

OJSC PASHA Bank
Interim Condensed Financial Statements

30 June 2009
Together with Report on Review of Interim
Condensed Financial Statements

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REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed financial statements of OJSC PASHA Bank (the "Bank") as at 30 June 2009, comprising of the interim condensed statement of financial position as at 30 June 2009 and the related interim condensed statements of income, changes in equity and cash flows for the six month then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Holdings (CIS) B.V.

18 August 2009

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**As at 30 June 2009***(Thousands of Azerbaijani Manats)*

	<i>Notes</i>	30 June 2009 <i>(unaudited)</i>	31 December 2008
Assets			
Cash and cash equivalents	4	67,041	38,711
Amounts due from credit institutions	5	20,473	13,275
Securities purchased under agreements to resell	6	2,998	6,202
Trading securities	7	722	598
Investment securities available-for-sale	8	76,010	92,681
Loans to customers	9	74,331	44,207
Property and equipment		1,014	1,002
Intangible assets		254	239
Other assets	10	1,347	722
Total assets		244,190	197,637
Liabilities			
Amounts due to banks and financial institutions	12	3,486	1,485
Amounts due to customers	13	124,413	82,546
Current income tax liabilities		-	2,508
Deferred income tax liabilities		330	450
Provision for guarantees and other commitments	17	467	-
Other liabilities	14	62	137
Total liabilities		128,758	87,126
Equity			
Share capital	15	100,000	100,000
Retained earnings		15,432	10,511
Total equity		115,432	110,511
Total liabilities and equity		244,190	197,637

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

Farid Akhundov



Chairman of the Board of Directors

Olga Rachko



Chief Accountant

18 August 2009

The accompanying selected explanatory notes on pages 6 to 16 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED INCOME STATEMENT**For the six months ended 30 June 2009***(Thousands of Azerbaijani Manats)*

	<i>Notes</i>	2009 (6 months) (unaudited)	2008 (6 months) (unaudited)
Interest income			
Loans to customers		4,323	1,835
Amounts due from credit institutions		4,250	2,990
Investment securities		2,305	1,369
Guarantees and letters of credit		412	-
Other		45	-
		<u>11,335</u>	<u>6,194</u>
Interest expense			
Amounts due to customers		(1,342)	(534)
Guarantees and letters of credit		(152)	-
Amounts due to banks and financial institutions		(26)	-
Other		-	-
		<u>(1,520)</u>	<u>(534)</u>
Net interest income		<u>9,815</u>	<u>5,660</u>
Provision for impairment losses on interest bearing assets	17	(2,235)	-
Provision for guarantees and other commitments	17	(467)	-
		<u>(2,702)</u>	<u>-</u>
Net interest income after provision for impairment losses		<u>7,113</u>	<u>5,660</u>
Net fee and commission income	18	236	441
Net gains from trading securities		121	-
Net gains/(losses) from foreign currencies:			
- dealing		442	143
- translation differences		(133)	(46)
Other income		3	-
Non-interest income		<u>669</u>	<u>538</u>
OPERATING INCOME		<u>7,782</u>	<u>6,198</u>
OPERATING EXPENSES	19	<u>(2,981)</u>	<u>(1,072)</u>
PROFIT BEFORE INCOME TAX BENEFIT/(EXPENSE)		<u>4,801</u>	<u>5,126</u>
Income tax benefit/(expense)	11	120	(1,136)
Net profit for the period		<u><u>4,921</u></u>	<u><u>3,990</u></u>

The accompanying selected explanatory notes on pages 6 to 16 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**For the six months ended 30 June 2009***(Thousands of Azerbaijani Manats)*

	<i>Share capital</i>	<i>(Accumulated deficit) / Retained earnings</i>	<i>Total equity</i>
As at 31 December 2007	10,000	(254)	9,746
Issuance of additional share capital	90,000	-	90,000
Net profit for the six months ended 30 June 2008 (unaudited)	-	3,990	3,990
As at 30 June 2008 (unaudited)	100,000	3,736	103,736
As at 31 December 2008	100,000	10,511	110,511
Net profit for the six months ended 30 June 2009 (unaudited)	-	4,921	4,921
As at 30 June 2009 (unaudited)	100,000	15,432	115,432

The accompanying selected explanatory notes on pages 6 to 16 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

