YAPI KREDI BANK AZERBAIJAN
Closed Joint Stock Company

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor’s Report

31 December 2009

CONTENTS

Independent Auditor's Report

Consolidated Financial Statements

Consolidated Statement of Financial Position ... 1
Consolidated Statement of Comprehensive Income ... 2
Consolidated Statement of Changes in Equity ... 3
Consolidated Statement of Cash Flows ... 4

Notes to the Consolidated Financial Statements

1 Introduction ... 5
2 Operating Environment of the Group ... 5
3 Summary of Significant Accounting Policies ... 6
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies ... 13
5 Adoption of New or Revised Standards and Interpretations ... 14
6 New Accounting Pronouncements ... 16
7 Cash and Cash Equivalents ... 18
8 Due from Other Banks ... 19
9 Loans and Advances to Customers ... 20
10 Investment Securities Available for Sale ... 26
11 Property, Equipment and Intangible Assets ... 28
12 Other Financial Assets ... 29
13 Other Assets ... 29
14 Due to Other Banks ... 30
15 Customer Accounts ... 30
16 Other Financial Liabilities ... 31
17 Other Liabilities ... 31
18 Subordinated Loan from the Affiliated Bank ... 32
19 Share Capital ... 32
20 Interest Income and Expense ... 33
21 Fee and Commission Income and Expense ... 33
22 Administrative and Other Operating Expenses ... 34
23 Income Taxes ... 34
24 Financial Risk Management ... 36
25 Management of Capital ... 44
26 Contingencies and Commitments ... 45
27 Fair Value of Financial Instruments ... 47
28 Presentation of Financial Instruments by Measurement Category ... 50
29 Related Party Transactions ... 51
30 Events after the End of the Reporting Period ... 52

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Yapi Kredi Bank Azerbaijan Closed Joint Stock Company:

We have audited the accompanying consolidated financial statements of Yapi Kredi Bank Azerbaijan Closed Joint Stock Company (the "Bank") and its subsidiary (together referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

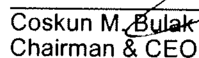
PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan
17 May 2010

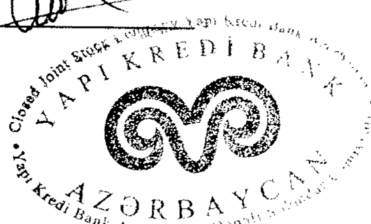
Yapi Kredi Bank Azerbaijan Closed Joint Stock Company
Consolidated Statement of Financial Position

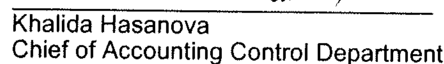
In thousands of Azerbaijani Manats	Note	2009	2008
ASSETS			
Cash and cash equivalents	7	83,014	26,251
Mandatory cash balances with the CBAR		290	3,725
Due from other banks	8	8,120	4,108
Loans and advances to customers	9	28,439	9,567
Investment securities available for sale	10	28,238	57,269
Property and equipment	11	4,208	2,996
Intangible assets	11	61	67
Other financial assets	12	16	24
Other assets	13	422	320
TOTAL ASSETS		**152,808**	**104,327**
LIABILITIES			
Due to other banks	14	42,601	6,282
Customer accounts	15	66,587	58,636
Current income tax liability	23	-	411
Deferred income tax liability	23	13	7
Other financial liabilities	16	125	84
Other liabilities	17	956	920
Subordinated loan from the Affiliated Bank	18	-	161
TOTAL LIABILITIES		**110,282**	**66,501**
EQUITY			
Share capital	19	27,209	14,496
Additional paid-in capital	19	-	12,713
Capital contribution		515	515
Retained earnings		14,802	10,102
TOTAL EQUITY		**42,526**	**37,826**
TOTAL LIABILITIES AND EQUITY		**152,808**	**104,327**

Approved for issue and signed on behalf of the Board of Directors on 17 May 2010.



Coskun M. Bulak
Chairman & CEO





Khalida Hasanova
Chief of Accounting Control Department

In thousands of Azerbaijani Manats	Note	2009	2008
Interest income	20	8,565	7,614
Interest expense	20	(2,002)	(1,321)
Net interest income		**6,563**	**6,293**
(Provision for)/recovery of impairment of amounts due from other banks	8	(42)	16
(Provision for)/recovery of impairment of loans to customers	9	(744)	72
Net interest income after provision for loan impairment		**5,777**	**6,381**
Fee and commission income	21	3,592	3,952
Fee and commission expense	21	(726)	(738)
Gains less losses from trading in foreign currencies		1,989	884
Foreign exchange translation gains less losses		(242)	(300)
Other operating income		18	45
Administrative and other operating expenses	22	(5,553)	(3,943)
Profit before tax		**4,855**	**6,281**
Income tax expense	23	(155)	(1,605)
Profit for the year		**4,700**	**4,676**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**4,700**	**4,676**

In thousands of Azerbaijani Manats	Note	Share capital	Additional paid-in capital	Capital contribution	Retained earnings	Total equity
Balance at 1 January 2008		**6,349**	**-**	**515**	**5,426**	**12,290**
Total comprehensive income for 2008		-	-	-	4,676	4,676
Share issue	19	8,147	-	-	-	8,147
Contributions received in advance of share issue	19	-	12,713	-	-	12,713
Balance at 31 December 2008		**14,496**	**12,713**	**515**	**10,102**	**37,826**
Share issue	19	12,713	(12,713)	-	-	-
Total comprehensive income for 2009		-	-	-	4,700	4,700
Balance at 31 December 2009		**27,209**	**-**	**515**	**14,802**	**42,526**

In thousands of Azerbaijani Manats	Note	2009	2008
Cash flows from operating activities			
Interest received		8,062	7,417
Interest paid		(1,989)	(1,372)
Fees and commissions received		3,643	4,448
Fees and commissions paid	21	(726)	(738)
Income received from trading in foreign currencies		1,989	884
Other operating income received		60	-
Staff costs paid		(2,888)	(1,983)
Administrative and other operating expenses paid		(2,208)	(1,496)
Income tax paid		(560)	(1,334)
Cash flows from operating activities before changes in operating assets and liabilities		**5,383**	**5,826**
Changes in operating assets and liabilities			
Net increase in due from other banks		(4,015)	(1,360)
Net decrease/(increase) in mandatory cash balances		3,435	(1,397)
Net (increase)/decrease in loans and advances to customers		(19,476)	4,880
Net decrease in other financial assets		8	5
Net (increase)/decrease in other assets		(162)	164
Net increase in due to other banks		36,267	2,993
Net increase/(decrease) in customer accounts		7,990	(24,461)
Net increase/(decrease) in other financial liabilities		41	(118)
Net (decrease)/increase in other liabilities		(3)	48
Net cash from/(used in) operating activities		**29,468**	**(13,420)**
Cash flows from investing activities			
Acquisition of investment securities available for sale	10	(150,093)	(310,522)
Proceeds from redemption of investment securities available for sale	10	179,448	309,108
Proceeds from share issue	19	-	20,860
Acquisition of property and equipment	11	(1,852)	(2,857)
Acquisition of intangible assets	11	(12)	(60)
Dividends received		18	45
Net cash from investing activities		**27,509**	**16,574**
Cash flows from financing activities			
Proceeds from subordinated debt from the Affiliated Bank		-	12,739
Repayment of subordinated debt from the Affiliated Bank		(161)	(12,917)
Net cash used in financing activities		**(161)**	**(178)**
Effect of exchange rate changes on cash and cash equivalents		**(53)**	**(89)**
Net increase in cash and cash equivalents		**56,763**	**2,887**
Cash and cash equivalents at the beginning of the year	7	26,251	23,364
Cash and cash equivalents at the end of the year	7	**83,014**	**26,251**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Yapi Kredi Bank Azerbaijan Closed Joint Stock Company (the "Bank") and its subsidiary (together referred to as the "Group").

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is a closed joint-stock company limited by shares and was set up in accordance with Azerbaijani regulations.

The Bank was originally established as a subsidiary of Koçbank A.S. (Turkey) ("Affiliated Bank"). In September 2002, the Affiliated Bank transferred its shares to Koç Financial Services ("KFS"). On 8 March 2006, ownership of KFS in the Bank increased from 79.8% to 99.8%. The ultimate shareholders of KFS are UniCredito Italiano SPA ("UCI") and Koç Holding, with 50% ownership each.

