
Quliyev Saday Asad oglu	14.32	14.28
Quliyeva Mariya Heydar qizi	14.02	13.99
SIDT (Sparkassen International Development Trust GmbH)	8.33	8.33
Others	0.51	0.90
Total	100	100

These consolidated financial statements were authorized for issue by the Management Board on 10 April 2008.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements are presented in Azerbaijan Manats ("AZN") unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard ("IAS") No. 16 "Property, Plant and Equipment".

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

Key assumptions

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

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

	31 December 2007	31 December 2006
Loans to customers	158,044	75,428
Property and equipment	9,605	7,018
Investments available-for-sale	22,417	4,508

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

The Group considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement

and its balance sheet. The Group's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Certain property (buildings) is measured at revalued amounts. The date of the latest appraisal was 31 December 2005. The next revaluation is preliminary scheduled as of 31 December 2008.

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

Functional currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively. For a business combination involving entities or business under common control all assets and liabilities of a subsidiary are measured at their carrying values recorded in the stand-alone financial statements of a predecessor owner with the difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition recorded directly in equity attributable to the equity holders of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

The Group tests goodwill for impairment at least annually.
If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:
(a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
(b) Recognizes immediately in profit or loss any excess remaining after that reassessment.
On disposal of an investment, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.
Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Azerbaijan with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD"). For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Azerbaijan is not included as a cash equivalent due to restrictions on its availability (Note 17).

Gold

Assets and liabilities denominated in gold are translated at the current rate computed based on the second fixing of the London Metal Exchange rates using the AZN/USD exchange rate effective at the date. Changes in the bid prices are recorded in net gain on operations with gold.

Due from banks

In the normal course of business, the Group 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.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss represent derivative instruments acquired principally for the purpose of selling them in the near future, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking are designated by the Group at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recorded and subsequently measured at fair value. The Group uses quoted market prices to determine fair value for

financial assets and liabilities at fair value through profit or loss. Fair value adjustment on financial assets and liabilities at fair value through profit or loss is recognized in the consolidated income statement for the period. The Group does not reclassify financial instruments in or out of this category while they are held.

The Group enters into derivative financial instruments to manage currency and liquidity risks and for trading purposes. They include forwards on foreign currency. Derivative financial instruments that are entered by the Group are not qualified for hedge accounting. Fair values of derivative financial instruments are determined with the use of interest rate method.

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 Group 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 Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies

for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.
The Group accounts for impairment losses on financial assets at amortized cost using allowance account, for financial assets measured at cost through direct write off.
It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

Provisions

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

Non-life insurance operations

- **Premiums written** – Upon inception of a contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.
- **Provision for unearned premiums** – Provision for unearned premiums represent the proportion of premiums written in the period that relate to unexpired terms of policies in force as at the balance sheet date, calculated on a time apportionment basis.
- **Claims paid** – Claims paid including claims handling expenses are charged to the income statement as incurred.

Loss provision

Loss provision represents the accumulation of estimates for ultimate losses and includes outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Group during investigation of insurance cases after the balance sheet date less regresses. IBNR is actuarially determined by the Group by line of business, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the income statement as they arise. The loss reserves are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

Reinsurance

The Group assumes and cedes reinsurance in the normal course of business. However, ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses, and premiums ceded to the Group. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers and of

the Group's share in claims in respect of insurance cases reinsured by the Group. Reinsurance contracts that do not transfer insurance risk are accounted for directly through the balance sheet and are included in other receivables or payables. A deposit asset or liability is recognized based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

Investments available-for-sale

Investments available-for-sale represents debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value.

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 consolidated 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 (except for buildings, which are stated at revalued amounts) 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 and equipment	20% – 25%
Computers	25%
Vehicles	20%
Other equipment	20% – 25%
Leasehold improvement	20%
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 property, equipment and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts.

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 property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Buildings held for use in supply of services, or for administrative purposes, 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 independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to consolidated the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such 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 Group'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 realized. Deferred tax is charged or credited in the consolidated 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.

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

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

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

Due to banks, customer accounts, debt securities issued and subordinated debt

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

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 Group as a lessee recognizes finance leases as assets and liabilities in its consolidated 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 Group.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Group are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts 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.
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 legislation of the Azerbaijan Republic, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Group does not have any pension arrangements separate from the state pension system of Azerbaijan, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

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

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

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in the consolidated income statement over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in the consolidated income statement on expiry. Loan servicing fees are recognized as revenue as the services are provided. Loan syndication fees are recognized in the consolidated 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 the year end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2007	31 December 2006
AZN/1 US Dollar	0.8453	0.8714
AZN/1 Euro	1.2450	1.1471
AZN/1 GBP	1.6876	1.7113
AZN/1 RUR	0.0346	0.0331
AZN/1 JPY	0.0075	0.0073
AZN/Gold (per ounce)	704.77	550.72

Other financial assets and liabilities

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

Adoption of new and revised international financial reporting standards

In the current year, the Group 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 reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Group's accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 "Financial Instruments: Disclosure" ("IFRS 7").

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Group's financial instruments in the consolidated financial statements. Additional information was disclosed in the financials statements for the current and comparative reporting periods as required by IFRS 7.

At the date of these consolidated financial statements the following Standards and Interpretations applicable to the Group were issued but not yet effective for these consolidated financial statements: Effective 1 January 2009, the new IFRS 8 "Operating Segments" will replace IAS 14 "Operating Segments". The management is currently assessing the impact of the adoption of these new and revised Standards in future period. The Group anticipates that other new Standards and Interpretations will have no material financial impact on the consolidated financial statements of the Group.

