OPEN JOINT STOCK COMPANY BANK RESPUBLIKA

Consolidated Financial Statements
For the Year Ended December 31, 2009

OPEN JOINT STOCK COMPANY BANK RESPUBLIKA

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Open Joint Stock Company Bank Respublika and its subsidiaries (the "Group") as of December 31, 2009, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2009 were approved by management on April 20, 2010:

On behalf of the Management Board:

Chairperson of the Management Board	Director of Financial Department
Ms. Khadija Hasanova	Mr. Elnur Hasanov
April 20, 2010	*April 20, 2010*

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the 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 statement of financial position as at December 31, 2009, the consolidated income statement, the consolidated statements of comprehensive income, 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 of the Group 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 financial statements are free from material misstatement.

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

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

Deloitte.

Basis for qualified opinion

As at December 31, 2009 certain buildings were stated at their amortized cost of AZN 2,592 thousand (December 31, 2008: AZN 2,664 thousand). However, per the Group's accounting policy, such buildings should be stated in the consolidated statement of financial position at their revalued amounts. The information needed to quantify the effects of this departure on the consolidated financial position and consolidated results of operations of the Group is not reasonably determinable.

Qualified opinion

In our opinion, except for the effect on the consolidated financial statements of the matter referred to in the preceding paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche.

April 27, 2010
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY BANK RESPUBLIKA

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009

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

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
Interest income	4, 30	43,913	47,997
Interest expense	4, 30	(23,560)	(20,893)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		20,353	27,104
Provision for impairment losses on interest bearing assets	5, 30	(3,207)	(6,416)
NET INTEREST INCOME		17,146	20,688
Net gain on foreign exchange operations	6	3,396	2,132
Net gain/(loss) on operations with gold	7	116	(69)
Fee and commission income received	8, 30	5,896	9,062
Fee and commission expense paid	8, 30	(2,633)	(2,730)
Dividends received		23	45
Insurance premium earned	9	3,531	8,287
Premium ceded on reinsurance	9	(842)	(350)
Other income		152	56
Other expenses		(25)	(60)
NON-INTEREST INCOME		9,614	16,373
Gross claims paid	9	(2,039)	(1,100)
Gross claims ceded	9	378	42
Change in provision for unearned premium, net of reinsurance	5, 9	1,335	(4,873)
Change in loss provision, net of reinsurance	5, 9	(157)	(291)
NET NON-INTEREST INCOME		9,131	10,151
OPERATING INCOME		26,277	30,839
OPERATING EXPENSES	10, 30	(18,283)	(17,195)
OPERATING PROFIT		7,994	13,644
Provision for impairment losses on guarantees, investments available-for-sale and other assets	5	(138)	(255)
Loss on revaluation of property		(106)	-
PROFIT BEFORE INCOME TAX		7,750	13,389
Income tax benefit/(expense)	11	795	(2,947)
NET PROFIT		8,545	10,442
Attributable to:			
Owners of the parent		7,824	9,921
Minority interest		721	521
		8,545	10,442
EARNINGS PER SHARE			
Basic and diluted (AZN)	12	0.589	1.225

On behalf of the Management Board:

Chairperson of the Management Board
Ms. Khadija Hasanova

April 20, 2010

Director of Financial Department
Mr. Elnur Hasanov

April 20, 2010

The notes on pages 10-63 form an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY BANK RESPUBLIKA

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Azerbaijan Manats)

	Year ended December 31, 2009	Year ended December 31, 2008
NET PROFIT	8,545	10,442
Revaluation of property, net of deferred income tax effect of AZN 369 thousand and AZN (1,587) thousand as at December 31, 2009 and 2008, respectively	(1,473)	5,627
TOTAL COMPREHENSIVE INCOME	7,072	16,069
Attributable to:		
Owners of the parent	6,351	15,548
Minority interest	721	521
TOTAL COMPREHENSIVE INCOME	7,072	16,069

On behalf of the Management Board:

Chairperson of the Management Board
Ms. Khadija Hasanova

April 20, 2010

Director of Financial Department
Mr. Elnur Hasanov

April 20, 2010

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2009

(in thousands of Azerbaijan Manats)

	Notes	December 31, 2009	December 31, 2008
ASSETS:			
Cash and balances with the Central Bank of the Republic of Azerbaijan	13	92,099	46,705
Gold		209	301
Due from banks	14	31,147	41,871
Loans to customers	15, 30	185,588	252,462
Investments available-for-sale	16, 30	603	11,346
Investments held to maturity	17, 30	1,495	3,000
Goodwill		388	388
Property and equipment	18	26,074	27,145
Investment property	19	1,423	1,423
Intangible assets	20	314	310
Receivables arising out of insurance operations	21	1,145	235
Other assets	22, 30	7,192	3,387
TOTAL ASSETS		347,677	388,573
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other credit institutions	23	21,973	95,126
Customer accounts	24, 30	176,892	137,779
Loans received from government agencies and foreign credit institutions	25, 30	75,388	87,533
Other provisions	5	5,472	6,536
Current income tax liabilities		324	1,058
Deferred income tax liabilities	11	799	2,217
Other liabilities	26	2,058	897
Subordinated debt	27, 30	18,027	16,236
Total liabilities		300,933	347,382
EQUITY:			
Equity attributable to owners of the parent:			
Share capital	28	30,578	22,578
Property revaluation reserve		5,961	7,434
Retained earnings		7,996	9,946
Total equity attributable to owners of the parent		44,535	39,958
Minority interest		2,209	1,233
Total equity		46,744	41,191
TOTAL LIABILITIES AND EQUITY		347,677	388,573

On behalf of the Management Board:

Chairperson of the Management Board
Ms. Khadija Hasanova

April 20, 2010

Director of Financial Department
Mr. Elnur Hasanov

April 20, 2010

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Azerbaijan Manats)

	Share capital	Property revaluation reserve	Retained earnings	Total equity attributable to owners of the parent	Minority interest	Total Equity
December 31, 2007	12,580	1,807	5,263	19,650	368	20,018
Total comprehensive income for the year	-	5,627	9,921	15,548	521	16,069
Share capital increase by issue of ordinary shares	9,998	-	-	9,998	-	9,998
Dividends declared on ordinary shares	-	-	(5,238)	(5,238)	-	(5,238)
Share capital increase in subsidiary	-	-	-	-	344	344
December 31, 2008	22,578	7,434	9,946	39,958	1,233	41,191
Total comprehensive (loss)/income for the year	-	(1,473)	7,824	6,351	721	7,072
Share capital increase by issue of ordinary shares	8,000	-	-	8,000	-	8,000
Dividends declared on ordinary shares	-		(9,774)	(9,774)	-	(9,774)
Share capital increase in subsidiary	-	-	-	-	255	255
December 31, 2009	30,578	5,961	7,996	44,535	2,209	46,744

On behalf of the Management Board:

Chairperson of the Management Board
Ms. Khadija Hasanova

April 20, 2010

Director of Financial Department
Mr. Elnur Hasanov

April 20, 2010

The notes on pages 10-63 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		7,750	13,389
Adjustments for:			
Provision for impairment losses on interest bearing assets	5	3,207	6,416
Provision for impairment losses on guarantees, investments available-for-sale and other assets	5	138	255
(Recovery of provision)/provision for unearned premium and loss provision	5	(1,178)	5,164
Gain from disposal of property, equipment and intangible assets		-	(18)
(Gain)/loss on foreign exchange operations	6	(108)	3
Net unrealized (gain)/loss arising from changes on prices on gold	7	(54)	45
Depreciation and amortization expense	10	2,869	1,735
Change in interest accruals, net		3,064	2,786
Loss on revaluation of property		106	-
Dividend income		(23)	(45)
Cash inflow from operating activities before changes in operating assets and liabilities		15,771	29,730
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of the Republic of Azerbaijan	13	5,865	(2,700)
Gold		146	(341)
Financial assets at fair value through profit or loss		-	10
Due from banks		(802)	(4,343)
Loans to customers		63,086	(104,706)
Receivables arising out of insurance operations		(1,087)	(58)
Other assets		(884)	(265)
Increase/(decrease) in operating liabilities			
Due to banks and other credit institutions		(70,105)	84,240
Customer accounts		35,503	29,596
Loans received from the government agencies and foreign credit institutions		(12,512)	2,564
Other liabilities		1,111	(176)
Cash inflow from operating activities before taxation		36,092	33,551
Income tax paid		(1,191)	(2,489)
Net cash inflow from operating activities		34,901	31,062
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(3,623)	(13,712)
Purchase of intangible assets		(2,818)	-
Proceeds on sale of property, equipment and intangible assets		37	85
Purchase of investment property		-	(1,423)
Dividends received		-	45
Proceeds on sale of investments available-for-sale		25,418	10,997
Purchase of investments available-for-sale		(14,407)	-
Purchase of investments held to maturity		(1,259)	(3,000)
Proceeds on redemption of investments held to maturity		3,100	-
Purchase of equity investments		(127)	-
Net cash inflow/(outflow) from operating activities		6,321	(7,008)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2009
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2009	Year ended December 31, 2008
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital		8,000	9,998
Issue of subsidiary's ordinary share capital to minority shareholders		255	344
Subordinated debt received		1,767	-
Dividends paid		(9,774)	(5,238)
Net cash inflow from financing activities		248	5,104
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		123	(5,205)
NET INCREASE IN CASH AND CASH EQUIVALENTS		41,593	23,953
CASH AND CASH EQUIVALENTS, beginning of year	13	71,852	47,899
CASH AND CASH EQUIVALENTS, end of year	13	113,445	71,852

Interest paid and received by the Group during the year ended December 31, 2009 amounted to AZN 24,044 thousand and AZN 47,046 thousand, respectively.