On 31 July 2007, the Bank registered its full-owned brokerage subsidiary, Yapi Kredi Invest LLC ("the Subsidiary") with Ministry of Justice of the Republic of Azerbaijan. The Subsidiary commenced its operations in February 2008. The activity of the Subsidiary includes dealing and brokerage operations. The official address of the Subsidiary is: J Jafar Jabbarli street 32/12, Baku, AZ1065, The Republic of Azerbaijan.

Principal activity. The Group's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking licence issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") since 11 January 2000 under registration number 243. The Bank participates in the state deposit insurance scheme, which was introduced by the Azeri Law, "Deposits of individuals insurance in Azerbaijan Republic" dated 29 December 2006. The State Deposit Insurance Fund guarantees full repayment of deposits of individuals in the amount up to AZN 30 thousand.

The Bank has 5 branches (2008: 4 branches) within the Republic of Azerbaijan. The Group had 128 employees at 31 December 2009 (2008: 104) of which 125 employees were employed by the Bank and 3 by the Subsidiary.

Registered address and place of business. The Bank's registered address is:

32/12 Jafar Jabbarli street
Baku, AZ1065, The Republic of Azerbaijan

Presentation currency. These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN thousands"). The Azerbaijani Manat ("AZN") is the official currency of the Republic of Azerbaijan.

2 Operating Environment of the Group

The Republic of Azerbaijan displays certain characteristics of an emerging market, including existence of a currency that is not freely convertible in most countries outside the Republic of Azerbaijan, restrictive currency controls and relatively high inflation. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity. The Bank's management is unable to predict all developments which could have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Group.

The tax, currency and customs legislation within the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Republic of Azerbaijan. The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

2 Operating Environment of the Group (Continued)

Recent volatility in global financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, at times much higher than normal interbank lending rates, and lower liquidity levels across the Republic of Azerbaijan banking sector resulting in a significant reduction in the number of new loans and advances made to customers, and higher funding costs where it remains possible to obtain debt finance from International Institutions or other local banks. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans.

Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

Management is unable to reliably estimate the effects on the Group's consolidated 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 that they are taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by initial recognition of financial instruments at fair value and the revaluation of available-for-sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4).

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities), in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date, on which control is transferred to the Group (acquisition date), and are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group's policies.

Financial instruments - key measurement terms. Depending on their classification, financial instruments are carried at cost, fair value, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

3 Summary of Significant Accounting Policies (Continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in other comprehensive income for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All short-term inter-bank placements, beyond overnight placements, are included in due from other banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

3 Summary of Significant Accounting Policies (Continued)

Mandatory cash balances with the CBAR. Mandatory cash balances with the CBAR are carried at amortised cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Dividend income. Dividends are included in dividend income within other operating income when the Group's right to receive the dividend payment is established and it is probable that the dividends will be collected.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

3 Summary of Significant Accounting Policies (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

Where repossessed collateral results in acquiring control over a business, the business combination is accounted for using the purchase method of accounting with fair value of the settled loan representing the cost of acquisition (refer to the accounting policy for consolidation). Accounting policy for associates is applied to repossessed shares where the Group obtains significant influence but not control. Cost of the associate is the fair value of the loan settled by repossessing the pledged shares.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment securities available for sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognised in other comprehensive income until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from other comprehensive income to profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed and any subsequent gains are recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for the year.

Property and equipment. Property and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

3 Summary of Significant Accounting Policies (Continued)

Costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of property and equipment is capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation. Depreciation on property and equipment is calculated, using the straight-line method to allocate its cost to its residual values over its estimated useful lives:

	Useful lives in years
Computers, communication and other property and equipment	5 years
Furniture, fixtures and other	5 years
Motor vehicles	5 years
Leasehold improvements	10 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. All of the Group's intangible assets have a definite useful life and primarily include capitalised computer software and licences.

Acquired computer software licences are capitalised based on the costs incurred to acquire and bring to use the specific software.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised over their estimated useful lives of 5 to 10 years on a straight-line basis.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lesser to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities and is carried at amortised cost. Debt is classified as subordinated debt when its repayment ranks after all other creditors in case of liquidation. Subordinated debt is included in "tier 2 capital" of the Group.

3 Summary of Significant Accounting Policies (Continued)

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Azerbaijan legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group retains no part of the loan package for itself or retains a part at the same effective interest rate as for the other participants.

3 Summary of Significant Accounting Policies (Continued)

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Capitalisation of borrowing costs. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method. The Group capitalises borrowing costs that would have been avoided if it had not made capital expenditure on qualifying assets. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation ceases when all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Interest or other investment income is not deducted in arriving at the amount of borrowing costs available for capitalisation, except where the Group obtains specific borrowings for the purpose of acquiring a qualifying asset and has investment income on the temporary investment of funds obtained through such specific borrowings.

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which it operates. The Group's presentation currency is the national currency of the Republic of Azerbaijan, the Azerbaijani Manat ("AZN").

Monetary assets and liabilities are translated into Group's presentation currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end official exchange rates of the CBAR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2009, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.8031 (2008: USD 1 = AZN 0.8010).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year, in which the associated services are rendered by the employees of the Group.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 26.

Current and deferred taxation. On 14 November 2008, a new law on "Stimulation of increasing the capitalization of banks, insurance and reinsurance companies" was enacted in the Republic of Azerbaijan. According to the law the profit tax rate for banks, insurance and reinsurance companies will be applicable at 0% for three fiscal years effective from 1 January 2009, for the portion of the profits transferred to share capital. Management applied judgment in assessing whether the Bank would be able to take advantage of the law where the law contains certain areas of ambiguity in terms of requirements for eligibility to take such an advantage and performed its calculations of current and deferred taxes based on the assumption that the concession will be available to the Bank. Refer to Notes 23 and 26.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the consolidated profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or 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 portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately AZN 37 thousand (2008: AZN 4 thousand) higher or lower. Given the limited number of individual loans in the Group's portfolio, deterioration in the status of any one of these borrowers could have a significant impact on the profit or loss for the year.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

5 Adoption of New or Revised Standards and Interpretations

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The amendments did not have an impact on the Group.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that is not carried at fair value and that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Group.

Puttable Financial Instruments and Obligations Arising on Liquidation — IAS 32 and IAS 1 Amendment. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these consolidated financial statements.

Vesting Conditions and Cancellations- Amendment to IFRS 2, Share-based Payment. The amendment clarified that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these financial consolidated statements.

5 Adoption of New or Revised Standards and Interpretations (Continued)

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these consolidated financial statements.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any material impact on these consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss for the year rather than as a recovery of the investment. The amendment did not have an impact on these consolidated financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these consolidated financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these consolidated financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group is not eligible to apply the IFRS for SMEs due to the public accountability of its banking business. The amendments did not have an impact on the Group.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its financial statements.

Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect the amended standard to have a material effect on its financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer will have to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. IFRS 3 is not relevant to the Group as it does not expect a business combination to occur.

6 New Accounting Pronouncements (Continued)

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's financial statements as the Group does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group’s financial statements.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity’s own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

6 New Accounting Pronouncements (Continued)

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	**2009**	**2008**
Cash on hand	8,861	4,133
Cash balances with the CBAR (other than mandatory reserve deposits)	13,162	11,150
Correspondent accounts and overnight placements with other banks:		
- Republic of Azerbaijan	425	4,680
- Other countries	60,566	6,288
Total cash and cash equivalents	**83,014**	**26,251**

At 31 December 2009, balances on correspondent accounts and overnight placements with non-resident banks included balances with the Affiliated Bank of AZN 50,321 thousand (2008: AZN 5,347 thousand), which comprised 32.9% of the total assets of the Group (2008: 5.1%).

The average interest rates on correspondent accounts with the Affiliated Bank during the year ended 31 December 2009 were 1.0% p.a. for USD denominated balances and 0.5% p.a. for EUR denominated balances (2008: 1.0% p.a. and 1.5% p.a., respectively). The average interest rates for demand deposits with the Affiliated Bank were 6.5% p.a. for USD denominated deposits and 5.25% p.a. for EUR denominated deposits (2008: 5.95% p.a. and 5.00%, respectively).

