

OJSC PASHA Bank
Interim Condensed Financial Statements

30 June 2010

*Together with Report on Review of Interim Condensed
Financial Statements*

CONTENTS**REPORT ON REVIEW OF INTERIM CONDENSED FINANCIAL STATEMENTS**

Interim Condensed Statement of Financial Position	2
Interim Condensed Statement of Comprehensive Income	3
Interim Condensed Statement of Changes in Equity	4
Interim Condensed Statement of Cash Flows	5

SELECTED EXPLANATORY NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

1. Principal activities.....	6
2. Basis of preparation.....	6
3. Changes in accounting policies	7
4. Cash and cash equivalents	8
5. Trading securities	8
6. Amounts due from credit institutions	8
7. Investment securities	9
8. Loans to banks.....	9
9. Loans to customers.....	10
10. Property and equipment	11
11. Intangible assets	11
12. Other assets and liabilities	12
13. Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies.....	12
14. Amounts due to customers	13
15. Equity	13
16. Commitments and contingencies.....	14
17. Provision for impairment losses on interest bearing assets, guarantees and other commitments.....	15
18. Net fee and commission income	16
19. Personnel, general and administrative expenses	16
20. Fair values of financial instruments	17
21. Related party disclosures.....	18
22. Capital adequacy	19

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 2010, comprising of the interim condensed statement of financial position as at 30 June 2010 and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six months 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.

6 August 2010

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION**As at 30 June 2010***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	30 June 2010 (unaudited)	31 December 2009
Assets			
Cash and cash equivalents	4	29,507	50,456
Trading securities	5	680	858
Securities purchased under agreements to resell		-	499
Amounts due from credit institutions	6	41,391	46,506
Investment securities available-for-sale	7	79,208	82,027
Investment securities held to maturity	7	609	714
Loans to banks	8	4,520	1,909
Loans to customers	9	178,588	119,520
Property and equipment	10	1,442	1,400
Intangible assets	11	1,559	712
Other assets	12	3,461	1,832
Total assets		340,965	306,433
Liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	13	23,074	12,486
Amounts due to customers	14	181,398	166,391
Provision for guarantees and other commitments	17	1,228	781
Other liabilities	12	155	205
Total liabilities		205,855	179,863
Equity			
Share capital	15	115,407	100,000
Retained earnings		19,703	26,570
Total equity		135,110	126,570
Total liabilities and equity		340,965	306,433

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

Farid Akhundov



Chairman of the Board of Directors

Shahin Mammadov



Chief Financial Officer

6 August 2010

The accompanying selected explanatory notes on pages 6 to 19 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**For the six months ended 30 June 2010***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	2010 (6 months) (unaudited)	2009 (6 months) (unaudited)
Interest income			
Loans to customers		9,817	4,323
Amounts due from credit institutions		3,597	3,783
Investment securities		1,789	2,305
Guarantees and letters of credit		581	412
Loans to banks		259	467
Other		7	45
		16,050	11,335
Interest expense			
Amounts due to customers		(3,288)	(1,342)
Guarantees and letters of credit		(210)	(152)
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies		(176)	(26)
		(3,674)	(1,520)
Net interest income		12,376	9,815
Provision for impairment losses on interest bearing assets		(1,927)	(2,235)
Provision for guarantees and other commitments		(447)	(467)
Provision for impairment losses on interest bearing assets, guarantees and other commitments	17	(2,374)	(2,702)
Net interest income after provision for impairment losses		10,002	7,113
Net fee and commission income	18	676	236
Net gains/(losses) from trading securities			
- realized		162	-
- unrealized		(148)	121
Net gains/(losses) from foreign currencies:			
- dealing		2,013	442
- translation differences		42	(133)
Other income		-	3
Non-interest income		2,745	669
Personnel expenses	19	(2,485)	(2,002)
General and administrative expenses	19	(1,614)	(979)
Operating expenses		(4,099)	(2,981)
PROFIT BEFORE INCOME TAX (EXPENSE)/BENEFIT		8,648	4,801
Income tax (expense)/benefit		(108)	120
NET PROFIT FOR THE PERIOD		8,540	4,921
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		8,540	4,921

