OJSC PASHA Bank
Financial Statements

Year ended 31 December 2010
Together with Independent Auditors' Report

CONTENTS

Independent auditors' report

Notes to Financial Statements

Independent auditors' report

To the Shareholders and Board of Directors of OJSC PASHA Bank -

We have audited the accompanying financial statements of OJSC PASHA Bank, which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of OJSC PASHA Bank as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

28 February 2011

STATEMENT OF FINANCIAL POSITION
As at 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

	Notes	*31 December 2010*	*31 December 2009*
Assets			
Cash and cash equivalents	5	132,892	50,456
Trading securities	6	897	858
Securities purchased under agreements to resell	7	5,775	499
Amounts due from credit institutions	8	22,676	46,506
Investment securities available–for–sale	9	149,400	82,027
Investment securities held to maturity	9	506	714
Loans to banks	10	4,379	1,909
Loans to customers	11	187,868	119,520
Property and equipment	12	3,549	1,400
Intangible assets	13	1,607	712
Other assets	14	2,755	1,832
Total assets		**512,304**	**306,433**
Liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	15	24,007	12,486
Amounts due to customers	16	338,599	166,391
Amounts due to credit institutions	17	6,786	-
Current income tax liability	18	573	-
Provision for guarantees and other commitments	20, 24	1,582	781
Other liabilities	14	3,942	205
Total liabilities		**375,489**	**179,863**
Equity			
Share capital	19	115,407	100,000
Retained earnings		21,408	26,570
Total equity		**136,815**	**126,570**
		512,304	**306,433**

Signed and authorised for release on behalf of the Management Board of the Bank:

Farid Akhundov — Chairman of the Executive Board

Shahin Mammadov — Chief Financial Officer

28 February 2011

The accompanying notes on pages 5 to 45 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

	Notes	*Year ended 31 December 2010*	*Year ended 31 December 2009*
Interest income			
Loans to customers		22,680	11,344
Amounts due from credit institutions		5,478	7,754
Investment securities		3,741	3,766
Guarantees and letters of credit		1,184	831
Loans to banks		741	647
Securities purchased under agreements to resell		18	42
		33,842	**24,384**
Interest expense			
Amounts due to customers		(7,844)	(4,009)
Guarantees and letters of credit		(431)	(282)
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies		(359)	(55)
Amounts due to credit institutions		(111)	-
Other		(11)	-
		(8,756)	**(4,346)**
Net interest income		**25,086**	**20,038**
Impairment losses on interest bearing assets		(5,649)	(556)
Provision for guarantees and other commitments		(801)	(781)
Impairment losses on interest bearing assets, and provisions for guarantees and other commitments	24	**(6,450)**	**(1,337)**
Net interest income after provision for impairment losses		**18,636**	**18,701**
Net fee and commission income	21	1,403	619
Net unrealized gains from trading securities		49	265
Net gains on sale of investment securities available-for-sale		280	-
Net gains/(losses) from foreign currencies:			
- dealings		3,750	1,781
- translation differences		(224)	(30)
Other income		-	4
Non-interest income		**5,258**	**2,639**
Personnel expenses	22	(5,680)	(3,396)
General and administrative expenses	23	(2,936)	(1,939)
Depreciation and amortisation	12, 13	(726)	(396)
Non-interest expenses		**(9,342)**	**(5,731)**
Profit before income tax (expense)/benefit		**14,552**	**15,609**
Income tax (expense)/benefit	18	(681)	450
Net profit for the year		**13,871**	**16,059**
Other comprehensive income		-	-
Total comprehensive income for the year		**13,871**	**16,059**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

	Share capital	*Retained earnings*	*Total equity*
31 December 2008	**100,000**	**10,511**	**110,511**
Total comprehensive income for the year	-	16,059	16,059
31 December 2009	**100,000**	**26,570**	**126,570**
Capitalization of net profit for the year 2009 to share capital (Note 19)	15,407	(15,407)	-
Tax on capitalized profit of 2009 and 2010	-	(2,645)	(2,645)
Dividends declared (Note 19)	-	(981)	(981)
Total comprehensive income for the year	-	13,871	13,871
31 December 2010	**115,407**	**21,408**	**136,815**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements

STATEMENT OF CASH FLOWS
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Interest received		33,485	23,164
Interest paid		(8,617)	(4,352)
Fees and commissions received		2,065	1,445
Fees and commissions paid		(662)	(826)
Net gains on sale of investment securities available-for-sale		280	-
Realised gains less losses from dealing in foreign currencies		3,750	1,781
Personnel expenses		(4,047)	(3,396)
General and administrative expenses paid		(2,857)	(1,931)
Other operating income received		-	4
Cash flows from operating activities before changes in operating assets and liabilities		**23,397**	**15,889**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		20,657	(38,722)
Trading securities		4	7
Loans to banks		(2,199)	6,196
Loans to customers		(72,427)	(75,560)
Withholding tax paid on capitalization		(1,541)	-
Other assets		(265)	10
Net increase/(decrease) in operating liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies		11,521	11,045
Amounts due to customers		173,481	82,194
Amounts due to credit institutions		6,545	-
Other liabilities		(97)	65
Net cash from operating activities before income tax		**159,076**	**1,124**
Income tax paid		(108)	(2,508)
Net cash from/(used in) operating activities		**158,968**	**(1,384)**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(183,734)	(374,882)
Proceeds from sale and redemption of investment securities available-for-sale		116,637	385,125
Purchases of investment securities held to maturity		(400)	(688)
Proceeds from investment securities held to maturity		598	-
Purchase of property and equipment		(3,784)	(1,897)
Securities purchased under agreements to resell		(5,275)	5,703
Acquisition of intangible assets		(691)	(512)
Proceeds from sale of property and equipment		-	72
Net cash (used in)/ from investing activities		**(76,649)**	**12,921**
Effect of exchange rates changes on cash and cash equivalents		117	208
Net increase in cash and cash equivalents		**82,436**	**11,745**
Cash and cash equivalents, beginning	5	50,456	38,711
Cash and cash equivalents, ending	5	**132,892**	**50,456**

The accompanying notes on pages 5 to 44 are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

1. Principal activities

OJSC PASHA Bank (the "Bank") was formed on 18 June 2007 as an open joint stock company under the laws of the Republic of Azerbaijan. The Bank operates under a banking licence issued by the Central Bank of the Republic of Azerbaijan ("CBA") on 28 November 2007.