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

On behalf of the Management Board:

Chairperson of the Management Board
Ms. Khadija Hasanova

April 20, 2010

Director of Financial Department
Mr. Elnur Hasanov

April 20, 2010

The notes on pages 10-63 form an integral part of these consolidated financial statements.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

Open Joint Stock Company Bank Respublika (the "Bank") is a joint-stock bank, which was incorporated in the Republic of Azerbaijan in 1992. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under general license number 83. The Bank's primary business consists of commercial activities, origination loans and guarantees, and trading with foreign currencies. The Bank had 27 branches and 6 service points in Azerbaijan as at December 31, 2009 (December 31, 2008: 21 branches and 9 service points).

The registered office of the Bank is located at 21, Khagani Street, Baku AZ 1000, Azerbaijan.

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

Name	Country of operation	Proportion or ownership interest/voting rights (%) 2009	2008	Type of operation
Bank Respublika - parent	*Azerbaijan Republic*	n/a	n/a	*Banking*
Baki Sigorta OJSC	*Azerbaijan Republic*	51	51	*Insurance*
Respublika Invest LLC	*Azerbaijan Republic*	100	100	*Securities market transactions*

Open Joint Stock Company Baki Sigorta is an open joint-stock company registered in the Republic of Azerbaijan on 28 August 2007. The principal activity of the company is insurance services. The company operates under insurance licenses issued by the Ministry of Finance of the Republic of Azerbaijan dated 12 February 2004. Insurance business written by the company includes, but is not limited to, cargo, property, casualty, third party liability, automobile and reinsurance. The address of its registered office is as follows: 21, Khagani 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 December 31, 2009 and 2008, the following shareholders owned the issued shares of the Bank:

	December 31, 2009, %	**December 31, 2008, %**
Shareholder		
DEG (Deutsche Investitions - und Entwicklungsgesellshaft GmbH)	16.67	16.67
Guliyev Natig Saday oglu	16.66	16.66
Guliyev Elchin Saday oglu	15.18	15.10
Guliyeva Sevda Saday gizi	14.53	14.53
Guliyev Saday Asad oglu	14.36	14.36
Guliyeva Mariya Heydar gizi	14.07	14.07
SIDT (Sparkassen International Development Trust GmbH)	8.33	8.33
Others	0.20	0.28
Total	**100.00**	**100.00**

These consolidated financial statements were authorized for issue by the Management Board on April 20, 2010.

2. BASIS OF PRESENTATION

Accounting basis

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), except for certain buildings stated at cost of AZN 2,592 thousand (December 31, 2008: AZN 2,664 thousand) and have not been revalued under International Accounting Standard ("IAS") 16 "Property, plant and equipment" as at December 31, 2009.

These consolidated financial statements have been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The management and shareholders have the intention to further develop the business of the Group in the Republic of Azerbaijan both in corporate and retail segments. The Management believes that the going concern assumption is appropriate for the Group due to its sufficient capital adequacy ratio which has been further strengthened with the subsequent issue of shares illustrating the commitment of shareholders to support the Group and based on historical experience that short-term obligations will be refinanced in the normal course of business.

These consolidated financial statements are presented in thousands of 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 certain buildings at revalued amounts according to IAS 16 "Property, plant and equipment".

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

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 owners of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated statement of financial position and the consolidated statement of comprehensive income, 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 owners of the parent.

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. 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 of the company acquired and the measurement of the cost of the combination; and
(b) Any excess remaining after such reassessment is recognized immediately in the consolidated statement of comprehensive income.

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 in its consolidated statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between trade date and settlement date are accounted for in the same way as for acquired instruments.

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

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 in the consolidated statement of financial position. 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 is 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 statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the CBAR and advances to banks in countries included in the Organization for Economic Cooperation and Development ("OECD") with original maturity within 90 days.

For the purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of Azerbaijan and commemorative coins are not included as a cash equivalent due to restrictions on their availability (Note 13).

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 on the date. Changes in the bid prices are recorded in net gain/(loss) 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 are subsequently measured at amortized cost using the effective interest method. Amounts due from credit institutions are carried net of any allowance for impairment losses.

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 that directly relate to acquisition or creation of such financial assets. 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 statement of comprehensive income according to nature of the losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

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

Allowance for impairment losses

The Group accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents a difference between the carrying value of the asset and current value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortized value. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

For the financial instruments recorded at cost the impairment represents the difference between the carrying value of the financial asset and current value of the estimated future cash flows discounted using the current market interest rate for a similar financial instrument. Such impairment losses are not reversed.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual evaluation of assets subject to risks regarding financial assets being material individually and on the basis of an individual or joint evaluation of financial assets not being material individually.

The change in the impairment is included into profits using the provision account (financial assets recorded at amortized cost) or by a direct write-off (financial assets recorded at cost). Assets recorded in the consolidated statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of occurrence of an impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of recognition of the impairment loss on the financial asset or group of financial assets.

It should be noted that the evaluation of losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Group can incur losses greater than recorded impairment.

Investments held to maturity

Investments held to maturity are debt securities with determinable or fixed payments, and where the Group has a positive intent and the 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 represents 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/(losses) and interest income accrued using the effective interest method, which are recognized directly in the consolidated statement of comprehensive income. When sold, gain/(loss) previously recorded in equity is recycled through the consolidated statement of comprehensive income. The Group uses quoted market prices to determine fair value of 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 statement of comprehensive income.

Non-marketable debt/equity securities are stated at amortized cost/cost 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 statement of comprehensive income for the period. These financial assets are recognized net of impairment loss.

Non-life insurance operations

- **Premium written -** Upon inception of a contract, premium are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.
- **Provision for unearned premium -** Provision for unearned premium represent the proportion of premium written in the period that relate to unexpired terms of policies in force as at the reporting 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 reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases after the reporting 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 premium 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 premium 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 consolidated statement of financial position 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 premium 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.

Depreciation is charged on the carrying value of property and equipment; and amortization of intangible assets is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following annual prescribed 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 reporting 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 consolidated statement of financial position 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 reporting date.

Any revaluation increase arising on the revaluation of such buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to profit or loss for the period 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 property and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated statement of comprehensive income. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property and equipment 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.

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 before tax as reported in the consolidated statement of comprehensive income 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 goodwill or from the initial recognition (other than in a business combination) 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, 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 reporting 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 to profit or loss, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the consolidated statement of financial position if:

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

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

Due to banks and other credit institutions, customer accounts, loans received from government agencies and foreign credit institutions and subordinated debt

Due to banks and other credit institutions, customer accounts, loans received from government agencies and foreign credit institutions and subordinated debt are initially recognized at fair value. Subsequently, amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings, using the effective interest method.

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.

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.

Contingencies

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

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 reporting date are treated as a subsequent event under IAS 10 "Events after the Balance Sheet Date" and disclosed accordingly.

Retirement and other benefit obligations

In accordance with the requirements of the Republic of Azerbaijan legislation, pension payments are calculated by an employer as certain percentages of salary expenses and transferred to the pension fund of the Republic of Azerbaijan. This expense is charged to profit or loss in the period in which the related salaries are earned. Upon retirement, all retirement benefit payments are made by the pension fund. 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 the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Interest earned on assets at fair value is 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 profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

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. 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 reporting 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.

Rates of exchange

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

	December 31, 2009	**December 31, 2008**
AZN/1 US Dollar	0.8031	0.8010
AZN/1 Euro	1.1499	1.1292
AZN/1 GBP	1.2759	1.1621
AZN/1 RUR	0.0266	0.0272
AZN/1 JPY	0.0087	0.0089
AZN/Gold bullion (1 ounce)	888.2100	705.0500

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position 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

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

- its reported revenue, from both external customers and intersegment sales or transfers, is 10 per cent or more of the combined revenue, internal and external, of all operating segments; or
- the absolute measure of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- its assets are 10 per cent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 per cent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 per cent of the Group's revenue is included in reportable 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 reporting date and the reported amount 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.

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 financial statements in future periods.

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

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

As at December 31, 2009 and 2008 the gross loans to customers totaled AZN 198,603 thousand and AZN 262,473 thousand, respectively, and allowance for impairment losses amounted to AZN 13,015 thousand and AZN 10,011 thousand, respectively.

Valuation of financial instruments
Financial instruments that are classified as available for sale are stated at fair value.

The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged 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 missed, 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 statement of comprehensive income 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.

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 in the consolidated statement of financial position 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 value of investments available-for-sale amounted to AZN 603 thousand and AZN 11,346 thousand as at December 31, 2009 and 2008 respectively.

Goodwill
Goodwill is the excess cost of an acquisition over the fair value of its net 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.

The carrying value of goodwill amounted to AZN 388 thousand as at December 31, 2009 and 2008.

Property and equipment
Certain property (buildings) is measured at revalued/impaired amounts. The date of the latest appraisal was December 31, 2009. The carrying value of revalued property amounted to AZN 11,519 thousand and AZN 13,462 thousand as at December 31, 2009 and 2008, respectively.

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 IASB and IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2009. 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.