7 Cash and Cash Equivalents (Continued)

An analysis by credit quality of the cash and cash equivalents at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired			
- The CBAR	13,162	-	13,162
- OECD banks	-	60,541	60,541
- Top 15 Azerbaijani banks	-	425	425
- Non-OECD banks	-	25	25
Total current and not impaired cash and cash equivalents, excluding cash on hand	**13,162**	**60,991**	**74,153**

An analysis by credit quality of the cash and cash equivalents at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired			
- The CBAR	11,150	-	11,150
- OECD banks	-	6,257	6,257
- Top 15 Azerbaijani banks	-	4,680	4,680
- Non-OECD banks	-	31	31
Total current and not impaired cash and cash equivalents, excluding cash on hand	**11,150**	**10,968**	**22,118**

In the above tables for an analysis by credit quality of the cash and cash equivalents, the management listed the classes of the banks in the order from highest to lower quality as used for the purposes of internal monitoring and assessment.

Interest rate analysis of cash and cash equivalents is disclosed in Note 24. Information on related party balances is disclosed in Note 29.

8 Due from Other Banks

In thousands of Azerbaijani Manats	2009	2008
Short-term placements with other banks	8,202	4,148
Less: Provision for impairment	(82)	(40)
Total due from other banks	**8,120**	**4,108**
Current	8,120	4,108

Included in the balances of short-term placements with other banks at 31 December 2009 are loans issued to three (2008: four) resident banks of total AZN 8,077 thousand (2008: AZN 4,148 thousand) with an average effective interest rate of 7.5% p.a., maturities in January, March and April 2010 (2008: 9.2% p.a.). Subsequent to the end of the reporting period, AZN 4,062 thousand of short-term placements with other banks were closed.

8 Due from Other Banks (Continued)

Amounts due from other banks are not collateralised. An analysis by credit quality of the amounts due from other banks outstanding at 31 December 2009 and 2008 is as follows:

In thousands of Azerbaijani Manats	2009	2008
Current and not impaired		
- Top 15 Azerbaijani banks	4,136	2,088
- Other Azerbaijani banks	4,066	931
- OECD banks	-	1,129
Total current and not impaired	**8,202**	**4,148**
Less: provision for impairment	(82)	(40)
Total due from other banks	**8,120**	**4,108**

In the above table for an analysis of credit quality of due from other banks, the management listed the classes of the banks in the order from highest to lower quality as used for the purposes of internal monitoring and assessment.

The primary factor that the Group considers whether a deposit is impaired is its overdue status.

Movements in the provision for impairment of due from other banks are as follows:

In thousands of Azerbaijani Manats	2009	2008
Provision for impairment at 1 January	**40**	**56**
Provision for/(recovery of) impairment during the year	42	(16)
Provision for impairment at 31 December	**82**	**40**

Refer to Note 27 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 24.

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	2009	2008
Corporate loans	24,039	6,793
Loans to individuals - entrepreneurs	2,171	666
Loans to individuals - car purchase loans	1,185	45
Loans to individuals - consumer loans	1,112	461
Loans to individuals - flat refurbishment loans	494	503
Loans to individuals - mortgage loans	452	1,159
Loans to individuals - other purposes	5	215
Less: Provision for loan impairment	(1,019)	(275)
Total loans and advances to customers	**28,439**	**9,567**
Current	15,890	2,769
Non-current	12,549	6,798

9 Loans and Advances to Customers (Continued)

Movements in the provision for loan impairment during 2009 are as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals– entrepreneurs	Loans to individuals – car purchase loans	Loans to individuals – consumer loans	Loans to individuals– flat refurbishment loans	Loans to individuals – mortgage loans	Loans to individuals – other purposes	Total
Provision for loan impairment at 1 January 2009	**137**	**13**	**1**	**10**	**57**	**24**	**33**	**275**
(Recovery of)/provision for impairment during the year	664	39	24	86	(21)	(15)	(33)	744
Provision for loan impairment at 31 December 2009	**801**	**52**	**25**	**96**	**36**	**9**	**-**	**1,019**

Movements in the provision for loan impairment during 2008 are as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals - entrepreneurs	Loans to individuals - car purchase loans	Loans to individuals - consumer loans	Loans to individuals - flat refurbishment loans	Loans to individuals - mortgage loans	Loans to individuals - other purposes	Total
Provision for loan impairment at 1 January 2008	**272**	**6**	**3**	**12**	**39**	**4**	**11**	**347**
(Recovery of)/provision for impairment during the year	(135)	7	(2)	(2)	18	20	22	(72)
Provision for loan impairment at 31 December 2008	**137**	**13**	**1**	**10**	**57**	**24**	**33**	**275**

9 Loans and Advances to Customers (Continued)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2009		2008	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Trade and service	13,453	45.7	4,075	41.4
Construction	8,680	29.5	90	0.9
Individuals	5,419	18.3	3,049	31
Manufacturing	1,906	6.5	2,628	26.7
Total loans and advances to customers (before impairment)	**29,458**	**100.0**	**9,842**	**100.0**

At 31 December 2009, the Group had thirteen borrowers (2008: eleven borrowers) with aggregated loan amounts above AZN 400 thousand (2008: AZN 200 thousand). The aggregate amount of these loans was AZN 19,557 thousand (2008: AZN 7,954 thousand) or 67% of the gross loan portfolio (2008: 84.95%).

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals - entrepreneurs	Loans to individuals - car purchase loans	Loans to individuals - consumer loans	Loans to individuals - flat refurbishment loans	Loans to individuals - mortgage loans	Loans to individuals - other purposes	Total
Unsecured loans	5,343	17	-	817	292	-	-	6,469
Loans collateralised by:	-	-	-	-	-	-	-	
- motor vehicle	1,431	185	1,185	20	-	-	-	2,821
- residential real estate	-	1,969	-	25	92	452	1	2,539
- cash deposits	-	-	-	32	-	-	-	32
- third party guarantees	-	-	-	218	110	-	4	332
- commercial real estate and other	17,265	-	-	-	-	-	-	17,265
Total loans and advances to customers	**24,039**	**2,171**	**1,185**	**1,112**	**494**	**452**	**5**	**29,458**

Information about collateral at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals - entrepreneurs	Loans to individuals - car purchase loans	Loans to individuals - consumer loans	Loans to individuals - flat refurbishment loans	Loans to individuals - mortgage loans	Loans to individuals - other purposes	Total
Unsecured loans	860	-	26	405	407	-	137	1,835
Loans collateralised by:								
- motor vehicle	1,468	-	16	28	-	-	1	1,513
- residential real estate	-	666	3	15	83	1,136	74	1,977
- cash deposits	-	-	-	13	13	23	3	52
- third party guarantees	1,139	-	-	-	-	-	-	1,139
- commercial real estate	3,326	-	-	-	-	-	-	3,326
Total loans and advances to customers	**6,793**	**666**	**45**	**461**	**503**	**1,159**	**215**	**9,842**

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals - entrepreneurs	Loans to individuals - car purchase loans	Loans to individuals - consumer loans	Loans to individuals - flat refurbishment loans	Loans to individuals - mortgage loans	Loans to individuals - other purposes	Total
Neither past due nor impaired								
- Large borrowers with credit history over two years	1,730	-	-	-	-	-	-	1,730
- Large new borrowers	14,302	-	-	-	-	-	-	14,302
- Loans to medium size entities	6,754	-	-	-	-	-	-	6,754
- Loans to small entities	159	-	-	-	-	-	-	159
- Loans to individuals	-	2,156	1,151	908	449	452	4	5,120
Total neither past due nor impaired	**22,945**	**2,156**	**1,151**	**908**	**449**	**452**	**4**	**28,065**
Past due but not impaired								
- 30 to 90 days overdue	786	-	34	146	22	-	1	989
- 90 to 180 days overdue	5	15	-	15	3	-	-	38
Total past due but not impaired	**791**	**15**	**34**	**161**	**25**	**-**	**1**	**1,027**
Loans individually determined to be impaired (gross)								
- 180 to 360 days overdue	303	-	-	43	20	-	-	366
Total individually impaired loans (gross)	**303**	**-**	**-**	**43**	**20**	**-**	**-**	**366**
Gross carrying value of loans	**24,039**	**2,171**	**1,185**	**1,112**	**494**	**452**	**5**	**29,458**
Less provisions for loan impairment	(801)	(52)	(25)	(96)	(36)	(9)	-	(1,019)
Total loans and advances to customers	**23,238**	**2,119**	**1,160**	**1,016**	**458**	**443**	**5**	**28,439**

9 Loans and Advances to Customers (Continued)

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of the reporting period. The Group's policy is to classify each loan as 'current and not impaired' until a specific objective evidence of impairment of the loan is identified. The impairment provisions exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology. At 31 December 2009, the amount of provision for for individually impaired loans comprised AZN 311 thousand (2008: AZN 82 thousand) and the amount of provision determined as a result of portfolio impairment methodology amounted to AZN 708 thousand (2008: AZN 193 thousand).

