

**İllik Hesabat**  
Annual Report  
**2008**



## Mündəricat / Contents

Müşahidə Şurası Sədrinin müraciəti Letter of the Chairman of Supervisory Board	5
İdarə Heyəti Sədrinin müraciəti Letter of the Chairperson of Executive Board	7
2008-ci ildə Azərbaycan iqtisadiyyatı Economy of Azerbaijan in 2008	9
2008-ci ildə Azərbaycan bank sektoru Banking sector of Azerbaijan in 2008	13
Bank Respublika haqqında ümumi məlumat General information about Bank Respublika	17
2008-ci ildə Bankın əsas maliyyə göstəriciləri Main financial indicators of the Bank in 2008	21
Kredit siyasəti Loan policy	27
Risqlərin idarə edilməsi Risk management	31
Beynəlxalq əməkdaşlıq International cooperation	35
Müştəri xidməti və müştərilərlə əlaqələr Customer service and customer relations	39
Marketing fəaliyyəti Marketing activity	43
İnsan resursları Human resources	47
Törəmə şirkətlər Subsidiaries	51
Konsolidasiya olunmuş maliyyə hesabatları Consolidated Financial Statements	55



## Hörmətli xanımlar və cənablar,

2008-ci ili Azərbaycanın sosial-iqtisadi həyatında, bank sektorunun və Bank Respublika-nın inkişafında daha bir əlamətdar il kimi qeyd etmək olar.

İl ərzində ölkədə Ümumi Daxili Məhsulun real həcmi 10,8%, bank sektorunun ümumi aktivləri isə 52,8% artmışdır. Dünyadakı iqtisadi böhrana baxmayaraq bu göstəricilər Azərbaycan iqtisadiyyatının və bank sektorunun inkişafını göstərir.

Ölkədə aparıcı banklardan olan Bank Respublika 2008-ci ildə inkişafını davam etmişdir və bir çox maliyyə göstəriciləri üzrə yüksək artıma nail olmuşdur. Bankın ümumi aktivlərinin il ərzində artımı isə 55,8% olmuşdur.

2008-ci ildə əhəmiyyətli artım nəticəsində Bankın ümumi kapitalı 41,2 mln. AZN, səhmdar kapitalı isə 22,6 mln. AZN təşkil etmişdir. Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT əvvəlki illərdə olduğu kimi "25% + 1 səhm" paketi ilə Bankın səhmdarları sırasında təmsil olunurlar.

Moody's Investors Service agentliyi 2008-ci ilin noyabr ayında Bankın B2 reytingini "stabil" proqnozu ilə təsdiqləmişdir, bu isə Bank Respublika-nın etibarlılıq səviyyəsini əks etdirir. Bank Respublika 2008-ci ildə beynəlxalq maliyyə təşkilatları ilə əməkdaşlığı daha da genişləndirmişdir.

Bank Respublika ənənəvi olaraq müştəri xidmətinin davamlı inkişafına böyük önəm verir. 2008-ci ildə Bank müştərilərə bir sıra yeni məhsul və xidmətlər təqdim etmişdir. Bank Respublika il ərzində yeni filiallar açmışdır və hazırda ölkə üzrə 32 ofisdən ibarət müştəri xidməti şəbəkəsinə malikdir.

2008-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 year 2008 can be considered another significant year in Azerbaijan's social and economic life, in the development of the banking sector and Bank Respublika.

During the year, the Real Gross Domestic Product increased by 10.8%, while total assets in the banking sectors rose by 52.8%. These indices reflect the development of Azerbaijan's economy and banking sector despite the global economic crisis.

Bank Respublika, one of the leading banks in Azerbaijan, continued its development in 2008 and saw a sharp growth in a number of its financial indices. In the course of the year, the Bank's total assets rose by 55.8%.

Due to the significant growth in 2008, the Bank's total equity reached 41.2 million AZN, while the share capital was 22.6 million AZN. Like in the previous years, DEG, a member of the German KfW group, and SIDT, a member of Sparkassen-Finanzgruppe, remained shareholders of the Bank, with a participation interest of "25% + 1 share".

In November 2008, Moody's Investors Service confirmed the Bank's rating at B2, outlook stable, which is indicative of Bank Respublika's reliability. In 2008, Bank Respublika further enhanced its relations with international financial institutions.

Bank Respublika, as always, pays particular attention to the development of its customer service. In 2008, Bank Respublika introduced a number of products and services to its customers. During the year, Bank Respublika opened a number of new branches and its customer network currently consists of 32 offices.

I congratulate the Bank's Shareholders, Employees, Customers and Partners on the successful results of the year 2008 and wish them further success in the future.

Yours faithfully,  
**Elchin Guliyev**  
**Chairman of the Supervisory Board**



## Hörmətli xanımlar və cənablar,

2008-ci ildə Azərbaycan iqtisadiyyatı, eləcə də bank sektoru son illərdəki yüksək inkişaf dinamikasını davam etdirməyə nail olmuşdur.

Bank Respublika üçün də 2008-ci il uğurlu olmuşdur. Bankın fəaliyyətinin əsas göstəriciləri olan aktivlər, kredit portfeli və müştəri depozitləri il ərzində müvafiq olaraq 55,8%, 59,7% və 23,4% artmışdır.

Bank Respublika-nın 2008-ci ildə xalis mənfəəti 10,4 mln. AZN, xalis mənfəətin aktivlərə nisbəti (RoA) 2,69%, ümumi kapitalla nisbəti isə (RoE) 25,35% olmuşdur. Bu göstəricilər Bankın uğurlu fəaliyyətini əks etdirir.

2008-ci ildə Bank Respublika Raiffeisen Zentralbank Österreich AG ilə Azərbaycanın özəl bank sektorunun tarixində 50 mln. ABŞ dolları məbləğində ən iri kredit müqaviləsi imzalamışdır. Bank Respublika ilin sonunda Avropa Yenidənqurma və İnkişaf Bankı (AYİB) və DEG İnvestisiya Şirkəti ilə ümumilikdə 22,5 mln. ABŞ dolları məbləğində kredit müqavilələri də bağlamışdır. 2008-ci ilin yekunlarına əsasən Bank Respublika AYİB-in "Ticarətin maliyyələşdirilməsi üzrə Azərbaycanda ən fəal bank" mükafatını almışdır.

Moody's Investors Service agentliyinin 2008-ci ilin noyabr ayında Bank Respublika-nın B2 reytingini "stabil" proqnozu ilə təsdiqləməsi də mühüm əhəmiyyətə malikdir.

Bank Respublika-nın prioritetlərindən biri də xidmət şəbəkəsinin genişləndirilməsidir. Bankın hazırda 32 filialı və şöbəsi fəaliyyət göstərir, bunlardan 8 filial və şöbə 2008-ci il ərzində açılmışdır.

2008-ci ildə birgə işə görə Bankın Səhmdarlarına və Əməkdaşlarına, Müştərilərinə və Tərəfdaşlarına təşəkkür edirəm, əldə edilmiş nailiyyətlərlə onları təbrik edirəm və yeni uğurlar arzu edirəm.

Səmimiyyətlə,  
**Xədicə Həsənova**  
**İdarə Heyətinin Sədri**

## Dear ladies and gentlemen,

In 2008, Azerbaijan's economy, including the banking sector, retained the high growth rate of development that had been seen in the previous years.

The year 2008 was successful for Bank Respublika, too. The key indices of the Bank's activities – its assets, loan portfolio and customer deposits – rose during the year by 55.6%, 59.7% and 23.4%, respectively.

The Bank's net profit in 2008 was 10.4 million AZN. The Return on Assets ratio (ROA) was 2.69%, while the Return on Equity ratio (RoE) was 25.35%. These indices reflect the Bank's successful development in 2008.

In 2008, Bank Respublika and Raiffeisen Zentralbank Österreich AG entered into the largest loan agreement in the history of the private banking sector in Azerbaijan, with a value of 50 million US dollars. In the end of the year, Bank Respublika entered into loan agreements with the European Bank for Reconstruction and Development (EBRD) and DEG Investment Company, with a total value of 22.5 million US dollars. Based on the results of the year 2008, Bank Respublika was named "Azerbaijan's most active trade financing bank" by the EBRD.

The fact that Moody's Investors Service confirmed the Bank's rating at B2 with a stable outlook in November 2008 is also of particular significance.

One of the priorities of Bank Respublika is the expansion of its customer service network. At present, Bank Respublika has 32 branches and service points, 8 of which were opened in 2008.

I thank all of the Bank's Shareholders, Employees, Customers and Partners for our successful teamwork in 2008, congratulate them on our accomplishments and wish them further success in the future.

Sincerely,  
**Khadija Hasanova**  
**Chairperson of the Executive Board**



### **Bankın İdarə Heyəti** **Executive Board of the Bank**

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





The image features a solid blue background. On the right side, there are several white geometric shapes: a trapezoid at the top, a vertical bar below it, and another vertical bar to its right. The text is positioned to the left of these shapes.

2008-ci ildə Azərbaycan  
iqtisadiyyatı

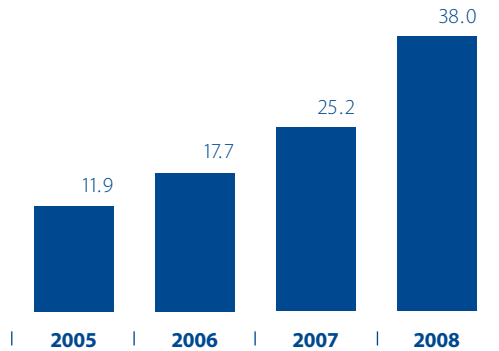
Economy of Azerbaijan  
in 2008



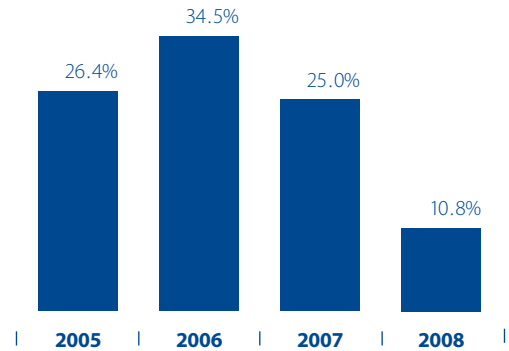
2008-ci il Azərbaycan iqtisadiyyatı üçün növbəti uğurlu il olmuşdur. Dünyadakı iqtisadi vəziyyətə baxmayaraq ölkənin Ümumi Daxili Məhsulunun real həcmi 2008-ci ildə 10,8% artaraq 38 mlrd. AZN məbləğini keçmiş, adambaşına düşən ÜDM həcmi isə 4440 AZN olmuşdur.

The year 2008 was another successful year for Azerbaijan's economy. Despite the economic situation in the world, the actual amount of the Gross Domestic Product increased by 10.8%, exceeding 38 billion AZN, while the GDP per capita was 4440 AZN.

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



### ÜDM-un real artımı Real growth rate of GDP



Əvvəlki illərdə ÜDM-un yüksək artımı daha çox neft sektorunun sürətli artımı ilə bağlı olmuşdursa, 2008-ci ildə qeyri-neft sektorunda daha yüksək artım əldə edilmişdir. Belə ki, neft sektorunda 2008-ci ildə 7%, qeyri-neft sektorunda isə 15,7% artım olmuşdur.

While the GDP growth in the previous years was largely linked to the rapid development in the oil sector, 2008 was marked by relatively higher growth in the non-oil sector. For instance, while the growth rate in the oil sector in 2008 was 7%, in the non-oil sector it was 15.7%.

Göstəricilər / Indicators	2005	2006	2007	2008
İstehlak qiymətlərinin artımı (%) Consumer price change (%)	9.6	8.3	16.7	20.8
AZN-in USD-yə orta illik nisbəti Average AZN rates to USD	0.95	0.89	0.85	0.805
Orta aylıq əmək haqqının illik artımı (%) Average monthly wage growth (%)	21.9	19.8	42.0	24.2
Büdcə gəlirlərinin illik artımı (%) Budget revenues annual growth (%)	26.4	88.8	155.3	179.2
Büdcə kəsri / profisiti (ÜDM üzrə %) Budget deficit / proficit (% from GDP)	-0.7	+0.5	+0.2	-0.03
Dövlət borcu (ÜDM üzrə %) Gross governmental debt (% from GDP)	12.6	11.0	8.2	6.4
Valyuta ehtiyatları (mlrd. USD) Currency reserves (bln. USD)	2.4	3.4	4.2	17.4

Beynəlxalq konsorsiumlar çərçivəsində Azərbaycanın neft-qaz yataqlarının işlənməsi, Bakı-Tbilisi-Ceyhan və Bakı-Tbilisi-Ərzurum kəmərləri ilə artan neft və qaz ixracı, TRACECA və Şimal-Cənub beynəlxalq nəqliyyat layihələri, hazırda tikintisi aparılan Bakı-Tbilisi-Qars dəmiryolu, NABUCCO qaz kəməri layihəsi və digər beynəlxalq enerji və nəqliyyat layihələri Azərbaycanın dünyada mövqelərini daha da gücləndirmişdir. Bu beynəlxalq layihələr və artan neft gəlirləri Azərbaycanda və eləcə də bütün regionda sabitliyin və inkişafın mühüm amilinə çevrilmişdir.

Ölkədə qeyri-neft sektorunun, sahibkarlığın, regionların, iqtisadiyyatın müxtəlif sahələrinin inkişafı ilə bağlı 2008-ci ildə bir çox proqramların və layihələrin həyata keçirilməsi davam etdirilmişdir. Biznes və investisiya mühitinin ölkədə daha da yaxşılaşdırılması istiqamətində də bir sıra mühüm nailiyyətlər əldə edilmişdir. 2008-ci ildə özəl sektor daha da inkişaf etmişdir və onun ÜDM-də payı 84,5% olmuşdur.

Azərbaycanın valyuta ehtiyatları 2008-ci ildə daha da artaraq ilin sonuna 18,6 mlrd. ABŞ dolları təşkil etmişdir, bu da dünyada hazırkı iqtisadi vəziyyət şəraitində ölkə iqtisadiyyatının və maliyyə sisteminin sabitliyi və inkişafı üçün mühüm əhəmiyyətə malikdir.

Ölkə iqtisadiyyatına sərmayələrin həcmi 2008-ci ildə 34,3% artmışdır. Bununla yanaşı Azərbaycan şirkətlərinin xarici ölkələrə, xüsusilə, qonşu ölkələrə sərmayələrinin həcmi də artmışdır, bu isə ölkənin artan iqtisadi potensialını göstərir.

2008-ci ildə Azərbaycan 140 ölkə ilə 38,2 mlrd. ABŞ dolları məbləğində ticarət əməliyyatları aparmışdır. İl ərzində ixracın həcmi 1,4 dəfə 30,6 mlrd. ABŞ dolları, idxalın həcmi isə 19,1% artaraq 7,6 mlrd. ABŞ dolları olmuşdur.

Ölkə iqtisadiyyatının inkişafı istiqamətində görülən işlər və əldə olunan nailiyyətlər nəticəsində Azərbaycan regionun iqtisadi mərkəzinə çevrilmişdir.

The development of Azerbaijan's oil and gas fields within international consortia, growing oil and gas export through Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum pipelines, TRACECA and North-South international transportation projects, Baku-Tbilisi-Kars railroad that is currently under construction, NABUCCO pipeline project and other energy and transportation projects have strengthened Azerbaijan's positions in the world. These projects, as well as the increasing oil profits, have become an important factor ensuring stability both in Azerbaijan and in the entire region.

The implementation of various programs and projects related to the development of the non-oil sector, entrepreneurship, regions, various areas of economy continued in 2008. A number of goals that were achieved in the country will further improve business and investment environment. 2008 saw further development of the private sector and its share in the GDP totaled 84.5%.

Azerbaijan's currency reserves continued to grow in 2008, totaling 18.6 billion USD by the end of the year, which is very important for the stability and development of country's economy and financial systems, given the current economic situation in the world.

In 2008, the amount of investment in the country's economy grew by 34.3%. Local company investments abroad, particularly to the neighboring countries also grew, demonstrating the country's increased economic potential.

In 2008, Azerbaijan realized trade operations with 140 countries worth USD 38.2 billion. Export volume increased 1.4 times, reaching USD 30.6 billion, while import grew by 19.1%, totaling 7.6 USD.

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



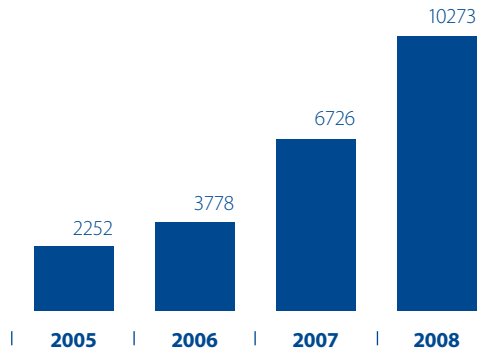
2008-ci ildə Azərbaycan  
bank sektoru

Banking sector of Azerbaijan  
in 2008



2008-ci il ölkənin bank sektoru üçün uğurlu olmuşdur. İlin sonuna ölkədə 46 kommersiya bankı fəaliyyətdə olub: 45 özəl və 1 qismən dövlət bankı. Bankların kapitalı 2008-ci ildə 55,2% artmışdır, 1 banka orta hesabla düşən kapitalın həcmi isə 37,1 mln. AZN olmuşdur.

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



Bankların aktivləri 2008-ci ildə 52,8% artmışdır, onların ÜDM-a nisbəti isə 27% olmuşdur. Bu, bank sektorunun inkişafı üçün potensialı göstərir. Bank sektoru üzrə kreditlərin həcmi il ərzində 55,1% artmışdır. Banklarda müştəri depozitləri 2008-ci ildə 18% artaraq 4055,1 mln. AZN olmuşdur, bunun 44,5%-i manatla, 55,5%-i isə xarici valyutada olan depozitləridir.

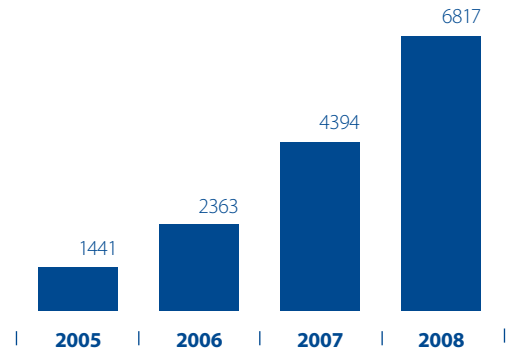
Azərbaycan Milli Bankı tərəfindən pul siyasətində edilən preventiv tədbirlər ölkənin bank sisteminin dünyadakı maliyyə böhranından qorunmasına şərait yaratmışdır.

Ölkə bankları 2008-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 Azərbaycan bank sektorunun inkişafının davam edəcəyinə əsas verir.

2008 was a successful year for the banking sector of Azerbaijan. A total of 46 commercial banks were operating as of the end of the year, including 1 partially state-run and 45 private banks. The banks' capital increased by 55.2%, and the average capital per bank was 37.1 million AZN.

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



The banks' assets increased by 52.8% and their ratio to GDP was 27%, giving evidence of the growth potential of the banking sector. The amount of credits in banking sector has increased by 55.1% over the reported period. Customer deposits increased by 18% up to AZN 4,055.1 million, including 44.5% of AZN deposits, and 55.5% of foreign currency deposits.