Amendment to IAS 1 "Presentation of Financial Statements" – On September 6, 2007, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented. It also changes the titles of primary financial statements as they will be referred 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 January 1, 2009.

IFRS 8 "Operating Segments" – On November 30, 2006, the IASB issued IFRS 8 that replaces IAS 14 "Segment Reporting" and which requires segmental analysis reported by an entity to be based on information used by management. IFRS 8 is effective for periods beginning on or after January 1, 2009.

Standards and interpretations in issue 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 Standards and Interpretations were in issue but not yet effective.

IFRS 3 "Business Combinations" – The IASB published IFRS 3 and related revisions to IAS 27 "Consolidated and Separate Financial Statements" following the completion in January 2008 of its project on the acquisition and disposal of subsidiaries.

In May 2008, the IASB issued amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” that change the investor’s accounting for the cost of an investment in a subsidiary, jointly controlled entity or associate. It does not affect the consolidated financial statements but may prospectively affect the Group’s accounting and presentation of receipts of dividends from such entities. They are effective for accounting periods beginning on or after 1 July 2009.

IFRIC 18 “Transfers of Assets from Customers” was issued to address divergent practice in the accounting by recipients for transfers of property and equipment from customers. The Interpretation concludes that when an item of property and equipments transferred meets a definition of an asset from the perspective of a recipient, the recipient should recognize the asset at its fair value on the date of transfer with the credit recognized as revenue. The Interpretation is to be applied prospectively to transfers of assets from customers received on or after July 1, 2009.

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 Non-controlling 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 July 1, 2009. Earlier application is permitted. However, an entity must not apply the amendments for annual periods beginning before July 1, 2009 unless it also applies IFRS 3 (as revised in 2008).

Financial instruments: Classification and Measurement (Exposure draft) - In July 2009 IASB issued an exposure draft (ED) that is a part of IASB’s project to replace IAS 39: Recognition and Measurement. The ED proposes a new classification and measurement model for financial assets and financial liabilities. All recognised financial assets and financial liabilities that are currently in the scope of IAS 39 will be measured either at amortised cost or fair value. A financial instrument that has only basic loan features and is managed on a contractual yield basis is measured at amortised cost, unless designated as at fair value through profit or loss (FVTPL). Those financial instruments measured at fair value will either be classified as FVTPL or in the case of investment in equity instruments that are not held for trading, designated irrevocably as at fair value through other comprehensive income (FVTOCI).

All investments in equity instruments and derivatives linked to equity instruments in the scope of IAS 39 must be measured at fair value, i.e. an unquoted equity investment cannot be measured at cost less impairment when fair value cannot be reliably measured as currently required by IAS 39. The ED does not permit reclassifications out of or into amortised cost, FVTPL or FVTOCI after initial recognition. The effective date of these changes is not yet determined but the IASB expects to finalize the new classification and management model in time to allow entities to voluntary adopt the new model for 2009 year-end financial statements.

4. NET INTEREST INCOME

	Year ended December 31, 2009	Year ended December 31, 2008
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	7,398	5,448
- interest income on unimpaired financial assets	36,279	42,394
Interest income on guarantees	236	155
Total interest income	43,913	47,997
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	41,954	44,576
Interest on due from banks	1,227	2,533
Interest on debt securities	490	608
Interest on other operations	6	68
Interest on investments held-to-maturity	-	57
Interest income on guarantees	236	155
Total interest income	43,913	47,997
Interest expense comprises:		
Interest on financial liabilities recorded at amortized cost	(23,560)	(20,893)
Total interest expense	**(23,560)**	**(20,893)**
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on customer accounts	(13,288)	(9,260)
Interest on due to banks	(5,367)	(4,384)
Interest on loans received from government agencies and foreign credit institutions	(3,555)	(4,938)
Interest on subordinated debt	(1,350)	(2,311)
Total interest expense on financial liabilities recorded at amortized cost	(23,560)	(20,893)
Net interest income before provision for impairment losses on interest bearing financial assets	**20,353**	**27,104**

5. ALLOWANCE FOR IMPAIRMENT LOSSES AND OTHER PROVISIONS

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

	Due from banks	Loans to customers	Total
December 31, 2007	-	3,689	3,689
Additional provision	47	6,369	6,416
Write-off of assets	-	(50)	(50)
Recoveries of assets previously written off	-	3	3
December 31, 2008	**47**	**10,011**	**10,058**
(Recovery of provision)/additional provision	(1)	3,208	3,207
Write-off of assets	-	(204)	(204)
December 31, 2009	**46**	**13,015**	**13,061**

The movements in other allowances were as follows:

	Insurance receivables	Other assets	Investments available-for-sale	Guarantees and other commitments	Total
December 31, 2007	-	4	110	-	114
Additional provision	-	-	43	212	255
Write-off of assets	-	(4)	-	-	(4)
December 31, 2008	-	**-**	**153**	**212**	**365**
Additional provision/(recovery of provision)	177	-	(153)	114	138
December 31, 2009	**177**	**-**	**-**	**326**	**503**

	Unearned premium	Insurance operations	Total
December 31, 2007	894	266	1,160
Additional provision recognized, net of reinsurance	4,873	291	5,164
December 31, 2008	**5,767**	**557**	**6,324**
(Recovery of provision) / provision recognized, net of reinsurance	(1,335)	157	(1,178)
December 31, 2009	**4,432**	**714**	**5,146**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Dealing, net	3,288	2,135
Translation differences, net	108	(3)
Total net gain on foreign exchange operations	**3,396**	**2,132**

7. NET GAIN/(LOSS) ON OPERATIONS WITH GOLD

Net gain/(loss) on operations with gold comprises:

	Year ended December 31, 2009	Year ended December 31, 2008
Gain/(loss) from gold sale	62	(24)
Translation differences on gold, net	54	(45)
Total net gain/(loss) on operations with gold	**116**	**(69)**

8. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2009	Year ended December 31, 2008
Fee and commission income:		
Plastic cards services	2,139	1,979
Settlements	1,968	2,285
Cash operations	1,370	3,513
Letters of credit	166	901
Foreign exchange operations	132	241
Reinsurance	63	57
Guarantee letters	10	14
Other operations	48	72
Total fee and commission income	**5,896**	**9,062**
Fee and commission expense:		
Plastic cards services	(914)	(1,044)
Cash operations	(858)	(405)
Letters of credit	(503)	(513)
Settlements	(172)	(199)
Foreign exchange operations	(112)	(91)
Guarantees	(13)	(371)
Other operations	(61)	(107)
Total fee and commission expense	**(2,633)**	**(2,730)**

9. ANALYSIS OF PREMIUM AND CLAIMS

The analysis of premium and claims for year ended December 31, 2009 is as follows:

	Vehicle	Property	Other	Total
Gross premium written	2,072	396	1,063	3,531
Premium ceded	(44)	(135)	(663)	(842)
Net premium written	2,028	261	400	2,689
Change in provision for unearned premium, net of reinsurance	1,369	145	(179)	1,335
Net premium earned	**3,397**	**406**	**221**	**4,024**
Gross claims paid	(1,606)	-	(433)	(2,039)
Claims ceded	10	-	368	378
Net claims paid	(1,596)	-	(65)	(1,661)
Change in loss provision, net of reinsurance	(122)	(10)	(25)	(157)
Net claims incurred	**(1,718)**	**(10)**	**(90)**	**(1,818)**

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

	Vehicle	Property	Other	Total
Gross premium written	7,369	475	443	8,287
Premium ceded	(63)	(91)	(196)	(350)
Net premium written	7,306	384	247	7,937
Change in provision for unearned premium, net of reinsurance	(4,735)	(144)	6	(4,873)
Net premium earned	**2,571**	**240**	**253**	**3,064**
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)
Net claims incurred	**(1,257)**	**(27)**	**(65)**	**(1,349)**

10. OPERATING EXPENSES

Operating expenses comprise:

	Year ended December 31, 2009	Year ended December 31, 2008
Salaries and bonuses	8,897	9,168
Depreciation and amortization expense	2,869	1,735
Operating lease expense	982	733
Security costs	954	736
Advertising and marketing	904	1,064
Communication expense	609	541
Professional services fees	557	780
Fees paid to Deposit Insurance Fund	420	450
Transportation and travel	289	374
Insurance	288	229
Repairs and maintenance	266	210
Office expenses	244	274
Taxes other than income tax	189	582
Insurance loss adjusting expenses	170	-
Utilities	113	85
Entertainment	58	55
Membership fees	23	25
Other expense	451	154
Total operating expenses	**18,283**	**17,195**

11. INCOME TAXES

The Group provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic of Azerbaijan where the Group and its subsidiaries operate, 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%.