(Thousands of Azerbaijani Manats)

<i>Notes</i>	2009 <i>(6 months)</i> <i>(unaudited)</i>	2008 <i>(6 months)</i> <i>(unaudited)</i>
Cash flows from operating activities		
Interest received	10,239	5,052
Interest paid	(1,510)	(523)
Fees and commissions received	562	742
Fees and commissions paid	(326)	(160)
Net realised gains from dealing in foreign currencies	442	143
Other income received	3	-
Salaries and other employee benefits paid	(2,002)	(553)
Other operating expenses paid	(782)	(410)
Cash flows from operating activities before changes in operating assets and liabilities	6,626	4,291
<i>Net (increase)/decrease in operating assets</i>		
Amounts due from credit institutions	(5,861)	(46,155)
Loans to customers	(32,160)	(26,136)
Other assets	(93)	(82)
<i>Net increase/(decrease) in operating liabilities</i>		
Amounts due to banks and financial institutions	2,001	21,600
Amounts due to customers	41,857	11,498
Other liabilities	(89)	-
Cash inflow/(outflow) from operating activities before income taxes	12,281	(34,984)
Income tax paid	(2,508)	-
Net cash used in operating activities	9,773	(34,984)
Cash flows/(outflows) from investing activities		
Net proceeds from sale and redemption of investment securities	16,231	(17,846)
Trading securities	(3)	-
Securities purchased under agreements to resell	3,204	-
Purchase of property and equipment and intangible assets	(813)	(162)
Proceeds from sale of property and equipment	71	-
Net cash used in investing activities	18,690	(18,008)
Proceeds from issuance of additional share capital	-	65,000
Net cash flow from financing activities	-	65,000
Effect of exchange rates changes on cash and cash equivalents	(133)	(46)
Net increase in cash and cash equivalents	28,330	11,962
Cash and cash equivalents, beginning	4 38,711	14,146
Cash and cash equivalents, ending	4 67,041	26,108

The accompanying selected explanatory notes on pages 6 to 16 are an integral part of these interim condensed financial statements.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***1. Principal activities**

OJSC PASHA Bank (the "Bank") was formed on 18 July 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 had 2 service points in Azerbaijan as of 30 June 2009.

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

As of 30 June 2009 and 31 December 2008 the following shareholders owned the outstanding shares:

Shareholder	<i>30 June 2009 (%) (unaudited)</i>	<i>31 December 2008 (%)</i>
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 interim condensed financial statements for the six months ended 30 June 2009 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The Bank is required to maintain their records and prepare their financial statements for regulatory purposes in Azerbaijani Manat in accordance with International Financial Reporting Standards ("IFRS"). These interim condensed financial statements are prepared under the historical cost convention except for the measurement at fair value of available-for-sale securities.

These interim condensed financial statements are presented in thousands of Azerbaijani Manats ("AZN") unless otherwise indicated. Transactions in currencies other than the AZN are treated as transactions in foreign currencies.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements as at 31 December 2008.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***3. Summary of accounting policies****Changes in accounting policies**

The accounting policies adopted in the preparation of these interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements as at 31 December 2008, except for the adoption of new Standards and Interpretations as of 1 January 2009, noted below:

IFRS 7 "Financial Instruments: Disclosures"

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in Note 20, and the liquidity risk disclosures are not significantly impacted by the amendments.

IAS 1 (Revised) "Presentation of Financial Statements"

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Bank has elected to present one single statement.

Improvements to IFRS

In May 2008 International Accounting Standards Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Amendments included in May 2008 "Improvements to IFRS" did not have any impact on the accounting policies, financial position or performance of the Bank.

The following new or revised standards and interpretations effective from 2009 did not have any impact on the accounting policies, financial position or performance of the Bank:

- *Amendment to IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations"*
- *IFRS 8 "Operating Segments"*
- *IAS 23 (Revised) "Borrowing Costs"*
- *Amendment to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"*
- *Amendment to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"*
- *Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and to IAS 39 "Financial Instruments: Recognition and Measurement"*
- *IFRIC 13 "Customer Loyalty Programmes"*
- *IFRIC 15 "Agreements for the Construction of Real Estate"*
- *IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"*.