A series of preventive measures implemented by the National Bank of Azerbaijan as a part of monetary policy, has saved the national banking system from effects of the world financial crisis.

In 2008, 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 other international financial organizations.

The activities of the country's authorities, the National Bank of Azerbaijan, and the commercial banks ensure that the development of the banking sector in Azerbaijan will continue in the coming years.

028

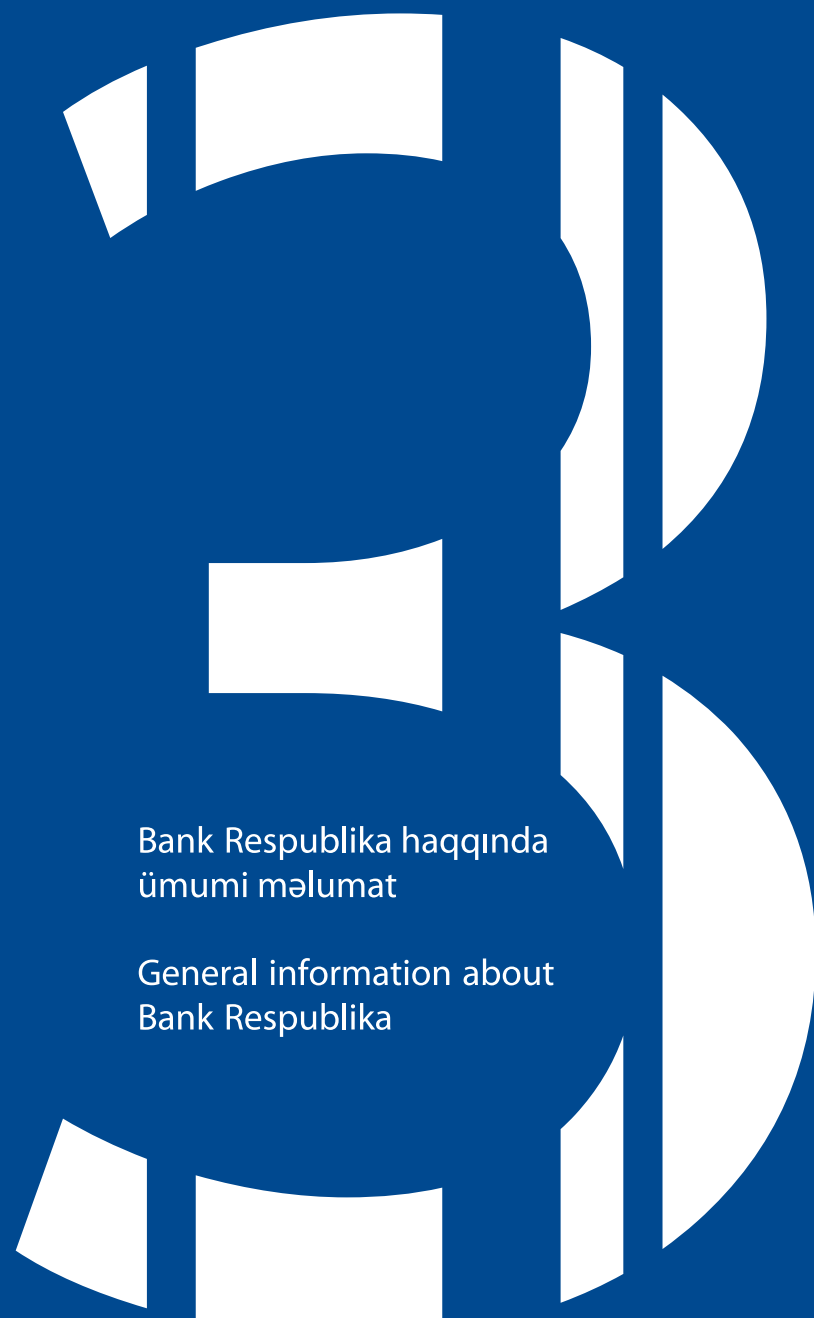


029

030

031





Bank Respublika haqqında  
ümumi məlumat

General information about  
Bank Respublika



**Bankın yaranması**

Bank Respublika 22 may 1992-ci il tarixdən etibarən Azərbaycan Respublikası Milli Bankının lisenziyası əsasında fəaliyyətdədir.

**Bankın səhmdarları**

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

**Bankın beynəlxalq reytingi**

Bank Respublika Moody's Investors Service agentliyinin B2 dərəcəli "stabil" proqnozlu uzunmüddətli reytinginə malikdir. Bu reyting Azərbaycanın özəl bank sektorunda ən yüksək reytinglərdəndir.

**Bankın əsas maliyyə göstəriciləri**

(31 dekabr 2008-ci il tarixinə)

Ümumi aktivlər	388,6 mln. AZN
Müştərilərə verilmiş kreditlər	252,5 mln. AZN
Müştərilərin depozitləri	137,8 mln. AZN
Ümumi kapital	41,2 mln. AZN

**Bankın xidmət şəbəkəsi**

(31 dekabr 2008-ci il tarixinə)

Bank Respublika-nın müştəri xidməti şəbəkəsi Bakı, Gəncə, Sumqayıt, Mingəçevir, Şirvan, Şəki, Quba, Xaçmaz, Lənkəran, Astara, Masallı, Yevlax, Bərdə, Şəmkir, Göyçay və Goranboy şəhərlərində fəaliyyət göstərən 32 filial və 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 – DEG Investment Company (KfW banking group member)	25% + 1 səhm 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 'stable' outlook. The Bank's rating is one of the highest in Azerbaijan private banking sector.

**Main financial indicators**

(as of December 31, 2008)

Total assets	388.6 mln. AZN
Loans to customers	252.5 mln. AZN
Customer deposits	137.8 mln. AZN
Total equity	41.2 mln. AZN

**Service network**

(as of December 31, 2008)

The Bank's customer service network consists of 32 branches and service points operating in Baku, Ganja, Sumgayit, Mingchevir, Shirvan, Sheki, Guba, Khachmaz, Lenkeran, Astara, Masalli, Yevlakh, Barda, Shamkir, Goychay and Goranboy.

### Bankın törəmə şirkətləri

Bank Respublika qiymətli kağızlar bazarında fəaliyyət göstərən və Bakı Fond Birjasının səhmdarı olan "Respublika Invest" MMC-nin təsisçisi və "Bakı Sığorta" şirkətinin əsas səhmdarıdır.

### Bankın əməkdaşların sayı

(31 dekabr 2008-ci il tarixinə)

480 nəfər

### Bankın Müşahidə Şurası

- |                           |      |
|---------------------------|------|
| • Elçin Quliyev           | Sədr |
| • Nail Şahverdiyev        | Üzv  |
| • Murad Rəhimov           | Üzv  |
| • Reinhard Bollmann (DEG) | Üzv  |
| • Karsten Ştefan (SIDT)   | Üzv  |

### Bankın idarə Heyəti

- |                   |                     |
|-------------------|---------------------|
| • Xədicə Həsənova | Sədr                |
| • Asaf Namazov    | Sədrin 1-ci Müavini |
| • Rafael Qasimov  | Sədr Müavini        |
| • Aslan Abasov    | Sədr Müavini        |
| • Aqşin Əmirov    | Üzv                 |

### Subsidiaries of the Bank

Bank Respublika established "Respublika Invest" that operates on the securities market and is a shareholder of Baku Stock Exchange; the Bank is also the main shareholder of Baki Sigorta insurance company.

### Number of the Bank's employees

(as of December 31, 2008)

480

### Supervisory Board of the Bank

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

### Executive Board of the Bank

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



2008-ci ildə Bankın əsas  
maliyyə göstəriciləri

Main financial indicators  
of the Bank in 2008





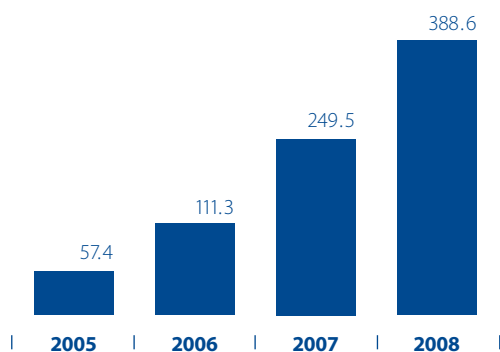
Bank Respublika 2008-ci ildə maliyyə göstəriciləri üzrə əhəmiyyətli artıma nail olmaqla, Azərbaycanda aparıcı banklar sırasında öz mövqeyini saxlamışdır.

Dünyadakı iqtisadi böhrana baxmayaraq Bank Respublika-nın 2008-ci ildə maliyyə göstəricilərinin artımı mühüm əhəmiyyətə malikdir və Bankın il ərzində uğurlu fəaliyyətini əks etdirir.

### Aktivlər

Bank Respublika-nın ümumi aktivləri 2008-ci ildə 55,8% artmışdır və ilin sonuna 388,6 mln. AZN olmuşdur.

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



Bank Respublika-nın bank sektoru üzrə ümumi aktivlərdə payı 2007-ci ildə 3,7% olmuşdursa, 2008-ci ilin yekunlarına əsasən 3,8% təşkil etmişdir.

Bank Respublika-nın aktivlərinin 65% hissəsi ilin yekunlarına əsasən müştərilərə verilmiş kreditlər təşkil edir. Bankın kredit portfelinin həcmi 2008-ci ildə 59,7% artmışdır.

Bank Respublika-nın bank sektoru üzrə kredit portfelində payı 2007-ci ildə 3,4% olmuşdursa, 2008-ci ilin sonuna bu göstərici 3,8% təşkil etmişdir. Bankın kredit siyasəti haqqında ətraflı məlumat Hesabatın "Kredit siyasəti" bölməsində verilir.

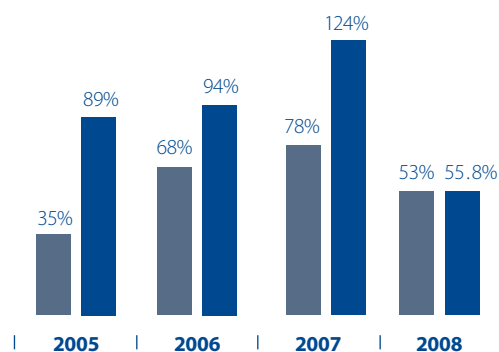
By attaining a substantial increase in its financial highlights in 2008, Bank Respublika kept its position among Azerbaijan's leading banks.

The fact that the Bank's financial indicators continued to grow in 2008 despite the global economic crisis is of great significance and reflects the Bank's successful operations in that year.

### Assets

In 2008, Bank Respublika's total assets increased by 55.8%, totaling 388.6 million AZN.

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

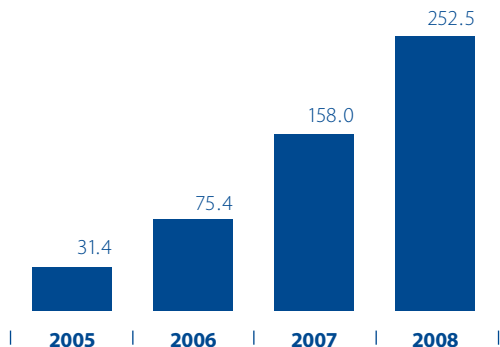


While in 2007, Bank Respublika's share in the total assets of the banking sector was 3.7%, in 2008, according to the year's financial results, this figure reached 3.8%.

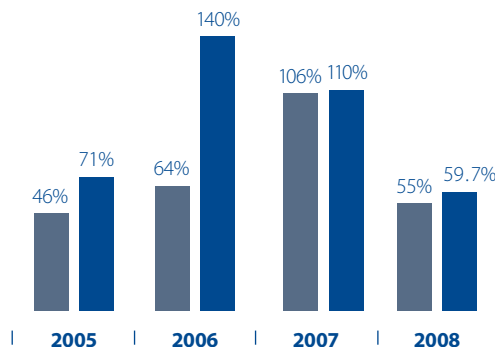
The 2008 results also show that 65% of Bank Respublika's total assets were accounted for by customer loans, reflecting a 59.7% increase in the Bank's loan portfolio.

While Bank Respublika's share in the total loan portfolio in the banking sector was 3.4% in 2007, in 2008 this figure reached 3.8%. 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, %**



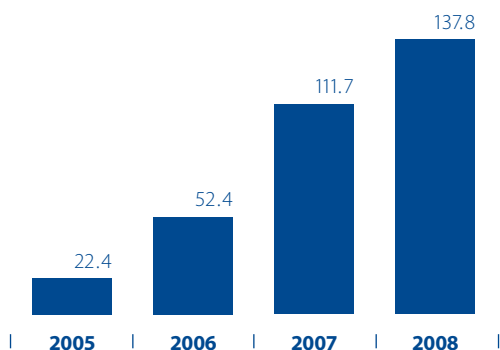
**Passivlər**

2008-ci ildə Bank Respublika-nın uğurlu fəaliyyətinin daha bir göstəricisi müştəri depozitlərinin 23,4% artmasıdır. Müştəri depozitlərinin artımı müştərilərin Banka olan etimadını və eləcə də bu istiqamətdə Bankın uğurlu işini əks etdirir.

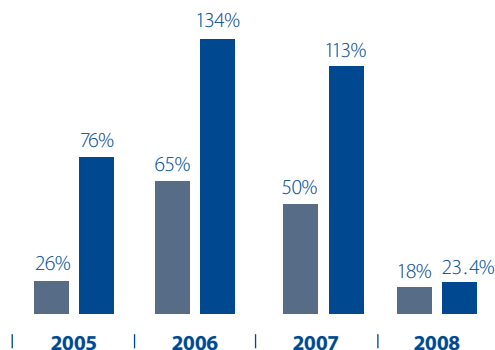
**Liabilities and equity**

Another sign of Bank Respublika's successful operations in 2008 is a 23.4% increase in customer deposits. This increase in customer deposits reflects the customers' trust towards the Bank, and its successful performance in this area.

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



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



Bank Respublika-nın bank sektoru üzrə müştəri depozitlərində payı 2007-ci ildə 3,3% olmuşdursa, 2008-ci ilin yekunlarına əsasən 3,4% təşkil etmişdir.

While in 2007 Bank Respublika's share in the total customer deposits in the banking sector was 3.3%, in 2008 this figure reached 3.4%.

2008-ci il Bank Respublika üçün xarici və beynəlxalq maliyyə təşkilatlarından vəsaitlərin cəlb edilməsi baxımından da uğurlu il sayılır. Bankın istifadə etdiyi kredit xətləri və

In 2008, Bank Respublika was also successful in raising funds from foreign and international financial organizations. A more detailed account of the credit lines used by the Bank



bağladığı yeni müqavilələr haqqında ətraflı məlumat Hesabatın "Beynəlxalq Əməkdaşlıq" bölməsində verilir.

Bank Respublika-nın ümumi kapitalı 2008-ci ildə 105,8% artaraq 41,2 mln. AZN məbləğini keçmişdir. Bankın nizamnamə kapitalı il ərzində 79,5% artaraq 22,6 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.

### Mənfəət

2008-ci ilin yekunlarına əsasən Bank Respublika-nın gəlirləri 111,1% artaraq 67,621 mln. AZN olmuşdur. Ümumi gəlirlərdə faiz gəlirlərinin payı 71%, əməliyyat gəlirlərinin payı isə 29% təşkil etmişdir. 2008-ci il ərzində Bankın xərcləri isə 114% artaraq 54,232 mln. AZN olmuşdur.

Bankın balans mənfəəti 2008-ci ildə 13,389 mln. AZN, xalis mənfəəti isə 10,442 mln. AZN olmuşdur. Bankın 2008-ci ildə xalis mənfəəti 2007-ci ilin yekunları ilə müqayisədə 105,2% artmışdır. 2008-ci ildə Bankın xalis mənfəətinin aktivlərə nisbəti (RoA) 2,69%, ümumi kapitala nisbəti isə (RoE) 25,35% təşkil etmişdir.

Bankın maliyyə göstəricilərinin əhəmiyyətli artımı və ilin yekunlarına əsasən əldə olunan mənfəət Bankın 2008-ci ildə uğurlu fəaliyyətini əks etdirir.

and of the new agreements the Bank entered into is provided in the 'International Cooperation' section of the Report.

During 2008, the Bank's total capital increased by 105.8%, exceeding 41.2 million AZN. The Bank's share capital increased by 79.5%, totaling 22.6 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.

### Profit

According to the 2008 results, Bank Respublika's income grew by 111.1%, totaling 67,621 million AZN. Within the total income, the interest and operating incomes were 71% and 29% respectively. The Bank's expenses for the year grew by 114% and amounted to 54,232 million AZN.

The Bank's balance-sheet profit in 2008 was 13,389 million AZN, while the net profit was 10,442 million AZN. In comparison to the results of 2007 the Bank's net profit grew by 105.2%. In 2008, the Return on Assets (RoA) was 2.69%, while the Return on Equity (RoE) was 25.35%.

The Bank's financial highlights showed a considerable increase and the profit attained, as shown in the year's financial results, reflects Bank Respublika's successful performance in 2008.







Kredit siyasəti

Loan policy



Kredit əməliyyatları Bank Respublika-nın gəlirlərinin əsas hissəsini təmin etdiyi üçün onun fəaliyyətində mühüm əhəmiyyətə malikdir.

2008-ci ilin yekunlarına əsasən Bankın kredit portfelinin həcmi 252,5 mln. AZN olmuşdur, bu isə əvvəlki ilin göstəricisi ilə müqayisədə 59,7% çoxdur. Kredit portfelinin artımı Bankın bu sahədə uğurlu fəaliyyətinin və düzgün kredit siyasətinin göstəricisidir.

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.

Kreditlərin verilməsi üçün prioritet sahələr və arzu olunmayan istiqamətlər də Bankın kredit siyasətində əks olunubdur.

Bankın vəzifələrindən biri də kredit portfelinin diversifikasiyası və optimal strukturunun təmin edilməsidir. Bu məqsədlə kredit məhsulları, məbləğlər, müddətlər, regionlar, filiallar, bir müştəri və ya müştəri qrupuna verilən kreditlər və sair meyarlar üzrə limitlər və hədəflər mövcuddur.

Bank Respublika 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; təyinatə görə - istehlak, ipoteka və biznes kreditləri.

Bank Respublika kredit sahəsində fəaliyyətində dünyadakı iqtisadi böhranı da nəzərə alır və buna uyğun olaraq Bank Respublika müsbət kredit tarixinə və stabil ödəniş qabiliyyətinə malik cari müştərilərə əsasən kredit verir.

2008-ci ildə kreditlər üzrə prosedurlar daha da təkmilləşdirilmişdir. Kredit məbləği, müştəri tərəfindən ilkin mədaxil, girovun qiymətləndirilməsi, monitorinqlərinin keçirilməsi şərtləri və qaydaları sərtləşdirilmişdir.

Kredit risklərinin azaldılması məqsədi ilə Bank hazırda kiçik və orta kreditlərə üstünlük verir. Kreditlərin verilməsi zamanı həmçinin Risklərin İdarə Edilməsi və Hüquq departamentlərinin rəyləri tələb olunur.

Bankda kredit mütəxəssislərinin attestasiyası və eləcə də əməkdaşlara kredit əməliyyatları üzrə mütəmadi qaydada treninqlər keçirilir.

As lending operations account for the principal share of Bank Respublika's income, they hold a very important place in the Bank's activities.

According to the 2008 results, the Bank's loan portfolio totalled 252.5 million AZN, which is 59.7% higher than the respective figure for the previous year. The growth rate of the Bank's loan portfolio reflects the Bank's successful performance and correct loan policy.