In June 2009, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 22% to 20% effective from 1 January 2010. Starting from December 31, 2009 deferred taxes were measured at 20%.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at December 31, 2009 and 2008 comprise:

	December 31, 2009	December 31, 2008
Deductible temporary differences:		
Loans to customers	278	-
Intangible assets	-	191
Investments available-for-sale	-	153
Other assets	-	41
Total deductible temporary differences	**278**	**385**
Taxable temporary differences:		
Property and equipment	(4,274)	(9,654)
Provision for impairment losses on other operations	-	(653)
Other liabilities	-	(155)
Total taxable temporary differences	**(4,274)**	**(10,462)**
Net deferred liabilities	(3,996)	(10,077)
Deferred tax liabilities at the statutory rate of 20% (2008: 22%)	(799)	(2,217)
Net deferred tax liability	**(799)**	**(2,217)**

Relationships between tax expenses and accounting profit for the years ended December 31, 2009 and 2008 are explained as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Profit before income tax	7,750	13,389
Tax at the statutory tax rate (22%)	1,705	2,946
Tax effect of permanent differences	254	1
Effect of changes in income tax rate	(1,049)	-
Government exempt from tax liabilities (*)	(1,705)	-
Income tax (benefit)/expense	**(795)**	**2,947**
Current income tax expense	254	2,858
Changes in deferred income tax balances	(1,049)	89
Income tax (benefit)/expense	**(795)**	**2,947**

(*) - On 28 October 2008, the Government of the Republic of Azerbaijan adopted a Law on "Stimulation of increase of capitalization of banks, insurance and reinsurance companies". According to the Law, part of the profit of banks, insurance and reinsurance companies directed to increase of their charter capital will not be subject to income tax for three years beginning from 1 January 2009. Therefore, current assets and liabilities qualifying the terms of exempt were excluded from taxable temporary differences as at December 31, 2009.

Deferred income tax liabilities	December 31, 2009	December 31, 2008
As at January 1 – deferred tax liabilities	**2,217**	**541**
Tax effect of changes in property revaluation reserve	(369)	1,587
Change in the income tax liability for the period charged to profit	(1,049)	89
As at December 31– deferred tax liabilities	**799**	**2,217**

12. EARNINGS PER SHARE

	Year ended December 31, 2009	Year ended December 31, 2008
Profit:		
Net profit for the year attributable to equity holders of the parent	7,824	9,921
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share	13,289,012	8,098,746
Earnings per share – basic and diluted (AZN)	**0.589**	**1.225**

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

	December 31, 2009	December 31, 2008
Cash on hand	43,662	15,691
Balances with the Central Bank of the Republic of Azerbaijan	48,437	31,014
Total cash and balances with the Central Bank of the Republic of Azerbaijan	**92,099**	**46,705**

The obligatory minimum reserve deposits with the Central Bank of the Republic of Azerbaijan included in the balances with the Central Bank of the Republic of Azerbaijan are restricted balances of AZN 695 thousand and AZN 6,560 thousand, respectively, as at December 31, 2009 and 2008. The Central Bank of the Republic of Azerbaijan 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 30 days period will be eventually higher than required mandatory reserve.

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

	December 31, 2009	December 31, 2008
Cash and balances with the Central Bank of the Republic of Azerbaijan	92,099	46,705
Due from banks in OECD countries	22,069	31,744
	114,168	78,449
Less minimum reserve deposits with the Central Bank of the Republic of Azerbaijan	(695)	(6,560)
Less commemorative coins	(28)	(37)
Total cash and cash equivalents	**113,445**	**71,852**

14. DUE FROM BANKS

Due from banks comprise:

	December 31, 2009	December 31, 2008
Loans and time deposits with other banks	19,052	13,338
Correspondent accounts with other banks	12,141	28,580
	31,193	41,918
Less allowance for impairment losses	(46)	(47)
Total due from banks	**31,147**	**41,871**

Movements in the allowance for impairment losses on balances due from banks for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

As at December 31, 2009 and 2008 accrued interest income included in due from banks amounted to AZN 138 thousand and AZN 141 thousand, respectively.

As at December 31, 2008 the Group simultaneously placed with and received short-term funds from one bank in different currencies of AZN 5,884 thousand (see Note 23).

15. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2009	December 31, 2008
Loans to customers	198,603	262,473
Less: allowance for impairment losses	(13,015)	(10,011)
Total loans to customers	**185,588**	**252,462**

Movements in the allowance for impairment losses for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

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

	December 31, 2009	December 31, 2008
Loans collateralized by pledge of real estate, equipment and inventories	96,786	106,420
Loans collateralized by vehicles	49,667	78,344
Loans collateralized by deposits	26,633	23,548
Loans collateralized by guarantees of individuals	4,250	11,684
Loans collateralized by gold	1,535	1,545
Loans collateralized by pledge of corporate shares	1,445	2,580
Loans collateralized by guarantees of legal entities	623	1,627
Loans collateralized by guarantees of financial institutions	356	576
Loans collateralized by pledge of equipment	229	11,487
Unsecured loans	17,079	24,662
	198,603	262,473
Less: allowance for impairment losses	(13,015)	(10,011)
Total loans to customers	**185,588**	**252,462**

	December 31, 2009	December 31, 2008
Analysis by sector:		
Individuals	89,584	129,629
Trade	57,000	64,593
Manufacturing	25,960	33,783
Construction	15,332	23,845
Agriculture	7,379	6,797
Transport and communication	3,348	3,826
	198,603	262,473
Less: allowance for impairment losses	(13,015)	(10,011)
Total loans to customers	**185,588**	**252,462**

Loans to individuals comprise the following products:

	December 31, 2009	December 31, 2008
Car loans	47,145	73,040
Mortgage loans	19,225	21,883
Consumer loans	16,967	24,796
Plastic cards	5,246	9,461
Pawn loans	1,001	437
Other	-	12
	89,584	129,629
Less allowance for impairment losses	(5,758)	(3,247)
Total loans to individuals	**83,826**	**126,382**

As at December 31, 2009 and 2008 all loans (100% of total portfolio) is granted to customers operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one country.

As at December 31, 2009 and 2008 the Group granted loans to four and one customer, totaling AZN 34,156 thousand and AZN 4,035 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2009 and 2008 loans to customers included loans totaling AZN 7,200 thousand and AZN 21 thousand, respectively, with terms renegotiated. Otherwise these loans would be past due or impaired.

As at December 31, 2009 and 2008 loans to customers included loans in amount of AZN 40,252 thousand and AZN 30,606 thousand, respectively, that were individually determined to be impaired. As at December 31, 2009 and 2008 such loans were secured by cash, real estate, vehicles and equipment with a fair value of AZN 32,765 thousand and AZN 21,972 thousand, respectively.

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

	December 31, 2009			**December 31, 2008**		
	Carrying value before allowance	**Allowance for impairment losses**	**Carrying value**	**Carrying value before allowance**	**Allowance for impairment losses**	**Carrying value**
Loans to customers individually determined to be impaired	40,252	(4,898)	35,354	30,606	(4,418)	26,188
Loans to customers individually determined to be unimpaired	24,369	-	24,369	49,157	-	49,157
Loans to customers collectively assessed for impairment	133,982	(8,117)	125,865	182,710	(5,593)	177,117
Total	**198,603**	**(13,015)**	**185,588**	**262,473**	**(10,011)**	**252,462**

16. INVESTMENTS AVAILABLE-FOR-SALE

Investments available for sale comprise:

	December 31, 2009	**December 31, 2008**
Equity securities	603	335
Debt securities	-	11,011
Total investments available-for-sale	**603**	**11,346**

Movements in the allowance for impairment losses for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

	Nominal interest rate	**December 31, 2009**	**Nominal interest rate**	**December 31, 2008**
Debt securities				
Short-term notes of the Central Bank of the Republic of Azerbaijan	-	-	5.29%	11,011
		-		**11,011**

Equity investments	Ownership,%		Ownership,%	
Milli Kart LLC	10.00%	500	10.00%	247
Baku Stock Exchange LLC	6.00%	88	6.00%	88
SWIFT	-	15	-	-
		603		335
Total investments available-for-sale		**603**		**11,346**

17. INVESTMENTS HELD TO MATURITY

As at December 31, 2009 and 2008 the Group purchased long-term debt securities of three local companies totaling AZN 1,495 thousand and AZN 3,000 thousand, respectively, with the amount of interest to nominal of 14%-16% and maturity in November 2010 – January 2011.

As at December 31, 2009 and 2008 accrued interest income included in the investments held to maturity amounted to AZN 346 thousand and AZN 10 thousand, respectively.

18. PROPERTY AND EQUIPMENT

	Land	Buildings	Furniture and equipment	Computers	Vehicles	Other equipment	Leasehold improvements	Construction in progress	Total
At cost									
December 31, 2007	-	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)
Transfers	-	2,058	(5)	5	-	-	530	(2,588)	-
December 31, 2008	5,603	16,147	3,443	1,740	1,600	336	1,011	19	29,899
Additions	-	700	663	1,218	478	86	75	408	3,628
Revaluation	-	(2,629)	-	-	-	-	-	-	(2,629)
Disposals	-	-	-	-	(73)	-	-	-	(73)
December 31, 2009	5,603	14,218	4,106	2,958	2,005	422	1,086	427	30,825
Accumulated depreciation									
December 31, 2007	-	(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
Transfers	-	-	-	-	-	(3)	3	-	-
December 31, 2008	-	(5)	(1,353)	(752)	(411)	(94)	(139)	-	(2,754)
Charge for the year	-	(820)	(762)	(478)	(326)	(132)	(194)	-	(2,712)
Eliminated on disposal	-	-	-	-	33	-	-	-	33
Eliminated on revaluation	-	682	-	-	-	-	-	-	682
December 31, 2009	-	(143)	(2,115)	(1,230)	(704)	(226)	(333)	-	(4,751)
Net book value									
As at December 31, 2009	**5,603**	**14,075**	**1,991**	**1,728**	**1,301**	**196**	**753**	**427**	**26,074**
As at December 31, 2008	**5,603**	**16,142**	**2,090**	**988**	**1,189**	**242**	**872**	**19**	**27,145**

As at December 31, 2009 certain buildings owned by the Group were devalued to market prices according to the opinion of the independent appraiser. As a result, carrying value of these certain buildings amounted to AZN 11,519 thousand (December 31, 2008: AZN 13,462 thousand). If these certain buildings were accounted at historical cost less accumulated depreciation and impairment losses, their carrying value would be AZN 6,510 thousand as at December 31, 2009 (December 31, 2008: AZN 6,249 thousand).