Analysis by credit quality of loans outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals - entrepreneurs	Loans to individuals - car purchase loans	Loans to individuals - consumer loans	Loans to individuals - flat refurbishment loans	Loans to individuals - mortgage loans	Loans to individuals - other purposes	Total
Current and not impaired								
- Large borrowers with credit history over two years	1,309	-	-	-	-	-	-	1,309
- Large new borrowers	4,629	-	-	-	-	-	-	4,629
- Loans to medium size entities	728	-	-	-	-	-	-	728
- Loans to small entities	125	-	-	-	-	-	-	125
- Loans to individuals	-	666	39	459	444	1,159	173	2,940
Total current and not impaired	**6,791**	**666**	**39**	**459**	**444**	**1,159**	**173**	**9,731**
Past due but not impaired								
- 30 to 90 days overdue	-	-	6	-	2	-	8	16
- 90 to 180 days overdue	-	-	-	-	10	-	7	17
Total past due but not impaired	**-**	**-**	**6**	**-**	**12**	**-**	**15**	**33**
Loans individually determined to be impaired (gross)								
- 180 to 360 days overdue	2	-	-	2	47	-	27	78
Total individually impaired loans (gross)	**2**	**-**	**-**	**2**	**47**	**-**	**27**	**78**
Gross carrying value of loans	**6,793**	**666**	**45**	**461**	**503**	**1,159**	**215**	**9,842**
Less provisions for loan impairment	(137)	(13)	(1)	(10)	(57)	(24)	(33)	(275)
Total loans and advances to customers	**6,656**	**653**	**44**	**451**	**446**	**1,135**	**182**	**9,567**

9 Loans and Advances to Customers (Continued)

The primary factors that management consider as to whether a loan is impaired is its overdue status and ability to realise value from the related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

The Group does not provide information on the fair value of collateral for “past due but not impaired” and “individually determined to be impaired” loans as it believes that the fair value of collateral can not be reliably measured, except for liquid assets. However, management consider that the fair value of the collateral related to individual “past due but not impaired”, and “individually determined to be impaired” loans not to be less than the value of that collateral assessed when the loan were originally issued.

Refer to Note 27 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 24.

10 Investment Securities Available for Sale

In thousands of Azerbaijani Manats	**2009**	**2008**
Notes of the CBAR	-	20,539
Treasury bills of the Ministry of Finance (“MoF”) of the Republic of Azerbaijan	26,945	36,670
Corporate bonds	1,233	-
Total debt securities	28,178	57,209
Corporate unquoted shares	60	60
Total investment securities available for sale	**28,238**	**57,269**
Current	28,178	57,209
Non-current	60	60

Treasury bills represent short-term government securities issued by the Ministry of Finance (“MoF”) of the Republic of Azerbaijan through the Baku Stock Exchange purchased by the Group at a discount. Treasury bills outstanding at 31 December 2009 had an average interest rate of 7.3% p.a. (2008: 9.7% p.a).

An analysis by credit quality of debt securities which are all current and not impaired outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	**Treasury bills of MoF**	**Corporate bonds**	**Total**
Current and not impaired			
- Republic of Azerbaijan	26,945	-	26,945
- Unrated resident commercial entity	-	1,233	1,233
Total current and not impaired debt securities available for sale	**26,945**	**1,233**	**28,178**

The published international rating for the Republic of Azerbaijan is BB+/Stable (Fitch Ratings - affirmed on 2 June 2009).

10 Investment Securities Available for Sale (Continued)

An analysis by credit quality of debt securities which are all current and not impaired outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	**Notes of the CBAR**	**Treasury bills of the MoF**	**Total**
Current and not impaired			
- Republic of Azerbaijan	20,539	36,670	57,209
Total current and not impaired debt securities available for sale	**20,539**	**36,670**	**57,209**

The primary factor that the Group considers whether a debt security is impaired is its overdue status. As at 31 December 2009, the Group had no debt securities that are individually determined to be impaired (2008: nil).

Debt securities are not collateralised. The movements in investment securities available for sale are as follows:

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Carrying amount at 1 January		**57,269**	**55,822**
Interest income accrued	20	2,683	3,449
Interest income received		(2,359)	(3,416)
Disposals of investment securities available for sale		(179,448)	(309,108)
Purchases		150,093	310,522
Carrying amount at 31 December		**28,238**	**57,269**

At 31 December 2009 and 31 December 2008, the principal equity investment security available for sale is:

Name	**Nature of business**	**Country of registration**	**Share of ownership**	**Fair value**	
				2009	**2008**
Baku Stock Exchange	Stock exchange	Republic of Azerbaijan	5.56%	60	60
Total				**60**	**60**

Currently the stock market in the Republic of Azerbaijan is practically non-existent, and the activity of Baku Stock Exchange at the reporting date remains limited. Management could not reliably estimate the fair value of the Group's investment in shares of Baku Stock Exchange. The investment is carried at cost of AZN 60 thousand (2008: AZN 60 thousand). The investee has not published recent financial information about its operations, its shares are not quoted and recent trade prices are not publicly accessible. The market for these assets is not liquid, but the management believes potentially interested buyers could be other resident commercial banks and equity investment companies at a price close to their carrying value.

Interest rate analysis of investment securities available for sale is disclosed in Note 24.

11 Property, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Note	Computer, communication and other equipment	Furniture, fixture and other	Motor vehicles	Leasehold improvements	Total property and equipment	Computer software and licenses	Total
Cost at 1 January 2008		906	133	70	-	1,109	74	1,183
Accumulated depreciation		(552)	(99)	(32)	-	(683)	(52)	(735)
Carrying amount at 1 January 2008		**354**	**34**	**38**	**-**	**426**	**22**	**448**
Additions		650	249	77	1,881	2,857	60	2,917
Disposals - at cost		(136)	(48)	-	-	(184)	(5)	(189)
Accumulated depreciation in respect of disposals		136	48	-	-	184	5	189
Depreciation charge/Amortisation	23	(150)	(30)	(15)	(92)	(287)	(15)	(302)
Carrying amount at 31 December 2008		**854**	**253**	**100**	**1,789**	**2,996**	**67**	**3,063**
Cost at 31 December 2008		1,420	334	147	1,881	3,782	129	3,911
Accumulated depreciation		(566)	(81)	(47)	(92)	(786)	(62)	(848)
Carrying amount at 31 December 2008		**854**	**253**	**100**	**1,789**	**2,996**	**67**	**3,063**
Additions		461	144	9	1,210	1,824	12	1,836
Disposals - at cost		(239)	(24)	-	-	(263)	-	(263)
Accumulated depreciation in respect of disposals		239	24	-	-	263	-	263
Depreciation charge/Amortisation	23	(260)	(64)	(27)	(261)	(612)	(18)	(630)
Carrying amount at 31 December 2009		**1,055**	**333**	**82**	**2,738**	**4,208**	**61**	**4,269**
Cost at 31 December 2009		1,642	454	156	3,091	5,343	141	5,484
Accumulated depreciation		(587)	(121)	(74)	(353)	(1,135)	(80)	(1,215)
Carrying amount at 31 December 2009		**1,055**	**333**	**82**	**2,738**	**4,208**	**61**	**4,269**

12 Other Financial Assets

In thousands of Azerbaijani Manats	2009	2008
Credit and debit cards receivables	16	24
Total other financial assets	**16**	**24**
Current	16	24

An analysis by credit quality of other financial receivables outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Credit and debit cards receivables	Total
Neither past due nor impaired		
- Financial institutions	16	16
Total current and not impaired other financial receivables	**16**	**16**

An analysis by credit quality of other financial receivables outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Credit and debit cards receivables	Total
Neither past due nor impaired		
- Financial institutions	24	24
Total current and not impaired other financial receivables	**24**	**24**

The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any.

Refer to Note 27 for the disclosure of the fair value of each class of other financial assets.

13 Other Assets

In thousands of Azerbaijani Manats	2009	2008
Prepaid expenses	231	71
Amounts receivable from the Ministry of Taxes of the Republic of Azerbaijan	104	164
Prepayments for installation and repair works	25	53
Other	62	32
Total other assets	**422**	**320**
Current	422	320

Amounts receivable from the Ministry of Taxes of the Republic of Azerbaijan represent withholding tax on interest received from placements with the Affiliated Bank. This amount represents tax receivable from the Ministry of Taxes of Azerbaijan under the Double Tax Treaty between the Republic of Azerbaijan and Republic of Turkey. Management expects to recover during 2010 the total amount of AZN 104 thousand, which represent the receivables for the year ended 31 December 2009.