4. PRIOR PERIOD ADJUSTMENT

In 2007 the Group's management discovered an error in the financial statements for the year ended 31 December 2005. In accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" the correction of the error was made retrospectively. Comparative amounts were restated and the corrections were made to the earliest prior period presented. The Group's management determined that in accordance with IAS 12 "Income taxes" the amount of revaluation gain recognized by the Group as at 31 December 2005 in respect of buildings in amount of AZN 2,317

thousand should be considered as a temporary difference and for the amount of AZN 510 thousand the deferred tax liability should be recognized as at 31 December 2005.
The effect of the adjustments made to the financial statements for the year ended 31 December 2006 is as follows:

Type of correction	Amount of correction	Financial statements item	As previously reported 31 December 2006/year ended 31 December 2006	As restated 31 December 2006/year ended 31 December 2006
Understatement of deferred income tax liability on property revaluation	510	Property revaluation reserve	2,317	1,807
Understatement of deferred income tax liability on property revaluation	510	Property revaluation reserve	2	512

5. GROUP REORGANIZATION

On 5 October 2007 the Group acquired 51% share in Baki Sigorta OJSC.
The net assets of Baki Sigorta OJSC as at the date of this partial acquisition were as follows:

	Baki Sigorta OJSC
Cash	2
Due from banks	864
Accounts receivable and other current assets	14
Other non-current assets	2
Accounts payable and provision	(28)
	854
Share of net assets acquired	51%
Value of net assets acquired	436
Goodwill	388
Total consideration, satisfied by cash	824
Net cash outflow arising on acquisition:	
Cash consideration paid	(824)
Cash and cash equivalents acquired	2
	(822)

The Group started to consolidate Baki Sigorta OJSC since 5 October 2007. The Bank established and started to consolidate Respublika Invest LLC on 01 March 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 **(Continued)**

(in Azerbaijan Manats and in thousands)

6. NET INTEREST INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
– interest income on unimpaired assets	14,734	8,414
– interest income on assets that has been written down as a result of an impairment loss	9,987	2,359
Total interest income	24,721	10,773
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	22,567	10,079
Interest on debt securities	1,193	271
Interest on due from banks	740	340
Interest on guarantees	191	67
Interest on other operations	30	16
Total interest income on financial assets recorded at amortized cost	24,721	10,773
Interest expense comprises:		
Interest on liabilities recorded at amortized cost	11,692	4,633
Total interest expense	11,692	4,633
Interest expense on liabilities recorded at amortized cost comprise:		
Interest on customer accounts	6,244	2,305
Interest on due to banks	5,222	2,126
Interest on debt securities issued	226	184
Interest on other operations	–	18
Total interest expense on financial assets recorded at amortized cost	11,692	4,633
Net interest income before provision for impairment losses on interest bearing assets	13,029	6,140

7. 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 2005	–	**862**	**862**
Provision	6	796	802
Write-off of assets	–	(17)	(17)
31 December 2006	6	**1,641**	**1,647**
(Recovery of provision)/provision	(6)	2,068	2,062
Write-off of assets	–	(20)	(20)
31 December 2007	–	**3,689**	**3,689**

The movements in provision for impairment losses on other transactions were as follows:

	Other assets	Investments available-for-sale	Guarantees and other commitments	Total
31 December 2005	**4**	–	**96**	**100**
Recovery of provision	–	–	(14)	(14)
31 December 2006	**4**	–	**82**	**86**
Provision/(recovery of provision)	–	110	(82)	28
31 December 2007	**4**	**110**	–	**114**

	Unearned premiums	Insurance operations	Total
31 December 2005	–	–	–
Provision, net of reinsurance	–	–	–
31 December 2006	–	–	–
Acquisition of subsidiaries	158	56	214
Provision, net of reinsurance	736	225	961
31 December 2007	**894**	**281**	**1,175**

8. ANALYSIS OF PREMIUMS AND CLAIMS

The analysis of premiums and claims for year ended 31 December 2007 is as follows:

	Third party liability	Vehicle	Employer's respon-sibility	Property	Other	Total
Gross premiums written	1	934	140	187	93	1,355
Premiums ceded	–	(32)	(78)	(50)	(12)	(172)
Net premiums written	1	902	62	137	81	1,183
Change in provision for unearned premiums, net of reinsurance	(1)	(621)	(35)	(71)	(8)	(736)
Net premiums earned	–	281	27	66	73	447
Gross claims paid	–	(5)	(17)	–	(44)	(66)
Net claims paid	–	(5)	(17)	–	(44)	(66)
Change in loss provision, net of reinsurance	–	(28)	(14)	–	(183)	(225)
Net claims incurred	–	(33)	(31)	–	(227)	(291)

9. NET (LOSS)/GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

	Year ended 31 December 2007	Year ended 31 December 2006
Net (loss)/gain on operations with derivative financial instruments	(4)	14
Total net (loss)/gain on financial assets at fair value through profit or loss	(4)	14
Net (loss)/gain on operations with financial assets designated at fair value through profit and loss comprise:		
Net fair value adjustment	(4)	14
Total net (loss)/gain on operations with financial assets designated at fair value through profit or loss	(4)	14

10. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing differences, net	701	414
Translation differences, net	30	1
Total net gain on foreign exchange operations	731	415

11. NET GAIN ON GOLD OPERATIONS

Net gain on gold operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Income from gold sale	52	–
Translation differences on gold, net	8	–
Total net gain on gold operations	60	–

12. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission income:		
Cash operations	2,389	1,257
Plastic card operations	1,085	527
Settlements	1,500	805
Letters of credit	98	235
Guarantees issued	27	46
Foreign exchange operations	8	61
Other	18	52
Total fee and commission income	5,125	2,983
Fee and commission expense:		
Plastic card operations	699	389
Documentary operations	358	142
Cash operations	280	81
Settlements	155	225
Foreign exchange operations	118	75
Other	67	5
Total fee and commission expense	1,677	917

13. OTHER INCOME

Other income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Income from sale of property and equipment	39	16
Total other income	39	16

14. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Staff costs	4,422	2,417
Depreciation and amortization	1,120	701
Advertising and marketing expenses	477	326
Operating leases	450	181
Communications	375	249
Security expenses	285	114
Professional service fees	221	109
Transportation and business trip expenses	217	127
Taxes, other than income tax	213	176
Payments to the Deposit Insurance Fund	172	–
Stationery and printing expenses	172	126
Repairs and maintenance expenses	147	70
Property and bank operations insurance	140	75
Utilities	59	38
Membership fees	27	9
Other expenses	166	124
Total operating expenses	8,663	4,842

15. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards. The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income. The statutory income tax rate is 22%.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2007 and 2006 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 2007 and 2006 comprise:

	31 December 2007	31 December 2006 (restated)
Deferred assets:		
Other liabilities	201	–
Intangible assets	117	–
Investments available-for-sale	110	–
Due to banks	63	36
Other assets	18	7
Property and equipment	–	106
Total deferred assets	509	149
Deferred liabilities:		
Property and equipment	(2,522)	(2,317)
Provision for impairment losses on other operations	(398)	(146)
Due from banks	(46)	–
Financial assets at fair value through profit or loss	–	(14)
Total deferred liabilities	(2,966)	(2,477)
Net deferred liabilities	(2,457)	(2,328)
Deferred tax liabilities at the statutory rate of 22 %	(541)	(512)
Net deferred tax liability	(541)	(512)