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

As at December 31, 2009 and 2008 included in property and equipment were fully depreciated assets of AZN 1,482 thousand and AZN 753 thousand, respectively.

19. INVESTMENT PROPERTY

In 2008 the Group acquired land as investment property which is held for long-term appreciation in value. At December 31, 2009 and 2008 fair value of investment property amounted to AZN 1,423 thousand.

20. INTANGIBLE ASSETS

Intangible assets comprise:

	2009	2008
At cost		
January 1	716	560
Additions	161	156
December 31	877	716
Accumulated amortization		
January 1	(406)	(267)
Charge for the year	(157)	(139)
December 31	(563)	(406)
Net book value		
December 31	**314**	**310**

Intangible assets include software and licenses.

21. RECEIVABLES ARISING OUT OF INSURANCE OPERATIONS

	December 31, 2009	December 31, 2008
Receivables arising out of direct insurance operations	1,080	235
Receivables arising out of reinsurance operations	242	-
	1,322	235
Less allowance for impairment losses	(177)	-
Total receivables arising on insurance operations	**1,145**	**235**

Movements in the allowance for impairment losses on receivables arising out of insurance operations for the years ended December 31, 2009 are disclosed in Note 5.

22. OTHER ASSETS

Other assets comprise:

	December 31, 2009	December 31, 2008
Other financial assets recognized as loans and receivables in accordance with IAS 39:		
Settlements on money transfers	982	501
Claims receivables out of reinsurance operations	772	184
Accrued interest income on guarantee letters	-	31
Other	67	142
	1,821	858
Other non-financial assets:		
Prepayments for purchase of intangibles	2,657	-
Prepayments for purchase of property and equipment	1,919	1,923
Deferred expenses	381	386
Receivable from the State Budget	285	81
Prepayments and receivables on other transactions	129	139
Total other assets	**7,192**	**3,387**

Movements in the allowance for impairment losses on other assets for the years ended December 31, 2009 and 2008 are disclosed in Note 5.

23. DUE TO BANKS AND OTHER CREDIT INSTITUTIONS

Due to banks and other credit institutions comprise:

	December 31, 2009	December 31, 2008
Recorded at amortized cost:		
Loans from banks	20,765	94,765
Loans and deposits from other credit institutions	733	-
Correspondent accounts of other banks	475	361
Total due to banks and other credit institutions	**21,973**	**95,126**

As at December 31, 2009 and 2008 accrued interest expense included in due to banks and other credit institutions amounted to AZN 261 thousand and AZN 3,047 thousand, respectively.

As at December 31, 2009 and 2008 the Group had loans and deposits from one bank totaling AZN 6,749 thousand and AZN 60,075 thousand, respectively, which individually exceeded 10% of the Group's equity.

As at December 31, 2008 the Bank simultaneously placed with and received short-term funds from one bank in different currencies (see Note 14).

Maturities of amounts due to banks and other credit institutions are included in Note 34 under liquidity risk.

These liabilities are measured at amortized cost.

24. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2009	December 31, 2008
Recorded at amortized cost:		
Time deposits	132,031	96,883
Repayable on demand	44,861	40,896
Total customer accounts	**176,892**	**137,779**

As at December 31, 2009 and 2008 accrued interest expense included in customer accounts amounted to AZN 4,574 thousand and AZN 1,881 thousand, respectively.

As at December 31, 2009 and 2008 customer accounts totaling AZN 108 thousand and AZN 33 thousand, respectively, were held as security against guarantees issued.

	December 31, 2009	December 31, 2008
Analysis by sector:		
Individuals	114,567	80,314
Trade	35,911	34,233
Agriculture	8,266	10,193
Insurance	6,567	2,453
Finance	5,109	-
Manufacturing	1,914	6,210
Transport and communication	1,295	1,574
Notaries' offices	1,183	834
Construction	1,026	174
Leasing	539	-
Public organizations	482	389
Embassy	25	-
Investing	2	1,318
Energy	-	28
Other	6	59
Total customer accounts	**176,892**	**137,779**

These liabilities are measured at amortized cost.

25. LOANS RECEIVED FROM GOVERNMENT AGENCIES AND FOREIGN CREDIT INSTITUTIONS

Loans received from government agencies and foreign credit institutions comprise:

	December 31, 2009	December 31, 2008
Recorded at amortized cost:		
National Fund for Support of Entrepreneurship	15,150	19,496
Azerbaijan Mortgage Fund	10,120	9,083
Total loans from government agencies	25,270	28,579
Recorded at amortized cost:		
European Bank for Reconstruction and Development	15,469	32,328
DEG - Deutsche Investitions-Entwicklungsgeselschaft	9,888	1,499
FMO - Netherlands Development Finance Company	9,101	11,920
Black Sea Trade and Development Bank	4,960	-
The OPEC Fund for International Development	4,125	4,005
International Finance Corporation	2,885	4,089
German-Azerbaijan Fund	2,133	2,498
Asian Development Bank	1,557	2,615
Total loans from foreign credit institutions	50,118	58,954
Total loans from government agencies and foreign credit institutions	**75,388**	**87,533**

As at December 31, 2009 and 2008 accrued interest expense is included in loans received from government agencies and foreign credit institutions amounting to AZN 746 thousand and AZN 1,161 thousand, respectively.

As at December 31, 2009 and 2008 included in loans received from government agencies and foreign credit institutions are loans from the National Fund for Support of Entrepreneurship amounting to AZN 15,150 thousand and AZN 19,496 thousand, respectively. These loans have maturity periods from 1 year to 5 years and bear an annual interest rate of 1-2%.

As at December 31, 2009 and 2008 included in loans received from government agencies and foreign credit institutions are loans from the Azerbaijan Mortgage Fund amounting to AZN 10,120 thousand and AZN 9,083 thousand, respectively. These loans have maturity periods from 1 year to 5 years and bear an annual interest rate of 1-2%.

The Group is obligated to comply with financial covenants in relation to loans received from foreign credit institutions. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. As at December 31, 2009 the Group breached the non-performing loans ratio under the loan agreement with DEG - Deutsche Investitions-Entwicklungsgeselschaft dated November 21, 2008. According to the agreement non-performing loans ratio shall not be more than 5%. At December 31, 2009 this ratio amounted to 5.79%. Subsequently, on April 15, 2010 the Group received waiver letter of DEG - Deutsche Investitions-Entwicklungsgeselschaft waiving this non-compliance by the Group till June 30, 2010.

These liabilities are measured at amortized cost.

26. OTHER LIABILITIES

Other liabilities comprise:

	December 31, 2009	December 31, 2008
Other financial liabilities:		
Settlements on money transfers and plastic card operations	646	157
Payable to the Deposit Insurance Fund	420	90
Payable to the employees	287	-
Payables arising out of reinsurance operations	263	179
Deferred insurance income	168	46
Payables arising out of insurance operations	134	-
Other	55	209
	1,973	681
Other non-financial liabilities:		
Taxes other than income tax	8	201
Other	77	15
Total other liabilities	**2,058**	**897**

27. SUBORDINATED DEBT

	Currency	Maturity date year	Interest rate %	December 31, 2009	December 31, 2008
Subordinated debt from foreign credit institutions - third parties	USD	2013-2015	7.86%	8,045	8,034
Subordinated debt from related parties	USD	2016-2017	6.43%	4,095	4,109
Subordinated debt from third parties	USD	2017	6.35%	4,071	4,093
Subordinated debt from foreign credit institutions - third parties	EUR	2017	10.13%	1,816	-
Total subordinated debt				**18,027**	**16,236**

As at December 31, 2009 and 2008 accrued interest expense is included in subordinated debt amounting to AZN 240 thousand and AZN 216 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. These covenants include stipulated ratios, debt to equity ratios and various other financial performance ratios. As at December 31, 2009 the Group breached the ratio of minimum level of loan loss provision under the loan agreement with Kreditanstalt für Wiederaufbau (KfW) dated November 24, 2008. The Group shall maintain all times at least the loan loss provision in conformity with the national banking regulations as well as maintain loan loss provision of at least 100% of the portfolio at risk although the Group will intend to surpass this requirement by at least 50%. As at December 31, 2009 this ratio equals 91%.

These liabilities are measured at amortized cost.

28. SHARE CAPITAL

As of December 31, 2009 and 2008 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 30,578 thousand and AZN 22,578 thousand, respectively and comprised 15,289,094 and 11,289,094 ordinary shares with a par value of AZN 2, respectively. Each share entitles one vote to the shareholder.

During 2009 and 2008 shareholders' capital of the Group was increased by AZN 8,000 thousand and AZN 9,998 thousand, respectively.

In 2009 and 2008 the Group declared dividends of AZN 9,774 thousand and AZN 5,238 thousand for 2008 and 2007 financial years, respectively, on ordinary shares.

29. COMMITMENTS AND CONTINGENCIES

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

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

Provision for losses on guarantees and other commitments totaled AZN 326 thousand and AZN 212 thousand as at December 31, 2009 and 2008, respectively.