4. Cash and cash equivalents

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Cash on hand	11,399	1,834
Current accounts with the CBA	13,308	4,043
Current accounts with other credit institutions	9,467	3,546
Time deposits with and loans to banks with maturity less than 90 days	32,867	29,288
Total cash and cash equivalents	67,041	38,711

As of 30 June 2009 and 31 December 2008 balances of current accounts with other credit institutions included non-interest bearing demand deposits with resident and non-resident banks.

As of 30 June 2009 the Bank placed AZN 27,025 (31 December 2008 – AZN 29,000) in time deposits with resident and non-resident banks maturing through 19 September 2009 and with effective annual interest rate of 5%-20%.

As of 30 June 2009 the Bank granted AZN 4,216 (31 December 2008 – nil) of loans to resident banks maturing through 7 August 2009 and with effective annual interest rate of 17%-18%.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***5. Amounts due from credit institutions**

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Time deposits with and loans to banks with maturity more than 90 days	18,709	7,808
Obligatory reserve with the CBA	460	4,322
Restricted deposits	1,304	1,145
Total amounts due from credit institutions	20,473	13,275

As of 30 June 2009 the Bank placed AZN 18,709 (31 December 2008 –AZN 8) in time deposits with Azerbaijani banks maturing through 17 August 2010 and with effective annual interest rate of 6%-20%.

As of 30 June 2009 the Bank granted AZN 1,702 (31 December 2008 –AZN 7,800) loans to Azerbaijani banks maturing through 19 November 2009 and with effective annual interest rate of 18%.

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA at 0.5% (2008 – 6%) of the previous month average of funds attracted from customers by the bank. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

As of 30 June 2009 and 31 December 2008 restricted deposits represents amount placed with an internationally recognized OECD bank in relation to a letter of guarantee issued to a customer.

6. Securities purchased under agreements to resell

As of 30 June 2009 the Bank had entered into agreements to resell with a resident credit institution. The subject of these agreements is short-term notes issued by the CBA with a fair value of AZN 2,998 (31 December 2008 – AZN 6,202).

7. Trading securities

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.

The Bank placed investments in US Dollars with the external asset manager and appointed it as its agents and delegated it to manage the investment and reinvestment of certain monies and assets. It also entered into a Custodian Agreement with an international financial institution to serve as the Custodian of the investment portfolios. The funds and assets are held at the third party 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 external managers can be recalled by the Bank upon 20 days' written notice in advance.

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.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***8. Investment securities available-for-sale**

Investment securities available-for-sale comprise:

	<i>30 June 2009 (unaudited)</i>		<i>31 December 2008</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Treasury notes issued by the Ministry of Finance of the Republic of Azerbaijan	66,093	66,694	58,222	59,134
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	4,982	4,975	-	-
Notes issued by the CBA	2,889	2,889	34,459	34,502
Bonds issued by the Azerbaijan Mortgage Fund	2,046	2,044	-	-
Total investment securities available-for-sale	76,010	76,602	92,681	93,636

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

	<i>30 June 2009 (unaudited)</i>		<i>31 December 2008</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Treasury notes issued by the Ministry of Finance of the Republic of Azerbaijan	2.3%-7.0%	1-6 months	5.9%-10.8%	1-4 months
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	6.0%-7.0%	24-36 months	-	-
Notes issued by the CBA	1.0%-1.2%	1 month	4.0-4.7%	1 month
Bonds issued by the Azerbaijan Mortgage Fund	3.0%	3-36 months	-	-

9. Loans to customers

	<i>30 June 2009 (unaudited)</i>	<i>31 December 2008</i>
Legal entities	75,090	41,916
Individuals	3,494	4,309
Loans to customers (gross)	78,584	46,225
Less – Allowance for impairment	(4,253)	(2,018)
Loans to customers (net)	74,331	44,207

Loans are made within the Republic of Azerbaijan in the following industry sectors:

	<i>30 June 2009 (unaudited)</i>	<i>31 December 2008</i>
Trade and services	45,950	29,464
Construction	14,133	3,359
Manufacturing	13,632	-
Individuals	3,494	4,309
Transport and telecommunication	565	766
Agriculture and food processing	309	8,126
Other	501	201
Total loans to customers (gross)	78,584	46,225

As at 30 June 2009 and 31 December 2008 the Bank granted loans to 3 and 1 customers, totaling AZN 29,447 and AZN 8,080, respectively, which individually exceeded 5 % of the Bank's equity.