The Bank accepts deposits from the public and extends credit, transfers payments, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank has 2 service points in Azerbaijan as of 31 December 2010 (2009: two).

The Bank's registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

As of 31 December 2010 and 2009 the following shareholders owned the outstanding shares of the Bank:

Shareholder	***31 December 2010 (%)***	***31 December 2009 (%)***
Pasha Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	**100**	**100**

The Bank is ultimately controlled by Mr. Arif Pashayev.

2. Basis of preparation

General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Azerbaijani Manat is the functional and presentation currency of the Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani Manat. Transactions in other currencies are treated as transactions in foreign currencies.

The Bank is required to maintain its records and prepare its financial statements in Azerbaijani Manats and in accordance with IFRS.

These financial statements are presented in thousands of Azerbaijani Manat ("AZN"), except per share amounts and unless otherwise indicated.

The financial statements have been prepared under the historical cost convention except for trading and available for sale securities which have been measured at fair value.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new International Financial Reporting Interpretations Committee (IFRIC) Interpretations effective during the year. The principal effects of these changes are as follows:

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items
The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Bank's financial statements as the Bank has not entered into any such hedges.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)
The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively and will affect only future acquisitions and transactions with non-controlling interests.

IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions
The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Bank's financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"
IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Bank's financial statements.

Improvements to IFRSs
In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does not review segment assets and liabilities, the Bank does not disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in current year profit.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in current year profit when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in current year profit when the loans and receivables are derecognized or impaired, as well as through the amortization process.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to current year profit. However, interest calculated using the effective interest method is recognized in the current year profit.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBA, excluding obligatory reserves, and amounts due from credit institutions with no maturity and less than 90 days and that are free from contractual encumbrances.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as separate account on the statement of financial position if material or as cash and cash equivalents or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies, amounts due to credit institutions and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in current year profit when the borrowings are derecognised as well as through the amortisation process.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Amounts due from credit institutions and loans to customers (continued)

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current year profit. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to current year profit.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held to maturity financial investments

For held to maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in current year profit.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the statement of comprehensive income.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in current year profit is reclassified from other comprehensive income to current year profit. Impairment losses on equity investments are not reversed through current year profit; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recognized in current year profit. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in current year profit and loss, the impairment loss is reversed through current year profit.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Derecognition of financial assets and liabilities (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

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

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

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to current year profit. The premium received is recognized in current year profit on a straight-line basis over the life of the guarantee.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Azerbaijan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of general and administrative expenses.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of property and equipment when that cost is incurred if the recognition criteria are met.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Furniture and fixtures	4
Computers and other equipment	4
Vehicles	4
Other	5
Leasehold improvements	15

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are depreciated of over the useful life of the leased assets.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets consist of licenses and computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Share capital (continued)

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

Contingencies

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

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognized when incurred. The following specific recognition criteria must also be met before revenue and expense is recognised:

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income includes cash collection and withdrawal fees and customer services fees, which are recognized as revenue as the services are provided. Fee and commission expense consists of customer, external manager, brokerage and custodian fees.

Foreign currency translation

The financial statements are presented in AZN, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in current year profit as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBA exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

The Bank used the following official exchange rates at 31 December 2010 and 2009 in the preparation of these financial statements:

	31 December 2010	*31 December 2009*
1 US Dollar	AZN 0.7979	AZN 0.8031
1 Euro	AZN 1.0560	AZN 1.1499
1 Russian Rouble	AZN 0.0263	AZN 0.0266
1 Pound Sterling	AZN 1.2377	AZN 1.2759

Future changes in accounting policies

Standards and interpretations issued but not yet effective

IAS 24 "Related party disclosures" (Revised)
The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank expects that revised standard will have no impact on the Bank's financial statements.

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"
In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

IFRS 9 "Financial Instruments"
In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of the new Standard and considers the initial application date.

IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement
The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction was developed by the International Financial Reporting Interpretations Committee and issued by the International Accounting Standards Board in July 2007. IFRIC 14 and its accompanying documents have been amended by Prepayments of a Minimum Funding Requirement (issued November 2009). Those amendments have an effective date of 1 January 2011. IFRIC 14 is not expected to have any material impact on the Bank's financial statements.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"
IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Bank's financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

3. Summary of significant accounting policies (continued)

Future changes in accounting policies (continued)

Improvements to IFRSs
In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Bank, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Bank applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on financial statements of the Bank.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Bank.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

IFRS 1 - Structural Amendment
This version was issued in November 2008. Its effective date is 1 July 2009. It includes amendments made by IFRSs issued up to 31 December 2009 with an effective date no later than 1 January 2010.
IFRS 1 and its accompanying documents have been amended by:

- IFRS 9 Financial Instruments (issued November 2009) (effective date 1 January 2013)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issued November 2009) (effective date 1 July 2010)

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgements and made estimates which have affected the amounts recognised in the financial statements:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

4. Significant accounting judgments and estimates (continued)

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes, including the new law allowing financial institutions to be exempt from payment of profit tax starting 1 January 2009 (for 3 consequent years) if the current year profit is capitalized, as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as at 31 December 2010 its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

5. Cash and cash equivalents

	31 December 2010	*31 December 2009*
Cash on hand	5,611	6,132
Current accounts with the Central Bank of the Republic of Azerbaijan	78,458	17,659
Current accounts with other credit institutions	19,348	1,475
Time deposits	29,475	25,190
Cash and cash equivalents	**132,892**	**50,456**

Current accounts with other credit institutions consist of non–interest bearing correspondent account balances with resident and non–resident banks in the amount of AZN 18,719 thousands (2009–AZN 921 thousands) and AZN 629 thousands (2009–AZN 554 thousands), respectively.

As of 31 December 2010 the Bank placed AZN 29,475 thousands (2009–AZN 25,190 thousands) in time deposits with resident and non-resident banks maturing through 22 February 2011 (2009–30 March 2010), and with effective annual interest rate of 0.3%-15.0% (2009– 0.2%-14.0%).

Non-cash transaction performed by the Bank during 2010 is represented by capitalization of net profit for the year 2009 to share capital in the amount AZN 15,407 thousands (2009–nil).