Relationships between tax expenses and accounting profit for the years ended 31 December 2007 and 2006 are explained as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income tax	6,688	3,021
Tax at the statutory tax rate	1,471	665
Tax effect of permanent differences	129	10
Income tax expense	1,600	675
Current income tax expense	1,571	679
Recovery of provision/(provision) for deferred income tax liabilities	29	(4)
Income tax expense	1,600	675

	31 December 2007	31 December 2006 (restated)
Deferred income tax liabilities		
Beginning of the period	512	516
Change in the income tax liability for the period charged to profit	29	(4)
End of the period	541	512

Income tax liabilities as of 31 December 2007 and 2006 consist of the following:

	31 December 2007	31 December 2006 (restated)
Current income tax liabilities	689	209
Deferred income tax liabilities	541	512
Total income tax liabilities	1,230	721

16. EARNINGS PER SHARE

The earnings per share are calculated as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit:		
Net profit for the year	5,088	2,346
Weighted average number of ordinary shares for basic earnings per share	4,303,581	3,202,940
Earnings per share - basic and diluted (AZN)	1.182	0.732

17. CASH AND BALANCES WITH THE NATIONAL BANK OF AZERBAIJAN

Cash and balances with the National Bank of Azerbaijan comprise:

	31 December 2007	31 December 2006
Cash on hand	11,502	6,517
Balances with the National Bank of Azerbaijan	6,840	6,971
Total cash and balances with the National Bank of Azerbaijan	18,342	13,488

The balances with the NBA as at 31 December 2007 and 2006 include AZN 3,860 thousand and AZN 4,536 thousand, respectively, which represent the minimum reserve deposits required by the NBA. The National Bank has granted permission to the Bank to reduce the mandatory reserves account in the amount of mortgage loans, which are not refinanced by Azerbaijan Mortgage Fund. The Bank is entitled to use all funds on its correspondent account provided that average daily balance for 15 days period will be eventually higher than required mandatory reserve.
Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	31 December 2007	31 December 2006
Cash and balances with the National Bank of Azerbaijan	18,342	13,488
Due from banks in OECD countries	33,417	5,976
	51,759	19,464
Less minimum reserve deposit with the National Bank of Azerbaijan	(3,860)	(4,536)
Total cash and cash equivalents	47,899	14,928

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2007			31 December 2006		
	Nominal amount	Net fair value		Nominal amount	Net fair value	
		Asset	Liability		Asset	Liability
Foreign currency contracts						
Forwards	4	10	–	5	14	–
		10	–		14	–

19. DUE FROM BANKS

Due from banks comprise:

	31 December 2007	31 December 2006
Loans and time deposits with other banks	36,063	6,678
Correspondent accounts with other banks	2,408	2,625
	38,471	9,303
Less allowance for impairment losses	–	(6)
Total due from banks	38,471	9,297

Movements in allowance for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 7.
As at 31 December 2007 and 2006 accrued interest income included in due from banks amounted to AZN 134 thousand and AZN 19 thousand, respectively.

As at 31 December 2007 the Group had term deposit in a foreign bank totaling to AZN 11,389 thousand which exceeds 50% of the Group's equity.
As at 31 December 2006 the Group's exposure to 2 banks comprised 65% of the total balance due from banks, which represents significant concentration.
As at 31 December 2007 and 2006 the maximum credit risk exposure of due from banks amounted to AZN 38,471 thousand and AZN 9,297 thousand, respectively.
During the years ended 31 December 2007 and 2006 the Bank simultaneously placed with and received short-term funds from one bank in different currencies. As at 31 December 2007 and 2006, the Bank placed equivalent of AZN 292 thousand and AZN 1,147 thousand, respectively, as deposits with the same bank, which were received from the same banks in amount of AZN 277 thousand and AZN 945 thousand, respectively (Note 27).

20. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Loans to customers	161,733	77,069
Less allowance for impairment losses	(3,689)	(1,641)
Total loans to customers	158,044	75,428

As at 31 December 2007 and 2006 accrued interest income included in loans to customers amounted to AZN 2,726 thousand and AZN 1,044 thousand, respectively.
Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 7.
The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2007	31 December 2006
Loans collateralized by real estate	89,693	39,541
Loans collateralized by vehicles	28,571	15,844
Loans collateralized by equipment	7,407	5,168
Loans collateralized by deposits	7,371	2,239
Loans collateralized by guarantees of individuals	7,148	1,423
Loans collateralized by shares of other companies	4,799	1,954
Loans collateralized by guarantees of legal entities	2,107	1,336
Loans collateralized by precious metals	1,183	565
Loans collateralized by guarantees of financial institutions	626	620
Loans collateralized by other collateral	8,941	3,973
Unsecured loans	3,887	4,406
	161,733	77,069
Less allowance for impairment losses	(3,689)	(1,641)
Total loans to customers	158,044	75,428

	31 December 2007	31 December 2006
Analysis by industry		
Individuals	64,607	25,183
Trading	35,570	16,909
Manufacturing	31,957	18,823
Construction	23,048	8,652
Agriculture	4,240	4,593
Transport and communication	2,311	989
Other	–	1,920
	161,733	77,069
Less allowance for impairment losses	(3,689)	(1,641)
Total loans to customers	158,044	75,428

Loans to individuals comprise the following products:

	31 December 2007	31 December 2006
Car loans	22,156	13,436
Mortgage loans	19,342	3,976
Consumer loans	17,187	5,048
Plastic Cards	5,521	2,422
Pawn loans	350	9
Other	51	292
	64,607	25,183
Less allowance for impairment losses	(1,410)	(816)
Total loans to individuals	63,197	24,367

As at 31 December 2007 and 2006 the Bank granted 4 and 2 loans totaling AZN 9,995 thousand and AZN 2,982 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2007 and 2006 the maximum credit risk exposure of loans to customers amounted to AZN 158,044 thousand and AZN 75,428 thousand, respectively.

As at 31 December 2007 and 2006 loans to customers included loans in amount of AZN 11,624 thousand and AZN 6,643 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2007 and 2006 loans to customers included loans in amount of AZN 7,092 thousand and AZN 9,534 thousand, respectively, that were individually determined to be impaired. As at 31 December 2007 and 2006 such loans were collaterized by real estate, vehicles and equipment with a fair value of AZN 3,074 thousand and AZN 3,511 thousand, respectively.

21. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprises:

	31 December 2007	31 December 2006
Debt securities	22,039	4,108
Equity securities	488	400
	22,527	4,508
Less allowance for impairment losses	(110)	–
Total investments available-for-sale	22,417	4,508

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 7. As at 31 December 2007 and 2006 accrued interest income included in investments available-for-sale amounted to AZN 41 thousand and AZN 8 thousand, respectively.