Movements in allowances for impairment losses on loans to customers for the period ended 30 June 2009 are disclosed in Note 17.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***10. Other assets**

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Prepayments for purchase of property, equipment and intangible assets	992	459
Deferred expenses	164	46
Accrued interest receivables on guarantees and letters of credit	119	-
Advances to employees	13	-
Settlements on money transfers	4	-
Prepayments and receivables on other transactions	55	217
Total other assets	1,347	722

11. Taxation

The corporate income tax benefit/(expense) comprises:

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>30 June 2008</i> <i>(unaudited)</i>
Current income tax expense	-	(749)
Deferred income tax benefit/(expense)	120	(387)
Income tax benefit/(expense)	120	(1,136)

Azerbaijani legal entities must file individual tax declarations. The tax rate for banks for profits other than on state securities is 22% (2008 – 22%).

12. Amounts due to banks and financial institutions

Amounts due to banks and credit institutions comprise:

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Amount due to the National Fund for Support to Entrepreneurship	3,485	1,485
Correspondent accounts with other banks	1	-
Total amounts due to banks and financial institutions	3,486	1,485

As at 30 June 2009 and 31 December 2008 the Bank had long-term loans from the National Fund for Support of Entrepreneurship amounting to AZN 3,485 thousand and AZN 1,485 thousand, respectively. These loans have maturity from 2013 to 2015 and bear annual interest rate of 1%.

13. Amounts due to customers

The amounts due to customers include the following:

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Repayable on demand	80,059	42,726
Time deposits	44,354	39,820
Total amounts due to customers	124,413	82,546

As at 30 June 2009 and 31 December 2008 amounts due to customers accounts amounting to AZN 35,615 and AZN 34,137 were due to two customers and one customer, respectively, representing a significant concentration, being approximately 29% and 41% of amounts due to customers, respectively.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***13. Amounts due to customers (continued)**

An analysis of customer accounts by economic sector follows:

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Individuals	72,528	16,934
Investment holding companies	35,615	61,570
Construction	10,791	1,629
Trade and services	2,339	1,978
Manufacturing	2,006	56
Insurance	782	264
Transport and communication	40	43
Energy	14	9
Other	298	63
Total amounts due to customers	124,413	82,546

14. Other liabilities

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December 2008</i>
Deferred income	31	-
Payables to employees	17	41
Accrued expenses	12	13
Professional fees payable	-	46
Taxes, other than income tax	-	9
Other	2	28
Total other liabilities	62	137

15. 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 30 June 2009.

As of 30 June 2009 the Bank's shareholders' authorized, issued and fully paid capital amounted to AZN 100,000 thousand and comprised 10,000 ordinary shares with a par value of AZN 10,000. Each share entitles one vote to the shareholder.

There has been no changes in shareholders' capital of the Bank during six months of 2009.

16. 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 Azerbaijani 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. This includes the adoption of a new body of legislation including new Tax Code, new Civil and Customs Codes, procedural laws and securities regulations. In management's view, these steps contribute to mitigate the risks of doing business in Azerbaijan.

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 ongoing global financial crisis has 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.

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***16. Commitments and contingencies (continued)**

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.

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 30 June 2009 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 primary purpose of these instruments is to ensure 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:

	<i>30 June 2009</i> <i>(unaudited)</i>	<i>31 December</i> <i>2008</i>
Credit related commitments		
Guarantees issued and similar commitments	7,363	2,119
Letters of credit	7,018	7,881
Commitments on loans and unused credit lines	4,323	6,733
Total financial commitments and contingencies	18,704	16,733

17. Allowance for impairment losses on interest bearing assets

The movements in allowance for impairment losses on interest bearing assets and provision for guarantees and other commitments were as follows:

	<i>Corporate</i> <i>lending</i>	<i>Consumer</i> <i>lending</i>	<i>Total loans to</i> <i>customers</i>	<i>Guarantees</i> <i>and other</i> <i>commitments</i>
1 January 2009	(1,264)	(754)	(2,018)	-
Charge for the period	(2,890)	-	(2,890)	(467)
Recoveries	-	655	655	-
30 June 2009 (unaudited)	(4,154)	(99)	(4,253)	(467)