The accompanying selected explanatory notes on pages 6 to 19 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**For the six months ended 30 June 2010***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
As at 31 December 2008	100,000	10,511	110,511
Total comprehensive income 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
As at 31 December 2009	100,000	26,570	126,570
Capitalization of net profit for the year 2009 to share capital (Note 15)	15,407	(15,407)	-
Total comprehensive income for the six months ended 30 June 2010 (unaudited)	-	8,540	8,540
As at 30 June 2010 (unaudited)	115,407	19,703	135,110

The accompanying selected explanatory notes on pages 6 to 19 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS**For the six months ended 30 June 2010***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	2010 (6 months) (unaudited)	2009 (6 months) (unaudited)
Cash flows from operating activities			
Interest received		14,824	10,239
Interest paid		(3,699)	(1,510)
Fees and commissions received		967	562
Fees and commissions paid		(291)	(326)
Net realised gains from dealing in foreign currencies		2,013	442
Net realized gains from trading securities		189	-
Other income received		-	3
Personnel expenses paid		(2,485)	(2,002)
General and administrative expenses paid		(1,289)	(782)
Cash flows from operating activities before changes in operating assets and liabilities		10,229	6,626
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		4,939	(7,743)
Trading securities		3	(3)
Loans to banks		(2,524)	1,882
Loans to customers		(59,793)	(32,160)
Other assets		(2,027)	(93)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies		10,588	2,001
Amounts due to customers		15,007	41,857
Other liabilities		(25)	(89)
Cash (used in)/from operating activities before income taxes		(23,603)	12,278
Income tax paid		(108)	(2,508)
Net cash (used in)/from operating activities		(23,711)	9,770
Cash flows/(outflows) from investing activities			
Net proceeds from sale and redemption of investment securities		3,037	16,231
Securities purchased under agreements to resell		499	3,204
Purchase of property and equipment and intangible assets		(816)	(813)
Proceeds from sale of property and equipment		-	71
Net cash flow from investing activities		2,720	18,693
Net cash flow from financing activities		-	-
Effect of exchange rates changes on cash and cash equivalents		42	(133)
Net (decrease)/increase in cash and cash equivalents		(20,949)	28,330
Cash and cash equivalents, beginning	4	50,456	38,711
Cash and cash equivalents, ending	4	29,507	67,041

The accompanying selected explanatory notes on pages 6 to 19 are an integral part of these interim condensed financial statements.

For the six months ended 30 June 2010*(Figures in Tables are in 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 2010.

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

As of 30 June 2010 and 31 December 2009 the following shareholders owned the outstanding shares:

Shareholder	30 June 2010 (%) <i>(unaudited)</i>	31 December 2009 <i>(%)</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 2010 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 investment securities available for sale.

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 2009.

For the six months ended 30 June 2010

(Figures in Tables are in thousands of Azerbaijani Manats)

3. 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 2009, except for the adoption of new Standards and Interpretations as of 1 January 2010, noted below:

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 has decided to early adopt the revised IAS 24 from 1 January 2010, however this amendment did not have any impact on the financial position or performance of the Bank.

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. This amendment did not have any impact on the financial statements in the absence of any business combinations.

The following new or revised standards and interpretations effective from 2010 did not have any impact on the accounting policies, financial position or performance of the Bank:

- *Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items*
- *Amendment to IFRS 2 "Share-based Payment" - Group Cash-settled Share-based Payment Transactions*
- *IFRIC 17 "Distribution of Non-Cash Assets to Owners"*
- *Improvements to IFRS:*
 - *IFRS 8 Operating Segment Information*
 - *IAS 7 Statement of Cash Flows*
 - *IAS 36 Impairment of Assets*

For the six months ended 30 June 2010*(Figures in Tables are in thousands of Azerbaijani Manats)***4. Cash and cash equivalents**

	<u>30 June 2010</u> <i>(unaudited)</i>	<u>31 December 2009</u>
Cash on hand	13,770	6,132
Current accounts with the Central Bank of the Republic of Azerbaijan	2,026	17,659
Current accounts with other credit institutions	4,984	1,475
Time deposits with credit institutions up to 90 days	8,727	25,190
Cash and cash equivalents	<u>29,507</u>	<u>50,456</u>

As of 30 June 2010 and 31 December 2009 balances of current accounts with other credit institutions included non-interest bearing demand deposits with resident and non-resident banks.