	Interest to nominal %	31 December 2007	Interest to nominal %	31 December 2006
Debt securities				
Short-term notes of the National Bank of Azerbaijan	10.17	22,039	13.87	4,108
Total debt securities		22,039		4,108

	Share %	31 December 2007	Share %	31 December 2006
Equity Securities				
Millikart LTD	10.00	400	10.00	400
Baku Stock Exchange	5.56	88		–
		488		400
Less allowance for impairment losses		(110)		–
Total equity securities		378		400

22. GOODWILL

Goodwill comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
At the beginning of the period	–	–
Recognized on acquisition of a subsidiary	388	–
At the end of the period	388	–

23. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land and buildings	Furniture and equipment	Computers	Vehicles	Other equipment	Leasehold improve-ments	Construc-tion in progress	Total
At cost								
31 December 2005	4,348	942	451	183	39	1	243	6,207
Additions	657	457	266	181	40	98	627	2,326
Disposals	(133)	(14)	(52)	(11)	(2)	–	(116)	(328)
Transfers	299	–	–	–	–	455	(754)	–
31 December 2006	5,171	1,385	665	353	77	554	–	8,205
Additions	1,051	674	460	707	111	276	205	3,484
Disposals	–	–	–	(28)	–	–	–	(28)
Transfers	567	15	(13)	–	1	(370)	(67)	133
31 December 2007	6,789	2,074	1,112	1,032	189	460	138	11,794
Accumulated depreciation								
31 December 2005	–	(344)	(175)	(84)	(14)	–	–	(617)
Charge for the year	(239)	(227)	(119)	(41)	(11)	(2)	–	(639)
Disposals	–	13	50	5	1	–	–	69
31 December 2006	(239)	(558)	(244)	(120)	(24)	(2)	–	(1,187)
Charge for the year	(290)	(343)	(193)	(121)	(24)	(46)	–	(1,017)
Disposals	–	–	–	15	–	–	–	15
Transfers	–	(1)	1	–	–	–	–	–
31 December 2007	(529)	(902)	(436)	(226)	(48)	(48)	–	(2,189)
Net book value								
31 December 2007	6,260	1,172	676	806	141	412	138	9,605
31 December 2006	4,932	827	421	233	53	552	–	7,018

As at 31 December 2007 and 2006 included in property and equipment were fully depreciated assets of AZN 419 thousands and AZN 226 thousands, respectively.

24. INTANGIBLE ASSETS

Intangible assets comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
At cost		
1 January	452	257
Additions	108	195
31 December	560	452
Accumulated amortization		
1 January	(164)	(102)
Charge for the year	(103)	(62)
Net book value	(267)	(164)
31 December	293	288

Intangible assets include software and licenses.

25. NON-CURRENT ASSETS HELD FOR SALE

In December 2006 the Management 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.
As the Bank has the intention to open new branches in December 2007 the Management Board of the Bank made a decision to use this building as a branch of the Bank, which is planned to be opened in 2008-2009 years. As at 31 December 2007 this asset with carrying value AZN 133 thousand have been transferred into the property of the Bank (Note 23).

26. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Settlements on money transfers	686	198
Deferred expenses	302	102
Receivables on plastic card operations from other banks	239	152
Receivables arising out of direct insurance operations	207	–
Prepayments for purchase of property and equipment	354	552
Repossessed collateral	4	4

	31 December 2007	31 December 2006
Prepayments and receivables on other transactions	128	88
	1,920	1,096
Less allowance for impairment losses	(4)	(4)
Total other assets	1,916	1,092

Movements in allowances for impairment losses on other assets for the years ended 31 December 2007 and 2006 are disclosed in Note 7.

27. DUE TO BANKS

Due to banks comprise:

	31 December 2007	31 December 2006
Loans from banks	6,471	6,454
Term deposits of banks	3,009	200
Correspondent accounts of other banks	297	348
Total due to banks	9,777	7,002

As at 31 December 2007 and 2006 accrued interest expense included in due to banks amounted to AZN 193 thousand and AZN 58 thousand, respectively.
As at 31 December 2007 and 2006 the Bank had loans and deposits from 1 and 4 banks totaling AZN 2,705 thousand and AZN 5,374 thousand, respectively, which individually exceeded 10% of the Group's equity.
During 2007 and 2006 the Bank simultaneously placed with and received short-term funds from one bank in different currencies (Note 19).

28. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2007	31 December 2006
Time deposits	80,546	30,436
Repayable on demand	31,127	21,930
Total customer accounts	111,673	52,366

As at 31 December 2007 and 2006 accrued interest expense included in customer accounts amounted to AZN 1,239 thousand and AZN 599 thousand, respectively.

As at 31 December 2007 and 2006 customer accounts amounted to AZN 217 thousand and nil, respectively, were held as security against guarantees issued.

	31 December 2007	31 December 2006
Individuals	69,902	39,350
Investing	12,513	–
Trading	12,434	5,529
Insurance	5,492	5,493
Manufacturing	4,234	33
Notarys' offices	3,173	–
Agriculture	1,306	338
Transport and communication	1,127	786
Public organizations	1,069	136
Construction	286	90
Energy	6	–
Other	131	611
Total customer accounts	111,673	52,366

29. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date month/year	Annual coupon rate %	31 December 2007	31 December 2006
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.

30. LOANS RECEIVED FROM GOVERNMENT AGENCIES AND FOREIGN CREDIT INSTITUTIONS

Loans received from government agencies and foreign credit institutions comprise:

	31 December 2007	31 December 2006
National Fund for Support of Entrepreneurship	17,917	11,982
Azerbaijan Mortgage Fund	5,042	111
Total loans received from government agencies	22,959	12,093
European Bank for Reconstruction and Development	26,745	6,112
FMO - Netherlands Development Finance Company	15,354	8,713
Asian Development Bank	3,426	423
DEG - Deutsche Investitions- Entwicklungsgeselschaft	3,000	3,952
Black Sea Trade and Development Bank	5,420	2,664
International Finance Corporation	4,296	–
The OPEC Fund for International Development	4,348	–
German-Azerbaijan Fund	1,790	2,179
Total loans received from foreign credit institutions	64,379	24,043
Total loans received from government agencies and foreign credit institutions	87,338	36,136

As at 31 December 2007 and 2006 accrued interest expense is included in loans received from government agencies and foreign credit institutions amounting to AZN 1,235 thousand and AZN 292 thousand, respectively.
As at 31 December 2007 and 2006 included in loans received from government agencies and foreign credit institutions are loans from the National Fund for Support of Entrepreneurship amounting to AZN 17,917 thousand and AZN 11,982 thousand, respectively. These loans have maturity periods from 1 year to 5 years and bear an annual interest rate of 1-2%.