6. Trading securities

The Bank placed investments in US Dollars with an external asset manager and appointed it as its agent and delegated it to manage the investment and reinvestment of certain monies and assets. It also entered into a Custodian Agreement with a non–related international financial institution to serve as the Custodian of the investment portfolios. The funds and assets are held by the Custodian, which monitors portfolios and is provided by the Bank the authority to release or deliver securities of the portfolio, register securities, and conduct transactions based on the asset manager's requests on buy/sell decisions. The Custodian provides the Bank a monthly report of all monies received in respect of the portfolio or paid out of the portfolio. The assets placed with the external manager can be recalled by the Bank upon 20 days' written notice in advance.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

6. Trading securities (continued)

The external asset manager, acting as an agent, have complete discretion but within the set of investment guidelines prescribed by the Bank, for the account of the Bank to buy, sell, retain, exchange or otherwise deal in investments and other assets, make deposits, subscribe to issues and offers for sale, and accept placements, underwritings and sub-underwritings, of any investments, advise on or execute transactions in unregulated collective investment schemes, effect transactions on all markets, negotiate and execute counterparty and account opening documentation, take all day to day decisions and otherwise act as the external manager judge appropriate in relation to the management of the funds.

Trading securities are corporate US dollar, Euro and Norwegian Crone denominated corporate shares traded internationally, and were held and managed by the Bank's external manager. As of 31 December 2010 trading securities amounted to AZN 897 thousands (2009–AZN 858 thousands).

7. Securities purchased under agreements to resell

As of 31 December 2010 the Bank had entered into agreements to resell short-term notes issued by the CBA with total fair value of AZN 5,775 thousands (2009–AZN 499 thousands) to a resident credit institution.

8. Amounts due from credit institutions

	31 December 2010	*31 December 2009*
Time deposits	19,947	45,900
Obligatory reserve with the Central Bank of the Republic of Azerbaijan	836	605
Blocked deposits	1,893	1
Amounts due from credit institutions	**22,676**	**46,506**

As of 31 December 2010, AZN 13,075 thousands (66% of total time deposits) (2009–AZN 24,610 thousands) was placed on inter-bank deposits with three (2009–four) local commercial banks maturing through 20 September 2011 (2009–19 October 2010) and with effective annual interest rate of 7%-19% (2009–6%-18%).

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA at 0.5% (2009–0.5%) of the previous month average of funds attracted from customers by the credit institution. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

Blocked deposits as of 31 December 2010 relate to letters of credit issued by the Bank and blocked in a non-resident bank.

9. Investment securities

Available-for-sale securities comprise:

	31 December 2010		*31 December 2009*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	47,428	47,681	32,832	33,095
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	62,239	62,573	38,513	39,137
Notes issued by the Azerbaijan Mortgage Fund	34,737	34,668	10,682	10,667
Notes issued by the Central Bank of the Republic of Azerbaijan	4,996	5,001	-	-
Investment securities available-for-sale	**149,400**	**149,923**	**82,027**	**82,899**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

9. Investment securities (continued)

Nominal interest rates per annum and maturities of these securities are as follows:

	31 December 2010		*31 December 2009*	
	%	*Maturity*	*%*	*Maturity*
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	1.46%–2.99%	January 2011 – May 2011	1.7%–2.9%	January – November 2010
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	3.75%–6.9%	January 2011 – June 2012	4.0%–6.8%	October 2010 – June 2012
Notes issued by Azerbaijan Mortgage Fund	3.0%	May 2016	3.0%	May 2016
Notes issued by the Central Bank of the Republic of Azerbaijan	1.99%–2.2%	January 2011	-	-

Held to maturity securities comprise:

	31 December 2010	*31 December 2009*
Corporate bonds issued by FinansLizinq Open Joint Stock Company (OJSC)	303	-
Corporate bonds issued by Azel Closed Joint Stock Company (CJSC)	213	428
Corporate bonds issued by Omni Finance LLC, a non-bank credit institution	-	300
	516	728
Less–Allowance for impairment (Note 24)	(10)	(14)
Held to maturity securities	**506**	**714**

Corporate bonds issued by Azel CJSC are US–dollar denominated coupon bonds with annual interest rate of 14.0%. Bonds mature on 16 July 2011. The principal and interest on these securities is repaid semi-annually.

Corporate bonds issued by FinansLizinq OJSC are AZN–denominated coupon bonds with annual interest rate of 15.0%. Bonds mature in 18 December 2012. The interest on these securities is repaid monthly.

Corporate bonds issued by OMNI Finance are AZN–denominated coupon bonds with annual interest rate of 14.0% paid on a semi-annual basis and matured in December 2010.

10. Loans to banks

As of 31 December 2010 the Bank had outstanding amount of AZN 4,379 thousands (2009–AZN 1,909 thousands) unsecured loans denominated in Azerbaijani Manat and US dollar, issued to two resident commercial banks with contractual maturities through April 2011 and May 2012 (2009– July 2010 and October 2010) and annual interest rate of 16% (2009–17.5%).

11. Loans to customers

Loans to customers comprise:

	31 December 2010	*31 December 2009*
Legal entities	191,497	117,256
Individuals	4,584	4,824
Loans to customers (gross)	**196,081**	**122,080**
Less–Allowance for impairment (Note 24)	(8,213)	(2,560)
Loans to customers (net)	**187,868**	**119,520**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

11. Loans to customers (continued)

	Corporate lending 31 December 2010	*Individual lending 31 December 2010*	*Total 31 December 2010*
Individual impairment	(7,005)	(314)	(7,319)
Collective impairment	(831)	(63)	(894)
	(7,836)	**(377)**	**(8,213)**
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	9,650	433	10,083

	Corporate lending 31 December 2009	*Individual lending 31 December 2009*	*Total 31 December 2009*
Individual impairment	(2,208)	(352)	(2,560)
Collective impairment	-	-	-
	(2,208)	**(352)**	**(2,560)**
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	13,067	365	13,432

Loans are made within Azerbaijan in the following industry sectors:

	31 December 2010	*31 December 2009*
Trade and services	85,324	59,979
Manufacturing	39,961	21,905
Construction	35,180	24,424
Hotel business	20,049	-
Individuals	4,584	4,824
Agriculture and food processing	3,855	4,067
Transport and telecommunication	3,630	6,332
Leasing	3,338	-
Energy	-	362
Other	160	187
Total loans (gross)	**196,081**	**122,080**

As of 31 December 2010, the Bank granted loans to 10 customers (2009–5 customers) totalling AZN 139,103 thousands (2009–AZN 60,520 thousands), which individually exceeded 5% of the Bank’s equity.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

12. Property and equipment

The movements in property and equipment were as follows:

	Buildings	*Furniture and fixtures*	*Computers and other equipment*	*Vehicles*	*Other equipment*	*Leasehold improve-ments*	*Total*
Cost							
31 December 2008	**-**	**475**	**372**	**318**	**19**	**58**	**1,242**
Additions	-	376	338	56	17	40	827
Disposals	-	-	-	(76)	(3)	-	(79)
31 December 2009	**-**	**851**	**710**	**298**	**33**	**98**	**1,990**
Additions	2,151	249	158	128	4	10	2,700
31 December 2010	**2,151**	**1,100**	**868**	**426**	**37**	**108**	**4,690**
Accumulated depreciation							
31 December 2008	**-**	**(102)**	**(82)**	**(52)**	**(4)**	**-**	**(240)**
Depreciation charge	-	(154)	(111)	(79)	(6)	(7)	(357)
Disposals	-	-	-	6	1	-	7
31 December 2009	**-**	**(256)**	**(193)**	**(125)**	**(9)**	**(7)**	**(590)**
Depreciation charge	-	(222)	(205)	(102)	(6)	(16)	(551)
31 December 2010	**-**	**(478)**	**(398)**	**(227)**	**(15)**	**(23)**	**(1,141)**
Net book value:							
31 December 2010	**2,151**	**622**	**470**	**199**	**22**	**85**	**3,549**
31 December 2009	**-**	**595**	**517**	**173**	**24**	**91**	**1,400**

13. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Installations in progress*	*Total*
Cost				
31 December 2008	**189**	**75**	**-**	**264**
Additions	104	125	283	512
Disposals	(5)	-	-	(5)
31 December 2009	**288**	**200**	**283**	**771**
Additions	143	927	-	1,070
Disposals	(55)	-	-	(55)
Transfers	-	283	(283)	-
31 December 2010	**376**	**1,410**	**-**	**1,786**
Accumulated amortization				
31 December 2008	**(21)**	**(4)**	**-**	**(25)**
Amortisation charge	(29)	(10)	-	(39)
Disposals	5	-	-	5
31 December 2009	**(45)**	**(14)**	**-**	**(59)**
Amortisation charge	(80)	(95)	-	(175)
Disposals	55	-	-	55
31 December 2010	**(70)**	**(109)**	**-**	**(179)**
Net book value:				
31 December 2010	**306**	**1,301**	**-**	**1,607**
31 December 2009	**243**	**186**	**283**	**712**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

14. Other assets and liabilities

Other assets comprise:

	31 December 2010	*31 December 2009*
Other financial assets		
Accrued interest receivable on guarantees and letters of credit	127	98
Settlements on money transfers	32	-
	159	98
Other non–financial assets		
Prepayments for acquisition of property, equipment and intangible assets	2,235	1,529
Deferred expenses	321	150
Other	40	55
	2,596	1,734
Other assets	**2,755**	**1,832**

As of 31 December 2010 prepayments for the purchase of property, equipment and intangible assets of AZN 2,235 thousands (2009–AZN 1,529 thousands), related to premises for the Bank's new branches located in Baku and regions of the Republic of Azerbaijan.

Other liabilities comprise:

	31 December 2010	*31 December 2009*
Other financial liabilities		
Dividends payable (Note 19)	981	-
Payable to employees	113	101
Payables for professional services	64	38
Accrued interest payables on letters of credit	36	-
Settlements on money transfer	36	-
Payables on social security costs	25	-
Accrued expenses	14	8
Other	-	7
	1,269	154
Other non–financial liabilities		
Accrued staff bonuses	1,500	-
Taxes, other than income tax	1,124	-
Other	-	11
Deferred income	49	40
	2,673	51
Other liabilities	**3,942**	**205**

15. Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies

	31 December 2010	*31December 2009*
Loans from the Central Bank of the Republic of Azerbaijan	10,000	7,000
Loans from the National Fund for Support of Entrepreneurship	13,635	5,485
Amount due to Azerbaijan Mortgage Fund	369	-
Correspondent accounts with other banks	3	1
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	**24,007**	**12,486**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

15. Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies (continued)

As of 31 December 2010 the Bank had loans from the Central Bank of the Republic of Azerbaijan amounting to AZN 10,000 thousands (2009–AZN 7,000 thousands), maturing through 2012 (2009–through 2011) and bearing interest rate of 2.5% p.a.

As of 31 December 2010 the Bank had seven loans (2009–four loans) from the National Fund for Support of Entrepreneurship amounting to AZN 13,635 thousands (2009–AZN 5,485 thousands), maturing through 2015 and bearing interest rate of 1.0% p.a. The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program.

As of 31 December 2010 the Bank had eight loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 369 thousands (2009–nil), maturing through 2035 and bearing interest rate of 4.0% p.a.

16. Amounts due to customers

The amounts due to customers include the following:

	31 December 2010	*31 December 2009*
Demand deposits	191,519	93,781
Time deposits	147,080	72,610
Amounts due to customers	**338,599**	**166,391**
Held as security against guarantees	**967**	**-**

An analysis of customer accounts by economic sector follows:

	31 December 2010	*31 December 2009*
Investment holding companies	181,762	35,179
Individuals	102,226	95,419
Construction	22,342	18,588
Trade and services	17,043	12,260
Insurance	7,356	1,210
Energy	5,178	20
Manufacturing	2,256	1,443
Transport and communication	205	60
Agriculture	4	2,001
Other	227	211
Amounts due to customers	**338,599**	**166,391**

As of 31 December 2010 customer deposits included balances with five largest (2009–four) customers amounting to AZN 257,909 thousands (2009–AZN 107,499 thousands). These deposits comprise significant concentration of approximately 76% (2009–65%) of the total customer deposits portfolio.