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.

One of the objectives of the Bank is to diversify the loan portfolio and ensure its optimal structure. Towards that end, 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 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.

In its lending operations, Bank Respublika takes into account the global economic crisis and issues loans primarily to those current customers that have a positive credit history and stable creditworthiness.

In 2008, lending procedures were further improved. Terms and rules related to loan amounts, initial payments made by customers, collateral evaluation and monitoring procedures were made more rigorous.

In order to reduce loan risks, the Bank currently prefers issuing small and medium loans. Loans can only be issued with the approval of the Risk Management Department and Legal Department.

The Bank regularly conducts performance appraisals for its loan specialists and holds training to improve their knowledge of lending operations.

Bankın uğurlu fəaliyyətinin daha bir nəticəsi kredit portfelinin keyfiyyətidir. 2008-ci ilin sonuna risk altında olan kredit portfeli Bankın ümumi kredit portfelinin 2,3% hissəsini təşkil etmişdir və bu Azərbaycan bank sektorunda ən yaxşı göstəricilərdəndir.

Bank Respublika-nın kredit əməliyyatlarında biznes kreditləri vacib yer tutur. Bank biznes kreditlərini özünün və müxtəlif maliyyə təşkilatları ilə proqramlar çərçivəsində cəlb etdiyi vəsaitlərdən verir.

Bank Respublika ipoteka kreditlərinə də önəm verərək hazırda 7 il müddətinə əhaliyə ipoteka kreditləri təklif edir.

Bank Respublika kreditləşmə və ticarətin maliyyələşdirilməsi üzrə Avropa Yenidənqurma və İnkişaf Bankı, Asiya İnkişaf Bankı, Beynəlxalq Maliyyə Korporasiyası, FMO, DEG, OFID, Raiffeisen Bank, Standard Bank Plc. (London), Commerzbank AG, Sumitomo Mitsui Banking Corporation, Alman-Azərbaycan Fondu, Sahibkarlığa Yardım Milli Fondu, Azərbaycan İpoteka Fondu və digər maliyyə təşkilatları ilə əməkdaşlıq edir. Beynəlxalq təşkilatlarla əməkdaşlıq haqqında ətraflı məlumat Hesabatın "Beynəlxalq Əməkdaşlıq" bölməsində verilir.

Beləliklə, 2008-ci ildə düzgün kredit fəaliyyəti Bankın kredit portfelinin həcmi və keyfiyyəti üzrə müsbət göstəriciləri təmin etmişdir.

Another important issue covered by the Bank's Loan Policy is the quality of the loan portfolio. By the end of 2008, the loan portfolio at risk constituted 2.3% 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 issues business loans from both its own funds and funds obtained in the framework of programs with various financial organizations.

Mortgage lending is also a matter of great importance to the Bank and it currently issues 7-year mortgage loans.

Bank Respublika cooperates with the European Bank for Reconstruction and Development, Asian Development Bank, International Finance Corporation, FMO, DEG, OFID, Raiffeisen Bank, Standard Bank Plc. (London), Commerzbank AG, Sumitomo Mitsui Banking Corporation, Germany-Azerbaijan Fund, National Fund for Entrepreneurship Support, Azerbaijan Mortgage Fund and other financial organizations on lending and trade financing. A detailed account of this cooperation can be found in the 'International Cooperation' section of the Report.

Overall, Bank Respublika's well-designed loan policy ensured positive indicators in the amount and quality of its loan portfolio in 2008.



Risklərin idarə edilməsi

Risk management







2008-ci il Risklərin İdarə Edilməsi Departamentinin funksional inkişafı ilə yadda qalmışdır. İl ərzində müxtəlif istiqamətlərin inkişafı məqsədi ilə geniş işlər həyata keçirilmişdir.

### Skoring sistemi

Bankda kredit kartlarının verilməsi zamanı tətbiq olunan skoring sistemi yaradılmışdır. Bu sistem pilot mərhələdə 3 filialda tətbiq olunmaqdadır. Sistemə kredit sifarişləri üzrə qərarlar qəbul edərkən kredit risklərini minimallaşdıran, mütəxəssislərin iş fəaliyyəti zamanı əməliyyat risklərinə nəzarəti və zəruri sənədlərin hazırlanmasını həyata keçirən funksiyalar yerləşdirilib. 2009-cu ildə skoring sisteminin inkişaf etdirilməsi, digər kredit məhsullarının verilməsi zamanı sistemdən istifadənin təmin olunması və bütün filiallarda istifadənin reallaşdırılması nəzərdə tutulur.

### Banklararası kreditləşmədə reyting sistemi

Bank Respublika-da banklararası kreditləşmə zamanı kontragent bankların reytinginin müəyyən edilməsi üçün daxili reyting sistemi yaradılmışdır. Bu sahədə Bankın əməkdaşlıq etdiyi bütün banklar üzrə əməliyyat növündən asılı olaraq limitlər və reytinglər müəyyən edilib. Bankların reytinglərinin müəyyən olunması ilə əlaqədar olaraq məlumat bazası yaradılmışdır və bu məlumat bazası rübdə bir dəfə olaraq yenilənir.

### Kredit sifarişlərinin təhlili

İlin sonuna RiD tərəfindən korporativ kredit sifarişlərinin RiD-in iştirakı ilə təhlili və onlar üzrə qərarların qəbulu proseduru hazırlanmışdır. Prosedur RiD tərəfindən müştəriyə aid risklərin təhlili, qiymətləndirilməsi, beynəlxalq standartlara və Bankın minimal tələblərinə uyğunluğunun yoxlanılması, yekun qərarın müəyyən edilməsi və rəyin Bankın Kredit Komitəsinin müzakirəsinə təqdim olunmasını nəzərdə tutur. Təhlil zamanı kredit, ekoloji, sosial, reputasiya, valyuta və digər risklər nəzərə alınır. Bu funksiyanın əlavə olunduğunu nəzərə alaraq əlavə əməkdaşların cəlb olunması planlaşdırılır. 2009-cu ilin birinci yarısında kredit sifarişlərinin təhlili zamanı daxili kredit reyting sisteminin tətbiq olunması nəzərdə tutulub.

2008 was marked by the functional development of the Risk Management Department. A large amount of work was carried out during the year to ensure development in a number of areas.

### Scoring system

The Bank developed a scoring system and integrated it into the procedure of issuing all types of loans. The introduction of this system is currently in the pilot stage in 3 branches of the Bank. The functions built into the system include risk minimization when making decisions concerning loan requests, as well as control over operating risks in the work of loan specialists and the preparation of all required documents. The Bank plans to further develop the scoring system in 2009, to ensure that it is used in the provision of other loan products and in all branches of the Bank.

### Interbank lending rating system

Bank Respublika has developed an internal rating system that allows it to determine ratings of contractor banks when conducting interbank lending operations. All banks that collaborate with Bank Respublika have been assigned limits and ratings depending on the type of operations. In conjunction with rating assignment, the Bank also created a separate database that is updated once in a quarter.

### Evaluation of loan requests

Towards the end of the year, the RMD developed the procedure of evaluating corporate loan requests and adopting resolutions with RMD's participation. In accordance with this procedure, the RMD must analyze and evaluate customer-related risks, ensure that they meet international standards and the Bank's minimum requirements, draft the final resolution and present its conclusions to the Bank's Loan Committee. Analysis is conducted with consideration of loan, environmental, social, reputation, currency and other risks. In connection with the addition of these functions, the Bank plans to employ additional staff. The Bank also plans to introduce an internal rating system to the process of loan request analysis in the first half of 2009.

### Daxili kredit reytingi

Daxili reyting sistemindən sahibkarlıq fəaliyyəti ilə məşğul olan müştərilərin kredit sifarişlərinin təhlili zamanı istifadə olunacaq. Tətbiqi zamanı faktorları və nəticələri nəzərə alaraq Daxili reyting sisteminin ilkin forması hazırlanmışdır. 2009-cu ilin əvvəlindən etibarən sistemdən praktiki olaraq istifadə olunması nəzərdə tutulur.

### Hesabatlılıq

Departamentdə ümumi Bank fəaliyyətinə nəzarəti həyata keçirməyə kömək edən hesabatlılıq sistemi qurulub. Gündəlik olaraq özündə müxtəlif analitik və informasiya xarakterli məlumatları əks etdirən – cari və proqnozlaşdırılan likvidlik, balans dəyişiklikləri, yaxın günlərdə bankın ödəyəcəyi iri öhdəliklər, kredit kartı portfelinin keyfiyyətinə nəzarət, mövcud passivlər vasitəsilə aktivlərin maliyələşdirilməsini və sair hesabatlar hazırlanır.

### Limitlər sistemi

Kredit portfelinin müştərilərin fəaliyyət sahələrinə, iqtisadi sahələrə və kredit məhsullarına görə diversifikasiyası üçün limitlər sistemi hazırlanmışdır. Limitlər sistemində nəzarət və limitlərin pozulma halları baş verdikdə onların qarşısı alınması üçün tədbirlər planı da hazırlanmışdır.

### Risklərin idarə edilməsi Komitəsi

2008-ci ildə RİK-in 29 iclası keçirilmişdir. Komitədə aşağıdakı qərarlar qəbul olunub: kontragent banklarda nostro hesab qalıqları üzrə limitlər, xəzinə və filiallar üzrə kassa limitləri, əmlakın sığorta olunması və bankın öhdəlikləri üzrə limitlər, likvidliyin minimum səviyyəsi üzrə limitlər, valyuta mövqeyinin diversifikasiyası üzrə limitlər, banklar üzrə limitlər, məhsullar üzrə limitlər və sair.

2008-ci ildə bank özünün çirкли 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.

### Internal loan rating

The Bank will use its internal rating system to evaluate loan requests of those customers that are engaged in entrepreneurship. The preliminary version of the rating system was developed with consideration of various factors and results of implementation. The system is expected to be used on a regular basis since the beginning of 2009.

### Reporting

The Department has developed a reporting system that helps in ensuring control over the Bank's activities. Reports containing various analyses and information concerning current and forecast liquidity, balance changes, the most important liabilities that the Bank will have to pay within the next few days, control over the quality of the loan portfolio, the financing of assets using existing liabilities etc. are drawn up on a daily basis.

### Limit system

In order to diversify the loan portfolio by area of activities, economic sectors and loan products, the Bank has developed its limit system. The Bank also plans to introduce a procedure that will ensure control over the limit system and eliminate the consequences of limit violation.

### Risk Management Committee

In 2008, the RMC held 29 meetings and adopted resolutions concerning the following: limits on the balance of nostro accounts with contractor banks, cash limits on the treasury and branches, limits on the insurance of property and the Bank's liabilities, limits on the minimum liquidity, limits on the diversification of the foreign exchange position, limits on banks, limits on products etc.

In 2008, 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.



Beynəlxalq əməkdaşlıq

International cooperation



Bank Respublika xarici və beynəlxalq maliyyə təşkilatları ilə əməkdaşlığın daha da genişləndirilməsinə böyük önəm verir. 2008-ci ildə Bankın bu istiqamətdə də fəaliyyəti uğurlu olmuşdur.

Almaniyanın KfW bank qrupunun üzvü DEG və Sparkassen-Finanzgruppe üzvü SIDT 2005-ci ildən etibarən ümumilikdə "25% + 1 səhm" paketi ilə Bankın səhmdarları sırasına daxildir və bu Bankın beynəlxalq əməkdaşlığının mühüm amillərindən biridir.

Moody's Investors Service agentliyi 2008-ci ilin noyabr ayında Bank Respublika-nın B2 reytingini "stabil" proqnozu ilə təsdiqləmişdir. Bu reyting ölkənin bank sektorunda ən yüksək reytinglərdəndir. Qlobal iqtisadi böhrana baxmayaraq Bank Respublika-nın B2 reytinginin təsdiqlənməsi onun uğurlu fəaliyyətinin göstəricisidir.

Bank Respublika-nın xarici və beynəlxalq təşkilatlarla əməkdaşlığında mühüm istiqamətlərdən biri kreditləşmə və ticarətin maliyyələşdirilməsi üzrə proqramlardır.

2008-ci ilin iyul ayında Bank Respublika Raiffeisen Zentralbank Österreich AG ilə 50 mln. ABŞ dolları məbləğində kredit müqaviləsi imzalamışdır və bu Azərbaycanın özəl bank sektorunun tarixində ən iri müqavilə olmuşdur.

2008-ci ilin may ayında beynəlxalq investisiya bankı Standard Bank Plc. (London) ilə 25 mln. ABŞ dolları məbləğində sindikatlaşdırılmış kredit müqaviləsi də imzalanmışdır.

Bank Respublika 2008-ci ilin sonunda Avropa Yenidənqurma və İnkişaf Bankı və DEG İnvestisiya Şirkəti ilə ümumilikdə 22,5 mln. ABŞ dolları məbləğində kredit müqavilələri də bağlamışdır.

Bank Respublika 2008-ci ilin yekunlarına əsasən Avropa Yenidənqurma və İnkişaf Bankı tərəfindən "Ticarətin maliyyələşdirilməsi üzrə Azərbaycanda ən fəal bank" mükafatını almışdır.

Bank Respublika kreditləşmə və ticarətin maliyyələşdirilməsi üzrə proqramlar çərçivəsində xarici və beynəlxalq təşkilatlarla əməkdaşlığın miqyasına görə Azərbaycanın aparıcı banklarındanır.

Bank Respublika attaches great importance to the development of its cooperation with foreign and international financial organizations. The Bank's performance in this area in 2008 was also successful.

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, which is an important factor in the Bank's international cooperation.

The B2 rating assigned to Bank Respublika by Moody's Investors Service was confirmed in November 2008 with the 'stable' outlook. This is one of the highest ratings in Azerbaijan's banking sector. The fact that Bank Respublika retained its B2 rating in spite of the global economic crisis is another proof of its successful performance.

Among the key directions in Bank Respublika's cooperation with foreign and international organizations are lending and trade financing programs.

In July 2008, Bank Respublika and Raiffeisen Zentralbank Österreich AG entered into a \$50 million agreement, which became the largest agreement in the history of private banking sector in Azerbaijan.

In May 2008, Bank Respublika entered into a \$25 million syndicated loan agreement with Standard Bank Plc. (London) international investment bank.

Towards the end of 2008 Bank Respublika signed loan agreements with the European Bank for Reconstruction and Development and DEG Investment Company, with a total value of 22.5 million USD.

On the basis of the 2008 results, Bank Respublika was named the "Most active trade finance bank in Azerbaijan" by the European Bank for Reconstruction and Development.

Bank Respublika is one of Azerbaijan's leading banks in terms of cooperation with foreign and international organizations in the framework of lending and trade financing programs.

**Bank Respublika üçün açılmış əsas beynəlxalq kredit xətləri (31 dekabr 2008-ci il tarixinə)**  
**The main international credit lines established for Bank Respublika (as of December 31, 2008)**

Təşkilatlar Organizations	Kreditlər Loans	Ticarətin maliyyələşdirilməsi Trade financing	Cəmi Total
Raiffeisen Bank	50 mln. USD (CLN transaction)	7.8 mln. USD	57.8 mln. USD
Avropa Yenidənqurma və İnkişaf Bankı European Bank for Reconstruction and Development	40 mln. USD	9.5 mln. USD	49.5 mln. USD
Standard Bank Plc.	25 mln. USD (Syndication loan)	–	25 mln. USD
DEG Almaniya İnvestisiya Şirkəti German Investment Company DEG	22.5 mln. USD	–	22.5 mln. USD
Hollandiya İnkişaf Maliyyə Şirkəti (FMO) Netherlands Development Finance Company (FMO)	20 mln. USD	2 mln. USD	22 mln. USD
Asiya İnkişaf Bankı Asian Development Bank	13.3 mln. USD	3.5 mln. USD	16.8 mln. USD
Beynəlxalq Maliyyə Korporasiyası International Finance Corporation	5 mln. USD	10 mln. USD	15 mln. USD
Commerzbank AG	–	13 mln. USD	13 mln. USD
OFID	5 mln. USD	1.5 mln. USD	6.5 mln. USD
Alman-Azərbaycan Fondu German-Azerbaijan Fund	2.6 mln. USD	–	2.6 mln. USD
BCP	–	2 mln. USD	2 mln. USD
KfW bank qrupu KfW banking group	2 mln. USD	–	2 mln. USD
Sumitomo Mitsui Bank Korporasiyası Sumitomo Mitsui Banking Corporation	–	2 mln. USD	2 mln. USD
Wachovia Bank	–	2 mln. USD	2 mln. USD
Dresdner Bank	–	1 mln. USD	1 mln. USD

Bank Respublika American Express Bank, Commerzbank AG, Dresdner Bank, Wachovia Bank, Raiffeisen Zentralbank Österreich və digər aparıcı xarici banklarla müxbir əlaqələrə malikdir.

Bank Respublika MasterCard International sisteminin prinsipial və VISA International sisteminin assosiativ üzvüdür. Bank Western Union, Contact, Migom, Bistraya Pochta, Coinstar, Xpress Money, PrivatMonet, Blizko və Allur beynəlxalq təcili pul köçürmə sistemlərinə qoşulubdur.

Bank Respublika beynəlxalq əməkdaşlığının inkişafı və daha da genişləndirilməsi istiqamətində səylərini davam etdirməyi nəzərdə tutur.

Bank Respublika maintains correspondent relations with American Express Bank, Commerzbank AG, Dresdner Bank, Wachovia Bank, Raiffeisen Zentralbank Österreich 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.

Bank plans to continue its efforts to ensure the development and expansion of international cooperation.



Müştəri xidməti və  
müşətilərlə əlaqələr

Customer service and  
customer relations





Bank Respublika-nın mühüm prioritetlərindən biri də müştəri xidmətinin və müştərilərlə əlaqələrin daimi inkişafıdır. Bu istiqamətdə Bank müştəri xidməti keyfiyyətinin artırılması, xidmət çeşidinin genişləndirilməsi və mövcud şərtlərinin daha da yaxşılaşdırılması üçün iş aparır.

Bank Respublika-nın müştərilərə yanaşması onun müştərilərə ünvanlanmış "Sizə faydalı" sloganında, eləcə də fəaliyyətində və xidmətlərində əks olunur.

Əvvəlki illərdə olduğu kimi Bank Respublika həm fərdi, həm də korporativ müştərilər sektorunda fəal iş aparır. 2008-ci ilin sonuna Bankın müştəri bazası 79 min fərdi və 4 min korporativ müştərilərdən ibarətdir.

Bank Respublika müştərilərə müxtəlif istehlak, ipoteka və biznes kreditləri, depozitlər, plastik kartlar, pul köçürmələri, qızıl külçələrin satışı, bank seyflərinin icarəsi, İnternet-Bank və digər bank xidmətləri göstərir.

Müştəri xidməti sahəsində vacib amillərdən biri də müştərilərə fərdi yanaşmadır. Bunun bariz nümunəsi kimi müştərilərə geniş seçim imkanları yaradan Bankın "Əmanət Şərtlərinin Sərbəst Seçimi" depozit proqramını qeyd etmək olar. Bank əmanətçiləri arasında mütəmadi olaraq uduş kampaniyası da keçirir.