31. OBLIGATIONS UNDER FINANCE LEASE

Obligations under finance lease comprise:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
Less than one year	105	75	99	67
Later than one year not later than five years	76	93	61	85
	181	168	160	152
Less: future finance charges	(21)	(16)	N/A	N/A
Present value of lease obligations	160	152	160	152
Less: amount due for settlement within 12 months			(99)	(67)
Amount due for settlement after 12 months not later than 5 years			61	85

In 2007 the Bank purchased 5 ATMs of AZN 122,992 thousand, partially financed under the finance lease. The lease term is 3 years. For the year ended 31 December 2007 the effective borrowing rate was 13.78%. Interest rates are fixed at the contract date, and thus expose the Bank to fair value interest rate risk. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

32. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Settlements on money transfers and plastic card operations	268	206
Deferred commissions on letters of credit	208	–
Payables arising out of reinsurance operations	145	–
Accrued supplier's cost	90	139
Payable to the Deposit Insurance Fund	78	–
Professional fees payable	71	–
Payables to employees	54	35
Taxes other than income tax	22	–
Dividends payable	6	5
Other	6	4
Total other liabilities	948	389

33. SUBORDINATED DEBT

	Currency	Maturity date year	31 December 2007	31 December 2006
Subordinated debt from foreign credit institutions - third parties	USD	2017	4,326	–
Subordinated debt from foreign credit institutions - third parties	USD	2013-2015	8,478	–
Subordinated debt from related parties	USD	2017	4,368	–
			17,172	–

As at 31 December 2007 accrued interest expense is included in subordinated debt amounting to AZN 266 thousand.
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.

34. SHARE CAPITAL

As of 31 December 2007 and 2006 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 12,580 thousand and AZN 7,161 thousand, respectively and comprised 6,290,198 and 3,580,492 ordinary shares with a par value of AZN 2, respectively. Each share entitles one vote to the shareholder.
During 2007 and 2006 shareholders' capital of the Group was increased by AZN 5,419 thousand and AZN 1,353 thousand, respectively. The amount of AZN 1,630 of share capital was increased from the capitalization of distributed dividends.
In 2007 and 2006 the Group declared dividends of AZN 2,199 thousand and AZN 1,684 thousand for 2006 and 2005 financial years, respectively, on ordinary shares.

35. FINANCIAL COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated balance sheet.
The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.
The Group's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.
Provision for losses on contingent liabilities amounted to AZN 1,175 thousand and AZN 82 thousand as at 31 December 2007 and 2006, respectively.
As at 31 December 2007 and 2006, the nominal or contract amounts and the risk amounts were:

	31 December 2007		31 December 2006	
	Nominal amount	Risk Weighted Amount	Nominal amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	9,257	8,535	7,345	7,345
Commitments on credits and unused credit lines	8,375	3,451	3,701	–
Letters of credit and other transaction related contingent obligations	7,519	2,407	995	498
Total contingent liabilities and credit commitments	25,151	14,393	12,041	7,843

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2007.
Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.
The Group is receiving claims from individual customers with respect to certain commissions withheld by the Group for loan agreements service. Management is of the opinion that such claims would not have adverse consequences for the Group, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the NBA instruction.
Taxes – Azerbaijan commercial legislation and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years. Management believes that the Group has already made all tax payments that are due, and therefore no provisions have been made in these consolidated financial statements for any potential liabilities.
Pensions and retirement plans – Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2007 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.
Operating environment – The Group's principal business activities are within Azerbaijan. Laws and regulations affecting the business environment in Azerbaijan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

36. TRANSACTIONS WITH RELATED PARTIES

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2007 and 2006 with related parties:

	31 December 2007		31 December 2006	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers		161,733		77,069
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	1,798		989	
– key management personnel of the entity	552		313	
Allowance for impairment losses		(3,689)		(1,641)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(36)		(5)	
– key management personnel of the entity	(11)		(7)	
Other assets		1,916		1,092
– key management personnel of the entity	315		552	
Customer accounts		111,673		52,366
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	804		229	
– key management personnel of the entity	196		42	
Loans from government agencies and foreign credit institutions		87,338		36,136
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	3,058		3,952	
Other liabilities		948		389
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	8		4	
– key management personnel of the entity	7		27	

	31 December 2007		31 December 2006	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Subordinated debt		17,172		–
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	4,368		–	
Commitments on credits and unused credit lines		8,375		3,701
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	12		27	
– key management personnel of the entit	42		35	
Guarantees issued and similar commitments		9,257		7,345
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	–		22	
Key management personnel compensation:				
short-term employee benefits	891	4,422	593	2,417

Included in the consolidated income statement for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	31 December 2007		31 December 2006	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Interest income		24,721		10,773
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	177		147	
– key management personnel of the entity	33		28	
Interest expense		(11,692)		(4,633)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(767)		(323)	
– key management personnel of the entity	–		(1)	

	31 December 2007		31 December 2006	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Allowance for impairment losses		(2,062)		(802)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(31)		–	
– key management personnel of the entity	(4)		(6)	
Fee and commission income		5,125		2,983
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	52		21	
Fee and commission expense		(1,677)		(917)
– key management personnel of the entity	(19)		–	
Operating expense		(8,663)		(4,842)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(69)		(29)	
– key management personnel of the entity	(891)		(593)	

37. SEGMENT REPORTING

The Group's activity is sufficiently integrated and primarily relates to the banking sector. Accordingly, for purposes of IAS 14 "Segment reporting" the Group is accounted for as a single segment. The Group's assets are located in the Republic of Azerbaijan and major parts of its revenue and net profit arrives from operations in the Republic of Azerbaijan. The Group's operations include transactions with banks, legal entities and individuals. Data on other transaction balances and their results are provided in the respective notes to the consolidated financial statements.

38. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

	31 December 2007		31 December 2006	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank of Azerbaijan	18,342	18,342	13,488	13,488
Gold	5	5	–	–
Financial assets at fair value through profit or loss	10	10	14	14
Due from banks	38,471	38,471	9,297	9,297
Investments available-for-sale	22,039	22,039	4,108	4,108
Due to banks	9,777	9,777	7,002	7,002
Customer accounts	111,673	111,673	52,366	52,366
Debt securities issued	–	–	3,022	3,022
Loans received from government agencies and foreign credit institutions	87,338	87,338	36,136	36,136
Obligations under finance lease	160	160	152	152
Subordinated debt	17,172	17,172	–	–

The fair value of loans to customers cannot be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.
The fair value of equity securities included in investments available-for-sale cannot be measured reliably. As at 31 December 2007 and 2006 the cost of them was 378 thousand and AZN 400 thousand, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate fair value.

39. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.
As at 31 December 2007 the Group included in the computation of Total capital for Capital adequacy purposes the subordinated debt received, limited to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.
The ratio was calculated according to the principles employed by the Basel Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

Estimate	Description of position
0%	Cash and balances with the National Bank of Azerbaijan
0%	State debt securities
20%	Due from banks for up to 1 year
100%	Loans and advances to customers (excluding mortgage loans for residential purposes which are at 50%)
100%	Other assets
100%	Guarantees issued
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Other assets

The Group'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 2007				
Total capital	20,018	28,540	16.20%	8%
Tier 1 capital	17,822	17,822	10.11%	4%
As at 31 December 2006				
Total capital	11,396	11,396	12.84%	8%
Tier 1 capital	9,589	9,589	10.91%	4%

In addition, the Group has to maintain a statutory capital adequacy ratio based on the National Bank of Azerbaijan requirements. During the years ended 31 December 2007 and 2006 the Group was in compliance with the minimum capital requirements imposed by the NBA.

40. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.
The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 33, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.
The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital.
Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.
The Group's overall capital risk management policy remains unchanged from 2006.

41. RISK MANAGEMENT POLICIES

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

Credit risk

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

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

Credit Divisions

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

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

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

Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

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

	31 December 2007				
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Financial assets at fair value through profit or loss	10	–	10	–	10
Due from banks	38,471	–	38,471	–	38,471
Loans to customers	158,044	–	158,044	119,909	38,135
Investments available-for-sale	22,417	–	22,417	–	22,417

	31 December 2006				
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Financial assets at fair value through profit or loss	14	–	14	–	14
Due from banks	9,297	–	9,303	–	9,297
Loans to customers	75,428	–	75,428	38,949	36,479
Investments available-for-sale	4,508	–	4,508	–	4,508

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

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

	31 December 2007						
	AAA	AA	A	BBB	<BBB	Not rated	Total
Financial assets at fair value through profit or loss	–	–	–	–	–	10	10
Due from banks	–	29,268	515	5,528	147	3,013	38,471
Loans to customers	–	–	–	–	–	158,044	158,044
Investments available-for-sale	–	–	–	–	22,039	378	22,417

	31 December 2006						
	AAA	AA	A	BBB	<BBB	Not rated	Total
Financial assets at fair value through profit or loss	–	–	–	–	–	14	14
Due from banks	–	6,788	526	515	15	1,453	9,297
Loans to customers	–	–	–	–	–	75,428	75,428
Investments available-for-sale	–	–	–	–	4,108	400	4,508

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

Rating model

The Group has developed internal rating model, which allow it to determine the rating of counterparties. The rating of corporate borrower is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.
The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.
The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Group revises the model when deficiencies are identified.

Scoring model

The Group uses scoring models as a statistical tool to assess the future creditworthiness of new and existing borrowers of the Group. Scoring models are applied for assessment of the credit risk of individuals and small business enterprises. The scoring models interpret socio-demographic and financial indicators, behavioral variables, the credit history of borrowers. Each of the parameters inserted into scoring model has a numeric value, the sum of which represents the borrower's internal credit score (rating). The assigned score reflects the probability of default of the borrower.

The scoring models standardize and automate the process of decision making and decrease the operating expenses and operational risks of the Group. The scoring model is assessed on a continual basis for its effectiveness and validity.

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

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

	Neither past due nor impaired	Financial assets past due but not impaired				31 December 2007	
		0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss	10	–	–	–	–	–	10
Due from banks	38,471	–	–	–	–	–	38,471
Loans to customers	95,394	–	–	–	–	62,650	158,044
Investments available-for-sale	22,127	–	–	–	–	290	22,417

	Neither past due nor impaired	Financial assets past due but not impaired				31 December 2006	
		0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Financial assets at fair value through profit or loss	14	–	–	–	–	–	14
Due from banks	9,297	–	–	–	–	–	9,297
Loans to customers	46,280	–	–	–	–	29,148	75,428
Investments available-for-sale	4,508	–	–	–	–	–	4,508

Geographical concentration

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

	The Republic of Azerbaijan	CIS countries	OECD countries	Other non-OECD countries	31 December 2007 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	18,271	–	71	–	18,342
Gold	5	–	–	–	5
Financial assets at fair value through profit or loss	10	–	–	–	10
Due from banks	3,768	714	33,988	1	38,471
Loans to customers	158,044	–	–	–	158,044
Investments available-for-sale	22,417	–	–	–	22,417
Goodwill	388	–	–	–	388
Property and equipment	9,605	–	–	–	9,605
Intangible assets	293	–	–	–	293
Other assets	1,230	686	–	–	1,916
TOTAL ASSETS	214,031	1,400	34,059	1	249,491
LIABILITIES					
Due to banks	3,029	278	4,770	1,700	9,777
Customer accounts	111,673	–	–	–	111,673
Loans received from government agencies and foreign credit institutions	22,958	–	60,818	3,562	87,338
Current income tax liabilities	689	–	–	–	689
Deferred income tax liabilities	541	–	–	–	541
Provision for impairment losses on other operations	1,175	–	–	–	1,175
Obligations under finance lease	160	–	–	–	160
Other liabilities	853	52	43	–	948
Subordinated debt	–	–	8,694	8,478	17,172
TOTAL LIABILITIES	141,078	330	74,325	13,740	229,473
NET POSITION	72,953	1,070	(40,266)	(13,739)	

	The Republic of Azerbaijan	CIS countries	OECD countries	Other non-OECD countries	31 December 2006 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	13,465	–	23	–	13,488
Financial assets at fair value through profit or loss	14	–	–	–	14
Due from banks	1,720	263	7,313	1	9,297
Loans to customers	75,418	3	7	–	75,428
Investments available-for-sale	4,508	–	–	–	4,508
Property and equipment	7,018	–	–	–	7,018
Intangible assets	288	–	–	–	288
Non-current assets held for sale	133	–	–	–	133
Other assets	797	285	10	–	1,092
TOTAL ASSETS	103,361	551	7,353	1	111,266
LIABILITIES					
Due to banks	2,692	429	3,681	200	7,002
Customer accounts	52,004	83	179	100	52,366
Debt securities issued	–	1,014	–	2,008	3,022
Loans received from government agencies and foreign credit institutions	14,273	–	21,440	423	36,136
Current income tax liabilities	209	–	–	–	209
Deferred income tax liabilities	512	–	–	–	512
Provision for impairment losses on other operations	82	–	–	–	82
Obligations under finance lease	152	–	–	–	152
Other liabilities	389	–	–	–	389
TOTAL LIABILITIES	70,313	1,526	25,300	2,731	99,870
NET POSITION	33,048	(975)	(17,947)	(2,730)	