14 Due to Other Banks

In thousands of Azerbaijani Manats	**2009**	**2008**
Correspondent accounts and overnight placements of other banks	38,531	4,953
Short-term placements of other banks	4,070	-
Blocked accounts of resident banks	-	1,329
Total due to other banks	**42,601**	**6,282**
Current	42,601	6,282

The Group pays interest on the correspondent account balances at the rates ranging from 1.35% to 5.00% p.a. depending on the outstanding balance (2008: from 1.35% to 5.00% p.a.).

Refer to Note 27 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 24.

15 Customer Accounts

In thousands of Azerbaijani Manats	**2009**	**2008**
State and public organisations	**62**	**1,814**
- Current/settlement accounts	62	1,814
Other legal entities	**50,448**	**43,385**
- Current/settlement accounts	32,971	35,512
- Term deposits	17,192	6,929
- Restricted customer deposits	285	944
Individuals	**16,077**	**13,437**
- Current/demand accounts	15,220	10,793
- Term deposits	801	2,579
- Restricted customer deposits	56	65
Total customer accounts	**66,587**	**58,636**
Current	66,506	58,616
Non-current	81	20

The average interest rate on term deposits of individual customers outstanding at 31 December 2009 comprised 2.8% p.a. (2008: 2.9% p.a.), while the average interest rate on term deposits of legal entities outstanding at 31 December 2009 was 3.0% p.a. (2008: 3.9% p.a.). In addition, in the course of 2009 the Group paid interest of 1% p.a. (2008: 1% p.a.) on current account balances of legal entities with average annual balances in excess of AZN 50 thousand and USD 57 thousand (2008: AZN 50 thousand and USD 57 thousand).

At 31 December 2009, the Group had eleven customers (2008: fourteen) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 40,915 thousand at 31 December 2009 (2008: AZN 27,276 thousand), which represented 61% (2008: 46%) of total customer accounts and 27% (2008: 25%) of total liabilities.

15 Customer Accounts (Continued)

Economic sector concentrations within customer accounts are as follows:

In thousands of Azerbaijani Manats	2009		2008	
	Amount	**%**	**Amount**	**%**
Trade and services	41,848	62.8	29,153	49.7
Individuals	16,077	24.1	13,437	22.9
Transportation and communication	6,711	10.1	4,965	8.5
Construction	1,017	1.5	6,186	10.5
Insurance	872	1.3	3,081	5.3
Public organisations	62	0.2	1,814	3.1
Total customer accounts	**66,587**	**100.0**	**58,636**	**100.0**

Refer to Note 27 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 29.

16 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	2009	2008
Trade payables	94	31
Debit or credit card payables	3	14
Other accrued liabilities	28	39
Total other financial liabilities	**125**	**84**
Current	125	84

Refer to Note 27 for disclosure of the fair value of each class of other financial liabilities.

17 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	2009	2008
Deferred revenue	548	497
Accrued employee costs	333	319
Service payables	71	97
Other	4	7
Total other liabilities	**956**	**920**
Current	956	423
Non-current	-	497

At 31 December 2009, deferred revenue of AZN 548 thousand includes unearned portion of fee and commission income received as an arrangement fee in total amount of AZN 517 thousand (2008: AZN 497 thousand).

17 Other Liabilities (Continued)

Accrued employee costs includes bonuses for employees based on the financial performance of the Group of AZN 217 thousand (2007: AZN 266 thousand) and an accrual for unused vacations of AZN 116 thousand (2008: AZN 53 thousand).

18 Subordinated Loan from the Affiliated Bank

In thousands of Azerbaijani Manats	2009	2008
Subordinated debt from the Affiliated Bank	-	161
Total subordinated loans	**-**	**161**

19 Share Capital

In thousands of Azerbaijani Manats except for number of shares	Number of outstanding shares	Total nominal value of paid-in and registered ordinary shares
At 1 January 2008	**70,000**	**6,349**
Conversion effect with new nominal share price	0.00002	1
Paid-in shares after conversion	**317,450,000**	**6,349**
New shares issued	407,350,000	8,147
At 31 December 2008	**724,800,000**	**14,496**
New shares issued	635,670,000	12,713
At 31 December 2009	**1,360,470,000**	**27,209**

At 1 January 2008, the share capital of the Bank in the amount of AZN 6,349 thousand was comprised of 70,000 ordinary shares each with a nominal value of USD 100. The balance of AZN 6,349 thousand represented the AZN equivalent of US Dollar contributions to share capital calculated at the historical exchange rates at the dates of the contributions.

According to the Civil Code of the Republic of Azerbaijan, and based on the resolution of the shareholders of the Bank dated 29 August 2008, it was decided to convert the existing 70,000 ordinary shares each with a nominal value of USD 100 to 317,450 thousand ordinary shares with a nominal value of AZN 0.02 each without changing the shareholding structure. The State Committee for Securities of the Republic of Azerbaijan registered and approved the emission on 19 September 2008.

On 19 November 2008, the State Committee for Securities of the Republic of Azerbaijan registered the issue of 407,350 thousand additional shares each with a nominal value of AZN 0.02 to increase the share capital of the Bank to AZN 14,496 thousand. These additional shares had been fully paid-in by 31 December 2008.

At 31 December 2008, the Bank was in the process of registering with the State Committee for Securities of the Republic of Azerbaijan issue of 635,670 thousand additional ordinary shares each with a nominal value of AZN 0.02. The payment in the amount of AZN 12,713 thousand for these additional ordinary shares was received from the Affiliated Bank in December 2008 and at 31 December 2008 was recorded as an additional paid-in capital in the consolidated statement of changes in equity. On 30 January 2009, the emission of 635,670 thousand additional ordinary shares was officially registered as completed by the State Committee for Securities of the Republic of Azerbaijan and the respective additional paid-in capital of AZN 12,713 thousand was transferred to share capital.

All ordinary shares have a nominal value of AZN 0.02 per share (2008: AZN 0.02 per share) and rank equally. Each share carries one vote.

20 Interest Income and Expense

In thousands of Azerbaijani Manats	**2009**	**2008**
Interest income		
Interest income on loans and advances to customers	2,638	2,417
Interest income on investment securities available for sale	2,683	3,449
Interest income on correspondent accounts	2,100	1,113
Interest income on due from other banks	957	599
Interest income on impaired financial assets	187	36
Total interest income	**8,565**	**7,614**
Interest expense		
Interest expense on correspondent accounts of other banks	1,619	200
Interest expense on customer accounts	375	837
Interest expense on subordinated loans from the Affiliated Bank	8	284
Total interest expense	**2,002**	**1,321**
Net interest income	**6,563**	**6,293**

21 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	**2009**	**2008**
Fee and commission income		
- Settlement transactions	1,093	1,218
- Cash transactions	1,049	1,088
- Transactions with foreign currencies	750	1,042
- Plastic cards operations	190	188
- Guarantees issued	174	234
- Letters of credit issued	70	78
- Other	266	104
Total fee and commission income	**3,592**	**3,952**
Fee and commission expense		
- Settlement transactions	205	183
- Transactions with securities	200	221
- Plastic cards operations	190	161
- Cash transactions	59	70
- Transactions with foreign currencies	7	28
- Other	65	75
Total fee and commission expense	**726**	**738**
Net fee and commission income	**2,866**	**3,214**

22 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	Note	2009	2008
Staff costs		2,902	2,098
Rent expenses		812	610
Depreciation of property and equipment	11	612	287
Security services		340	169
Communication expenses		243	193
Repair and maintenance		136	143
Professional services		110	88
Advertising and marketing services		73	41
Utilities		37	20
Insurance expenses		34	59
Taxes other than on income		25	25
Amortisation of software and licenses	11	18	15
Stationery, printing and other office supplies		15	49
Other expenses		196	146
Total administrative and other operating expenses		**5,553**	**3,943**

Included in staff costs are statutory social security contributions of AZN 264 thousand (2008: AZN 178 thousand). In addition, AZN 36 thousand was collected by the Group as a deduction to employee salaries and paid to the State Pension Fund on their behalf (2008: AZN 25 thousand).

23 Income Taxes

Income tax expense comprises the following:

In thousands of Azerbaijani Manats	2009	2008
Current tax	149	1,554
Deferred tax	6	51
Income tax expense for the year	**155**	**1,605**

Income taxes are calculated at the rate of 22% (2008: 22%) in accordance with Azerbaijani tax and accounting legislation.