Bank Respublika plastik kartlar segmentində də aparıcı banklardandır. Bank müştərilərə MasterCard və VISA beynəlxalq plastik kartlarını xidmət haqqı olmadan pulsuz təqdim edir. Bank kartla 45 günədək faizsiz kredit xətti, Home Banking, Card-to-Card, MobilBank və sair əlavə xidmətlər də təklif edir. Bankın plastik kart müştəriləri mütəmadi olaraq uduş kampaniyalarında iştirak edir.

Bank distant xidmətlərə böyük önəm verərək müştərilərə İnternet-Bank və Home Banking xidmətləri göstərir.

Bank Respublika əhaliyə Western Union, Coinstar, Contact, Migom, PrivatMoney, Bistraya poçta, Blizko, Xpress Money və Allur sistemləri ilə təcili pul köçürmə xidmətləri təqdim edir.

Bank korporativ biznes kreditləri və ticarətin maliyyələşdirilməsi üzrə xidmətlərə də böyük önəm verir. Beynəlxalq maliyyə təşkilatları ilə əməkdaşlıq Bankın bu sahədə imkanlarına da müsbət təsir etməkdədir.

One of Bank Respublika's most important objectives is the constant development of customer service and customer relations. 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.

Bank Respublika's approach towards its customers is reflected in the slogan "Sizə faydalı" (Beneficial to you), as well as in its operations and services.

As in the previous years, Bank Respublika was very active in both the individual and corporate customer sectors. By the end of 2008, the Bank's customer base included 79 thousand individual and 4 thousand corporate customers.

Among the banking services that Bank Respublika offers to its customers are consumer, mortgage and business loans, deposits, plastic cards, money transfer, the sale of gold bullions, the renting of safe deposit boxes, Internet-Bank and other services.

One of the most important factors in customer service is a tailored approach to customers. A shining example of this approach is Bank Respublika's 'Free Choice of Deposit Terms' program that provides customers with a wide range of choices. The Bank also holds prize draws for its depositors on a regular basis.

Bank Respublika is also one of the leading banks in the plastic card segment. The Bank offers MasterCard and VISA international plastic cards to its customers without any service fee. With its plastic cards, the Bank also offers an interest-free credit line for a period of up to 45 days, as well as Home Banking, Card-to-Card, MobilBank and other services. Holders of the Bank's plastic cards regularly participate in prize draws.

The Bank pays particular attention to remote customer services, including Internet-Bank and Home Banking services provided to its customers.

Bank Respublika offers express money transfers using the Western Union, Coinstar, Contact, Migom, PrivatMoney, Bistraya poçta, Blizko, Xpress Money and Allure systems.

The Bank also attaches great importance to services related to corporate business lending and trade financing.

2008-ci ildə Bank Respublika müştərilərə bir sıra yeni məhsullar və xidmətlər təqdim etmişdir - İlk Kart plastik kartları, İnternet ödənişlər üçün VirtualCard, SubaruCard ko-brend kartı, VISA Business və VISA Business Gold korporativ kartları, MobilBank xidməti, qızıl külçələrin kreditə satışı, plastik kart müştəriləri üçün diskont proqramı və sair.

Bankda Azərbaycan bank sektorunda ilk dəfə 2006-cı ildə tətbiq edilmiş 3 rəqəmli telefon nömrəsi ilə "banka zəng 144" məlumat xidməti fəaliyyət göstərir.

Bank Respublika-nın mühüm vəzifələrindən biri xidmət şəbəkəsinin genişləndirilməsidir. Bank 2008-ci ildə 8 yeni ofis açmışdır. Bankın hazırda Bakı, Gəncə, Sumqayıt, Mingəçevir, Şirvan, Şəki, Quba, Xaçmaz, Lənkəran, Astara, Masallı, Yevlax, Bərdə, Göyçay, Goranboy və Şəmkir şəhərlərində 32 filialı və şöbəsi fəaliyyət göstərir.

Bakı şəhərində Bankın Baş Ofisi, "Mərkəz", "Azadlıq", "Azneft", "Bakıxanov", "Əhmədli", "Nərimanov", "Nəsimi", "Neftçilər", "Progress" filialları, "Abşeron", "Alatava", "Ağa Neymətulla", "Memar Əcəmi" və "Yasamal" şöbələri mövcuddur.

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

Növbəti 2009-cu ildə Bank Respublika Cəlilabad, Zaqatala, Sabirabad, İmişli, Qax, Dəvəçi və digər şəhərlərdə yeni filialların açılışını planlaşdırır.

Bank Respublika müştəri xidmətinin və müştərilərlə əlaqələrin inkişafı üzrə fəaliyyətini 2009-cu ildə daha da gücləndirməyi nəzərdə tutur.

The Bank's cooperation with international financial organizations enhances its resources in this area.

In 2008, Bank Respublika introduced a number of new products and services – İlk Kart plastic cards, the VirtualCard card for Internet payments, SubaruCard co-brand card, VISA Business and VISA Business Gold corporate cards, MobilBank service, the sale of gold bullions, discount campaigns for holders of its plastic cards etc.

Bank Respublika continues to offer its customers the three-digit hotline service, 'Call the Bank on 144', that it introduced for the first time in Azerbaijan in 2006.

One of the most important priorities of Bank Respublika is the expansion of its service network. In 2008, the Bank opened 8 new offices. At present, the Bank has 32 branches and service points located in Baku, Ganja, Sumgayit, Mingechevir, Shirvan, Sheki, Guba, Khachmaz, Lenkoran, Astara, Masalli, Yevlakh, Barda, Goychay, Goranboy, and Shamkir.

The Bank's headquarters are situated in Baku, as are the Merkez, Azadliq, Azneft, Bakikhanov, Ahmedli, Narimanov, Nasimi, Neftchiler and Progress branches and Absheron, Alatava, Aga-Neymatulla, 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, which is a clear sign of the Bank's special care for its customers.

In 2009, Bank Respublika plans to open new branches in Djalilabad, Zagatala, Sabirabad, Imishli, Gax, Devechi and other towns.

The Bank's efforts towards the improvements of customer services and customer relations will be further intensified in 2009.



Marketing fəaliyyəti

Marketing activity



Bank Respublika-nın marketing fəaliyyəti bazar araşdırmaları, yeni məhsulların yaradılması, reklam və ictimaiyyətlə əlaqələri əhatə edir.

2008-ci ildə Bank Respublika müştərilərə bir sıra yeni məhsullar və xidmətlər təqdim etmişdir – 7-17 yaşlılar üçün Azərbaycanda ilk dəfə olaraq İlk Kart plastik kartları, İnternet ödənişlər üçün VirtualCard, SubaruCard ko-brend plastik kartı, MobilBank xidməti və digər xidmətlər.

İlk Kart plastik kartlarının TV və digər vasitələrlə reklam kampaniyası aparılmışdır. İl ərzində İlk Kart istifadəçiləri arasında "Disneylend səyahəti" uduş kampaniyası da keçirilmişdir.

Bank Respublika 2008-ci ildə plastik kart müştəriləri üçün Azərbaycanın müxtəlif ticarət və xidmət müəssisələrində endirimlər əldə etmək imkanı yaradan diskont proqramını tətbiq etmişdir. Bank Respublika plastik kart müştəriləri arasında həmçinin "Malta Səyahəti" və "Futbol üzrə Avropa Çempionatına Səyahət" uduş kampaniyalarını da həyata keçirmişdir.

Bank əmanətçiləri arasında uduş kampaniyalarını da davam etdirmişdir. Bu sırada mükafatları Honda Accord avtomobili və hər ay 7 ədəd qızıl külçə olan "Payız hədiyyələri" kampaniyasını qeyd etmək olar. Bu kampaniya üzrə TV, radio, İnternet, qəzet və sair vasitələrlə geniş reklam tədbirləri həyata keçirilmişdir.

2008-ci ildə Bankın müxtəlif filiallarının, xüsusi ilə də yeni açılan filialların fəaliyyətinə dəstək məqsədi ilə reklam tədbirləri də keçirilmişdir.

Bank Respublika ictimaiyyətlə əlaqələr sahəsində fəaliyyətinə də böyük önəm verir və bu istiqamətdə müxtəlif işlər həyata keçirir. 2007-ci və 2008-ci ilin yekunlarına əsasən Bank Respublika 2 dəfə "Azərbaycan bank sektorunda ən fəal PR xidməti" nominasiyası üzrə mükafatla təltif edilmişdir.

Bankın fəaliyyəti haqqında 2008-ci ildə Kütləvi informasiya vasitələri ilə 70-dən çox pres-reliz verilmişdir. Bu pres-relizlər ölkənin müxtəlif informasiya agentliklərinin bülletenlərində, qəzetlərdə və informasiya saytlarında yerləşdirilmişdir.

Bank Respublika "Faydalı Səhifə" və "Faydalı Xəbərlər" informasiya bülletenlərinin buraxılışını da mütəmadi

The key objectives of Bank Respublika's marketing activities include market research, development of new products, advertising and public relations.

In 2008, Bank Respublika offered a number of new products and services to its customers, including the İlk Kart plastic card, offered for the first time in Azerbaijan to persons aged 7-17, the VirtualCard for payments via the Internet, the SubaruCard co-brand plastic card, MobilBank service and other services.

The introduction of İlk Kart plastic card was supported by a promotional campaign on TV and in other media. In 2008, the Bank also held the 'Trip to Disneyland' prize draw for holders of İlk Kart cards.

In 2008, Bank Respublika introduced a discount campaign that allows plastic card holders to receive discounts in various trade and service centers in Azerbaijan. The bank also held 'A trip to Malta' and 'A Trip to the European Football Championship' prize draws for holders of its plastic cards.

The Bank also continued to hold prize draws for its depositors. Among them, we can mention the 'Autumn Gifts' prize draw with prizes including a Honda Accord car and 7 gold bullions every month. These campaigns were advertised on TV, radio and the Internet, as well as in newspapers and other media.

In 2008, the Bank held a number of promotional campaigns in order to support its branches, particularly those that had been newly opened.

Bank Respublika attaches great importance to its public relations activities and implements various measures in this area. On the basis of the 2007 and 2008 results Respublika twice received an award in the "Most active PR service in Azerbaijan banking sector" category.

The mass media featured more than 70 press-releases concerning the Bank's activities in 2008. These press-releases were published in the newsletters and newspapers of various local new agencies, as well as on their websites.

Bank Respublika regularly publishes Faydalı Səhifə (Useful Page) and Faydalı Xəbərlər (Useful News) newsletters to deliver information about the Bank's activities, services



həyata keçirir və bununla da Bankın fəaliyyəti, xidmətləri, kampaniyaları haqqında cari və potensial müştərilərə geniş məlumat çatdırılır.

İl ərzində yeni filialların açılışı, müqavilələrin imzalanması və digər tədbirlər keçirilmişdir. Bir sıra tədbirlər və nailiyyətlər üzrə Kütləvi informasiya vasitələrində TV reportajlar verilmişdir. Yeni il və Novruz bayramları münasibətilə Bankın təbrik çarxları da TV və radioda yerləşdirilmişdir.

Bank Respublika-nın İnternet sahifəsi 2008-ci ildə "Ən yaxşı korporativ sayt" nominasiyası üzrə "Netty" Milli İnternet Mükafatına layiq görülmüşdür. Bu marketing və ictimaiyyətlə əlaqələr sahəsində Bankın daha bir nailiyyətidir.

Bank Respublika 2008-ci ildə Bakı və Gəncə şəhərlərində keçirilən sərgilərdə iştirak etmişdir. Bank il ərzində "Gəlin tanış olmaq" kampaniyasını davam etdirmişdir. Bank bir sıra sponsorluq layihələrində də iştirak etmişdir.

Növbəti 2009-cu ildə Bank Respublika marketing sahəsində fəaliyyətini daha da inkişaf etdirməyi nəzərdə tutur.

and campaigns to its current and potential customers.

In the course of the year, the Bank opened new branches, entered into new agreements and held a number of other events. A number of events and accomplishments were covered by mass media in TV commentaries. The Bank's New Year and Novruz Bayram holiday commercials were broadcast on TV and the radio.

Bank Respublika's website was awarded the Netty National Internet Award in the 'Best Corporate Site of 2008' category. This is another accomplishment the Bank has achieved in the area of marketing and public relations.

In 2008, Bank Respublika participated in exhibitions held in Baku and Ganja with its own stand. The Bank's "Let's Get Acquainted" campaign continued throughout the year. Bank Respublika also participated in a number of sponsoring projects.

Bank Respublika plans to further improve its marketing operations in 2009.



İnsan resursları

Human resources





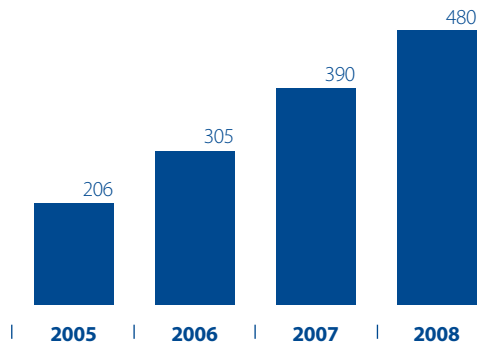
İnsan resursları bankın fəaliyyətində mühüm əhəmiyyətə malik olduğu üçün onların professional inkişafı və sosial qayğısına qalmaq bankın əsas vəzifələrindən biridir.

İnsan Resursları Departamentinin bankın strateji məqsədlərinə çatması üçün peşəkar komandanın yaradılmasında rolu əvəzənilməzdir.

### İşə qəbul

2008-ci il ərzində Bank Respublika-nın əməkdaşlarının sayı 390 nəfərdən 480 nəfərə qədər yüksəlmişdir ki, bu da 19% artım təşkil edir. İl ərzində kadr axarlılığı 5% olmuşdur ki, bu da dünya standartlarına uyğundur. Bankın əməkdaşlarının orta yaş göstəricisi 31-dir.

### Əməkdaşların sayı Number of the employees



### Təlim-tədris fəaliyyəti

2008-ci ildə Bank Respublika işçilərin peşəkar inkişafı üçün lazımı şərait yaratmaq məqsədilə təlim-tədris siyasətini daha da inkişaf etdirdi. İl ərzində işçilərin peşəkar bilik və bacarıqlarının artırılması üçün bank daxili bir sıra təlimlər keçirilmişdir ki, bu təlimlərdə 436 işçi iştirak etmişdir.

İl ərzində bir sıra əməkdaşlar ölkə xaricində müxtəlif təlim, konfrans və seminarlarda iştirak etmişlər. Növbəti illərdə təlim-tədris siyasətini daha da təkmilləşdirilməsi nəzərdə tutulur.

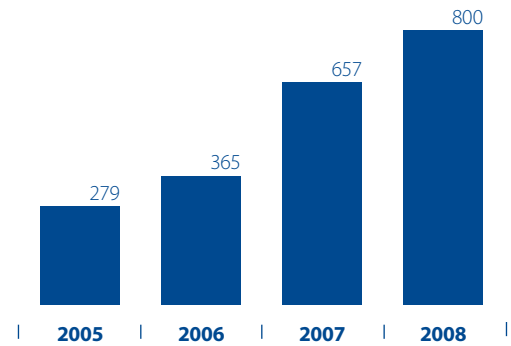
As human resources play a very important role in the Bank's operations, their professional improvement and social care is one of the Bank's top priorities.

The role of the Human Resources Department in the building of a highly professional team to achieve the Bank's strategic goals is invaluable.

### Employment

In 2008, the number of Bank Respublika's employees increased by 19%, from 390 to 480. The labor turnover in 2008 was 5%, which meets international standards. The average age of Bank's employees is 31.

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



### Training and education

In order to create opportunities for the professional improvement of its employees, Bank Respublika further developed its training and education policy in 2008. A number of trainings were held during the year to improve professional qualifications and skills of the staff, with the participation of 436 employees.

During the year, a number of employees participated in trainings, conferences and workshops held abroad. The Bank plans to further improve its training and education policy in the coming years.

### İşçilərin motivasiyası

2008-ci il ərzində Bank üzrə işçi heyətinin əməyinin qiymətləndirilməsi keçirilmişdir. Bu, əməkdaşların məvaciblərinin artmasına, vəzifə dəyişikliklərinə, təlim ehtiyaclarının aşkar edilməsinə və kadr ehtiyatının yaradılmasına təsir göstərmişdir.

Bank Respublika əməkdaşların qeyri-maddi motivasiyasına da xüsusi diqqət yetirmişdir. Belə ki, Bankın filial və departamentləri arasında ünsiyyətin gücləndirilməsi, komanda və korporativ ruhun inkişafı məqsədilə Futzal turniri keçirilmişdir. Belə tədbirlər növbəti illər ərzində daha da inkişaf etdiriləcək.

Əlavə olaraq il ərzində işçilərin işdən əlavə vaxtının səmərəli keçməsi məqsədilə əməkdaşlar müxtəlif idman komplekslərinə abunə ilə təmin edilmişlər.

2008-ci ilin yekunlarına əsasən Bankın filial və şöbələri "İlin filiali" və "İlin şöbəsi" nominasiyaları ilə təltif edilmişlər.

### Employee motivation

In 2008, Bank conducted performance appraisals for its employees, which influenced their salaries and positions, as well as helped to locate areas where professional training is needed and to create personnel reserves.

Bank Respublika also paid particular attention to the non-financial motivation of their employees. In order to strengthen cooperation between branches and service points and to promote team and corporate spirit the Bank held a futsal tournament. The Bank will further improve similar events in the coming years.

In additions, Bank's employees were provided with season tickets of various sports centers to help them spend their free time in a healthy and effective manner.

On the basis of the 2008 results, the Bank named its "Branch of the Year" and "Service Point of the Year".





Törəmə şirkətlər

Subsidiaries



**“BakıSığorta” ASC**

“BakıSığorta” ASC 28 avqust 2007-ci il tarixindən etibarən tam lisenziyalı sığorta fəaliyyətini həyata keçirir.

BakıSığorta şirkətin təsisçiləri Bank Respublika ASC (51%) və digər yerli hüquqi və fiziki şəxslərdir. Şirkətin ödənilmiş nizamnamə kapitalı 2008-ci ilin sonuna 1,5 mln. AZN təşkil edir.

BakıSığorta şirkəti qısa müddət ərzində dəyərli sığorta portfeli formalaşdırmışdır. 2008-ci ilin sonuna BakıSığorta ölkədə fəaliyyət göstərən 31 sığorta şirkəti arasında 9-cu yeri tutmuşdur. Şirkətin 2008-ci ildə sığorta haqlarının həcmi 8 533 364 AZN, sığorta ödənişləri isə 764 261 AZN olmuşdur. BakıSığorta 2008-ci ildə uğurlu fəaliyyət göstərərək 689 860 AZN xalis mənfəət əldə etmişdir.

BakıSığorta şirkəti 27 növ sığorta xidmətləri təqdim edir. Şirkətin təqdim etdiyi əsas sığorta növləri sırasında əmlak sığortası, nəqliyyat vasitələrinin sığortası, nəqliyyat vasitələri sahiblərinin mülki məsuliyyətinin icbari və könüllü sığortası, sürücü və sənişinlərin bədbəxt hadisələrdən sığortası, üçüncü şəxslər qarşısında mülki məsuliyyətin sığortası, yüklərin sığortası, inşaat sığortası, işəgötürənin məsuliyyətinin sığortası, tibbi sığorta, fərdi qəza sığortası, bank və bank fəaliyyətinin sığortası və digər sığorta növləri var.