As of 30 June 2010 the Bank placed AZN 8,727 thousands in overnight placement with a non-resident bank with effective annual interest rate of 0.22%.

5. 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.

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 30 June 2010 trading securities amounted to AZN 680 thousands (31 December 2009 – AZN 858 thousands).

6. Amounts due from credit institutions

	<u>30 June 2010</u> <i>(unaudited)</i>	<u>31 December 2009</u>
Time deposits for more than 90 days	40,768	45,900
Obligatory reserve with the Central Bank of the Republic of Azerbaijan	621	605
Blocked deposits	2	1
Amounts due from credit institutions	<u>41,391</u>	<u>46,506</u>

As of 30 June 2010 the Bank placed AZN 40,768 thousands (31 December 2009 – AZN 45,900 thousands) in time deposits with resident and non-resident banks maturing through 25 December 2010 (31 December 2009 – 19 October 2010) and with effective annual interest rate of 6%-19.5% p.a (31 December 2009 – 6%-18% p.a.).

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA at 0.5% (31 December 2009 – 0.5%) 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.

For the six months ended 30 June 2010*(Figures in Tables are in thousands of Azerbaijani Manats)***7. Investment securities**

Available-for-sale securities comprise:

	<i>30 June 2010 (unaudited)</i>		<i>31 December 2009</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	1,003	1,015	32,832	33,095
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	54,581	54,581	38,513	39,137
Notes issued by the Azerbaijan Mortgage Fund	23,624	23,624	10,682	10,667
Investment securities available-for-sale	79,208	79,220	82,027	82,899

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

	<i>30 June 2010 (unaudited)</i>		<i>31 December 2009</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	2.5%	August – November 2010	1.7% – 2.9%	January – November 2010
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	3.2% – 6.4%	October 2010 – June 2012	4.0% – 6.8%	October 2010 – June 2012
Notes issued by Azerbaijan Mortgage Fund	3.0%	May 2016 – December 2019	3.0%	May 2016

Held to maturity securities comprise:

	<i>30 June 2010 (unaudited)</i>	<i>31 December 2009</i>
Corporate bonds issued by Azel Closed Joint Stock Company (CJSC)	321	428
Corporate bonds issued by Omni Finance LLC non-bank credit institution	300	300
	621	728
Less – Allowance for impairment (Note 17)	(12)	(14)
Held to maturity securities	609	714

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

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

8. Loans to banks

As of 30 June 2010 the Bank granted AZN 4,520 thousands (31 December 2009 – AZN 1,909 thousands) loans to Azerbaijani banks maturing through 05 May 2012 (31 December 2009 – July and October 2010) at annual interest rates of 17%-19% (31 December 2009 – 17.5%).

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***9. Loans to customers**

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Legal entities	176,940	117,256
Individuals	6,137	4,824
Loans to customers (gross)	183,077	122,080
Less – Allowance for impairment (Note 17)	(4,489)	(2,560)
Loans to customers (net)	178,588	119,520

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

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Trade and services	64,717	59,979
Construction	41,249	24,424
Manufacturing	39,844	21,905
Hotel business	20,044	-
Individuals	6,107	4,824
Transport and telecommunication	5,063	6,332
Leasing	3,261	-
Agriculture and food processing	2,629	4,067
Energy	-	362
Other	163	187
Loans to customers (gross)	183,077	122,080

As at 30 June 2010 the Bank granted loans to eight customers totalling AZN 109,829 thousands (31 December 2009 – five customers totalling AZN 60,520 thousands) which individually exceeded 5 % of the Bank's equity.