As at December 31, 2009 and 2008 contingent liabilities comprise:

	December 31, 2009	December 31, 2008
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	9,512	15,010
Guarantees issued and similar commitments	8,488	11,481
Letters of credit and other transaction related contingent obligations	2,182	-
Total contingent liabilities and credit commitments	**20,182**	**26,491**

As at December 31, 2009 and 2008 the Group has contingent liabilities and commitments with related parties (see Note 30).

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 December 31, 2009 and 2008 such unused credit lines amount to AZN 9,512 thousand and AZN 15,010 thousand, respectively.

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

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

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

Operating environment – Although in recent years there has been a general improvement in economic conditions in Azerbaijan, Azerbaijan continues to display certain characteristics of an emerging market. These include, but are not limited to, currency controls and convertibility restrictions, relatively high level of inflation and continuing efforts by the government to implement structural reforms.

As a result, laws and regulations affecting businesses in Azerbaijan continue to change rapidly. Tax, currency and customs legislation within Azerbaijan is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Azerbaijan. The future economic direction of Azerbaijan is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Ongoing global liquidity crisis – The financial markets, both globally and in Azerbaijan, have faced significant volatility and liquidity constraints since the onset of the global financial crisis, which began to unfold in the autumn of 2007 and worsened since August 2008. A side effect of those events was an increased concern about the stability of the financial markets generally and the strength of counterparties, and many lenders and institutional investors have reduced funding to borrowers, which has significantly reduced the liquidity in the global financial system.

The global financial turmoil has affected Azerbaijan’s economy. It has resulted in a decrease of Azerbaijan’s GDP, declines in debt and equity prices and a substantial outflow of capital. Azerbaijan is also facing a relatively high level of inflation (according to the government’s statistical data consumer price inflation for the years ended December 31, 2009 and 2008 was 4.84% and 20.80%, respectively). Because Azerbaijan produces and exports large volumes of oil and gas, Azerbaijan’s economy is particularly sensitive to the price of oil and gas on the world market that fluctuated significantly during 2008 and 2009. The Azerbaijan government initiated the adoption of a package of federal laws and regulations to restore investor confidence provide liquidity and support medium-term growth of Azerbaijan’s economy, however at this stage there is no clarity with respect to efficiency of these measures.

While many countries, including Azerbaijan, have recently reported improvement of the situation in the financial markets, a further downturn can still occur, and further state support measures might be required. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Azerbaijan economy, adversely affect the Group’s access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

While the Azerbaijan government has introduced a range of stabilization measures aimed at providing liquidity to Azerbaijan banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects.

Factors including reduced corporate liquidity and profitability, and increased corporate and personal insolvencies, have affected the Group’s borrowers’ ability to repay the amounts due to the Group. In addition, changes in economic conditions have resulted in deterioration in the value of collateral held against loans and other obligations. To the extent that information is available, the Group has reflected revised estimates of expected future cash flows in its impairment assessment.

Management is unable to reliably estimate the effects on the Group's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

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 December 31, 2009, the Group has financial assets amounting to AZN 313,203 thousand (as at December 31, 2008: AZN 349,917 thousand). The recoverability of these financial assets depends to 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.

30. 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 then significant influence over the Bank; and that have joint control over the Group;

(b) Members of key management personnel of the Group or its parent;

(c) Close members of the family of any individuals referred to in (a) or (b);

(d) 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 (b) or (c).

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:

		December 31, 2009		December 31, 2008	
	Note	**Related party balances**	**Total category as per the financial statements caption**	**Related party balances**	**Total category as per the financial statements caption**
Loans to customers	15		198,603		262,473
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		722		21,627	
- *key management personnel of the Group*		907		1,309	
Allowance for impairment losses	15		(13,015)		(10,011)
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		(7)		(1,415)	
- *key management personnel of the Group*		(16)		(61)	
Investments available-for-sale	16		603		11,346
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		500		247	
Investments held to maturity	17		1,495		3,000
shareholders and entities in which a substantial interest is owned by shareholders of the Group		-		2,500	
Other assets	22		7,192		3,387
- *key management personnel of the Group*		356		256	
Customer accounts	24		176,892		137,779
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		10, 486		11,342	
- *key management personnel of the Group*		1,826		265	
Loans from government agencies and foreign credit institutions	25		75,388		87,533
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		9,888		1,499	
Subordinated debt	27		18,027		16,236
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		4,095		4,109	

	Note	Related party balances	Total category as per the financial statements caption	Related party balances	Total category as per the financial statements caption
Commitments on credits and unused credit lines	29		9,512		15,010
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		176		87	
- *key management personnel of the Group*		72		121	

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

	December 31, 2009		December 31, 2008	
	Related party transactions	**Total category as per the financial statements caption**	**Related party transactions**	**Total category as per the financial statements caption**
Key management personnel compensation:				
- *short-term employee benefits*	797	8,897	983	9,168
Total	**797**	**8,897**	**983**	**9,168**

Included in the consolidated income statement for the years ended December 31, 2009 and 2008 are the following amounts which were recognized in transactions with related parties:

	Note	Year ended December 31, 2009 Related party transactions	Year ended December 31, 2009 Total category as per the financial statements caption	Year ended December 31, 2008 Related party transactions	Year ended December 31, 2008 Total category as per the financial statements caption
Interest income	4		43,913		47,997
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		62		355	
- *key management personnel of the Group*		125		101	
Interest expense	4		(23,560)		(20,893)
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		(3,496)		(1,001)	
Allowance for impairment losses	5		(3,207)		(6,416)
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		(24)		(1,379)	
- *key management personnel of the Group*		(3)		(50)	
Fee and commission income	8		5,896		9,062
- *shareholders and entities in which a substantial interest is owned by shareholders of the Group*		65		-	
- *key management personnel of the Group*		1		264	
Fee and commission expense	8		(2,633)		(2,730)
-*key management personnel of the Group*		(8)		(24)	
Operating expense	10		(18,283)		(17,195)
- *key management personnel of the Group*		(797)		(983)	

31. SEGMENT REPORTING

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for those which discrete financial information is available.

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, foreign currency and derivative products.
- Other – insurance, brokerage and other.

Transactions between the operating segments consist only of reallocating of funds. 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 of the consolidated statement of financial position, but excluding items such as taxation. Internal charges and transfer pricing adjustments have been reflected in the performance of each business.

Segment information about these businesses comprises:

	Retail banking	Corporate banking	Insurance	Unallocated and other	As at and for the year ended December 31, 2009 Total
Interest income	28,272	12,836	593	2,212	43,913
Interest expense	(9,469)	(14,091)	-	-	(23,560)
(Provision)/recovery of provision for impairment losses on interest bearing assets	(4,501)	1,294	-	-	(3,207)
Net gain on foreign exchange operations	-	-	-	3,396	3,396
Net gain on operations with gold	61	-	-	55	116
Fee and commission income received	4,099	1,734	63	-	5,896
Fee and commission expense paid	(914)	(601)	-	(1,118)	(2,633)
Dividend received	-	23	-	-	23
Insurance premium earned	-	-	3,531	-	3,531
Premium ceded on reinsurance	-	-	(842)	-	(842)
Other income	-	-	37	115	152
Other expenses	-	-	(25)	-	(25)
Gross claims paid	-	-	(2,039)	-	(2,039)
Gross claims ceded	-	-	378	-	378
Change in provision for unearned premium, net of reinsurance	-	-	1,335	-	1,335
Change in loss provision, net of reinsurance	-	-	(157)	-	(157)
Total operating income	17,548	1,195	2,874	4,660	26,277
Operating expenses	-	(46)	(1,671)	(16,566)	(18,283)
Operating profit/(loss)	17,548	1,149	1,203	(11,906)	7,994
Recovery of provision / (provision) for impairment losses on guarantees, contingencies and other assets	-	460	(188)	(410)	(138)
Loss on revaluation of property	-	-	-	(106)	(106)
Profit/(loss) before income tax	17,548	1,609	1,015	(12,422)	7,750
Income tax benefit	-	-	-	795	795
Net profit/(loss)	17,548	1,609	1,015	(11,627)	8,545
Segment assets	**87,963**	**219,006**	**8,287**	**32,421**	**347,677**
Segment liabilities	**114,567**	**177,713**	**5,718**	**1,812**	**299,810**
Other segment items					
Depreciation charge on property and equipment	-	-	(32)	(2,680)	(2,712)
Loans to customers	83,826	101,762	-	-	185,588
Property and equipment	-	-	120	25,954	26,074
Customer accounts	114,567	62,325	-	-	176,892