BakıSığorta şirkəti etibarlı təkrarsığorta mexanizminə əsaslanaraq böyük risklərin sığortasını təmin etməkdədir. Şirkət Avropanın ən aparıcı təkrarsığorta təşkilatları olan GenRe, Lloyds of London Syndicates, Hannover Re, Converium, Swiss Re Germany AG, Chauser, AIG, Korean Re, Genel Sigorta, Trans Re, Scor, Rosno, Russian Re, Ingosstrakh, AON və Willis kimi şirkətlərlə əməkdaşlıq edir. Bundan başqa Şirkət yerli sığorta və broker şirkətləri ilə də əməkdaşlıq edir.

“BakıSığorta” ASC 2008-ci ildə ISO 9001-2000 “İdarəetmə Keyfiyyəti Sistemi” Sertifikatını “SGS Azeri Ltd” şirkəti tərəfindən almışdır.

Müştərilərə yüksək keyfiyyətli xidmət, hər bir müştəriyə fərdi yanaşma, sığorta xidmətlərinin göstərilməsində operativlik, obyektivlik və öhdəliklərin yerinə yetirilməsi BakıSığorta şirkətinin əsas hədəflərindəndir. Bunlar Şir-

**“BakıSığorta” ASC**

BakıSığorta JSC has performed fully licensed insurance operations since 28 August 2007.

The founders of BakıSığorta are Bank Respublika JSC (51%) and other local legal entities and individuals. As of the end of 2008, the company's paid-up capital is 1.5 million AZN.

Within a short period of time, BakıSığorta built a high-quality insurance portfolio. As of the end of 2008, BakıSığorta is the 9th among the 31 insurance companies operating in the country. The amount of the company's insurance premiums in 2008 was 8,533,364 AZN, while the amount of insurance claims totaled 764,261 AZN. As a result of its successful performance in 2008, BakıSığorta obtained a net profit of 689,860 AZN.

BakıSığorta offers 27 types of insurance services. The key types of insurance offered by the company include property insurance, vehicle insurance, mandatory and optional insurance of vehicle owners against civil liabilities, accident insurance for drivers and passengers, third party civil liability insurance, cargo insurance, builder's risk insurance, employer insurance, medical insurance, individual accident insurance, bank insurance and insurance for banking operations, as well as other types of insurance.

BakıSığorta provides insurance against high risks by using a reliable reinsurance mechanism. The company cooperates with the leading European reinsurance companies, including GenRe, Lloyds of London Syndicates, Hannover Re, Converium, Swiss Re Germany AG, Chauser, AIG, Korean Re, Genel Sigorta, Trans Re, Scor, Rosno, Russian Re, Ingosstrakh, AON and Willis. Aside from this, the company also collaborates with local insurance and broker companies.

In 2008, BakıSığorta JSC received the ISO 9001-2000 Quality Management System Certificate from SGS Azeri Ltd.

BakıSığorta's key objectives include excellence in customer service, tailored approach to any customer, efficiency and neutrality in the provision of insurance services and performance of obligations. This is reflected

kətin müştərilərə ünvanlanmış devizində də əks olunub - "Biz Sizin rahatlığınız üçün yarandıq".

### **"Respublika Invest" MMC**

"Respublika Invest" MMC "Bank Respublika" ASC-nin törəmə şirkətidir və qiymətli kağızlar bazarında 1 mart 2007-ci il tarixdən etibarən peşəkar fəaliyyət göstərir.

"Respublika Invest" MMC qiymətli kağızlar bazarında broker və diler xidmətləri göstərməklə yanaşı Bakı Fond Birjasının 5,55% pay ilə səhmdarlarından biridir.

Şirkət qısa zaman ərzində banklar, sığorta şirkətləri və digər müəssisələrdən ibarət müştəri bazasını toplaya bildi və onlara dövlət qiymətli kağızları ilə əməliyyatlar sahəsində, korporativ borc öhdəliklərinin buraxılışı istiqamətində, həmçinin ilkin və təkrar səhm bazarlarında tam spektrli peşəkar xidmətlər göstərir.

2008-ci il ərzində Respublika Invest şirkəti müştəriləri üçün 1 128,2 milyon AZN məbləğində 714 əməliyyat keçirmişdir. 2008-ci ilin yekunlarına əsasən "Respublika Invest" MMC brokerlər arasında dövlət qiymətli kağızları ilə əməliyyatlar sahəsində 308 mln. manat dövriyyə ilə 3-cü yeri tutmuşdur.

in the company's slogan, addressed to its customers: "We work for your safety".

### **Respublika Invest LLP**

Respublika Invest LLP is a subsidiary of Bank Respublika JSC and has operated on the capital market since 1 March 2007.

Aside from providing broker and dealer services on the capital market, Respublika Invest LLP is also a shareholder of the Baku Stock Market with a participation interest of 5,55%.

Within a short period of time, the company managed to build a customer base consisting of banks, insurance companies and other enterprises, to provide them with a full range of professional services in operations with securities, the issue of corporate bonds and operations on the primary and secondary share markets.

During 2008, Respublika Invest performed for its customers 714 transactions with a total value of 1,128.2 million AZN. According to the 2008 results, Respublika Invest LLP, with a turnover of 308 million AZN, is the third among local brokers in terms of operations with securities.





OPEN JOINT STOCK  
COMPANY  
BANK RESPUBLIKA

**Consolidated Financial Statements**  
For the Year Ended 31 December 2008





## TABLE OF CONTENTS

<b>STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008</b>	56
<b>INDEPENDENT AUDITORS’ REPORT</b>	57-58
<b>CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008:</b>	
Consolidated income statement	59-60
Consolidated balance sheet	61
Consolidated statement of changes in equity	62
Consolidated statement of cash flows	63-64
Notes to the consolidated financial statements	65-122

# STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 57-58, 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 and its subsidiaries (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 2008, 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 its 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 Republic;
- 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 2008 were authorized for issue on 23 April 2009 by the Management Board.

On behalf of the Management Board

Chairperson  
Ms. Khadija Hasanova  
23 April 2009



---

Director of Financial Department  
Mr. Elnur Hasanov  
23 April 2009



---

## INDEPENDENT AUDITORS' REPORT

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

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Bank Respublika and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, consolidated statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated 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.

### Auditors' responsibility

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

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

Except as discussed below, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### **Basis for qualified opinion**

Certain buildings are stated at cost in the balance sheet at AZN 2,664 thousand. The Group did not perform a revaluation of these buildings at 31 December 2008 and, accordingly, it was not possible for us to determine whether their carrying amount differs materially from that which would have been determined using fair value as at 31 December 2008.

### **Qualified opinion**

In our opinion, except for the effect of adjustments, if any, as might have been determined to be necessary upon the revaluation of the Group's certain buildings the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink that reads "Deloitte &amp; Touche".

23 April 2009  
Baku, the Republic of Azerbaijan

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	5, 34	47,997	24,721
Interest expense	5, 34	(20,893)	(11,692)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		27,104	13,029
Provision for impairment losses on interest bearing assets	6, 34	(6,416)	(2,062)
NET INTEREST INCOME		20,688	10,967
Net loss on financial assets at fair value through profit or loss	8	-	(4)
Net gain on foreign exchange operations	9	2,132	731
Net (loss)/gain on gold operations	10	(69)	60
Fee and commission income	11, 34	9,062	5,125
Fee and commission expense	11, 34	(2,730)	(1,677)
Dividend income		45	-
Insurance premium earned	7	8,287	1,355
Premiums ceded on reinsurance	7	(350)	(172)
Other income		56	39
Other expenses		(60)	(18)
NON-INTEREST INCOME		16,373	5,439
Gross claims paid	7	(1,100)	(66)
Gross claims ceded	7	42	-
Change in provision for unearned premiums, net of reinsurance	6, 7	(4,873)	(736)
Change in loss provision, net of reinsurance	6, 7	(291)	(225)
NET NON-INTEREST INCOME		10,151	4,412
OPERATING INCOME		30,839	15,379
OPERATING EXPENSES	12, 34	(17,195)	(8,663)
OPERATING PROFIT		13,644	6,716

# CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

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

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Provision for impairment losses on guarantees and other commitments	6	(255)	(28)
PROFIT BEFORE INCOME TAX		13,389	6,688
Income tax expense	13	(2,947)	(1,600)
NET PROFIT		10,442	5,088
Attributable to:			
Equity holders of the parent		9,921	5,034
Minority interest		521	54
		10,442	5,088
EARNINGS PER SHARE			
BASIC AND DILUTED (AZN)	14	1.225	1.170

On behalf of the Management Board

Chairperson  
Ms. Khadija Hasanova  
23 April 2009



Director of Financial Department  
Mr. Elnur Hasanov  
23 April 2009



The notes on pages 65 to 122 form an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

## AS AT 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

	Notes	31 December 2008	31 December 2007
<b>ASSETS</b>			
Cash and balances with the National Bank of the Republic of Azerbaijan	15	46,705	18,342
Gold		301	5
Financial assets at fair value through profit or loss	16	–	10
Due from banks	17	41,871	38,471
Loans to customers	18, 34	252,462	158,044
Investments available-for-sale	19	11,346	22,417
Investments held to maturity	20	3,000	–
Goodwill	21	388	388
Property and equipment	22	27,145	9,605
Investment property	23	1,423	–
Intangible assets	24	310	293
Other assets	25, 34	3,622	1,901
<b>TOTAL ASSETS</b>		<b>388,573</b>	<b>249,476</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Due to banks	26	95,126	9,777
Customer accounts	27, 34	137,779	111,673
Loans received from government agencies and foreign credit institutions	28, 34	87,533	87,338
Current income tax liabilities		1,058	689
Deferred income tax liabilities	13	2,217	541
Provision for impairment losses on other operations	6, 7	6,536	1,160
Other liabilities	29, 34	897	1,108
Subordinated debt	30, 34	16,236	17,172
<b>Total liabilities</b>		<b>347,382</b>	<b>229,458</b>
<b>EQUITY:</b>			
Share capital	31	22,578	12,580
Property revaluation reserve		7,434	1,807
Retained earnings		9,946	5,263
<b>Total equity attributable to equity holders of the parent</b>		<b>39,958</b>	<b>19,650</b>
Minority interest		1,233	368
<b>Total equity</b>		<b>41,191</b>	<b>20,018</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>388,573</b>	<b>249,476</b>

On behalf of the Management Board

Chairperson  
Ms. Khadija Hasanova  
23 April 2009



Director of Financial Department  
Mr. Elnur Hasanov  
23 April 2009



The notes on pages 65 to 122 form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

	Share capital	Property revaluation reserve	Retained earnings	Minority interest	Total Equity
<b>31 December 2006</b>	7,161	1,807	2,428	–	11,396
Share capital increase by issue of ordinary shares	3,789	–	–	–	3,789
Dividends declared on ordinary shares	–	–	(2,199)	–	(2,199)
Capitalization of dividends paid (retained earnings)	1,630	–	–	–	1,630
Minority interest on acquisition date	–	–	–	314	314
Net profit	–	–	5,034	54	5,088
<b>31 December 2007</b>	12,580	1,807	5,263	368	20,018
Revaluation of premises, net of income tax effect of AZN 1,587	–	5,627	–	–	5,627
Share capital increase by issue of ordinary shares	9,998	–	–	–	9,998
Dividends declared on ordinary shares	–	–	(5,238)	–	(5,238)
Share capital increase in subsidiary	–	–	–	344	344
Net profit	–	–	9,921	521	10,442
<b>31 December 2008</b>	<u>22,578</u>	<u>7,434</u>	<u>9,946</u>	<u>1,233</u>	<u>41,191</u>

On behalf of the Management Board

Chairperson  
Ms. Khadija Hasanova  
23 April 2009



Director of Financial Department  
Mr. Elnur Hasanov  
23 April 2009



The notes on pages 65 to 122 form an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		13,389	6,688
Adjustments for:			
Provision for impairment losses on interest bearing assets		6,416	2,062
Provision for impairment losses on guarantees and other commitments		255	28
Provision for impairment losses on other transactions		5,164	961
Net unrealized loss/(gain) arising from changes in foreign currency exchange rates		3	(30)
Net unrealized loss/(gain) arising from changes on prices on gold		45	(8)
Amortization of premiums on issued securities		–	(73)
Dividend income		(45)	–
Depreciation and amortization		1,735	1,120
Gain on property and equipment disposal		(18)	(3)
Change in interest accruals, net		2,786	154
Net change in financial assets at fair value through profit and loss		–	4
Cash flows from operating activities before changes in operating assets and liabilities		29,730	10,903
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Azerbaijan		(2,700)	676
Gold		(341)	3
Due from banks		(4,343)	(115)
Loans to customers		(104,706)	(84,356)
Financial assets at fair value through profit or loss		10	–
Other assets		(323)	(967)
Increase/(decrease) in operating liabilities			
Due to banks		84,240	2,546
Customer accounts		29,596	58,902
Loans received from the government agencies and foreign credit institutions		2,564	51,057
Obligations under finance lease		(87)	8
Other liabilities		(89)	584
Cash inflow from operating activities before taxation		33,551	39,241
Income tax paid		(2,489)	(1,089)
Net cash inflow from operating activities		31,062	38,152
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, equipment and intangible assets		(13,712)	(3,394)
Purchase of investment property		(1,423)	–
Proceeds on sale of property, equipment and intangible assets		85	16
Dividends received		45	–
Proceeds on sale of investments available-for-sale		10,997	–
Purchase of investments held to maturity		(3,000)	–
Purchase of investments available-for-sale		–	(17,986)
Acquisition of subsidiaries, net of cash acquired		–	(822)
Net cash outflow from investing activities		(7,008)	(22,186)

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Issue of ordinary share capital		9,998	5,419
Issue of subsidiary's ordinary share capital to minority shareholders		344	–
Dividends paid		(5,238)	(2,199)
Repayment of debt securities issued		–	(2,949)
Proceeds from subordinated debt		–	16,906
Net cash inflow from financing activities		5,104	17,177
Effect of foreign exchange rate changes on cash and cash equivalents		(5,205)	(172)
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,953	32,971
CASH AND CASH EQUIVALENTS, beginning of year	15	47,899	14,928
CASH AND CASH EQUIVALENTS, end of year	15	71,852	47,899

Interest paid and received by the Group in cash during the year ended 31 December 2008 amounted to AZN 17,521 thousand and AZN 47,413 thousand, respectively.

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.

On behalf of the Management Board

Chairperson  
Ms. Khadija Hasanova  
23 April 2009



Director of Financial Department  
Mr. Elnur Hasanov  
23 April 2009



The notes on pages 65 to 122 form an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

## 1. ORGANISATION

Joint Stock Commercial Bank Respublika 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 Republic of Azerbaijan (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"). The Bank's primary business consists of commercial activities, origination loans and guarantees, and trading with foreign currencies. The Bank had 21 branches and 9 service points in Azerbaijan as at 31 December 2008 (31 December 2007: 13 branches and 10 service points).

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
		2008	2007	
<i>Baki Sigorta OJSC</i>	<i>Azerbaijan Republic</i>	51	51	<i>Insurance</i>
<i>Respublika Invest LLC</i>	<i>Azerbaijan Republic</i>	100	100	<i>Securities market transactions</i>

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 2008 the following shareholders owned the issued shares of the Bank:

	31 December 2008, %	31 December 2007, %
DEG (Deutsche Investitions - und Entwicklungsgesellschaft GmbH)	16.67	16.67
Quliyev Natiq Saday oglu	16.66	16.61
Quliyev Elchin Saday oglu	15.10	15.06
Quliyeva Sevda Saday qizi	14.53	14.48
Quliyev Saday Asad oglu	14.36	14.32
Quliyeva Mariya Heydar qizi	14.07	14.02
SIDT (Sparkassen International Development Trust GmbH)	8.33	8.33
Others	0.28	0.51
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

These consolidated financial statements were authorized for issue by the Management Board on 23 April 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 2. BASIS OF PRESENTATION

### Accounting basis

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

These consolidated financial statements are presented in thousands 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.

### Functional currency

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (the "functional currency"). The functional currency of the 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 Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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.

### Business combinations

The assets, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

The minority interest is initially measured at the minority's proportion of the fair values of the assets, liabilities and contingent liabilities recognized. The equity attributable to equity holders of the parent and net profit attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

The Group accounts for increases in ownership of a controlled entity by revaluing all identified assets and liabilities of the subsidiary to fair value at the date of exchange in proportion to the amounts attributable to the additional interest acquired. Goodwill is recognized for any excess of the cost of the increase over the Group's interest in the net fair value of the identifiable assets and liabilities.

For a business combination involving an entity or business under common control, all assets and liabilities of the subsidiary are measured at the carrying values recorded in the stand-alone financial statements of the subsidiary. The difference between the carrying value of the acquired share in net assets of the subsidiary and the cost of acquisition are 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.

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 the acquisition of a subsidiary 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 at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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 amount of goodwill attributable 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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 and commemorative coins are not included as a cash equivalent due to restrictions on their availability (Note 15).

## **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 (loss)/gain on operations with gold operations.

## **Due from banks**

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

## **Financial asset at fair value through profit or loss**

Financial assets 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. They include forwards on foreign currency. Derivative financial instruments that are entered by the Group are not designed as hedge and do not qualify for hedge accounting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## **Loans to customers**

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

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

## **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**

### *Assets carried at amortized cost*

The Group accounts for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate.

Such impairment losses are not reversed, unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### *Available-for-sale financial assets*

If an available-for-sale asset is impaired, a consolidated amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the consolidated income statement. Reversals of impairment losses on debt instruments are reversed through the consolidated income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## **Derecognition of financial assets and liabilities**

### *Financial assets*

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

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

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

### *Financial liabilities*

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

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

## **Finance leases**

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

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## *The Group as a lessee*

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. Subsequently, the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs. 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.

## **Investments held to maturity**

Investments held to maturity are debt securities with determinable or fixed payments. The Group has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost using the effective interest method, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

## **Investments available-for-sale**

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

Dividends received on investments available-for-sale are included in dividend income in the consolidated income statement.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 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.

## 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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 improvements	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 land, property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount; 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 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 the consolidated 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 the consolidated 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.

Market value of property is assessed using the comparable sales method which involves analysis of market sales prices for similar real estate property.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## **Investment property**

Investment property, comprising land, is held for long-term appreciation in value and is not occupied by the Group. Investment property is initially measured at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of impairment loss.

## **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 during the reporting period.

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.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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, loans received from government agencies and foreign credit institution and subordinated debt**

Due to banks, customer accounts, loans received from government agencies and foreign credit institution 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.

## **Financial guarantee contracts issued and letters of credit**

Financial guarantee contracts and letters of credit issued by the Group provide for specified payments to be made in order to reimburse the holder for a loss incurred such that payments are made when 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 in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

## **Provisions**

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

## **Contingencies**

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

## **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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## **Retirement and other benefit obligations**

In accordance with the requirements of legislation of the Republic of Azerbaijan, certain percentages of pension payments are withheld from total disbursements to staff to be transferred to pension funds, such that a portion of salary expense is withheld from the employee and instead paid to a pension fund on behalf of the employee. This expense is charged in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension funds as selected by employees. The Group does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

## **Recognition of income and expense**

### *Recognition of interest 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.

### *Recognition of fee and commission income and expense*

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

## **Foreign currency translation**

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). In preparing the financial statements of the individual entities, monetary assets and liabilities denominated in currencies other than the entity's functional currency (foreign currencies) are translated at the appropriate spot rates of exchange rates prevailing at the balance sheet date. Transactions in currencies other than the functional currency 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 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 2008			31 December 2007		
USD 1	=	AZN 0.8010	USD 1	=	AZN 0.8453
EUR 1	=	AZN 1.1292	EUR 1	=	AZN 1.2450
GBP 1	=	AZN 1.1621	GBP 1	=	AZN 1.6876
RUR 1	=	AZN 0.0272	RUR 1	=	AZN 0.0346
JPY 1	=	AZN 0.0089	JPY 1	=	AZN 0.0075
Gold (per ounce)	=	AZN 705.05	Gold (per ounce)	=	AZN 704.77

## Offset of financial assets and liabilities

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

## Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten per cent or more of all the segments are reported separately. Geographical segment of the Group is based on the ultimate domicile of the Group. The Group's primary format for reporting segment information is based on business segments.