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***10. Property and equipment**

The movements in property and equipment were as follows:

	<i>Furniture and fixtures</i>	<i>Computers</i>	<i>Motor vehicles</i>	<i>Other equipment</i>	<i>Leasehold improvements</i>	<i>Total</i>
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	22	141	128	3	10	304
30 June 2010	873	851	426	36	108	2,294
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	(108)	(96)	(48)	(2)	(8)	(262)
30 June 2010	(364)	(289)	(173)	(11)	(15)	(852)
Net book value:						
30 June 2010	509	562	253	25	93	1,442
31 December 2009	595	517	173	24	91	1,400

11. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Installations in progress</i>	<i>Total</i>
Cost				
31 December 2008	189	75	-	264
Additions	104	125	283	512
Disposals	(5)	-	-	(5)
31 December 2009	288	200	283	771
Additions	66	845	-	911
Disposals	(3)	-	-	(3)
Transfers	-	283	(283)	-
30 June 2010	351	1,328	-	1,679
Accumulated amortization				
31 December 2008	(21)	(4)	-	(25)
Amortisation charge	(29)	(10)	-	(39)
Disposals	5	-	-	5
31 December 2009	(45)	(14)	-	(59)
Amortisation charge	(16)	(48)	-	(64)
Disposals	3	-	-	3
30 June 2010	(58)	(62)	-	(120)
Net book value:				
30 June 2010	293	1,266	-	1,559
31 December 2009	243	186	283	712

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***12. Other assets and liabilities**

Other assets comprise:

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Dividend tax receivable	1,542	-
Prepayments for acquisition of property, equipment and intangible assets	1,137	1,529
Deferred expenses	336	150
Accrued interest receivable on guarantees and letters of credit	203	98
Advances to employees	149	-
Settlements on money transfers	52	-
Other prepayments and receivables	42	55
Other assets	3,461	1,832

In accordance with instructions of the Special Treatment Tax Service Department, credit institutions which avail the tax exemption are obliged to pay 10% of dividend tax from the amount of capitalized profit. On 24 May 2010, the Bank paid 10% dividend tax of AZN 1,542 thousands which was calculated from the amount of profit that was capitalized, and recognized it as dividend tax receivable from its shareholders.

As of 30 June 2010 prepayments for the purchase of property, equipment and intangible assets of AZN 1,137 thousands (31 December 2009 – AZN 1,529 thousands) were related to premises for the Bank's new branches located in regions of the Republic of Azerbaijan and new software of the Bank.

Other liabilities comprise:

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Payables for professional services	45	38
Payable to employees	32	101
Accrued interest payable on letters of credit	32	-
Accrued expenses	12	8
Deferred income	25	40
Taxes, other than income tax	3	-
Other	6	18
Other liabilities	155	205

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

Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies comprise:

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Loans from the Central Bank of the Republic of Azerbaijan	10,000	7,000
Loans from the National Fund for Support of Entrepreneurship	11,985	5,485
Repurchase agreements	1,000	-
Amount due to Azerbaijan Mortgage Fund	89	-
Correspondent accounts with other banks	-	1
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	23,074	12,486

As of 30 June 2010 the Bank had loans from the Central Bank of the Republic of Azerbaijan amounting to AZN 10,000 thousands (31 December 2009 – AZN 7,000 thousands), maturing through 2012 and bearing interest of 2.5% p.a. (31 December 2009 – maturing through 2011 and bearing interest of 2.5% p.a.).

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***13. Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies (continued)**

As of 30 June 2010 the Bank had loans from the National Fund for Support of Entrepreneurship amounting to AZN 11,985 thousands (31 December 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 the entrepreneurship environment in Azerbaijan under the government program on entrepreneurship

14. Amounts due to customers

The amounts due to customers include the following:

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Demand deposits	110,264	93,781
Time deposits	71,134	72,610
Amounts due to customers	181,398	166,391

An analysis of customer accounts by economic sector follows:

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Individuals	118,308	95,419
Investment holding companies	38,806	35,179
Construction	11,486	18,588
Transport and communication	5,546	60
Trade and services	4,583	12,260
Manufacturing	2,075	1,443
Insurance	523	1,210
Agriculture	4	2,001
Energy	3	20
Other	64	211
Amounts due to customers	181,398	166,391

As of 30 June 2010 customer accounts included balances with five customers amounting to AZN 133,395 thousands (31 December 2009 – four customers with balances AZN 107,499 thousands). These customer accounts comprise significant concentration of approximately 74% (31 December 2009 – 65%) of the total amounts due to customers.