As at 31 December 2010 time deposits amounting to AZN 967 thousands (2009–nil) were held as security against guarantees issued (Note 20).

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

17. Amounts due to credit institutions

	31 December 2010	*31 December 2009*
Commerzbank Aktiengesellschaft	4,162	-
Landesbank Baden-Württemberg	1,294	-
Raiffeisen Bank International Aktiengesellschaft	1,330	-
Amounts due to credit institutions	**6,786**	**-**

As of 31 December 2010 amounts due to credit institutions included balances with 3 foreign banks amounting to AZN 6,786 thousands (2009–nil), maturing through 2011 and bearing interest rate of 2.72%–5.96% p.a. These borrowings are for trade finance of import operations (letters of credit) of the customers of the Bank.

18. Taxation

The corporate income tax (expense)/benefit comprise:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Current tax expense	(681)	-
Deferred tax benefit	-	450
Income tax (expense)/benefit	**(681)**	**450**

In accordance with the Law of the Republic of Azerbaijan on enhancement of activities of banks, insurance and reinsurance companies (N710–IIIQ and dated 28 October 2008), financial institutions are exempt from payment of Profit Tax starting from 1 January 2009 for a period of 3 consecutive years, if the current year profit is capitalized. As a result, based on the shareholders' meeting dated 13 May 2009, the Bank has decided to avail of the tax exemption in accordance with the law for the years 2009–2011.

On 19 June 2009, an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 22% to 20% effective from 1 January 2010. There is no deferred tax effect of the change in tax rates as of 31 December 2010 in view of the availment of the tax exemption.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax (expense)/ benefit based on statutory rates with actual is as follows:

	Year ended 31 December 2010	*Year ended 31 December 2009*
Profit before income tax (expense)/benefit	**14,552**	**15,609**
Statutory tax rate	20%	22%
Theoretical tax expense at the statutory rate	**(2,910)**	**(3,434)**
Tax effect of non–deductible expenses	(328)	(57)
Tax effect of tax–exempt income arising from capitalization of profit	2,557	3,941
Income tax (expense)/benefit	**(681)**	**450**

Current income tax payable is AZN 573 thousands (2009–nil).

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

19. Equity

The share capital of the Bank was contributed by the shareholders in AZN and they are entitled to dividends and any capital distribution in AZN. No dividends were declared and paid to the shareholders of the Bank as of 31 December 2009. On 24 December 2010 the shareholders of the Bank declared dividends of AZN 981 thousands from the 2010 net profit of the Bank and was accrued accordingly as of 31 December 2010.

Following the availment of tax exemption as described in Note 18, on 03 May 2010 the shareholders decided to increase the share capital by AZN 15,407 thousands from AZN 100,000 thousands to AZN 115,407 thousands through capitalization of the profit earned for the year ended 31 December 2009. The Bank completed the registration of the increase in share capital on 12 June 2010, thus, bringing share par value to AZN 11,540.71 each and total paid–in share capital to AZN 115,407 thousands as of 31 December 2010.

As of 31 December 2010 the Bank authorized, issued and fully paid capital amounted to AZN 115,407 thousands (2009–AZN 100,000 thousands) and comprised 10,000 ordinary shares with a par value of AZN 11,540.71 per share (2009–AZN 10,000 thousands). Each share entitles one vote to the shareholder.

20. Commitments and contingencies

Operating environment

As an emerging market, Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. However, there have been a number of developments that positively affect the overall investment climate of the country.

While operations in Azerbaijan may involve risks that are not typically associated with those in developed markets (including the risk that the Azerbaijan Manat is not freely convertible outside of the country and undeveloped debt and equity markets), over the last few years the Azerbaijani government has made progress in implementing the reforms necessary to create banking, judicial, taxation and regulatory systems.

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Azerbaijani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. However, the Azerbaijan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Azerbaijan. The Azerbaijan Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Azerbaijan banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Bank’s business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank’s results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

20. Commitments and contingencies (continued)

Taxation

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 Bank may be challenged by the relevant authorities. Recent events within the Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, 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 proceeding the year of review.

Management believes that its interpretation of the relevant legislation as of 31 December 2010 is appropriate and that the Bank’s tax, currency and customs positions will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

Financial commitments and contingencies

The Bank provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

Financial commitments and contingencies comprise:

	31 December 2010	*31 December 2009*
Credit–related commitments		
Guarantees issued	19,958	17,854
Letters of credit	10,372	5,051
Unused credit lines	6,759	7,760
	37,089	**30,665**
Operating lease commitments		
Not later than 1 year	337	30
Later than 1 year but not later than 5 years	1,352	150
Later than 5 years	599	88
	2,288	**268**
Less – Provisions (Note 24)	(1,582)	(781)
Commitments and contingencies (before deducting collateral)	**37,795**	**30,152**
Less – Cash held as security against letters of credit and guarantees (Note 16)	(967)	-
Commitments and contingencies	**36,828**	**30,152**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

21. Net fee and commission income

	Year ended 31 December 2010	*Year ended 31 December 2009*
Currency conversion operations	734	498
Settlements operations	694	500
Cash operations	367	350
Servicing plastic card operations	109	28
Guarantees and commitments	55	68
Other	106	1
Fee and commission income	**2,065**	**1,445**
Securities operations	(276)	(587)
Settlements operations	(214)	(188)
Servicing plastic card operations	(74)	(12)
Guarantees and commitments	(50)	(19)
Currency conversion operations	(27)	(10)
Cash operations	(4)	(2)
Other	(17)	(8)
Fee and commission expense	**(662)**	**(826)**
Net fee and commission income	**1,403**	**619**

22. Personnel expenses

	Year ended 31 December 2010	*Year ended 31 December 2009*
Salaries and bonuses	(4,382)	(2,468)
Social security costs	(979)	(557)
Other employee related expenses	(319)	(371)
Total personnel expenses	**(5,680)**	**(3,396)**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

23. General and administrative expenses

	Year ended 31 December 2010	*Year ended 31 December 2009*
Professional services	(662)	(874)
Charity and sponsorship	(650)	(100)
Advertising costs	(381)	(197)
Transportation and business trip expenses	(315)	(221)
Taxes, other than income tax	(126)	(14)
Operating leases	(112)	(113)
Insurance	(97)	(70)
Software cost	(80)	(6)
Communications	(63)	(50)
Security expenses	(62)	(46)
Repair and maintenance	(52)	(27)
Utilities	(34)	(26)
Stationery	(26)	(33)
Membership fees	(18)	(13)
Printing expenses	(16)	(36)
Other expenses	(242)	(113)
Total general and administrative expenses	**(2,936)**	**(1,939)**