Liquidity risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007 **(Continued)**

(in Azerbaijan Manats and in thousands)

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail: (i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Group can be required to pay, and (ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2007 Total
ASSETS									
Due from banks	4.74%	16,187	18,357	1,193	583	–	–	25	36,345
Loans to customers	18.83%	11,816	21,877	72,560	84,113	17,575	152	(3,689)	204,404
Investments available-for-sale	10.17%	20,181	2,000	–	–	–	–	–	22,181
Total interest bearing assets at fixed rates		48,184	42,234	73,753	84,696	17,575	152	(3,664)	262,930
Total interest bearing assets		48,184	42,234	73,753	84,696	17,575	152	(3,664)	262,930
Cash and balances with the National Bank of Azerbaijan		14,482	–	–	–	–	–	3,860	18,342
Gold		5	–	–	–	–	–	–	5
Financial assets at fair value through profit or loss		10	–	–	–	–	–	–	10
Due from banks		2,408	–	–	–	–	–	–	2,408
Loans to customers		417	–	–	–	–	–	–	417
Investments available-for-sale		–	–	–	–	–	–	378	378
Goodwill		–	–	–	388	–	–	–	388
Property and equipment		–	–	–	–	–	–	9,605	9,605
Intangible assets		–	–	–	–	–	–	293	293
Other assets		983	–	316	617	–	–	–	1,916
		66,489	42,234	74,069	85,701	17,575	152	10,472	296,692
LIABILITIES									
Due to banks	7.11%	2,125	2,807	4,764	–	–	–	–	9,696
Customer accounts	10.86%	11,315	24,758	46,758	1,172	31	–	279	84,313
Loans received from government agencies and foreign credit institutions	1%	627	47	947	17,490	6,736	–	–	25,847
Total interest bearing liabilities at fixed rates		14,067	27,612	52,469	18,662	6,767	–	279	119,856

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2007 Total
Loans received from government agencies and foreign credit institutions	9.11%	1,086	6,544	24,048	33,829	8,453	–	–	73,960
Subordinated debt	11%	154	308	1,388	7,401	22,966	–	–	32,217
Total interest bearing liabilities at variable rates		1,240	6,852	25,436	41,230	31,419	–	–	106,177
Total interest bearing liabilities		15,307	34,464	77,905	59,892	38,186	–	279	226,033
Customer accounts		31,127	–	–	–	–	–	–	31,127
Current income tax liabilities		–	689	–	–	–	–	–	689
Deferred income tax liabilities		–	–	–	541	–	–	–	541
Obligations under finance lease		9	18	71	62	–	–	–	160
Other liabilities		389	152	401	6	–	–	–	948
Accounts payable on derivative contracts		(716)	–	–	–	–	–	–	(716)
Accounts receivable on derivative contracts		720	–	–	–	–	–	–	720
Guarantees issued and similar commitments		109	1,151	5,408	2,082	–	–	507	9,257
Commitments on credits and unused credit lines		527	876	6,727	245	–	–	–	8,375
Letters of credit and other transaction related contingent obligations		–	763	6,462	294	–	–	–	7,519
		47,769	38,113	96,974	63,122	38,186	–	786	284,950
Liquidity gap		18,720	4,121	(22,905)	22,579	(20,611)	152		
Interest sensitivity gap for fixed rate instruments		34,117	14,622	21,284	66,034	10,808	152		
Interest sensitivity gap for floating rate instruments		(1,240)	(6,852)	(25,436)	(41,230)	(31,419)	–		
Interest sensitivity gap		32,877	7,770	(4,152)	24,804	(20,611)	152		
Cumulative interest sensitivity gap		32,877	40,647	36,495	61,299	40,688	40,840		

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2006 Total
ASSETS									
Due from banks	17.00%	318	5,011	821	615	–	–	26	6,791
Loans to customers	18.76%	5,198	13,245	38,509	33,780	579	271	(1,641)	89,941
Investments available-for-sale	13.87%	4,131	–	–	–	–	–	–	4,131
Total interest bearing assets at fixed rates		9,647	18,256	39,330	34,395	579	271	(1,615)	100,863
Total interest bearing assets		9,647	18,256	39,330	34,395	579	271	(1,615)	100,863
Cash and balances with the National Bank of Azerbaijan		8,952	–	–	–	–	–	4,536	13,488
Financial assets at fair value through profit or loss		14	–	–	–	–	–	–	14
Due from banks		2,625	–	–	–	–	–	–	2,625
Investments available-for-sale		–	–	–	–	–	–	400	400
Property and equipment		–	–	–	–	–	–	7,018	7,018
Intangible assets		–	–	–	–	–	–	288	288
Non-current assets held for sale		–	–	133	–	–	–	–	133
Other assets		758	–	–	334	–	–	–	1,092
TOTAL ASSETS		21,996	18,256	39,463	34,729	579	271	10,627	125,921
LIABILITIES									
Due to banks	9.26%	229	2,806	3,798	–	–	–	–	6,833
Customer accounts	11.30%	4,135	9,060	17,960	1,314	2	–	44	32,515
Debt securities issued	13.81%	11	36	3,125	–	–	–	–	3,172
Loans received from government agencies and foreign credit institutions	1.06%	10	21	124	12,342	111			12,608
Total interest bearing liabilities at fixed rates		4,385	11,923	25,007	13,656	113	–	44	55,128
Loans received from government agencies and foreign credit	8.57%	477	870	7,851	19,263	17	–	–	28,478
Total interest bearing liabilities at variable rates		477	870	7,851	19,263	17	–	–	28,478
Total interest bearing liabilities		4,862	12,793	32,858	32,919	130	–	44	83,606