	Retail banking	Corporate banking	Insurance	Unallocated and other	As at and for the year ended December 31, 2008 Total
Interest income	31,385	14,680	975	957	47,997
Interest expense	(6,426)	(14,467)	-	-	(20,893)
Provision for impairment losses on interest bearing assets	(3,748)	(2,668)	-	-	(6,416)
Net gain on foreign exchange operations	-	-	-	2,132	2,132
Net loss on operations with gold	(24)	-	-	(45)	(69)
Fee and commission income received	6,757	2,242	63	-	9,062
Fee and commission expense paid	(1,044)	(883)	-	(803)	(2,730)
Dividend received	-	-	-	45	45
Insurance premium earned	-	-	8,287	-	8,287
Premium ceded on reinsurance	-	-	(350)	-	(350)
Other income	-	-	-	56	56
Other expenses	-	-	-	(60)	(60)
Gross claims paid	-	-	(1,100)	-	(1,100)
Gross claims ceded	-	-	42	-	42
Change in provision for unearned premium, net of reinsurance	-	-	(4,873)	-	(4,873)
Change in loss provision, net of reinsurance	-	-	(291)	-	(291)
Total operating income/(loss)	26,900	(1,096)	2,753	2,282	30,839
Operating expenses	-	-	-	(17,195)	(17,195)
Operating profit/(loss)	26,900	(1,096)	2,753	(14,913)	13,644
Provision for impairment losses on guarantees, contingencies and other assets	-	-	-	(255)	(255)
Profit/(loss) before income tax	26,900	(1,096)	2,753	(15,168)	13,389
Income tax expense	-	-	-	(2,947)	(2,947)
Net profit/(loss)	26,900	(1,096)	2,753	(18,115)	10,442
Segment assets	**126,684**	**224,927**	**6,271**	**30,691**	**388,573**
Segment liabilities	**80,314**	**256,360**	**6,654**	**779**	**344,107**
Other segment items					
Depreciation charge on property and equipment	-	-	(46)	(1,550)	(1,596)
Loans to customers	126,382	126,080	-	-	252,462
Property and equipment	-	-	199	26,946	27,145
Customer accounts	80,314	57,465	-	-	137,779

Information about business activities

	Retail banking	Corporate banking	Insurance	Unallocated	As at and for the year ended December 31, 2009 Total
Operational income before deduction of interest expenses	27,017	15,286	2,874	4,660	49,837
Property and equipment	-	-	120	25,954	26,074

	Retail banking	Corporate banking	Insurance	Unallocated	As at and for the year ended December 31, 2008 Total
Operational income before deduction of interest expenses	33,326	13,371	2,753	2,282	51,732
Property and equipment	-	-	199	26,946	27,145

Reconciliations of reportable revenues, profit or loss, assets and liabilities

As at December 31, 2009 and for the year then ended a reconciliation of reportable revenues, profit or loss, assets and liabilities is as follows:

	Operational income before deduction of interest expenses	Profit or loss	Total assets	Total liabilities
Total for reportable segments	45,177	20,172	315,256	297,998
Unallocated amounts	4,660	(11,627)	32,421	1,812
Group's total	**49,837**	**8,545**	**347,677**	**299,810**

As at December 31, 2008 and for the year then ended reconciliation of reportable revenues, profit or loss, assets and liabilities is following:

	Operational income before deduction of interest expenses	Profit or loss	Total assets	Total liabilities
Total for reportable segments	49,450	28,557	357,882	343,328
Unallocated amounts	2,282	(18,115)	30,691	779
Group's total	**51,732**	**10,442**	**388,573**	**344,107**

32. 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 that are not carried at fair value in the consolidated statement of financial position compared with the corresponding carrying value in the consolidated financial statements of the Group is presented below:

	December 31, 2009		December 31, 2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and balances with the Central Bank of the Republic of Azerbaijan (excluding obligatory reserve)	91,404	91,404	40,145	40,145
Due from banks	31,147	31,147	41,871	41,871
Investments available-for-sale	-	-	11,011	11,011
Receivables arising out of insurance operations	1,145	1,145	235	235
Other financial assets	1,821	1,821	858	858
Due to banks and other credit institutions	21,973	21,973	95,126	95,126
Customer accounts	176,892	176,892	137,779	137,779
Loans received from government agencies and foreign credit institutions	75,388	75,388	87,533	87,533
Other financial liabilities	1,973	1,973	681	681
Subordinated debt	18,027	18,027	16,236	16,236

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 December 31, 2009 and 2008 the carrying value of them was AZN 603 thousand and AZN 335 thousand, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate fair value.

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

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the Central bank of the Republic of Azerbaijan in supervising the Group.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

The capital structure of the Group consists of debt, which includes subordinated debt disclosed in Note 27, 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 payment of dividends, new share issue.

The following table analyzes the Group's regulatory capital resources for capital adequacy purposes in accordance with the principles employed by the Basle:

Capital amounts and ratios	**Actual Amount in AZN**	**For Capital Adequacy purposes Amount in AZN**	**Ratio For Capital Adequacy purposes**	**Minimum Required Ratio**
As at December 31, 2009				
Total capital	46,744	56,102	27%	8%
Tier 1 capital	36,755	36,755	18%	4%
As at December 31, 2008				
Total capital	41,191	57,400	20%	8%
Tier 1 capital	33,945	33,945	12%	4%

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios of total (12%) and tier 1 capital (6%) to risk weighted assets.

As at December 31, 2009 and 2008 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.

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

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

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

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

Maximum exposure of credit risk

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

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

As at December 31, 2009:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Balances with the CBAR (excluding obligatory reserve)	47,742	-	47,742	-	47,742
Due from banks	31,147	3,032	28,115	-	28,115
Loans to customers	185,588	28,910	156,678	99,187	57,491
Investments held to maturity	1,495	-	1,495	-	1,495
Receivables arising out of insurance operations	1,145	-	1,145	-	1,145
Other financial assets	1,821	-	1,821	-	1,821
Guarantees issued and similar commitments	8,488	-	8,488	-	8,488
Letters of credit and other transaction related contingent obligations	2,182	-	2,182	-	2,182
Unused loan commitments	9,512	-	9,512	-	9,512

As at December 31, 2008:

	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Balances with the CBAR (excluding obligatory reserve)	24,454	-	24,454	-	24,454
Due from banks	41,871	8,995	32,876	-	32,876
Loans to customers	252,462	16,702	235,760	199,534	36,226
Investments available-for-sale	11,011	-	11,011	-	11,011
Investments held to maturity	3,000	-	3,000	-	3,000
Receivables arising out of insurance operations	235	-	235	-	235
Other financial assets	858	-	858	-	858
Guarantees issued and similar commitments	11,481	-	11,481	-	11,481
Unused loan commitments	15,010	-	15,010	-	15,010

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor’s and Moody’s. 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.

As of December 31, 2009 and 2008 the balances with the Central Bank of the Republic of Azerbaijan amounted to AZN 48,437 thousand and AZN 31,014 thousand, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2009 corresponded to BB+.

The following table details credit ratings of financial assets held by the Group as at December 31, 2009:

	AA	A	BBB	<BBB	Not rated	Total at December 31, 2009
Due from banks	1,651	10,954	139	11,159	7,244	31,147
Loans to customers	-	-	-	-	185,588	185,588
Investments available-for-sale	-	-	-	-	603	603
Investments held to maturity	-	-	-	-	1,495	1,495
Receivables arising out of insurance operations	-	-	-	-	1,145	1,145
Other financial assets	-	-	-	-	1,821	1,821

As at December 31, 2008:

	AAA	AA	A	BBB	<BBB	Not Rated	Total at December 31, 2008
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
Investments held to maturity	-	-	-	-	-	3,000	3,000
Receivables arising out of insurance operations	-	-	-	-	-	235	235
Other financial assets	-	-	-	-	-	858	858

The banking industry is generally exposed to credit risk through its loans to customers and inter bank deposits. With regard to the loans to customers this risk exposure is concentrated within the Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached.

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies.

A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan. The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment on the basis of the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower's scoring assessment has been developed in the Group to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt pressure on a borrower.

The Group applies internal methodologies to specific corporate loans and groups of retail loans. 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 statement of financial position. As such, more detailed information is not being presented.

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	December 31, 2009 Total
FINANCIAL ASSETS					
Cash and balances with the Central Bank of the Republic of Azerbaijan	91,404	-	-	-	91,404
Due from banks	7,441	1,040	22,666	-	31,147
Loans to customers	185,588	-	-	-	185,588
Investments available-for-sale	603	-	-	-	603
Investments held to maturity	1,495	-	-	-	1,495
Receivables arising out of insurance operations	1,145	-	-	-	1,145
Other financial assets	807	1,014	-	-	1,821
TOTAL FINANCIAL ASSETS	**288,483**	**2,054**	**22,666**	**-**	**313,203**
FINANCIAL LIABILITIES					
Due to banks and other credit institutions	1,201	-	20,772	-	21,973
Customer accounts	176,892	-	-	-	176,892
Loans received from government agencies and foreign credit institutions	25,270	-	37,337	12,781	75,388
Other financial liabilities	1,296	673	4	-	1,973
Subordinated debt	-	-	9,982	8,045	18,027
TOTAL FINANCIAL LIABILITIES	**204,659**	**673**	**68,095**	**20,826**	**294,253**
NET POSITION	**83,824**	**1,381**	**(45,429)**	**(20,826)**	

	The Republic of Azerbaijan	CIS countries	OECD countries	Other non-OECD countries	December 31, 2008 Total
FINANCIAL ASSETS					
Cash and balances with the Central Bank of the Republic of Azerbaijan	40,145	-	-	-	40,145
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
Receivables arising out of insurance operations	235	-	-	-	235
Other financial assets	354	20	450	34	858
TOTAL FINANCIAL ASSETS	**316,028**	**1,017**	**32,838**	**34**	**349,917**
FINANCIAL LIABILITIES					
Due to banks and other credit institutions	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
Other financial liabilities	459	130	92	-	681
Subordinated debt	-	-	8,202	8,034	16,236
TOTAL FINANCIAL LIABILITIES	**170,200**	**130**	**156,290**	**10,735**	**337,355**
NET POSITION	**145,828**	**887**	**(123,452)**	**(10,701)**	