24. Impairment losses on interest bearing assets, and provision for guarantees and other commitments

The movements in allowance for impairment losses on interest bearing assets and provisions for guarantees and letters of credit were as follows:

	Year ended 31 December 2010					
	Corporate lending	*Individual lending*	*Total loans to customers*	*Investment securities held to maturity*	*Guarantees and other commitments*	*Total allowances and provisions*
At 1 January	**(2,208)**	**(352)**	**(2,560)**	**(14)**	**(781)**	**(3,355)**
(Charge)/reversal for the year	(5,628)	(25)	(5,653)	4	(801)	(6,450)
At 31 December	**(7,836)**	**(377)**	**(8,213)**	**(10)**	**(1,582)**	**(9,805)**

	Year ended 31 December 2009					
	Corporate lending	*Individual lending*	*Total loans to customers*	*Investment securities held to maturity*	*Guarantees and other commitments*	*Total allowances and provisions*
At 1 January	**(1,264)**	**(754)**	**(2,018)**	**-**	**-**	**(2,018)**
(Charge)/reversal for the year	(944)	402	(542)	(14)	(781)	(1,337)
At 31 December	**(2,208)**	**(352)**	**(2,560)**	**(14)**	**(781)**	**(3,355)**

Allowance for impairment of assets is deducted from the carrying amount of the related assets. Provision for guarantees and other commitments are recorded in liabilities.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for the fundamental audit issues and monitoring Internal Audit's activities.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions

Risk Management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions and liquidity ratios. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits and liquidity, plus any other risk developments.

Risk mitigation

Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.
In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Credit risk (continued)

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown net, after the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Gross maximum exposure 31 December 2010*	*Gross maximum exposure 31 December 2009*
Cash and cash equivalents (excluding cash on hand)	5	127,281	44,324
Trading securities	6	897	858
Securities purchased under agreements to resell	7	5,775	499
Amounts due from credit institutions	8	22,676	46,506
Investment securities available–for–sale	9	149,400	82,027
Investment securities held to maturity	9	506	714
Loans to banks	10	4,379	1,909
Loans to customers	11	187,868	119,520
Other financial assets	14	159	98
		498,941	**296,455**
Financial commitments and contingencies	20	34,540	29,884
Total credit risk exposure		**533,481**	**326,339**

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Credit risk (continued)

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

		Neither past due nor impaired					
	Notes	***High grade 2010***	***Standard grade 2010***	***Sub-standard grade 2010***	***Past due but not impaired 2010***	***Individually impaired 2010***	***Total 2010***
Securities purchased under agreements to resell	7	5,775	-	-	-	-	5,775
Amounts due from credit institutions	8	-	22,676	-	-	-	22,676
Investment securities available–for–sale	9	149,400	-	-	-	-	149,400
Investment securities held to maturity	9	-	516	-	-	-	516
Loans to banks	10	-	4,379	-	-	-	4,379
Loans to customers	11						
Corporate lending		177,742	-	-	4,105	9,650	191,497
Individual lending		3,209	-	-	942	433	4,584
Total		**336,126**	**27,571**	**-**	**5,047**	**10,083**	**378,827**

		Neither past due nor impaired					
	Notes	***High grade 2009***	***Standard grade 2009***	***Sub-standard grade 2009***	***Past due but not impaired 2009***	***Individually impaired 2009***	***Total 2009***
Securities purchased under agreements to resell	7	499	-	-	-	-	499
Amounts due from credit institutions	8	-	46,506	-	-	-	46,506
Investment securities available–for–sale	9	82,027	-	-	-	-	82,027
Investment securities held to maturity	9	-	728	-	-	-	728
Loans to banks	10	-	1,909	-	-	-	1,909
Loans to customers	11						
Corporate lending		83,775	-	-	20,414	13,067	117,256
Individual lending		4,459	-	-	-	365	4,824
Total		**170,760**	**49,143**	**-**	**20,414**	**13,432**	**253,749**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Credit risk (continued)

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

	Less than 30 days 2010	*31 to 60 days 2010*	*61 to 90 days 2010*	*More than 90 days 2010*	*Total 2010*
Loans to customers					
Corporate lending	38	-	-	4,067	4,105
Individual lending	215	-	-	727	942
Total	**253**	**-**	**-**	**4,794**	**5,047**

	Less than 30 days 2009	*31 to 60 days 2009*	*61 to 90 days 2009*	*More than 90 days 2009*	*Total 2009*
Loans to customers					
Corporate lending	19,819	595	-	-	20,414
Total	**19,819**	**595**	**-**	**-**	**20,414**

The Bank classifies its loan related assets as follows:

High grade – counterparties with excellent financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Standard grade – counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Sub-Standard grade – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Past due but not impaired - counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

Individually impaired - counterparties with satisfactory and unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Credit risk (continued)

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010

(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	31 December 2010				*31 December 2009*			
	The Republic of Azerbaijan	*OECD countries*	*CIS and other non-OECD countries*	*Total*	*The Republic of Azerbaijan*	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Financial assets:								
Cash and cash equivalents	105,488	27,396	8	132,892	30,916	19,531	9	50,456
Trading securities	-	871	26	897	-	843	15	858
Securities purchased under repurchase agreements	5,775	-	-	5,775	499	-	-	499
Amounts due from credit institutions	14,419	2,132	6,125	22,676	42,666	-	3,840	46,506
Investment securities available–for–sale	149,400	-	-	149,400	82,027	-	-	82,027
Investment securities held to maturity	506	-	-	506	714	-	-	714
Loans to banks	4,379	-	-	4,379	1,909	-	-	1,909
Loans to customers	187,868	-	-	187,868	119,520	-	-	119,520
Other financial assets	159	-	-	159	98	-	-	98
	467,994	**30,399**	**6,159**	**504,552**	**278,349**	**20,374**	**3,864**	**302,587**
Financial liabilities:								
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	24,007	-	-	24,007	12,486	-	-	12,486
Amounts due to customers	338,599	-	-	338,599	166,391	-	-	166,391
Amounts due to credit institutions	-	6,786	-	6,786	-	-	-	-
Other financial liabilities	1,269	-	-	1,269	154	-	-	154
	363,875	**6,786**	**-**	**370,661**	**179,031**	**-**	**-**	**179,031**
Net assets	**104,119**	**23,613**	**6,159**	**133,891**	**99,318**	**20,374**	**3,864**	**123,556**