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***18. Net fee and commission income**

Net fee and commission income comprises:

	<i>2009 (6 months)</i> <i>(unaudited)</i>	<i>2008 (6 months)</i> <i>(unaudited)</i>
Currency conversion operations	234	131
Settlements operations	155	80
Cash operations	140	382
Guarantees and letters of credit	21	7
Servicing plastic card operations	11	-
Other	1	2
Fee and commission income	562	602
Securities operations	245	125
Settlements operations	49	32
Servicing plastic card operations	5	1
Currency conversion operations	3	-
Cash operations	2	-
Guarantees and letters of credit	-	3
Other	22	-
Fee and commission expense	326	161
Net fee and commission income	236	441

19. Operating expenses

Operating expenses comprise:

	<i>2009 (6 months)</i> <i>(unaudited)</i>	<i>2008 (6 months)</i> <i>(unaudited)</i>
Salaries and bonuses	1,560	454
Social security costs	341	99
Personnel training and other employee benefits	101	47
Professional services	299	177
Depreciation and amortization	183	107
Charity and sponsorship expenses	100	-
Advertising costs	88	-
Transportation and business trip expenses	64	19
Operating leases	41	35
Insurance	32	39
Printing expenses	25	8
Security expenses	21	13
Communications	19	13
Stationery	18	9
Repair and maintenance	14	9
Membership fees	12	11
Utilities	9	7
Taxes, other than income tax	2	5
Other expenses	52	20
Total operating expenses	2,981	1,072

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***20. Fair values of financial instruments**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

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 three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial 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 recognised 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.

Financial instruments recorded at fair value

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: other 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:

<i>At 30 June 2009 (unaudited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>Financial assets</i>				
Trading securities	722	-	-	722
Securities purchased under agreements to resell	-	2,998	-	2,998
Investment securities available-for-sale	-	76,010	-	76,010
	<u>722</u>	<u>79,008</u>	<u>-</u>	<u>79,730</u>
<i>At 31 December 2008</i>				
<i>Financial assets</i>				
Trading securities	598	-	-	598
Securities purchased under agreements to resell	-	6,202	-	6,202
Investment securities available-for-sale	-	92,681	-	92,681
	<u>598</u>	<u>98,883</u>	<u>-</u>	<u>99,481</u>

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***21. 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:

	30 June 2009						31 December 2008					
	<i>Share holders</i>	<i>Entities with significant influence over the Bank</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>	<i>Share holders</i>	<i>Entities with significant influence over the Bank</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>
Loans to customers, gross	-	640	-	8	-	648	-	-	-	-	-	-
Time deposits	13,312	-	100	100	19,428	32,940	33,303	-	100	100	-	33,503
Current accounts	478	-	29,177	-	25,931	55,586	3,901	-	29,059	17	6,791	39,768
Commitments and guarantees issued	-	-	234	-	-	234	-	-	-	-	-	-
<i>For the six months ended</i>												
	30 June 2009 (unaudited)						30 June 2008 (unaudited)					
Interest income on loans to customers	-	-	55	1	-	56	-	-	-	-	-	-
Interest expense on time deposits	573	-	5	5	403	986	121	-	387	-	-	508
Fee and commission income	27	-	219	-	-	246	-	-	-	-	-	-
Other operating expenses	-	-	8	-	30	38	-	-	-	-	-	-

Compensation of key management personnel was comprised of the following:

	<i>2009 (6 months) (unaudited)</i>	<i>2008 (6 months) (unaudited)</i>
Salaries and bonuses	476	145
Social security costs	105	32
Total key management personnel compensation	581	177

For the six months ended 30 June 2009*(Thousands of Azerbaijani Manats)***22. 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 in supervising the Bank.

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.

CBA capital adequacy ratio

The CBA requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets. As of 30 June 2009 and 31 December 2008 the Bank's capital adequacy ratio on this basis was as follows:

	<u>30 June 2009</u>	<u>31 December 2008</u>
Tier 1 capital	108,810	99,480
Tier 2 capital	7,856	10,465
Less deductions from capital	(254)	(239)
Total capital	<u>116,412</u>	<u>109,706</u>
Risk-weighted assets	<u>147,876</u>	<u>97,040</u>
Capital adequacy ratio	79%	113%