Liquidity risk

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

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

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

An analysis of the liquidity 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.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2009 Total
FINANCIAL ASSETS							
Due from banks	2,781	12,711	2,893	622	-	-	19,007
Loans to customers	11,743	18,247	53,120	80,848	12,615	9,015	185,588
Investments held to maturity	-	-	1,495	-	-	-	1,495
Total interest bearing financial assets	14,524	30,958	57,508	81,470	12,615	9,015	206,090
Cash and balances with the Central Bank of the Republic of Azerbaijan	91,404	-	-	-	-	-	91,404
Due from banks	12,140	-	-	-	-	-	12,140
Investments available-for-sale	-	-	-	-	-	603	603
Receivables arising out of insurance operations	-	-	1,145	-	-	-	1,145
Other financial assets	1,523	-	298	-	-	-	1,821
Total financial assets	**119,591**	**30,958**	**58,951**	**81,470**	**12,615**	**9,618**	**313,203**
FINANCIAL LIABILITIES							
Due to banks and other credit institutions	3,565	15,118	2,457	-	-	-	21,140
Customer accounts	10,192	29,418	81,732	8,946	22	-	130,310
Loans received from government agencies and foreign credit institutions	2,154	6,500	35,952	21,769	9,013	-	75,388
Subordinated debt	-	-	149	5,352	12,526	-	18,027
Total interest bearing financial liabilities	15,911	51,036	120,290	36,067	21,561	-	244,865
Due to banks and other credit institutions	833	-	-	-	-	-	833
Customer accounts	45,944	-	143	-	-	495	46,582
Other financial liabilities	943	332	532	-	-	166	1,973
Total financial liabilities	**63,631**	**51,368**	**120,965**	**36,067**	**21,561**	**661**	**294,253**
Liquidity gap	55,960	(20,410)	(62,014)	45,403	(8,946)		
Interest sensitivity gap	(1,387)	(20,078)	(62,782)	45,403	(8,946)		
Cumulative interest sensitivity gap	(1,387)	(21,465)	(84,247)	(38,844)	(47,790)		
Cumulative interest sensitivity gap as a percentage of total assets	**0%**	**(6%)**	**(24%)**	**(11%)**	**(14%)**		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	December 31, 2008 Total
FINANCIAL ASSETS							
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
Investments available-for-sale	11,011	-	-	-	-	-	11,011
Investments held to maturity	-	-	3,000	-	-	-	3,000
Total interest bearing financial assets	38,261	24,089	97,845	110,032	13,852	2,849	286,928
Cash and balances with the Central Bank of the Republic of Azerbaijan	40,145	-	-	-	-	-	40,145
Due from banks	20,017	-	-	-	-	24	20,041
Loans to customers	3	59	399	842	18	54	1,375
Investments available-for-sale	-	-	-	-	-	335	335
Receivables arising out of insurance operations	-	-	235	-	-	-	235
Other financial assets	663	195	-	-	-	-	858
Total financial assets	**99,089**	**24,343**	**98,479**	**110,874**	**13,870**	**3,262**	**349,917**
FINANCIAL LIABILITIES							
Due to banks and other credit institutions	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
Total interest bearing financial liabilities	16,845	30,639	134,527	92,310	20,909	25	295,255
Due to banks and other credit institutions	361	-	-	-	-		361
Customer accounts	40,896	-	-	-	-	235	41,131
Other financial liabilities	314	49	230	-	-	15	608
Total financial liabilities	**58,416**	**30,688**	**134,757**	**92,310**	**20,909**	**275**	**337,355**
Liquidity gap	40,673	(6,345)	(36,278)	18,564	(7,039)		
Interest sensitivity gap	21,416	(6,550)	(36,682)	17,722	(7,057)		
Cumulative interest sensitivity gap	**21,416**	**14,866**	**(21,816)**	**(4,094)**	**(11,151)**		
Cumulative interest sensitivity gap as a percentage of total assets	**6%**	**4%**	**(6%)**	**(1%)**	**(3%)**		

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 in the statement of financial position 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 statement of financial position 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	December 31, 2009 Total
FINANCIAL LIABILITIES								
Due to banks and other credit institutions	2.09%	3,724	15,363	2,496	-	-	-	21,583
Customer accounts	12.28%	11,351	32,465	90,254	12,021	39	-	146,130
Loans received from government agencies and foreign credit institutions	6.66%	2,246	7,352	38,805	24,171	9,767	-	82,341
Subordinated debt	7.13%	-	261	2,353	9,331	14,247	-	26,192
Total interest bearing financial liabilities		17,321	55,441	133,908	45,523	24,053	-	276,246
Due to banks and other credit institutions		833	-	-	-	-	-	833
Customer accounts		45,944	-	143	-	-	495	46,582
Other financial liabilities		943	332	532	-	-	166	1,973
Total financial liabilities		**65,041**	**55,773**	**134,583**	**45,523**	**24,053**	**661**	**325,634**

	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	December 31, 2008 Total
FINANCIAL LIABILITIES								
Due to banks and other credit institutions	8.16%	7,057	5,081	44,058	44,031	625	-	100,852
Customer accounts	11.76%	4,992	14,501	76,488	9,100	17	25	105,123
Loans received from government agencies and foreign credit institutions	5.23%	5,672	13,082	26,544	50,380	7,546	-	103,224
Subordinated debt	8.67%	281	24	998	8,995	16,195	-	26,493
Other financial liabilities	13.82%	7	16	40	16	-	-	79
Total interest bearing financial liabilities		18,009	32,704	148,128	112,522	24,383	25	335,771
Due to banks and other credit institutions		361	-	-	-	-	-	361
Customer accounts		40,896	-	-	-	-	235	41,131
Other financial liabilities		314	49	230	-	-	15	608
Total financial liabilities		**59,580**	**32,753**	**148,358**	**112,522**	**24,383**	**275**	**377,871**

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 to changes in interest rates and its influence on the Group’s profitability.

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 Treasury Department 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 and shareholders' equity based on asset values as at December 31, 2009 and 2008:

	December 31, 2009		December 31, 2008	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Financial assets:				
Due from banks	190	(190)	218	(218)
Loans to customers	1,856	(1,856)	2,511	(2,511)
Investments available-for-sale	-	-	110	(110)
Investments held to maturity	15	(15)	30	(30)
Financial liabilities:				
Due to banks and other credit institutions	(211)	211	(948)	948
Customer accounts	(1,303)	1,303	(966)	966
Loans received from government agencies and foreign credit institutions	(754)	754	(875)	875
Other financial liabilities	-	-	(1)	1
Subordinated debt	(180)	180	(162)	162
Net impact on profit before tax and shareholders' equity	**(387)**	**387**	**(83)**	**83**

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 Central bank of the Republic of Azerbaijan.

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

	AZN	USD USD 1 = AZN 0.8031	EUR EUR 1 = AZN 1.1499	JPY JPY 1= AZN 0.0087	Other currency	December 31, 2009 Total
Financial assets						
Cash and balances with the Central Bank of the Republic of Azerbaijan	37,345	41,618	11,635	-	806	91,404
Due from banks	2,766	8,686	16,624	2,623	448	31,147
Loans to customers	74,364	90,200	1,640	19,384	-	185,588
Investments available-for-sale	603	-	-	-	-	603
Investment held to maturity	1,495	-	-	-	-	1,495
Receivables arising out of insurance operations	1,092	53	-	-	-	1,145
Other financial assets	585	1,170	10	-	56	1,821
Total financial assets	**118,250**	**141,727**	**29,909**	**22,007**	**1,310**	**313,203**
Financial liabilities						
Due to banks and other credit institutions	248	4,064	1,163	15,448	1,050	21,973
Customer accounts	64,605	80,188	25,364	6,570	165	176,892
Loans received from government agencies and foreign credit institutions	25,270	47,985	2,133	-	-	75,388
Other financial liabilities	991	914	12	-	56	1,973
Subordinated debt	-	16,211	1,816	-	-	18,027
Total financial liabilities	**91,114**	**149,362**	**30,488**	**22,018**	**1,271**	**294,253**
OPEN POSITION	**27,136**	**(7,635)**	**(579)**	**(11)**	**39**	

	AZN	USD USD 1 = AZN 0.8010	EUR EUR 1 = AZN 1.1292	JPY JPY 1= AZN 0.0089	Other currency	December 31, 2008 Total
Financial assets						
Cash and balances with the Central Bank of the Republic of Azerbaijan	5,504	31,172	3,433	-	36	40,145
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
Receivables arising out of insurance operations	235	-	-	-	-	235
Other financial assets	858	-	-	-	-	858
Total financial assets	**128,981**	**168,585**	**20,611**	**31,561**	**179**	**349,917**
Financial liabilities						
Due to banks and other credit institutions	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	41	213	20	-	407	681
Subordinated debt	-	16,236	-	-	-	16,236
Total financial liabilities	**108,158**	**173,404**	**23,286**	**31,913**	**594**	**337,355**
OPEN POSITION	**20,823**	**(4,819)**	**(2,675)**	**(352)**	**(415)**	

Currency risk sensitivity

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

Impact on net profit and equity based on asset values as at December 31, 2009 and 2008:

	December 31, 2009		**December 31, 2008**	
	AZN/USD +10%	**AZN/USD -10%**	**AZN/USD +10%**	**AZN/USD -10%**
Impact on profit or loss before tax and equity	(764)	764	(482)	482

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 in the statement of financial position. 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.