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains obligatory reserves with the CBA, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBA. As at 31 December 2010 and 2009 these ratios were as follows:

	31 December 2010, %	*31 December 2009, %*
Instant Liquidity Ratio (assets receivable or realisable within one day / liabilities repayable on demand)	171	77

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010

(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities As at 31 December 2010	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total 2010*
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	98	7,641	16,628	485	**24,852**
Amounts due to customers	254,282	67,249	26,362	-	**347,893**
Amounts due to credit institutions	1,395	5,553	-	-	**6,948**
Other financial liabilities	149	1,120	-	-	**1,269**
Total undiscounted financial liabilities	**255,924**	**81,563**	**42,990**	**485**	**380,962**

Financial liabilities As at 31 December 2009	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total 2009*
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	57	176	12,434	341	**13,008**
Amounts due to customers	134,482	34,182	-	-	**168,664**
Other financial liabilities	154	-	-	-	**154**
Total undiscounted financial liabilities	**134,693**	**34,358**	**12,434**	**341**	**181,826**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Maturity undefined*	*Total*
As of 31 December 2010	12,036	20,859	4,194	-	37,089
As of 31 December 2009	14,931	12,719	3,015	-	30,665

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from organizations of related parties in the period of one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank manages exposures to market risk based of sensitivity analysis. The Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's current year profit.

The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2010. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2010 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. However, as interest rate of available–for–sale securities in the local market is based on the carried accrued discount or premiums on these securities at the time of purchase or sale (as included in actual price of purchased or sold securities), thus, any change in the rates to be applied to the fixed-rate available-for-sale financial assets does not have any impact or effect on equity.

Currency risk

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

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

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Currency risk (continued)

As at 31 December 2010 the Bank had the following exposure to foreign currency exchange rate risk:

	AZN	USD	EUR	OTHER	Total 2010
Financial assets					
Cash and cash equivalents	83,216	38,586	10,946	144	132,892
Trading securities	-	439	402	56	897
Securities purchased under agreements to resell	5,775	-	-	-	5,775
Amounts due from credit institutions	7,031	1,551	14,094	-	22,676
Investment securities available–for–sale	149,400	-	-	-	149,400
Investment securities held to maturity	304	202	-	-	506
Loans to banks	3,901	478	-	-	4,379
Loans to customers	161,668	15,788	10,412	-	187,868
Other financial assets	24	69	62	4	159
Total financial assets	**411,319**	**57,113**	**35,916**	**204**	**504,552**
Financial liabilities					
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	24,004	3	-	-	24,007
Amounts due to customers	273,782	34,438	30,350	29	338,599
Amounts due to credit institutions	-	1,330	5,456	-	6,786
Other financial liabilities	1,228	10	31	-	1,269
Total financial liabilities	**299,014**	**35,781**	**35,837**	**29**	**370,661**
Net financial position	**112,305**	**21,332**	**79**	**175**	**133,891**

As at 31 December 2009 the Bank had the following exposure to foreign currency exchange rate risk:

	AZN	USD	EUR	OTHER	Total 2009
Financial assets					
Cash and cash equivalents	22,888	2,768	24,758	42	50,456
Trading securities	-	415	398	45	858
Securities purchased under agreements to resell	499	-	-	-	499
Amounts due from credit institutions	29,254	7,333	9,080	839	46,506
Investment securities available–for–sale	82,027	-	-	-	82,027
Investment securities held to maturity	294	420	-	-	714
Loans to banks	1,101	808	-	-	1,909
Loans to customers	105,406	13,889	225	-	119,520
Other financial assets	9	43	27	19	98
Total financial assets	**241,478**	**25,676**	**34,488**	**945**	**302,587**
Financial liabilities					
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	12,486	-	-	-	12,486
Amounts due to customers	103,502	28,074	34,801	14	166,391
Other financial liabilities	147	-	7	-	154
Total financial liabilities	**116,135**	**28,074**	**34,808**	**14**	**179,031**
Net financial position	**125,343**	**(2,398)**	**(320)**	**931**	**123,556**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

25. Risk management (continued)

Currency risk (continued)

Currency risk sensitivity

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

Impact on profit before tax based on assets value as at 31 December 2010 and 2009:

	31 December 2010		31 December 2009	
	AZN/USD +10%	**AZN/USD -10%**	**AZN/USD +10%**	**AZN/USD -10%**
Impact on profit before tax	(2,133)	2,133	240	(240)

	31 December 2010		31 December 2009	
	AZN/EUR +10%	**AZN/EUR -10%**	**AZN/EUR +10%**	**AZN/EUR -10%**
Impact on profit before tax	(8)	8	31	(31)

26. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2010	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Trading securities	897	-	-	897
Investment securities available–for–sale	149,400	-	-	149,400
	150,297	**-**	**-**	**150,297**

At 31 December 2009	*Level 1*	*Level 2*	*Level 3*	*Total*
Financial assets				
Trading securities	858	-	-	858
Investment securities available–for–sale	82,027	-	-	82,027
	82,885	**-**	**-**	**82,885**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

26. Fair values of financial instruments (continued)

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2010	*Fair value 2010*	*Unrecognized gain/(loss) 2010*	*Carrying value 2009*	*Fair value 2009*	*Unrecognized gain/(loss) 2009*
Financial assets						
Cash and cash equivalents	132,892	132,892	-	50,456	50,456	-
Amounts due from credit institutions	22,676	22,676	-	46,506	46,506	-
Investment securities held to maturity	506	506	-	714	714	-
Loans to banks	4,379	4,379	-	1,909	1,909	-
Loans to customers	187,868	187,868	-	119,520	119,520	-
Financial liabilities						
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	24,007	24,007	-	12,486	12,486	-
Amounts due to customers	338,599	338,599	-	166,391	166,391	-
Amounts due to credit institutions	6,786	6,786	-	-	-	-
Total unrecognised change in unrealised fair value			-			-