The accounting policies used in preparing and presenting the financial statements of the Group as a whole are also the fundamental segment accounting policies, segment accounting policies include, in addition, policies that relate specifically to segment reporting, such as identification of segments, and basis for allocating revenues and expenses to segments.

## Areas of significant management judgment and sources of estimation uncertainty

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## *Allowance for impairment of loans*

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

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

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

The carrying amount of the allowance for impairment of loans is AZN 10,011 thousand and AZN 3,689 thousand as at 31 December 2008 and 2007, respectively.

## *Valuation of Financial Instruments*

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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

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

The carrying amount of the financial instruments at fair value is as follows as at 31 December 2008 and 2007:

	31 December 2008	31 December 2007
Financial assets at fair value through profit or loss	–	10
Debt securities available-for-sale	11,011	22,039

## **Goodwill**

Goodwill is the excess cost of an acquisition over the fair value of its net identifiable assets. The determination of fair value of assets and liabilities of businesses acquired requires the exercise of management judgment; for example those financial assets and liabilities for which there are no quoted prices, and those non-financial assets where valuations reflect estimates of market conditions. A difference in fair values would result in changes to the goodwill arising and to the post-acquisition performance of the acquisition. Goodwill is not amortized but is tested annually or more frequently for impairment if events or changes in circumstances indicated that it might be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units or groups of cash-generating units expected to benefit from the combination. Goodwill impairment testing involves the comparison of the carrying value of a cash-generating unit or group of cash generating units with its recoverable amount. The recoverable amount is the higher of the unit's fair value and its value in use. Value in use is the present value of expected future cash flows from the cash-generating unit or group of cash-generating units. Fair value is the amount obtainable for the sale of the cash-generating unit in an arm's length transaction between knowledgeable, willing parties.

Impairment testing inherently involves a number of judgmental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of cash-generating units; and the valuation of the separable assets of each business whose goodwill is being reviewed.

As at 31 December 2008 and 2007 the carrying amount of goodwill is AZN 388 thousand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## Adoption of new and revised 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 annual reporting periods ending on 31 December 2008. 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.

Amendments to IAS 1 "Capital Disclosures" ("IAS 1") – On 18 August 2005, the IASB issued an amendment to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information was disclosed in the consolidated financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008. The Group has elected not to apply the amendments to IAS 39 and IFRS 7 retrospectively.

## Standards and interpretations issued and not yet adopted

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Interpretations were in issue but not yet effective.

**IFRS 8** – The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting" for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by an entity to be based on information used by management. Management is currently assessing the impact of the adoption of IFRS 8.

**IAS 1** – On 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in an entity's financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

**IAS 23** – On March 2007 the IASB issued a revised IAS 23 "Borrowing Costs". The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such asset. The Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

**IAS 27** – In 2008 the Standard was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (“FASB”). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 Noncontrolling Interests in Consolidated Financial Statements, along with, respectively, a revised IFRS 3 Business Combinations and FASB Statement No. 141 (revised 2007) Business Combinations. The amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

## 4. 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
<b>Total consideration, satisfied by cash</b>	<b>824</b>
Net cash outflow arising on acquisition:	
Cash consideration paid	(824)
Cash and cash equivalents acquired	2
	<b>(822)</b>

The Group started to consolidate Baki Sigorta OJSC since 5 October 2007. The Bank established and started to consolidate Respublika Invest LLC since 1 March 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)  
 (in Azerbaijan Manats and in thousands)

5. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
<b>Interest income comprises:</b>		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	30,942	13,541
- interest income on impaired financial assets	16,292	9,796
Interest income on investments available for sale	608	1,193
Interest income on guarantees	155	191
<b>Total interest income</b>	<b>47,997</b>	<b>24,721</b>
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	44,576	22,567
Interest on due from banks	2,533	740
Interest on other operations	68	30
Interest on investments held to maturity	57	-
Total interest income on financial assets recorded at amortized cost	47,234	23,337
Interest on investments available for sale	608	1,193
Interest on guarantees	155	191
Total interest income	763	1,384
<b>Interest expense comprises:</b>		
Interest on financial liabilities recorded at amortized cost	20,893	11,692
<b>Total interest expense</b>	<b>20,893</b>	<b>11,692</b>
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on customer accounts	9,260	6,244
Interest on loans received from government agencies and foreign credit institutions	7,249	3,512
Interest on subordinated debt	2,311	680
Interest on due to banks	2,073	1,030
Interest on debt securities issued	-	226
Total interest expense on financial liabilities recorded at amortized cost	20,893	11,692
<b>Net interest income before provision for impairment losses on interest bearing financial assets</b>	<b>27,104</b>	<b>13,029</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 6. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
<b>31 December 2006</b>	6	1,641	1,647
Additional provision recognized	–	2,068	2,068
Write-off of assets	–	(20)	(20)
Recovery of provision	(6)	–	(6)
<b>31 December 2007</b>	–	3,689	3,689
Additional provisions recognized	47	6,369	6,416
Write-off of assets	–	(50)	(50)
Recoveries of assets previously written off	–	3	3
<b>31 December 2008</b>	<b>47</b>	<b>10,011</b>	<b>10,058</b>

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

	Other assets	Investments available-for-sale	Guarantees and other commitments	Total
<b>31 December 2006</b>	4	–	82	86
Additional provision recognized	–	110	–	110
Recovery of provision	–	–	(82)	(82)
<b>31 December 2007</b>	4	110	–	114
Additional provision recognized	–	43	212	255
Write-off of assets	(4)	–	–	(4)
<b>31 December 2008</b>	<b>–</b>	<b>153</b>	<b>212</b>	<b>365</b>

	Unearned premiums	Insurance operations	Total
<b>31 December 2006</b>	–	–	–
Additional provision due to acquisition of subsidiaries	158	41	199
Additional provision recognized, net of reinsurance	736	225	961
<b>31 December 2007</b>	894	266	1,160
Additional provision recognized, net of reinsurance	4,873	291	5,164
<b>31 December 2008</b>	<b>5,767</b>	<b>557</b>	<b>6,324</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)  
(in Azerbaijan Manats and in thousands)

**7. ANALYSIS OF PREMIUMS AND CLAIMS**

The analysis of premiums and claims for year ended 31 December 2008 is as follows:

	Vehicle	Property	Employer's responsibility	Other	Total
Gross premiums written	7,369	475	14	429	8,287
Premiums ceded	(63)	(91)	(10)	(186)	(350)
Net premiums written	7,306	384	4	243	7,937
Change in provision for unearned premiums, net of reinsurance	(4,735)	(144)	(2)	8	(4,873)
<b>Net premiums earned</b>	<b>2,571</b>	<b>240</b>	<b>2</b>	<b>251</b>	<b>3,064</b>
Gross claims paid	(981)	(29)	–	(90)	(1,100)
Claims ceded	35	1	–	6	42
Net claims paid	(946)	(28)	–	(84)	(1,058)
Change in loss provision, net of reinsurance	(311)	1	–	19	(291)
<b>Net claims incurred</b>	<b>(1,257)</b>	<b>(27)</b>	<b>–</b>	<b>(65)</b>	<b>(1,349)</b>

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

	Vehicle	Property	Employer's responsibility	Other	Total
Gross premiums written	934	187	140	94	1,355
Premiums ceded	(32)	(50)	(78)	(12)	(172)
Net premiums written	902	137	62	82	1,183
Change in provision for unearned premiums, net of reinsurance	(621)	(71)	(35)	(9)	(736)
<b>Net premiums earned</b>	<b>281</b>	<b>66</b>	<b>27</b>	<b>73</b>	<b>447</b>
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)
<b>Net claims incurred</b>	<b>(33)</b>	<b>–</b>	<b>(31)</b>	<b>(227)</b>	<b>(291)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 8. NET LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

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

	Year ended 31 December 2008	Year ended 31 December 2007
Net loss on operations with derivative financial instruments	–	(4)
<b>Total net loss on financial assets at fair value through profit or loss</b>	<b>–</b>	<b>(4)</b>
Net fair value adjustment	–	(4)
<b>Total net loss on operations with financial assets designated at fair value through profit or loss</b>	<b>–</b>	<b>(4)</b>

The Group enters into derivative financial instruments to manage currency and liquidity risks and such financial instruments are held primarily for trading purposes.

## 9. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Dealing differences, net	2,135	701
Translation differences, net	(3)	30
<b>Total net gain on foreign exchange operations</b>	<b>2,132</b>	<b>731</b>

## 10. NET (LOSS)/ GAIN ON GOLD OPERATIONS

Net (loss)/gain on gold operations comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Translation differences on gold, net	(45)	8
(Loss)/gain from gold sale	(24)	52
<b>Total net (loss)/gain on gold operations</b>	<b>(69)</b>	<b>60</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 11. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
<b>Fee and commission income:</b>		
Cash operations	3,513	2,389
Settlements	2,285	1,500
Plastic cards services	1,979	1,085
Letters of credit	901	98
Foreign exchange operations	241	8
Other operations	72	18
Reinsurance	57	-
Guarantee letters	14	27
<b>Total fee and commission income</b>	<b>9,062</b>	<b>5,125</b>
<b>Fee and commission expense:</b>		
Plastic cards services	1,044	699
Letters of credit	513	164
Cash operations	405	280
Guarantees	371	194
Settlements	199	155
Foreign exchange operations	91	118
Other operations	107	67
<b>Total fee and commission expense</b>	<b>2,730</b>	<b>1,677</b>

## 12. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Salaries and bonuses	9,168	4,422
Depreciation and amortization expense	1,735	1,120
Advertising and marketing	1,064	477
Professional services fees	780	221
Operating lease expense	748	450
Security costs	736	285
Taxes other than income tax	582	213
Communication expense	541	375
Fees paid to Deposit Insurance Fund	450	172
Transportation and travel	374	217
Office expenses	274	172
Insurance	229	140



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Year ended 31 December 2008	Year ended 31 December 2007
Repairs and maintenance	210	147
Utilities	85	59
Membership fees	25	27
Other expense	194	166
<b>Total operating expenses</b>	<b>17,195</b>	<b>8,663</b>

## 13. INCOME TAXES

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Azerbaijan where the Group and its subsidiaries operate and which may differ from IFRS.

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 2008 and 2007 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 2008 and 2007 comprise:

	31 December 2008	31 December 2007
<b>Deductible temporary differences:</b>		
Intangible assets	191	117
Investments available-for-sale	153	110
Other assets	41	18
Other liabilities	–	201
Due to banks	–	63
Total deductible temporary differences:	385	509
<b>Taxable temporary differences:</b>		
Property and equipment	(9,654)	(2,522)
Provision for impairment losses on other operations	(653)	(398)
Other liabilities	(155)	–
Due from banks	–	(46)
Total taxable temporary differences:	(10,462)	(2,966)
Net deferred liabilities	(10,077)	(2,457)
Deferred tax liabilities at the statutory rate of 22 %	(2,217)	(541)
<b>Net deferred tax liability</b>	<b>(2,217)</b>	<b>(541)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

Relationships between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
Profit before income tax	<u>13,389</u>	<u>6,688</u>
Tax at the statutory tax rate	2,946	1,471
Tax effect of permanent differences	1	129
<b>Income tax expense</b>	<u>2,947</u>	<u>1,600</u>
Current income tax expense	2,858	1,571
Recovery of provision for deferred income tax liabilities	89	29
<b>Income tax expense</b>	<u>2,947</u>	<u>1,600</u>

	31 December 2008	31 December 2007
<b>Deferred income tax liabilities</b>		
<b>Beginning of the period</b>	<u>541</u>	<u>512</u>
Tax effect of changes in property and equipment revaluation reserve	1,587	–
Change in the income tax liability for the period charged to profit	89	29
<b>End of the period</b>	<u>2,217</u>	<u>541</u>

## 14. EARNINGS PER SHARE

The earnings per share are calculated as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
<b>Profit:</b>		
Net profit for the year attributable to equity holders of the parent	<u>9,921</u>	<u>5,034</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>8,098,746</u>	<u>4,303,581</u>
<b>Earnings per share – basic and diluted (AZN)</b>	<u>1.225</u>	<u>1.170</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 15. CASH AND BALANCES WITH THE NATIONAL BANK OF THE REPUBLIC AZERBAIJAN

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

	31 December 2008	31 December 2007
Cash on hand	15,691	11,502
Balances with the National Bank of the Republic of Azerbaijan	31,014	6,840
<b>Total cash and balances with the National Bank of the Republic of Azerbaijan</b>	<b>46,705</b>	<b>18,342</b>

The balances with the NBA as at 31 December 2008 and 2007 include AZN 6,560 thousand and AZN 3,860 thousand, respectively, which represent the minimum reserve deposits required by the NBA. The NBA granted permission to the Group to reduce the mandatory reserves account in the amount of mortgage loans, which are not refinanced by the 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 2008	31 December 2007
Cash and balances with the National Bank of the Republic of Azerbaijan	46,705	18,342
Due from banks in OECD countries	31,744	33,417
	78,449	51,759
Less minimum reserve deposit with the National Bank of the Republic of Azerbaijan	(6,560)	(3,860)
Less commemorative coins	(37)	–
<b>Total cash and cash equivalents</b>	<b>71,852</b>	<b>47,899</b>

## 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprise:

	31 December 2008			31 December 2007		
	Nominal amount	Net fair value		Nominal amount	Net fair value	
		Asset	Liability		Asset	Liability
<b>Foreign currency contracts</b>						
Forwards	–	–	–	4	10	–
					<b>10</b>	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 17. DUE FROM BANKS

Due from banks comprise:

	31 December 2008	31 December 2007
Correspondent accounts with other banks	28,580	2,408
Loans and time deposits with other banks	13,338	36,063
	41,918	38,471
Less allowance for impairment losses	(47)	–
<b>Total due from banks</b>	<b>41,871</b>	<b>38,471</b>

Movements in allowance for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

As at 31 December 2008 and 2007 accrued interest income included in due from banks amounted to AZN 141 thousand and AZN 134 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 2008 and 2007 the maximum credit risk exposure of due from banks amounted to AZN 41,871 thousand and AZN 38,471 thousand, respectively.

During the years ended 31 December 2008 and 2007 the Group simultaneously placed with and received short-term funds from one bank in different currencies. As at 31 December 2008 and 2007, the Group placed equivalent of AZN 5,884 thousand and AZN 277 thousand, respectively, as deposits with the same banks, which were received from the same bank (Note 26).

## 18. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008	31 December 2007
Loans to customers	262,473	161,733
Less allowance for impairment losses	(10,011)	(3,689)
<b>Total loans to customers</b>	<b>252,462</b>	<b>158,044</b>

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

As at 31 December 2008 and 2007 accrued interest income included in loans to customers amounted to AZN 3,334 thousand and AZN 2,726 thousand, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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

	31 December 2008	31 December 2007
Loans collateralized by pledge of real estate, equipment and inventories	106,420	89,693
Loans collateralized by vehicles	78,344	28,571
Loans collateralized by deposits	23,548	7,371
Loans collateralized by guarantees of individuals	11,684	7,148
Loans collateralized by pledge of equipment	3,637	7,407
Loans collateralized by pledge of corporate shares	2,580	4,799
Loans collateralized by guarantees of legal entities	1,627	2,107
Loans collateralized by precious metals	1,545	1,183
Loans collateralized by guarantees of financial institutions	576	626
Other collateral	7,850	8,941
Unsecured loans	24,662	3,887
	262,473	161,733
Less allowance for impairment losses	(10,011)	(3,689)
<b>Total loans to customers</b>	<b>252,462</b>	<b>158,044</b>
<b>Analysis by industry</b>		
Individuals	129,630	64,607
Trade	64,593	35,570
Manufacturing	33,783	31,957
Construction	23,845	23,048
Agriculture	6,797	4,240
Transport and communication	3,825	2,311
	262,473	161,733
Less allowance for impairment losses	(10,011)	(3,689)
<b>Total loans to customers</b>	<b>252,462</b>	<b>158,044</b>

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Car loans	73,040	22,156
Consumer loans	24,796	17,187
Mortgage loans	21,883	19,342
Plastic Cards	9,461	5,521
Pawn loans	437	350
Other	13	51
	129,630	64,607
Less allowance for impairment losses	(3,247)	(1,410)
<b>Total loans to individuals</b>	<b>126,382</b>	<b>63,197</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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

As at 31 December 2008 and 2007 the maximum credit risk exposure of loans to customers amounted to AZN 252,462 thousand and AZN 158,044 thousand, respectively.

As at 31 December 2008 and 2007 loans to customers included loans in amount of AZN 21 thousand and AZN 11,624 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2008 and 2007 loans to customers included loans in amount of AZN 2,349 thousand and AZN 7,092 thousand, respectively, that were individually determined to be impaired. As at 31 December 2008 and 2007 such loans were collateralized by real estate, vehicles and equipment with a fair value of AZN 24,856 thousand and AZN 3,074 thousand, respectively.

## 19. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2008	31 December 2007
Debt securities	11,011	22,039
Equity securities	488	488
	11,499	22,527
Less allowance for impairment losses	(153)	(110)
<b>Total investments available-for-sale</b>	<b>11,346</b>	<b>22,417</b>

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

As at 31 December 2008 and 2007 accrued interest income included in investments available-for-sale amounted to AZN 10 thousand and AZN 41 thousand, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Nominal interest rate	31 December 2008	Nominal interest rate	31 December 2007
<b>Debt securities</b>				
Short-term notes of the National Bank of the Republic of Azerbaijan	5.29%	11,011	10.17%	22,039
		<b>11,011</b>		<b>22,039</b>
<b>Equity investments</b>				
	Ownership,%		Ownership,%	
Milli Kart LLC	10.00%	400	10.00%	400
Baku Stock Exchange LLC	6.00%	88	6.00%	88
		488		488
Less allowance for impairment losses		(153)		(110)
<b>Total investments available-for-sale</b>		<b>11,346</b>		<b>22,417</b>

## 20. INVESTMENTS HELD TO MATURITY

As at 31 December 2008 the Group purchased long-term debt securities of three local companies totaling AZN 3,000 thousand with the amount of interest to nominal of 14%-16% and maturity in November 2010-January 2011.

As at 31 December 2008 accrued interest income included in these investments held to maturity amounted to nil.