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2009	2008
IFRS profit before tax	**4,855**	**6,281**
Theoretical tax charge at statutory rate (2009: 22%; 2008: 22%)	1,068	1,382
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	116	62
- Impact of change in tax rate to 20% effective from 1 January 2010	(3)	-
- Effect of three-year tax holiday	(58)	161
Current income tax liability not accrued due to three-year tax holiday	(968)	-
Income tax expense for the year	**155**	**1,605**

23 Income Taxes (Continued)

In the year of 2008, a new law on "Stimulation of Increasing the Capitalization of Banks, Insurance and Reinsurance Companies" was enacted. According to the law the profit tax rate for banks, insurance and reinsurance companies is reduced to 0% for three fiscal years from 1 January 2009, where all profits are retained within the business and transferred to the registered share capital. The management made an accrual of current income tax liability for the results of the year ended 31 December 2009 based on its intention to benefit from the provisions of the law. The current taxable profit which is to be transferred to the share capital is AZN 4,401 thousand. (2008: nil).

On 19 June 2009, the Republic of Azerbaijan reduced the standard corporate income tax rate from 22% to 20% with effect from 1 January 2010.

Differences between IFRS and statutory taxation regulations in Azerbaijan and other countries give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 22% (2008: 22%). At 31 December 2009, the tax effects were calculated only for deductible/taxable temporary differences to exist at 1 January 2012, when the tax concession is ineffective.

At 31 December 2009, the temporary differences giving rise to the deferred tax assets and liabilities are, as follows:

In thousands of Azerbaijani Manats	**31 December 2008**	**Charged to profit or loss**	**31 December 2009**
Tax effect of taxable temporary differences			
Property and equipment	(7)	(6)	(13)
Net deferred tax liability	**(7)**	**(6)**	**(13)**

In the context of the Group's current structure and Azerbaijani tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

At 31 December 2008, the temporary differences giving rise to the deferred tax assets and liabilities are, as follows:

In thousands of Azerbaijani Manats	**31 December 2007**	**Credited/(charged) to profit or loss**	**31 December 2008**
Tax effect of deductible/(taxable) temporary differences			
Property and equipment	11	(18)	(7)
Loan impairment provision	(19)	19	-
Accrued expenses	52	(52)	-
Net deferred tax asset/(liability)	**44**	**(51)**	**(7)**

Deferred tax balances at 31 December 2009 represent deferred tax impact of temporary differences reversing after 1 January 2012.

24 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stay within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay all amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such limits are monitored on a revolving basis and subject to an annual or more frequent review.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 26. The credit risk is mitigated by collateral and other credit enhancements as disclosed in Notes 7, 8, 9, 10 and 12.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collateral, corporate and personal guarantees.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated statement of financial position. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The Group reviews the ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it appropriate to provide the ageing analysis and other information about credit risk as disclosed in Note 9.

The risk management process of the Group includes implementation by the Credit Committee of the limits on exposures in accordance with the requirements of the Central Bank of Azerbaijan. In addition, the Board of Directors of YKB Azerbaijan reviews and approves limits above AZN equivalent of EUR 4,500 thousand.

Monitoring of these limits is implemented by the Credit Committee and Credit Risk Management Division. The Credit Department performs monitoring of potentially impaired loans, problematic loans and associated risks. For the purpose of risk minimisation, a Credit Specialist performs a thorough loans assessment before review by the Credit Committee. An event of default is identified in the course of periodic monitoring or on the basis of outside information in respect to an economic crisis. When an event of default occurs, the primary task is to identify whether the problem is short-term or accompanied with more serious problems.

In the decision making process, the Credit Committee adheres to regulations set by CBAR in relation to the loan portfolio and guarantees.

24 Financial Risk Management (Continued)

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. The Group is exposed to the effects of fluctuations in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments.

The Group uses every effort to match its assets and liabilities by currency. Exposure to foreign exchange risks faced by the Group are also limited by the CBAR normative requirements, which place a 10% of capital limit on open positions in any single foreign currency and a 20% open limit on all foreign currencies.

In respect of currency risk, management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at 31 December 2009:

	2009			2008		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Azerbaijani Manats	56,120	30,658	25,462	79,184	44,962	34,222
US Dollars	77,844	64,893	12,951	17,365	15,240	2,125
Euros	13,972	13,681	291	4,290	4,719	(429)
Other	121	81	40	105	242	(137)
Total	**148,057**	**109,313**	**38,744**	**100,944**	**65,163**	**35,781**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the respective Group entities, with all other variables held constant:

	2009	2008
In thousands of Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollars strengthening by 5%	648	106
US Dollars weakening by 5%	(648)	(106)
Euro strengthening by 10%	(29)	(43)
Euro weakening by 10%	29	43
Total	-	-

Other than as a result of any impact on the Group's profit or loss, there is no other impact on the Group's equity as a result of such changes in exchange rates. The exposures set out above are calculated only for monetary balances denominated in currencies other than the functional currencies of the individual entities in the Group.

24 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In addition, the Group's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate. Operational procedures set the acceptable interest rate margin at a minimum of 10%. ALCO and the Risk Management Department constantly monitor the maintenance of this margin. ALCO is also responsible for presenting interest rate movement reports and forecasts. At present, through the Group's matching policies and high interest rate margins, potential interest rate risk is not considered to be significant.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
31 December 2009					
Total financial assets	91,482	17,245	25,188	14,142	148,057
Total financial liabilities	102,037	2813	4,383	80	109,313
Net interest sensitivity gap at 31 December 2009	**(10,555)**	**14,432**	**20,805**	**14,062**	**38,744**
31 December 2008					
Total financial assets	54,816	35,410	3,890	6,768	100,884
Total financial liabilities	58,567	3,583	1,664	1,349	65,163
Net interest sensitivity gap at 31 December 2008	**(3,751)**	**31,827**	**2,226**	**5,419**	**35,721**

At 31 December 2009, if interest rates at that date had been 50 basis points lower/higher with all other variables held constant, the profit for the year would have been AZN 326 thousand (2008: AZN 330 thousand) higher/lower, because of lower/higher interest expense on variable interest liabilities.

The Group monitors interest rates for its financial instruments. The table below summarises interest rates based on reports reviewed by key management personnel:

	2009			**2008**		
In % p.a.	**AZN**	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Assets						
Cash and cash equivalents	-	3.6	2.5	-	5.9	5.0
Due from other banks	4.0	6.8	4.0	-	11.8	4.0
Loans and advances to customers	21.9	20.7	17.1	19.2	15.5	10.3
Debt investment securities available for sale	7.7	14.0	-	7.8	-	-
Liabilities						
Customer accounts	1.8	3.1	2.2	4.8	3.7	1.9
Due to other banks	-	7.0	-	4.9	3.3	-
Subordinated loan from the Affiliated Bank	-	-	-	-	6.0	-

The Group is exposed to prepayment risk through providing fixed or variable rate loans, including mortgages, which give the borrower the right to early repay the loans. The Group's current year profit and equity at the end of the current reporting period would not have been significantly impacted by changes in prepayment rates because such loans are carried at amortised cost and the prepayment right is at or close to the amortised cost of the loans and advances to customers (2008: no material impact).

24 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at 31 December 2009 is set out below:

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**Total**
Financial assets				
Cash and cash equivalents	22,448	60,541	25	83,014
Mandatory cash balances with the CBAR	290	-	-	290
Due from other banks	8,120	-	-	8,120
Loans and advances to customers	28,439	-	-	28,439
Investment securities available for sale	28,178	-	-	28,178
Other financial assets	16	-	-	16
Total financial assets	**87,491**	**60,541**	**25**	**148,057**
Non-financial assets	**4,751**	-	-	**4,751**
Total assets	**92,242**	**60,541**	**25**	**152,808**
Financial liabilities				
Due to other banks	42,601	-	-	42,601
Customer accounts	66,587	-	-	66,587
Other financial liabilities	125	-	-	125
Total financial liabilities	**109,313**	**-**	**-**	**109,313**
Non-financial liabilities	**969**	**-**	**-**	**969**
Total liabilities	**110,282**	**-**	**-**	**110,282**
Net position in on-balance sheet financial instruments	**(18,040)**	**60,541**	**25**	**42,526**
Credit related commitments	**18,954**	**-**	**-**	**18,954**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Cash on hand, and property and equipment have been allocated based on the country in which they are physically held.