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than thee months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable rate financial instruments.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

26. Fair values of financial instruments (continued)

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled See Note 25 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	31 December 2010			*31 December 2009*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	132,892	-	132,892	50,456	-	50,456
Trading securities	897	-	897	858	-	858
Securities purchased under agreements to resell	5,775	-	5,775	499	-	499
Amounts due from credit institutions	22,437	239	22,676	46,506	-	46,506
Investment securities available–for–sale	111,757	37,643	149,400	82,027	-	82,027
Investment securities held to maturity	209	297	506	513	201	714
Loans to banks	2,379	2,000	4,379	1,909	-	1,909
Loans to customers	59,540	128,328	187,868	63,981	55,539	119,520
Property and equipment	3,549	-	3,549	1,400	-	1,400
Intangible assets	1,607	-	1,607	712	-	712
Other assets	2,755	-	2,755	1,832	-	1,832
Total assets	**343,797**	**168,507**	**512,304**	**250,693**	**55,740**	**306,433**
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	7,002	17,005	24,007	1	12,485	12,486
Amounts due to customers	315,779	22,820	338,599	166,391	-	166,391
Amounts due to credit institutions	6,786	-	6,786	-	-	-
Current income tax liabilities	573	-	573	-	-	-
Provision for guarantees and other commitments	1,582	-	1,582	781	-	781
Other liabilities	3,942	-	3,942	205	-	205
Total liabilities	**335,664**	**39,825**	**375,489**	**167,378**	**12,485**	**179,863**

Long-term loans are generally not available in Azerbaijan except for programs set up by international financial institutions. However, in the Azerbaijan marketplace, many short-term credits are granted with the expectation of renewing the loans at maturity. As such, the ultimate maturity of assets may be different from the analysis presented above. In addition, the maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

28. Related party disclosures

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or 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.

Related party transactions were made on terms equivalent to those that prevail in arm’s length transactions.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	31 December 2010					*31 December 2009*				
	Parent	*Entities under common control*	*Key management personnel*	*Other*	*Total*	*Parent*	*Entities under common control*	*Key management personnel*	*Other*	*Total*
Loans outstanding at 1 January, gross	-	2,350	113	-	**2,463**	-	-	4	-	**4**
Loans issued during the year	-	21,371	528	-	**21,899**	-	4,539	172	-	**4,711**
Loan repayments during the year	-	(2,479)	(407)	-	**(2,886)**	-	(2,189)	(63)	-	**(2,252)**
Interest accrual	-	85	2	-	**87**					
Loans outstanding at 31 December, gross	**-**	**21,327**	**236**	**-**	**21,563**	**-**	**2,350**	**113**	**-**	**2,463**
Less: allowance for impairment at 31 December	-	(102)	(1)	-	**(103)**	-	-	-	-	-
Loans outstanding at 31 December, net	**-**	**21,225**	**235**	**-**	**21,460**	**-**	**2,350**	**113**	**-**	**2,463**
Interest income on loans	-	1,768	36	-	**1,804**	-	86	7	-	**93**

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

28. Related party disclosures (continued)

	31 December 2010					*31 December 2009*				
	Parent	*Entities under common control*	*Key management personnel*	*Other*	*Total*	*Parent*	*Entities under common control*	*Key management personnel*	*Other*	*Total*
Deposits at 1 January	14,310	100	317	37,881	**52,608**	33,303	100	100	-	**33,503**
Deposits received during the year	52,523	6,800	303	77,564	**137,190**	20,753	-	217	51,777	**72,747**
Deposits repaid during the year	(14,132)	(100)	(319)	(64,754)	**(79,305)**	(39,746)	-	-	(13,896)	**(53,642)**
Deposits at 31 December	**52,701**	**6,800**	**301**	**50,691**	**110,493**	**14,310**	**100**	**317**	**37,881**	**52,608**
Current accounts at 31 December	16,010	49,408	31	30,262	**95,711**	6,101	32,994	21	35,354	**74,470**
Interest expense on deposits	(1,988)	(60)	(27)	(3,497)	**(5,572)**	(1,230)	(9)	(10)	(1,790)	**(3,039)**
Guarantees issued	-	6,152	-	-	**6,152**	-	3,082	-	-	**3,082**
Letters of credit issued	-	948	-	-	**948**	-	-	-	-	**-**
Unused credit lines	-	321	-	-	**321**	-	1,659	-	-	**1,659**
Fee and commission income	31	531	4	-	**566**	61	513	-	-	**574**
Other operating expenses	-	(30)	-	(70)	**(100)**	-	(154)	-	(60)	**(214)**

	Year ended 31 December 2010	*Year ended 31 December 2009*
Salaries and other benefits	(1,222)	(811)
Social security costs	(269)	(178)
Total key management compensation	**(1,491)**	**(989)**

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established the CBA and the Basel Capital Accord 1988 in supervising the Bank.

During the past year, the Bank had complied in full with all it's externally imposed capital requirements

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

NOTES TO FINANCIAL STATEMENTS (continued)
For the year ended 31 December 2010
(Figures in Tables are in thousands of Azerbaijani Manats)

29. Capital adequacy (continued)

CBA capital adequacy ratio

The CBA requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets. As of 31 December 2010 and 2009 the Bank's capital adequacy ratio on this basis was as follows:

	31 December 2010	*31 December 2009*
Tier 1 capital	124,216	108,809
Tier 2 capital	11,436	17,901
Less: Deductions from capital	(1,607)	(712)
Total regulatory capital	**134,045**	**125,998**
Risk-weighted assets	**269,457**	**199,549**
Capital adequacy ratio	50%	63%

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 (which recommends a minimum capital adequacy ratio of 8% for Tier 1and Total regulatory capital), with subsequent amendments including the amendment to incorporate market risks, as of 31 December 2010 and 2009, comprised:

	31 December 2010	*31 December 2009*
Tier 1 capital	136,815	126,570
Tier 2 capital	-	-
Total regulatory capital	**136,815**	**126,570**
Risk-weighted assets	**222,371**	**163,377**
Tier 1 capital adequacy ratio	62%	77%
Total capital adequacy ratio	62%	77%