## 21. GOODWILL

Goodwill comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
<b>At the beginning of the period</b>	<b>388</b>	<b>–</b>
Recognized on acquisition of a subsidiary	–	388
<b>At the end of the period</b>	<b>388</b>	<b>388</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 22. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Other equipment	Leasehold improvements	Construction in progress	Total
<b>At cost</b>									
<b>31 December 2006</b>	–	5,171	1,385	665	353	77	554	–	8,205
Additions	–	1,051	674	460	707	111	276	205	3,484
Disposals	–	–	–	–	(28)	–	–	–	(28)
Transfer	–	567	15	(13)	–	1	(370)	(67)	133
<b>31 December 2007</b>	–	6,789	2,074	1,112	1,032	189	460	138	11,794
Additions	5,603	978	1,512	623	622	147	21	2,481	11,987
Revaluation	–	6,322	–	–	–	–	–	–	6,322
Disposals	–	–	(138)	–	(54)	–	–	(12)	(204)
Transfer	–	2,058	(5)	5	–	–	530	(2,588)	–
<b>31 December 2008</b>	<u>5,603</u>	<u>16,147</u>	<u>3,443</u>	<u>1,740</u>	<u>1,600</u>	<u>336</u>	<u>1,011</u>	<u>19</u>	<u>29,899</u>
<b>Accumulated depreciation</b>									
<b>31 December 2006</b>	–	(239)	(558)	(244)	(120)	(24)	(2)	–	(1,187)
Charge for the year	–	(290)	(343)	(193)	(121)	(24)	(46)	–	(1,017)
Eliminated on disposal	–	–	–	–	15	–	–	–	15
Transfer	–	–	(1)	1	–	–	–	–	–
<b>31 December 2007</b>	–	(529)	(902)	(436)	(226)	(48)	(48)	–	(2,189)
Charge for the year	–	(369)	(543)	(316)	(231)	(43)	(94)	–	(1,596)
Eliminated on disposal	–	–	92	–	46	–	–	–	138
Eliminated on revaluation	–	893	–	–	–	–	–	–	893
Transfer	–	–	–	–	–	(3)	3	–	–
<b>31 December 2008</b>	–	(5)	(1,353)	(752)	(411)	(94)	(139)	–	(2,754)
<b>Net book value</b>									
<b>31 December 2008</b>	<u>5,603</u>	<u>16,142</u>	<u>2,090</u>	<u>988</u>	<u>1,189</u>	<u>242</u>	<u>872</u>	<u>19</u>	<u>27,145</u>
<b>31 December 2007</b>	–	<u>6,260</u>	<u>1,172</u>	<u>676</u>	<u>806</u>	<u>141</u>	<u>412</u>	<u>138</u>	<u>9,605</u>

As at 31 December 2008 the certain buildings owned by the Group were revalued to market prices according to the opinion of the independent appraiser. As a result, carrying value of these certain building amounted to AZN 13,462 thousand. If the certain buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying value would be AZN 4,036 thousand as at 31 December 2008.

Method of sales comparison (comparative approach) was used for the estimation of their fair value.

As at 31 December 2008 and 2007 included in property and equipment were fully depreciated assets of AZN 753 thousands and AZN 419 thousands, respectively.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 23. INVESTMENT PROPERTY

At 31 December 2008 the Group acquired land as investment property which is held for long-term appreciation in value. At 31 December 2008 fair value of investment property amounted to AZN 1,423 thousand.

## 24. INTANGIBLE ASSETS

Intangible assets comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
<b>At cost</b>		
1 January	560	452
Additions	156	108
31 December	716	560
<b>Accumulated amortization</b>		
1 January	(267)	(164)
Charge for the year	(139)	(103)
31 December	(406)	(267)
<b>Net book value</b>		
<b>31 December</b>	<b>310</b>	<b>293</b>

Intangible assets include software and licenses.

## 25. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
<b>Other financial assets recorded as loans and receivables in accordance with IAS 39:</b>		
Settlements on money transfers	501	686
Deferred expenses	386	302
Receivables arising out of direct insurance operations	306	192
Receivables on plastic card operations from other banks	184	239
Accrued interest income on guarantee letters	31	–
Reposessed collateral	–	4
Other	142	–
	1,550	1,423
Less allowance for impairment losses	–	(4)
	1,550	1,419

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	31 December 2008	31 December 2007
<b>Other non-financial assets:</b>		
Prepayments for purchase of property and equipment	1,923	354
Receivable from the State Budget	81	–
Prepayments and receivables on other transactions	68	128
<b>Total other assets</b>	<b>3,622</b>	<b>1,901</b>

Movements in allowances for impairment losses on other assets for the years ended 31 December 2008 and 2007 are disclosed in Note 6.

## 26. DUE TO BANKS

Due to banks comprise:

	31 December 2008	31 December 2007
<b>Recorded at amortized cost:</b>		
Loans from banks	94,765	6,471
Correspondent accounts of other banks	361	297
Term deposits of banks	–	3,009
<b>Total due to banks</b>	<b>95,126</b>	<b>9,777</b>

As at 31 December 2008 and 2007 accrued interest expense included in due to banks amounted to AZN 3,047 thousand and AZN 193 thousand, respectively.

As at 31 December 2008 and 2007 the Group had loans and deposits from 2 and 1 banks totaling AZN 60,075 thousand and AZN 2,705 thousand, respectively, which individually exceeded 10% of the Group's equity.

During 2008 and 2007 the Bank simultaneously placed with and received short-term funds from one bank in different currencies (Note 17).

Maturities of amounts due to banks are included in Note 39 under liquidity risk.

These liabilities are measured at amortised cost.

## 27. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
<b>Recorded at amortized cost:</b>		
Time deposits	96,883	80,546
Repayable on demand	40,896	31,127
<b>Total customer accounts</b>	<b>137,779</b>	<b>111,673</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

As at 31 December 2008 and 2007 accrued interest expense included in customer accounts amounted to AZN 1,881 thousand and AZN 1,239 thousand, respectively.

As at 31 December 2008 and 2007 customer accounts amounted to AZN 33 thousand and AZN 217 thousand, respectively, were held as security against guarantees issued.

	31 December 2008	31 December 2007
Individuals	80,314	69,902
Trade	34,233	12,434
Agriculture	10,193	1,306
Manufacturing	6,210	4,234
Insurance	2,453	5,492
Transport and communication	1,574	1,127
Investing	1,318	12,513
Notarys' offices	834	3,173
Public organizations	389	1,069
Construction	174	286
Energy	28	6
Other	59	131
<b>Total customer accounts</b>	<b>137,779</b>	<b>111,673</b>

These liabilities are measured at amortised cost.

## 28. LOANS RECEIVED FROM GOVERNMENT AGENCIES AND FOREIGN CREDIT INSTITUTIONS

Loans received from government agencies and foreign credit institutions comprise:

	31 December 2008	31 December 2007
<b>Recorded at amortized cost:</b>		
National Fund for Support of Entrepreneurship	19,496	17,917
Azerbaijan Mortgage Fund	9,083	5,042
Total loans from government agencies	28,579	22,959
<b>Recorded at amoritized cost:</b>		
European Bank for Reconstruction and Development	32,328	26,745
FMO - Netherlands Development Finance Company	11,920	15,354
International Finance Corporation	4,089	4,296
The OPEC Fund for International Development	4,005	4,348
Asian Development Bank	2,615	3,426
German-Azerbaijan Fund	2,498	1,790
DEG - Deutsche Investitions-Entwicklungsgesellschaft	1,499	3,000
Black Sea Trade & Development Bank	-	5,420
Total loans from foreign credit institutions	58,954	64,379
<b>Total loans from government agencies and foreign credit institutions</b>	<b>87,533</b>	<b>87,338</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

As at 31 December 2008 and 2007 accrued interest expense is included in loans received from government agencies and foreign credit institutions amounting to AZN 1,161 thousand and AZN 1,235 thousand, respectively.

As at 31 December 2008 and 2007 included in loans received from government agencies and foreign credit institutions are loans from the National Fund for Support of Entrepreneurship amounting to AZN 19,496 thousand and AZN 17,917 thousand, respectively. These loans have maturity periods from 1 year to 5 years and bear an annual interest rate of 1-2%.

As at 31 December 2008 and 2007 included in loans received from government agencies and foreign credit institutions are loans from the Azerbaijan Mortgage Fund amounting to AZN 9,083 thousand and AZN 5,042 thousand, respectively. These loans have maturity periods from 1 year to 5 years and bear an annual interest rate of 1-2%.

These liabilities are measured at amortised cost.

## 29. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
<b>Other financial liabilities:</b>		
Payables arising out of reinsurance operations	179	145
Settlements on money transfers and plastic card operations	157	268
Payable to the Deposit Insurance Fund	90	78
Net payable under finance lease	73	160
Accrued supplier's cost	63	90
Professional fees payable	52	71
Payable to the employees	–	54
Other	67	214
	681	1,080
<b>Other non-financial liabilities:</b>		
Taxes other than income tax	201	22
Other	15	6
	216	28
<b>Total other liabilities</b>	<b>897</b>	<b>1,108</b>

The components of net payables under finance lease as at 31 December 2008 and 2007 are as follows:

	31 December 2008	31 December 2007
Not later than one year	54	105
Later than one year not later than five years	25	76
More than 5 years	–	–
	79	181
Total minimum lease payments	79	181
Less: deferred finance expenses	(6)	(21)
	73	160
<b>Net payables under finance lease</b>	<b>73</b>	<b>160</b>
Current portion	51	99
Long-term portion	22	61
	73	160
<b>Net payables under finance lease</b>	<b>73</b>	<b>160</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

In 2007 the Group 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 and 2008 the effective borrowing rate was 13.8%. Interest rates are fixed at the contract date, and thus expose the Group 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.

## 30. SUBORDINATED DEBT

				31 December 2008	31 December 2007
Subordinated debt from foreign credit institutions - third parties	USD	7.86%	2013-2015	8,034	8,478
Subordinated debt from foreign credit institutions - third parties	USD	10.13%	2017	4,109	4,326
Subordinated debt from related parties	USD	8.83%	2017	4,093	4,368
<b>Total subordinated debt</b>				<b>16,236</b>	<b>17,172</b>

As at 31 December 2008 and 2007 accrued interest expense is included in subordinated debt amounting to AZN 216 thousand and AZN 266 thousand, respectively.

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

The Group is obligated to comply with financial covenants in relation to subordinated debt disclosed above. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. The Group has not breached any of these covenants during the years ended 31 December 2008 and 2007.

These liabilities are measured at amortised cost.

## 31. SHARE CAPITAL

As of 31 December 2008 and 2007 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 22,578 thousand and AZN 12,580 thousand, respectively and comprised 11,289,094 and 6,290,198 ordinary shares with a par value of AZN 2, respectively. Each share entitles one vote to the shareholder.

During 2008 and 2007 shareholders' capital of the Group was increased by AZN 9,998 thousand and AZN 5,419 thousand, respectively.

In 2008 and 2007 the Group declared dividends of AZN 5,238 thousand and AZN 2,199 thousand for 2007 and 2006 financial years, respectively, on ordinary shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 32. 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 6,536 thousand and AZN 1,160 thousand as at 31 December 2008 and 2007, respectively.

As at 31 December 2008 and 2007, the nominal or contract amounts and the risk amounts were:

	31 December 2008		31 December 2007	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
<b>Contingent liabilities and credit commitments</b>				
Guarantees issued and similar commitments	11,481	11,448	9,257	8,535
Commitments on loans and unused credit lines	15,010	7,399	8,375	3,451
Letters of credit and other transaction related contingent obligations	–	–	7,519	2,407
<b>Total contingent liabilities and credit commitments</b>	<b>26,491</b>	<b>18,847</b>	<b>25,151</b>	<b>14,393</b>

Extension of loans to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2008 and 2007 such unused credit lines come to AZN 15,010 thousand and AZN 8,375 thousand, respectively.

**Capital commitments** – The Group had no material commitments for capital expenditures outstanding as at 31 December 2008.

**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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

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

**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.

**Country overview and risks** – Recent volatility in global financial markets and its effects on Azerbaijan. In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. Notwithstanding any potential economic stabilisation measures that may be put into place by the Azerbaijan Government, as a consequence of this turmoil in capital and credit markets there exists, as at the date these financial statements are authorised for issue, globally and in Azerbaijan, economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties globally and in Azerbaijan. There is also potential for these economic uncertainties to continue in the foreseeable future and, as a consequence, there is impact on the Group's profitability and potential risk that assets may not be recovered at their carrying amount in the ordinary course of business.

**Recoverability of financial assets** – As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2008, the Group has financial assets amounting to AZN 357,235 thousand (as at 31 December 2007: AZN 238,708 thousand). The recoverability of these financial assets depends on a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Group's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Group's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

**Government programs** – The Azerbaijan government continues to exercise significant influence over the Azerbaijan economy. In response to the economic crisis and to support Azerbaijani businesses, the government of Azerbaijan has introduced certain measures including taxation holidays for banking sector from 1 January 2009, support from the National Bank of the Republic of Azerbaijan and continued support for the local currency, the Azerbaijani Manat. As Azerbaijan is heavily dependent on hydrocarbon revenues, the economy's size and reserves are affected by oil prices fluctuations in the global market.

**Inflation** – Historically, Azerbaijan has experienced high levels of inflation. The annual rate of inflation, as measures by changes in the Consumer Price Index, was 20.8% for 2008, 16.7% for 2007 (according to the State Statistic Committee of the Republic of Azerbaijan) and is projected at the rate of approximately 13% for 2009. The financial results in the Azerbaijan economy and, consequently, the Group's financial results will be affected if inflation is not controlled effectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 33. SUBSEQUENT EVENTS

On 20 February 2009 and 4 March 2009 the Group repaid credit linked notes amounted to USD 14 mln to Raiffeisen Zentralbank Österreich Aktiengesellschaft. According to the deal the Group gained USD 700 thousand for loan repayment before contracted maturity which is 10 July 2009.

## 34. TRANSACTIONS WITH RELATED PARTIES

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Transactions between the Bank and its subsidiaries, which are related parties of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2008** (Continued)  
(in Azerbaijan Manats and in thousands)

	31 December 2008		31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers		262,473		161,733
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	21,627		1,798	
– key management personnel of the Group	1,309		552	
Allowance for impairment losses		(10,011)		(3,689)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(1,415)		(36)	
– key management personnel of the Group	(61)		(11)	
Investments held to maturity		3,000		–
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	2,500		–	
– key management personnel of the Group	–		–	
Other assets		3,622		1,901
– key management personnel of the Group	256		315	
Customer accounts		137,779		111,673
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	11,342		804	
– key management personnel of the Group	265		196	
Loans from government agencies and foreign credit institutions		87,533		87,338
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	1,499		3,058	
Other liabilities		897		1,108
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	–		8	
– key management personnel of the Group	–		7	
Subordinated debt		16,236		17,172
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	4,093		4,368	
Commitments on credits and unused credit		15,010		8,375
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	87		12	
– key management personnel of the Group	121		42	

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Key management personnel compensation:</b>				
short-term employee benefits	983	9,168	891	4,422

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

Included in the consolidated income statement for the years ended 31 December 2008 and 2007 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Interest income		47,997		24,721
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	355		177	
– key management personnel of the Group	101		33	
Interest expense		(20,893)		(11,692)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(1,001)		(767)	
– key management personnel of the Group	–		–	
Allowance for impairment losses		(6,416)		(2,062)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	(1,379)		(31)	
– key management personnel of the Group	(50)		(4)	
Fee and commission income		9,062		5,125
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	264		52	
– key management personnel of the Group	–		–	
Fee and commission expense		(2,730)		(1,677)
– key management personnel of the Group	(24)		(19)	
Operating expense		(17,195)		(8,663)
– shareholders and entities in which a substantial interest is owned by shareholders of the Group	–		(69)	
– key management personnel of the Group	(983)		(891)	

## 35. SEGMENT REPORTING

The Group's primary format for reporting segment information is business segments and the secondary format is a geographical segment.

### Business segments

The Group is organized on the basis of three main business segments:

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

Transactions between the business segments are (on normal commercial terms and conditions. Funds are ordinarily reallocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on the Group's cost of capital.) There are no other material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority on the balances sheet, but excluding items such as taxation and borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Retail banking	Corporate banking	Unallocated and other	As at and for the year ended 31 December 2008 Consolidated amount
Interest income	31,162	15,088	1,747	47,997
Interest expense	(6,549)	(14,344)	–	(20,893)
Provision for impairment losses on interest bearing assets	(3,946)	(2,470)	–	(6,416)
Net gain on foreign exchange operations	–	–	2,132	2,132
Net loss on gold operations	(24)	–	(45)	(69)
Fee and commission income	6,832	2,230	–	9,062
Fee and commission expense	(897)	(758)	(1,075)	(2,730)
Dividend income	–	–	45	45
Insurance premium earned	–	–	8,287	8,287
Premium ceded on reinsurance	–	–	(350)	(350)
Other income	–	56	–	56
Other expense	–	–	(60)	(60)
Gross claims paid	–	–	(1,100)	(1,100)
Gross claims ceded	–	–	42	42
Change in provision for unearned premiums, net of reinsurance	–	–	(4,873)	(4,873)
Change in loss provision, net of reinsurance	–	–	(291)	(291)
<b>Total operating income</b>	<b>26,578</b>	<b>(198)</b>	<b>4,459</b>	<b>30,839</b>
Operating expenses	–	–	(17,195)	(17,195)
<b>Operating profit/loss</b>	<b>26,578</b>	<b>(198)</b>	<b>(12,736)</b>	<b>13,644</b>
Provision for impairment losses on guarantees and other transactions	–	(231)	(24)	(255)
<b>Profit/(loss) before income tax</b>	<b>26,578</b>	<b>(429)</b>	<b>(12,760)</b>	<b>13,389</b>
Income tax expense	–	–	(2,947)	(2,947)
<b>Net profit/(loss)</b>	<b>26,578</b>	<b>(429)</b>	<b>(15,707)</b>	<b>10,442</b>
Segment assets	<b>125,137</b>	<b>183,542</b>	<b>79,894</b>	<b>388,573</b>
Segment liabilities	<b>73,509</b>	<b>263,165</b>	<b>10,708</b>	<b>347,382</b>
<b>Other segment items</b>				
Depreciation charge on property and equipment	–	–	(1,735)	(1,735)
Loans to customers	125,137	127,325	–	252,462
Property and equipment	–	–	27,145	27,145
Investment property	–	–	1,423	1,423
Customer accounts	73,509	64,270	–	137,779

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Retail banking	Corporate banking	Unallocated and other	As at and for the year ended 31 December 2007 Consolidated amount
Interest income	12,801	10,056	1,864	24,721
Interest expense	(4,305)	(7,161)	(226)	(11,692)
Provision for impairment losses on interest bearing assets	(1,120)	(942)	–	(2,062)
Net loss on financial assets and liabilities at fair value through profit or loss	–	–	(4)	(4)
Net gain on foreign exchange operations	–	–	731	731
Net gain on gold operations	–	–	60	60
Fee and commission income	3,848	1,277	–	5,125
Fee and commission expense	(694)	(356)	(627)	(1,677)
Insurance premium earned	–	–	1,355	1,355
Premium ceded on reinsurance	–	–	(172)	(172)
Other income	–	–	39	39
Other expense	–	–	(18)	(18)
Gross claims paid	–	–	(66)	(66)
Gross claims ceded	–	–	–	–
Change in provision for unearned premiums, net of reinsurance	–	–	(736)	(736)
Change in loss provision, net of reinsurance	–	–	(225)	(225)
<b>Total operating income</b>	<b>10,530</b>	<b>2,874</b>	<b>1,975</b>	<b>15,379</b>
Operating expenses	–	–	(8,663)	(8,663)
<b>Operating profit/loss</b>	<b>10,530</b>	<b>2,874</b>	<b>(6,688)</b>	<b>6,716</b>
Provision for impairment losses on guarantees and other transactions	–	–	(28)	(28)
<b>Profit/(loss) before income tax</b>	<b>10,530</b>	<b>2,874</b>	<b>(6,716)</b>	<b>6,688</b>
Income tax expense	–	–	(1,600)	(1,600)
<b>Net profit/(loss)</b>	<b>10,530</b>	<b>2,874</b>	<b>(8,316)</b>	<b>5,088</b>
Segment assets	<b>63,197</b>	<b>155,735</b>	<b>30,544</b>	<b>249,476</b>
Segment liabilities	<b>69,333</b>	<b>156,627</b>	<b>3,498</b>	<b>229,458</b>
<b>Other segment items</b>				
Depreciation charge on property and equipment	–	–	(1,120)	(1,120)
Loans to customers	63,197	94,847	–	158,044
Property and equipment	–	–	9,486	9,605
Customer accounts	69,333	42,340	–	111,673

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. 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 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank of the Republic of Azerbaijan	46,705	46,705	18,342	18,342
Financial assets at fair value through profit or loss	–	–	10	10
Due from banks	41,871	41,871	38,471	38,471
Investments available-for-sale	11,011	11,011	22,039	22,039
Other financial assets	1,550	1,550	1,419	1,419
Due to banks	95,126	95,126	9,777	9,777
Customer accounts	137,779	137,779	111,673	111,673
Loans received from government agencies and foreign credit institution	87,533	87,533	87,338	87,338
Subordinated debt	16,236	16,236	17,172	17,172
Other financial liability	681	681	1,080	1,080

The fair value of loans to customers and investments held to maturity 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 equity investments available-for-sale cannot be measured reliably. As at 31 December 2008 and 2007 the carrying value of them was AZN 335 thousand and AZN 378 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 37. 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 certain risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses:

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

Capital amounts and ratios	Actual Amount in AZN	For Capital Adequacy purposes Amount in AZN	Ratio For Capital Adequacy purposes	Minimum Required Ratio
<b>As at 31 December 2008</b>				
Total capital	41,191	57,400	20%	8%
Tier 1 capital	33,945	33,945	12%	4%
<b>As at 31 December 2007</b>				
Total capital	20,018	28,540	16%	8%
Tier 1 capital	17,822	17,822	10%	4%

In addition, the Group has to calculate statutory capital adequacy ratio based on the Azerbaijan regulations. During the years ended 31 December 2008 and 2007 the Bank and Open Joint Stock Company Baki Sigorta were in compliance with the minimum capital requirements imposed by the NBA and the Ministry of Finance of the Republic of Azerbaijan.