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2006 Total
Due to banks		348	–	–	–	–	–	–	348
Customer accounts		21,930	–	–	–	–	–	–	21,930
Current income tax liabilities		209	–	–	–	–	–	–	209
Deferred income tax liabilities		–	–	–	512	–	–	–	512
Provision for impairment losses on other operations		–	–	–	–	–	–	82	82
Other liabilities		389	–	–	–	–	–	–	389
Accounts payable on derivative contracts		(1,041)	–	–	–	–	–	–	(1,041)
Accounts receivable on derivative contracts		1,046	–	–	–	–	–	–	1,046
Guarantees issued and similar commitments		234	1,612	4,080	1,419	–	–	–	7,345
Commitments on credits and unused credit lines		202	520	2,744	235	–	–	–	3,701
Letters of credit and other transaction related contingent obligations		–	–	995	–	–	–	–	995
TOTAL LIABILITIES		28,179	14,925	40,677	35,085	130	–	126	119,122
Liquidity gap		(6,183)	3,331	(1,214)	(356)	449			
Interest sensitivity gap for fixed rate instruments		5,262	6,333	14,323	20,739	466			
Interest sensitivity gap for floating rate instruments		(477)	(870)	(7,851)	(19,263)	(17)			
Interest sensitivity gap		4,785	5,463	6,472	1,476	449			
Cumulative interest sensitivity gap		4,785	10,248	16,720	18,196	18,645			

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Group is exposed. There have been no changes as to the way the Group measures risk or to the risk it is exposed in 2007.

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

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

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk. A comprehensive sensitivity analysis should be given on the market risk using appropriate tools (eg. VaR).

Interest rate risk

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

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

Impact on profit before tax:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
ASSETS:				
Due from banks	359	(359)	67	(67)
Loans to customers	1,549	(1,549)	744	(744)
Investments available-for-sale	220	(220)	41	(41)
LIABILITIES:				
Due to banks	(95)	95	(69)	69
Customer accounts	(793)	793	(298)	298
Debt securities issued	–	–	(30)	30
Loans received from government agencies and foreign credit institutions	(858)	858	(358)	358
Obligations under finance lease	(2)	2	(1)	1
Subordinated debt	(169)	169	–	–
Net impact on profit before tax	211	(211)	96	(96)

Impact on shareholders equity:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
ASSETS:				
Due from banks	359	(359)	67	(67)
Loans to customers	1,549	(1,549)	744	(744)
Investments available-for-sale	220	(220)	41	(41)
LIABILITIES:				
Due to banks	(95)	95	(69)	69
Customer accounts	(793)	793	(298)	298
Debt securities issued	–	–	(30)	30
Loans received from government agencies and foreign credit institutions	(858)	858	(358)	358
Obligations under finance lease	(2)	2	(1)	1
Subordinated debt	(169)	169	–	–
Net impact on shareholders equity	211	(211)	96	(96)

Currency risk

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

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

	AZN	USD USD 1 = AZN 0.8453	EUR EUR 1 = AZN 1.2450	Other currency	31 December 2007 Total
ASSETS					
Cash and balances with the National Bank of the Republic of Azerbaijan	9,062	7,751	1,267	262	18,342
Gold	–	–	–	5	5
Financial assets at fair value through profit or loss	10	–	–	–	10
Due from banks	1,125	24,350	10,512	2,484	38,471
Loans to customers	79,239	73,109	4,787	909	158,044
Investments available-for-sale	22,417	–	–	–	22,417
Goodwill	388	–	–	–	388
Property and equipment	9,605	–	–	–	9,605

	AZN	USD USD 1 = AZN 0.8453	EUR EUR 1 = AZN 1.2450	Other currency	31 December 2007 Total
Intangible assets	293	–	–	–	293
Other assets	850	802	220	44	1,916
TOTAL ASSETS	122,989	106,012	16,786	3,704	249,491
LIABILITIES					
Due to banks	–	6,099	12	3,666	9,777
Customer accounts	72,559	26,816	12,261	37	111,673
Loans received from government agencies and foreign credit institutions	22,958	59,714	4,666	–	87,338
Current income tax liabilities	689	–	–	–	689
Deferred income tax liabilities	541	–	–	–	541
Provision for impairment losses on other operations	1,175	–	–	–	1,175
Obligations under finance lease	160	–	–	–	160
Other liabilities	616	277	42	13	948
Subordinated debt	–	17,172	–	–	17,172
TOTAL LIABILITIES	98,698	110,078	16,981	3,716	229,473
OPEN BALANCE SHEET POSITION	24,291	(4,066)	(195)	(12)	

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 on derivative financial instruments:

	AZN	USD USD 1 = AZN 0.8453	EUR EUR 1 = AZN 1.2450	Other currency	31 December 2007 Total
Accounts payable on forward contracts	–	(710)	–	–	(710)
Accounts receivable on forward contracts	720	–	–	–	720
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	720	(710)	–	–	
TOTAL OPEN POSITION	25,011	(4,776)	(195)	(12)	

	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 Azerbaijan	7,578	5,632	273	5	13,488
Financial assets at fair value through profit or loss	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 and equipment	7,018	–	–	–	7,018
Intangible assets	288	–	–	–	288
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 credit institutions	12,094	19,199	4,843	–	36,136
Current income tax liabilities	209	–	–	–	209
Deferred income tax liabilities	512	–	–	–	512
Provision for impairment losses on other operations	82	–	–	–	82
Obligations under finance lease	–	152	–	–	152
Other liabilities	298	88	3	–	389
TOTAL LIABILITIES	45,306	44,523	10,039	2	99,870
OPEN BALANCE SHEET POSITION	11,605	(224)	(51)	66	

Derivative financial instruments

Fair value of derivative financial instruments and spot contracts are included in the currency analysis presented above and the following table presents further analysis of currency risk on derivative financial instruments and spot contracts:

	AZN	USD USD 1 = AZN 0.8714	EUR EUR 1 = AZN 1.1471	Other currency	31 December 2006 Total
Accounts payable on derivative contracts	–	(1,032)	–	–	(1,032)
Accounts receivable on derivative contracts	1,046	–	–	–	1,046
NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION	1,046	(1,032)	–	–	
TOTAL OPEN POSITION	12,651	(1,256)	(51)	66	

Currency risk sensitivity

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

	As at 31 December 2007		As at 31 December 2006	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit or loss	478	(478)	127	(127)

	As at 31 December 2007		As at 31 December 2006	
	AZN/EURO +10%	AZN/EURO -10%	AZN/EURO +10%	AZN/EURO -10%
Impact on profit or loss	20	(20)	5	(5)

Limitations of sensitivity analysis

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

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity. Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion

Other price risks

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

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 5% higher/lower:

– Net profit for the year ended 31 December 2007 would have been unaffected as the equity securities are classified as available-for-sale and no investments were disposed of or impaired.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

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