24 Financial Risk Management (Continued)

The geographical concentration of the Group's financial assets and liabilities at 31 December 2008 is set out below:

In thousands of Azerbaijani Manats	Republic of Azerbaijan	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	19,963	6,257	31	26,251
Mandatory cash balances with the NBAR	3,725	-	-	3,725
Due from other banks	2,962	1,146	-	4,108
Loans and advances to customers	9,567	-	-	9,567
Investment securities available for sale	57,209	-	-	57,209
Other financial assets	24	-	-	24
Total financial assets	**93,450**	**7,403**	**31**	**100,884**
Non-financial assets	**3,443**	**-**	**-**	**3,443**
Total assets	**96,893**	**7,403**	**31**	**104,327**
Financial liabilities				
Due to other banks	6,282	-	-	6,282
Customer accounts	58,636	-	-	58,636
Other financial liabilities	84	-	-	84
Subordinated loan from the Affiliated Bank	-	161	-	161
Total financial liabilities	**65,002**	**161**	**-**	**65,163**
Non-financial liabilities	**1,319**	**19**	**-**	**1,338**
Total liabilities	**66,321**	**180**	**-**	**66,501**
Net position in on-balance sheet financial instruments	**30,572**	**7,223**	**31**	**37,826**
Credit related commitments	**5,418**	**6,033**	**-**	**11,451**

24 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Bank.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring liquidity ratios against regulatory requirements. The Bank calculates its instant liquidity ratio at a required minimum of thirty percent on a monthly basis in accordance with the requirement of the Central Bank of Azerbaijan. As at 31 December 2009, the actual ratio was 132.7% (2008: 156.4%).

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department.

The table below shows assets and liabilities at 31 December 2009 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer-term nature; for example, loans are frequently renewed and accordingly short-term loans can have longer term duration.

Overdue liabilities, such as term deposits not withdrawn by the Group's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. Certain assets, which do not have a contractual maturity date, for example, available for sale equity securities, are assumed to mature on the expected date, on which the assets will be realised.

24 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial instruments at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	83,014	-	-	2,517	-	85,531
Due from other banks	1,733	2,514	4,199	-	-	8,446
Loans and advances to customers	-	6,190	20,304	9,482	95	36,071
Investment securities available for sale	5,255	4,081	18,473	1,229	60	29,098
Other financial assets	16	-	-	-	-	16
Total	**90,018**	**12,785**	**42,976**	**13,228**	**155**	**159,162**
Liabilities						
Due to other banks	38,524	-	4,158	-	-	42,682
Customer accounts – individuals	15,280	487	150	173	-	16,090
Customer accounts – other	48,075	6,303	83	-	-	54,461
Other financial liabilities	122	3	-	-	-	125
Undrawn credit lines	-	-	10,934	-	-	10,934
Financial guarantees	9	-	4,705	1,725	-	6,439
Other credit related commitments	-	-	1,581	-	-	1,581
Total potential future payments for financial obligations	**102,010**	**6,793**	**21,611**	**1,898**	**-**	**132,312**
Liquidity gap arising from financial instruments	**(11,992)**	**5,992**	**21,365**	**11,330**	**155**	**26,850**

The undiscounted maturity analysis of financial instruments at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	26,251	-	-	2,100	-	28,351
Due from other banks	2,072	2,060	102	-	-	4,234
Loans and advances to customers	1,351	2,220	1,361	4,013	681	9,626
Investment securities available for sale	21,903	32,931	3,440	-	60	58,334
Other financial assets	24	-	-	-	-	24
Total	**51,601**	**37,211**	**4,903**	**6,113**	**741**	**100,569**
Liabilities						
Due to other banks	4,974	-	-	1,329	-	6,303
Customer accounts – individuals	10,971	1,503	1,003	21	-	13,498
Customer accounts – other	42,577	1,250	1,418	-	-	45,245
Other financial liabilities	-	-	171	-	-	171
Subordinated loan from the Affiliated	84	-	-	-	-	84
Undrawn credit lines	-	-	2,139	-	-	2,139
Financial guarantees	1,000	150	4,057	2,419	-	7,626
Other credit related commitments	259	424	3,142	-	-	3,825
Total potential future payments for financial obligations	**59,865**	**3,327**	**11,930**	**3,769**	**-**	**78,891**
Liquidity gap arising from financial instruments	**(8,264)**	**33,884**	**(7,027)**	**2,344**	**741**	**21,678**

24 Financial Risk Management (Continued)

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijani Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
31 December 2009						
Financial assets	91,481	8,576	33,857	14,069	74	148,057
Financial liabilities	102,037	2,741	4,455	80	-	109,313
Net liquidity gap based on expected maturities	**(10,556)**	**5,835**	**29,402**	**13,989**	**74**	**38,744**
31 December 2008						
Financial assets	54,747	22,642	16,671	6,164	660	100,884
Financial liabilities	58,568	3,497	1,749	1,349	-	65,163
Net liquidity gap based on expected maturities	**(3,821)**	**19,145**	**14,922**	**4,815**	**660**	**35,721**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management considers that the current favourable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

Management believes that despite substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Customer accounts are classified in the above analysis based on contractual maturities.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

25 Management of Capital

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by the Central Bank of the Azerbaijan Republic ("CBAR"), (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Accord of at least 8%. Compliance with capital adequacy ratios set by the Central Bank of Azerbaijan Republic is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. The other objectives of capital management are evaluated annually.

The CBAR requires each bank or banking group to: (a) hold the minimum level of share capital AZN 10,000 thousand (2008: AZN 10,000 thousand); (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the 'total capital ratio') at or above the prescribed minimum of 12% (2008: 12%) and (c) maintain a ratio of tier 1 capital to the risk-weighted assets (the 'Tier 1 capital ratio') at or above the prescribed minimum of 6% (2008: 6%).

Management believes that the Bank was in compliance with the statutory capital ratio throughout 2009 and 2008. Refer to Note 26.

The composition of the Group's capital calculated in accordance with Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I based on the consolidated financial statements of the Group, is as follows:

In thousands of Azerbaijani Manats	**2009**	**2008**
Tier 1 capital		
Share capital	27,209	14,496
Additional paid-in capital	-	12,713
Capital contribution	515	515
Retained earnings	14,802	10,102
Total qualifying tier 1 capital	**42,526**	**37,826**
Total regulatory capital	**42,526**	**37,826**
Net off specific provision risk-weighted assets:		
On-balance sheet	40,309	22,556
Off-balance sheet	10,698	8,469
Total risk-weighted assets:	**51,007**	**31,025**
Basel ratio	**83.4%**	**121.9%**

The Group and the Bank have complied with all externally imposed capital requirements throughout 2009 and 2008.

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Based on their own estimates and both internal and external professional advice, the Management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and state authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As disclosed in Note 4, on 14 November 2008, a new law on "Stimulation of increasing the capitalization of banks, insurance and reinsurance companies" was enacted in the Republic of Azerbaijan. According to the law the profit tax rate for banks, insurance and reinsurance companies will be applicable at 0% for three fiscal years effective from 1 January 2009, for the portion of the profits transferred to share capital. The management of the Bank believes that its interpretation of the requirements of this law is appropriate and the Bank will be able to take advantage of the law. Should the management's interpretation of the requirements of the law turn out to be inappropriate, additional current tax liability of AZN 968 thousand may arise with regard to the results of operations of the Bank for the year ended 31 December 2009.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities has been recorded (2008: no provision).

Capital expenditure commitments. At 31 December 2009, the Group does not have material contractual capital expenditure commitments. (2008: no capital expenditure commitments).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In thousands of Azerbaijani Manats	**2009**	**2008**
Not later than 1 year	149	127
Total operating lease commitments	**149**	**127**

Calculations in accordance with regulatory and other requirements. Management have used judgment in interpreting the requirements of statutory regulations and calculating compliance with CBAR covenants. If Management's understanding proved not to be correct, the Group may be subject to penalties or other consequences imposed by the Central Bank of the Republic of Azerbaijan.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

26 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are as follows:

In thousands of Azerbaijani Manats	2009	2008
Undrawn credit lines	10,934	2,139
Guarantees issued	6,439	7,626
Import letters of credit	1,581	1,686
Total credit related commitments	**18,954**	**11,451**

At 31 December 2009, import letters of credit of AZN 166 thousand and guarantee letters of AZN 176 thousand (2008: import letters of credit of AZN 861 thousand and guarantee letters of AZN 27 thousand) were collateralised in the form of blocked customer accounts of AZN 341 thousand (2008: AZN 888 thousand).