## 38. 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 30, 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 ALMC 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 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 39. RISK MANAGEMENT POLICIES

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

- Credit exposures
- Liquidity risk
- Market risk

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

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 are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 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 balance sheet and off balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. For financial guarantees and other off balance sheet assets, 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.

As at 31 December 2008:

	Maximum exposure	Net exposure after offset	Collateral Pledged	31 December 2008
				Net exposure after offset and collateral
Due from banks	41,871	41,871	–	41,871
Loans to customers	252,462	252,462	228,734	23,728
Investments available-for-sale	11,346	11,346	–	11,346
Investments held to maturity	3,000	3,000	–	3,000
Other financial assets	1,550	1,550	–	1,550

As at 31 December 2007:

	Maximum exposure	Net exposure after offset	Collateral Pledged	31 December 2007
				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	154,442	3,602
Investments available-for-sale	22,417	22,417	–	22,417
Other financial assets	1,419	1,419	–	1,419

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Standard and Poors. 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

The following table details the credit ratings of financial assets held by the Group as at 31 December 2008:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2008
							Total
Due from banks	2,449	203	26,454	4	502	12,259	41,871
Loans to customers	–	–	–	–	–	252,462	252,462
Investments available-for-sale	–	–	–	–	11,011	335	11,346
Investment held to maturity	–	–	–	–	–	3,000	3,000
Other financial assets	–	–	–	–	–	1,550	1,550

As at 31 December 2007:

	AAA	AA	A	BBB	<BBB	Not rated	31 December 2007
							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
Other financial assets	–	–	–	–	–	1,419	1,419

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

## Rating model

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 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:

As at 31 December 2008:

	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							
Due from banks	41,871	–	–	–	–	–	41,871
Loans to customers	52,153	–	–	–	–	200,309	252,462
Investments available-for-sale	11,099	–	–	–	–	247	11,346
Investment held to maturity	3,000	–	–	–	–	–	3,000
Other financial assets	1,550	–	–	–	–	–	1,550

As at 31 December 2007:

	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
Other financial assets	1,419	–	–	–	–	–	1,419

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## Geographical concentration

The Risk Management Committee exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The 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 2008 Total
<b>FINANCIAL ASSETS</b>					
Cash and balances with the National Bank of the Republic of Azerbaijan	46,705	–	–	–	46,705
Gold	301	–	–	–	301
Due from banks	8,486	997	32,388	–	41,871
Loans to customers	252,462	–	–	–	252,462
Investments available-for-sale	11,346	–	–	–	11,346
Investments held to maturity	3,000	–	–	–	3,000
Other financial assets	354	20	450	726	1,550
<b>TOTAL FINANCIAL ASSETS</b>	<b>322,654</b>	<b>1,017</b>	<b>32,838</b>	<b>726</b>	<b>357,235</b>
<b>FINANCIAL LIABILITIES</b>					
Due from banks	3,383	–	91,743	–	95,126
Customer accounts	137,779	–	–	–	137,779
Loans received from government agencies and foreign credit institutions	28,579	–	56,253	2,701	87,533
Subordinated debt	–	–	8,202	8,034	16,236
Other financial liabilities	459	130	92	–	681
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>170,200</b>	<b>130</b>	<b>156,290</b>	<b>10,735</b>	<b>337,355</b>
<b>NET POSITION</b>	<b>152,454</b>	<b>887</b>	<b>(123,452)</b>	<b>(10,009)</b>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	The Republic of Azerbaijan	CIS countries	OECD countries	Other non-OECD countries	31 December 2007 Total
<b>FINANCIAL ASSETS</b>					
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
Other financial assets	733	686	–	–	1,419
<b>TOTAL FINANCIAL ASSETS</b>	<b>203,248</b>	<b>1,400</b>	<b>34,059</b>	<b>1</b>	<b>238,708</b>
<b>FINANCIAL LIABILITIES</b>					
Due from 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
Subordinated debt	–	–	8,694	8,478	17,172
Other financial liabilities	985	52	43	–	1,080
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>138,645</b>	<b>330</b>	<b>74,325</b>	<b>13,740</b>	<b>227,040</b>
<b>NET POSITION</b>	<b>64,603</b>	<b>1,070</b>	<b>(40,266)</b>	<b>(13,739)</b>	

## Liquidity risk

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

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

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

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
<b>FINANCIAL ASSETS</b>							
Due from banks	16,916	3,564	801	549	–	–	21,830
Loans to customers	10,334	20,525	94,044	109,483	13,852	2,849	251,087
Investment held to maturity	–	–	3,000	–	–	–	3,000
Investments available-for-sale	11,011	–	–	–	–	–	11,011
<b>Total interest bearing financial assets</b>	<b>38,261</b>	<b>24,089</b>	<b>97,845</b>	<b>110,032</b>	<b>13,852</b>	<b>2,849</b>	<b>286,928</b>
Cash and balances with the National Bank of the Republic of Azerbaijan	40,108	–	–	–	–	6,597	46,705
Gold	301	–	–	–	–	–	301
Due from banks	20,017	–	–	–	–	24	20,041
Loans to customers	3	59	399	842	18	54	1,375
Investment available-for-sale	–	–	–	–	–	335	335
Other financial assets	663	248	638	1	–	–	1,550
<b>Total financial assets</b>	<b>99,353</b>	<b>24,396</b>	<b>98,882</b>	<b>110,875</b>	<b>13,870</b>	<b>9,859</b>	<b>357,235</b>
<b>FINANCIAL LIABILITIES</b>							
Due to banks	8,721	4,246	41,677	40,121	–	–	94,765
Customer accounts	6,280	13,351	69,876	7,104	12	25	96,648
Loans received from government agencies and foreign credit institutions	1,838	13,006	22,743	42,400	7,546	–	87,533
Other financial liabilities	6	12	39	16	–	–	73
Subordinated debt	–	24	192	2,669	13,351	–	16,236
<b>Total interest bearing financial liabilities</b>	<b>16,845</b>	<b>30,639</b>	<b>134,527</b>	<b>92,310</b>	<b>20,909</b>	<b>25</b>	<b>295,255</b>
Due to banks	361	–	–	–	–	–	361
Customer accounts	40,896	–	–	–	–	235	41,131
Other financial liabilities	314	49	230	–	–	15	608
<b>Total financial liabilities</b>	<b>58,416</b>	<b>30,688</b>	<b>134,757</b>	<b>92,310</b>	<b>20,909</b>	<b>275</b>	<b>337,355</b>
Liquidity gap	40,937	(6,292)	(35,875)	18,565	(7,039)		
Interest sensitivity gap	21,416	(6,550)	(36,682)	17,722	(7,057)		
<b>Cumulative interest sensitivity gap</b>	<b>21,416</b>	<b>14,866</b>	<b>(21,816)</b>	<b>(4,094)</b>	<b>(11,051)</b>		
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>	<b>5%</b>	<b>4%</b>	<b>(6%)</b>	<b>(1%)</b>	<b>(3%)</b>		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
<b>FINANCIAL ASSETS</b>							
Due from banks	16,083	18,293	1,155	507	–	25	36,063
Loans to customers	9,281	16,689	56,500	65,290	9,953	(86)	157,627
Investments available-for-sale	20,039	2,000	–	–	–	–	22,039
Total interest bearing financial assets	45,403	36,982	57,655	65,797	9,953	(61)	215,729
Cash and balances with the National Bank of the Republic 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
Investment available-for-sale	–	–	–	–	–	378	378
Other financial assets	840	–	316	263	–	–	1,419
<b>Total financial assets</b>	<b>63,565</b>	<b>36,982</b>	<b>57,971</b>	<b>66,060</b>	<b>9,953</b>	<b>4,177</b>	<b>238,708</b>
<b>FINANCIAL LIABILITIES</b>							
Due to banks	2,051	2,740	4,689	–	–	–	9,480
Customer accounts	10,620	23,744	44,749	1,123	31	279	80,546
Loans received from government agencies and foreign credit institutions	1,260	5,690	21,254	45,645	13,489	–	87,338
Other financial liabilities	7	15	68	70	–	–	160
Subordinated debt	–	–	–	–	17,172	–	17,172
Total interest bearing financial liabilities	13,938	32,189	70,760	46,838	30,692	279	194,696
Due to banks	297	–	–	–	–	–	297
Customer accounts	31,127	–	–	–	–	–	31,127
Other financial liabilities	363	155	402	–	–	–	920
<b>Total financial liabilities</b>	<b>45,725</b>	<b>32,344</b>	<b>71,162</b>	<b>46,838</b>	<b>30,692</b>	<b>279</b>	<b>227,040</b>
Liquidity gap	17,840	4,638	(13,191)	19,222	(20,739)		
Interest sensitivity gap	31,465	4,793	(13,105)	18,959	(20,739)		
<b>Cumulative interest sensitivity gap</b>	<b>31,465</b>	<b>36,258</b>	<b>23,153</b>	<b>42,112</b>	<b>21,373</b>		
<b>Cumulative interest sensitivity gap as a percentage of total assets</b>	<b>13%</b>	<b>15%</b>	<b>9%</b>	<b>17%</b>	<b>9%</b>		

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the balance sheet as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the balance sheet under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2008 Total
<b>FINANCIAL LIABILITIES</b>								
Due to banks	8.16%	9,891	6,565	50,689	56,209	–	–	123,354
Loans to customers	11.76%	15,294	25,640	134,541	18,188	24	153	193,840
Loans received from government agencies and foreign credit institutions	5.23%	2,176	13,521	24,751	48,209	7,546	–	96,203
Subordinated debt	8.67%	–	81	415	3,315	13,351	–	17,162
Other financial liabilities	13.82%	7	16	40	16	–	–	79
Total interest bearing financial liabilities		27,368	45,823	210,436	125,937	20,921	153	430,638
Due to banks		361	–	–	–	–	–	361
Customer accounts		40,896	–	–	–	–	235	41,131
Other financial liabilities		314	49	230	–	–	15	608
<b>Total financial liabilities</b>		<b>68,939</b>	<b>45,872</b>	<b>210,666</b>	<b>125,937</b>	<b>20,921</b>	<b>403</b>	<b>472,738</b>

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
<b>FINANCIAL LIABILITIES</b>								
Due to banks	7.11%	2,125	2,807	4,764	–	–	–	9,696
Loans to customers	10.86%	11,315	24,758	46,758	1,172	31	279	84,313
Loans received from government agencies and foreign credit institutions	5.06%	1,713	6,591	24,995	51,319	15,189	–	99,807
Subordinated debt	11%	154	308	1,388	7,401	22,966	–	32,217
Other financial liabilities	13.78%	8	18	78	77	–	–	181
Total interest bearing financial liabilities		15,315	34,482	77,983	59,969	38,186	279	226,214
Due to banks		297	–	–	–	–	–	297
Customer accounts		31,127	–	–	–	–	–	31,127
Other financial liabilities		363	155	402	–	–	–	920
<b>Total financial liabilities</b>		<b>47,102</b>	<b>34,637</b>	<b>78,385</b>	<b>59,969</b>	<b>38,186</b>	<b>279</b>	<b>258,558</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 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.

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 Treasury Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity or treasury changes in interest rates and its influence on the Group's profitability.

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

## Interest rate sensitivity

The Group manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The ALMC 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 based on asset values as at 31 December 2008 and 2007:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>Financial assets:</b>				
Due from banks	218	(218)	361	(361)
Loans to customers	2,511	(2,511)	1,576	(1,576)
Investments available-for-sale	110	(113)	220	(220)
Investments held to maturity	30	(30)	–	–
<b>Financial liabilities:</b>				
Due to banks	(948)	948	(95)	95
Customer accounts	(966)	966	(805)	805
Loans received from government agencies and foreign credit institutions	(875)	875	(873)	873
Subordinated debt	(162)	162	(172)	172
Other financial liabilities	(1)	1	(2)	2
<b>Net impact on profit before tax</b>	<b>(83)</b>	<b>83</b>	<b>210</b>	<b>(210)</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

Impact on shareholders equity:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>Financial assets:</b>				
Due from banks	218	(218)	361	(361)
Loans to customers	2,511	(2,511)	1,576	(1,576)
Investments available-for-sale	110	(110)	220	(220)
Investments held to maturity	30	(30)	–	–
<b>Financial liabilities:</b>				
Due to banks	(948)	948	(95)	95
Customer accounts	(966)	966	(805)	805
Loans received from government agencies and foreign credit institutions	(875)	875	(873)	873
Subordinated debt	(162)	162	(172)	172
Other financial liabilities	(1)	1	(2)	2
<b>Net impact on shareholders equity</b>	<b>(83)</b>	<b>83</b>	<b>210</b>	<b>(210)</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

	AZN	USD USD 1 = AZN 0.8010	EUR EUR 1 = AZN 1.1292	JPY JPY 1 = AZN 0.0089	Other currency	31 December 2008 Total
<b>Financial assets</b>						
Cash and balances with the National Bank of the Republic of Azerbaijan	9,492	31,172	6,005	–	36	46,705
Gold	301	–	–	–	–	301
Financial assets at fair value through profit or loss	–	–	–	–	–	–
Due from banks	1,152	15,438	14,005	11,133	143	41,871
Loans to customers	106,886	121,975	3,173	20,428	–	252,462
Investments available-for-sale	11,346	–	–	–	–	11,346
Investment held to maturity.	3,000	–	–	–	–	3,000
Other financial assets	879	216	48	–	407	1,550
<b>Total financial assets</b>	<b>133,056</b>	<b>168,801</b>	<b>23,231</b>	<b>31,561</b>	<b>586</b>	<b>357,235</b>
<b>Financial liabilities</b>						
Due to banks	3,023	65,339	4,749	21,891	124	95,126
Customer accounts	76,515	35,160	16,019	10,022	63	137,779
Loans received from government agencies and foreign credit institutions	28,579	56,456	2,498	–	–	87,533
Other financial liabilities	448	213	20	–	–	681
Subordinated debt	–	16,236	–	–	–	16,236
<b>Total financial liabilities</b>	<b>108,565</b>	<b>173,404</b>	<b>23,286</b>	<b>31,913</b>	<b>187</b>	<b>337,355</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>24,491</b>	<b>(4,603)</b>	<b>(55)</b>	<b>(352)</b>	<b>399</b>	

	AZN	USD USD 1 = AZN 0.8453	EUR EUR 1 = AZN 1.2450	JPY JPY 1 = AZN 0.0075	Other currency	31 December 2007 Total
<b>Financial assets</b>						
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	2,390	94	38,471
Loans to customers	79,239	73,109	4,787	904	5	158,044
Investments available-for-sale	22,417	–	–	–	–	22,417
Other financial assets	353	802	220	–	44	1,419
<b>Total financial assets</b>	<b>112,206</b>	<b>106,012</b>	<b>16,786</b>	<b>3,294</b>	<b>410</b>	<b>238,708</b>
<b>Financial liabilities</b>						
Due to banks	–	6,099	12	3,388	278	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
Subordinated debt	–	17,172	–	–	–	17,172
Other financial liabilities	748	277	42	–	13	1,080
<b>Total financial liabilities</b>	<b>96,265</b>	<b>110,078</b>	<b>16,981</b>	<b>3,388</b>	<b>328</b>	<b>227,040</b>
<b>OPEN BALANCE SHEET</b>	<b>15,941</b>	<b>(4,066)</b>	<b>(195)</b>	<b>(94)</b>	<b>(82)</b>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## 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 by types of derivative financial instruments:

	AZN	USD USD 1 = AZN 0.8453	EUR EUR 1 = AZN 1.2450	JPY JPY 1 = AZN 0.0075	Other currency	31 December 2007 Total
Accounts payable on forward contracts	–	(710)	–	–	–	(710)
Accounts receivable on forward contracts	720	–	–	–	–	720
<b>NET DERIVATIVE FINANCIAL INSTRUMENTS POSITION</b>	<b>720</b>	<b>(710)</b>	<b>–</b>	<b>–</b>	<b>–</b>	
<b>TOTAL OPEN POSITION</b>	<b>16,661</b>	<b>(4,776)</b>	<b>(195)</b>	<b>(94)</b>	<b>(82)</b>	

## Currency risk sensitivity

The following table details the Group's Sensitivity to a 10% increase and decrease in the USD, EUR and JPY 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.

Impact on net profit based on asset values as at 31 December 2008 and 2007:

	As at 31 December 2008		As at 31 December 2007	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit or loss	(460)	460	(407)	407

	As at 31 December 2008		As at 31 December 2007	
	AZN/EURO +10%	AZN/ EURO -10%	AZN/ EURO +10%	AZN/ EURO -10%
Impact on profit or loss	(6)	6	(20)	20

	As at 31 December 2008		As at 31 December 2007	
	AZN/JPY +10%	AZN/ JPY -10%	AZN/JPY +10%	AZN/ JPY -10%
Impact on profit or loss	(35)	35	(9)	9

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (Continued)

(in Azerbaijan Manats and in thousands)

## **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.

## **Price risk**

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

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.