Guarantees were opened for several companies operating in the various fields of economy, such as trade and service, consulting firms, tourism companies and others.

Most of the guarantee letters outstanding as at 31 December 2009 and 31 December 2008 represent payment guarantees issued to clients as a pledge of their ability to make payments to the beneficiary for provision of goods and services, and tender guarantees issued to clients as a pledge of their intent to participate in a bidding tender, announced by various institutions.

The fair value of credit related commitments was AZN 152 thousand at 31 December 2009 (2008: AZN 98 thousand).

Credit related commitments are denominated in currencies as follows:

In thousands of Azerbaijani Manats	2009	2008
Azerbaijani Manats	3,025	2,955
US Dollars	12,244	4,213
Euro	3,685	4,065
Other	-	218
Total	**18,954**	**11,451**

27 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortised cost.

Fair values of financial instruments carried at amortised cost are as follows:

	2009		2008	
In thousands of Azerbaijani Manats	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash on hand	8,861	8,861	4,133	4,133
- Cash balances with the CBAR	13,162	13,162	11,150	11,150
- Correspondent accounts and overnight placements	60,991	60,991	10,968	10,968
Mandatory cash balances with the CBAR	290	290	3,725	3,725
Due from other banks				
- Short-term placements with other banks	8,120	8,120	4,108	4,108
Loans and advances to customers				
- Corporate loans	23,238	23,238	6,656	6,656
- Loans to individuals - entrepreneurs	2,119	2,119	653	653
- Loans to individuals - car purchase loans	1,160	1,160	44	44
- Loans to individuals - consumer loans	1,016	1,016	451	451
- Loans to individuals - flat refurbishment loans	458	458	446	446
- Loans to individuals - mortgage loans	443	443	1,135	1,135
- Loans to individuals - other purposes	5	5	182	182
Other financial assets				
Credit and debit cards receivables	16	16	24	24
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**119,879**	**119,879**	**43,675**	**43,675**
FINANCIAL LIABILITIES				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	38,531	38,531	4,953	4,953
- Short-term placements of other banks	4,070	4,070	-	-
- Blocked accounts of resident banks	-	-	1,329	1,329
Customer accounts				
- Current/settlement accounts of state and public organisations	62	62	1,814	1,814
- Current/settlement accounts of other legal entities	32,971	32,971	35,512	35,512
- Term deposits of other legal entities	17,192	17,192	6,929	6,929
- Current/demand accounts of individuals	15,220	15,220	10,793	10,793
- Term deposits of individuals	801	801	2,579	2,579
- Restricted customer deposits	341	341	1,009	1,009
Other financial liabilities				
Trade payables	94	94	31	31
Debit or credit card payables	3	3	14	14
Other accrued liabilities	28	28	39	39
Subordinated debt				
- Subordinated debt from the Affiliated Bank	-	-	161	161
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**109,313**	**109,313**	**65,163**	**65,163**

27 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments carried at fair value.

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

In thousands of Azerbaijani Manats	2009			2008		
	Quoted price in an active market (Level 1)	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**
FINANCIAL ASSETS						
Investment securities available for sale						
- Notes of the CBAR	-	-	-	20,539	-	-
- Treasury bills of the MoF	26,945	-	-	36,670	-	-
- Corporate bonds	-	1,233	-	-	-	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**26,945**	**1,233**	**-**	**57,209**	**-**	**-**

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

27 Fair Value of Financial Instruments (Continued)

(c) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices are not available, the Group used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

	2009	2008
Due from other banks		
Short-term placements with other banks	2% to 9% p.a.	4% to 14% p.a.
Loans and advances to customers		
- Corporate loans	6% to 24% p.a.	7% to 21% p.a.
- Loans to individuals - entrepreneurs	15% to 23% p.a.	16% to 23% p.a.
- Loans to individuals - car purchase loans	12% to 21% p.a.	16% to 20% p.a.
- Loans to individuals - consumer loans	12% to 24% p.a.	12% to 24% p.a.
- Loans to individuals - flat refurbishment loans	9% to 24% p.a.	8% to 24% p.a.
- Loans to individuals - mortgage loans	7% to 24% p.a.	7% to 20% p.a.
- Loans to individuals - other purposes	6% to 23% p.a.	12% to 24% p.a.
Due to other banks		
- Short-term placements of other banks	0.2% to 4.2% p.a.	0.2% to 4.2% p.a.
Customer accounts		
- Term deposits of other legal entities	1.35% to 4.5% p.a.	1.35% to 8.8% p.a.
- Term deposits of individuals	0.75% to 6% p.a.	1% to 7% p.a.
Subordinated debt		
- Subordinated debt from the Affiliated Bank	-	5.6% to 8.6% p.a.

28 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition of Measurement*, classifies financial assets into the following categories: a) loans and receivables; b) available for sale financial assets; c) financial assets held to maturity and d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: i) assets designated as such upon initial recognition, and ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2009 and 31 December 2008:

	2009			2008		
In thousands of Azerbaijani Manats	**Loans and receivables**	**Available-for-sale assets**	**Total**	**Loans and receivables**	**Available-for-sale assets**	**Total**
Assets						
Cash and cash equivalents	83,014	-	83,014	26,251	-	26,251
Mandatory cash balances with the CBAR	290	-	290	3,725	-	3,725
Due from other banks						
- Short-term placements with other banks	8,120	-	8,120	4,108	-	4,108
Loans and advances to customers						
- Corporate loans	23,238	-	23,238	6,656	-	6,656
- Loans to individuals - entrepreneurs	2,119	-	2,119	653	-	653
- Loans to individuals - car purchase loans	1,160	-	1,160	44	-	44
- Loans to individuals - consumer loans	1,016	-	1,016	451	-	451
- Loans to individuals - flat refurbishment	458	-	458	446	-	446
- Loans to individuals - mortgage loans	443	-	443	1,135	-	1,135
- Loans to individuals - other purposes	5	-	5	182	-	182
Investment securities available for sale	-	28,238	28,238	-	57,269	57,269
Other financial assets	16	-	16	24	-	24
Total financial assets	**119,879**	**28,238**	**148,117**	**43,675**	**57,269**	**100,944**
Non-financial assets	**4,691**	**-**	**4,691**	**3,383**	**-**	**3,383**
Total assets	**124,570**	**28,238**	**152,808**	**47,058**	**57,269**	**104,327**

All of the Group's financial liabilities are carried at amortised cost.

29 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2009, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Entities under common control**
Cash and cash equivalents (Note 7)	50,321	-
Customer current/settlement accounts (contractual interest rate: 0-4% p.a.)	-	88

At 31 December 2009, balances on correspondent accounts and overnight placements with the Affiliated Bank represented approximately 32.9% (2008: 5.1%) of the total assets of the Group. Refer to Note 7.

The income and expense items with related parties for 2009 were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Entities under common control**
Interest income	2,096	-
Interest expense	(8)	(14)
Fee and commission income	-	13
Fee and commission expense	(16)	-
Administrative and other operating expenses	(25)	(56)

Interest income earned from overnight placements and demand deposit with the Affiliated Bank represent 24.5% (2008: 14.4%) of the total interest income of the Group for the year ended 31 December 2009.

At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Entities under common control**
Cash and cash equivalents (Note 7)	5,347	-
Due from other banks (contractual interest rate: 4% p.a.)	1,129	-
Customer current/settlement accounts (contractual interest rate: 0-4% p.a.)	-	1,133
Subordinated loan from the Affiliated Bank (contractual interest rate: LIBOR + 3.50% p.a.)	161	-

The income and expense items with related parties for 2008 were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Entities under common control**
Interest income	1,098	24
Interest expense	(284)	(17)
Recovery of impairment provision for loans and advances to customers	-	31
Fee and commission income	22	-
Administrative and other operating expenses	(19)	(66)

Key management compensation is presented below:

In thousands of Azerbaijani Manats	**2009**	**2008**
Short-term benefits:		
- Salaries	172	173
- Unused vacations	16	-
Total	**188**	**173**

30 Events after the End of the Reporting Period

Subsequent to the end of the reporting period, according to the decision of General Assembly of Shareholders hold on 19 March 2010 the Bank was in the process of increasing its share capital for AZN 4,401 thousand through issue of 220,050,000 additional ordinary shares payments for which will be made through transfer from retained earnings. At the date these consolidated financial statements were approved for issue, the emission procedures were completed.