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 2010.

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 January 1, 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. As the result on 03 May 2010 the shareholders have decided to increase the share capital 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 has completed the registration of the increases in share capital on 12 June 2010, thus, bringing share par value up to AZN 11,540.71 each and total paid-in share capital to AZN 115,407 thousands as of 30 June 2010.

As of 30 June 2010 the Bank's shareholders' authorized, issued and fully paid capital amounted to AZN 115,407 thousands and comprised 10,000 ordinary shares with a par value of AZN 11,540.71. Each share entitles one vote to the shareholder.

For the six months ended 30 June 2009

(Figures in Tables are in thousands of Azerbaijani Manats)

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.

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 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.

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.

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***16. Commitments and contingencies (continued)**

Financial commitments and contingencies comprise:

	<i>30 June 2010</i> <i>(unaudited)</i>	<i>31 December 2009</i>
Credit related commitments		
Guarantees issued	12,168	17,854
Letters of credit	11,389	5,051
Unused credit lines	7,519	7,760
	31,076	30,665
Operating lease commitments		
Not later than 1 year	30	30
Later than 1 year but not later than 5 years	599	150
Later than 5 years	704	88
	1,333	268
Less – Provisions (Note 17)	(1,228)	(781)
Commitments and contingencies	31,181	30,152

17. Provision for impairment losses on interest bearing assets, guarantees and other commitments

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

	<i>Corporate lending</i>	<i>Individuals lending</i>	<i>Total loans to customers</i>	<i>Investment securities held to maturity</i>	<i>Guarantees and other commitments</i>	<i>Total allowances and provisions</i>
At 1 January 2009	(1,264)	(754)	(2,018)	-	-	(2,018)
(Charge)/reversal for the year	(2,890)	655	(2,235)	-	(467)	(2,702)
At 30 June 2009 (unaudited)	(4,154)	(99)	(4,253)	-	(467)	(4,720)
	<i>Corporate lending</i>	<i>Individuals lending</i>	<i>Total loans to customers</i>	<i>Investment securities held to maturity</i>	<i>Guarantees and other commitments</i>	<i>Total allowances and provisions</i>
At 1 January 2010	(2,208)	(352)	(2,560)	(14)	(781)	(3,355)
(Charge)/reversal for the year	(1,901)	(28)	(1,929)	2	(447)	(2,374)
At 30 June 2010 (unaudited)	(4,109)	(380)	(4,489)	(12)	(1,228)	(5,729)

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***18. Net fee and commission income**

Net fee and commission income comprises:

	<i>2010 (6 months)</i> <i>(unaudited)</i>	<i>2009 (6 months)</i> <i>(unaudited)</i>
Settlements operations	382	155
Currency conversion operations	338	234
Cash operations	157	140
Guarantees and letters of credit	32	21
Servicing plastic card operations	28	11
Other	30	1
Fee and commission income	967	562
Securities operations	(129)	(245)
Settlements operations	(101)	(49)
Guarantees and letters of credit	(23)	-
Servicing plastic card operations	(15)	(5)
Currency conversion operations	(14)	(3)
Cash operations	(4)	(2)
Other	(5)	(22)
Fee and commission expense	(291)	(326)
Net fee and commission income	676	236

19. Personnel, general and administrative expenses

Personnel expenses comprise:

	<i>2010 (6 months)</i> <i>(unaudited)</i>	<i>2009 (6 months)</i> <i>(unaudited)</i>
Salaries and bonuses	(1,935)	(1,503)
Social security costs	(427)	(341)
Personnel trainings and other employee benefits	(123)	(158)
Personnel expenses	(2,485)	(2,002)

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***19. Personnel, general and administrative expenses (continued)**

General and administrative expenses comprise:

	<i>2010 (6 months)</i> <i>(unaudited)</i>	<i>2009 (6 months)</i> <i>(unaudited)</i>
Charity and sponsorship expenses	(400)	(100)
Professional services	(362)	(299)
Depreciation and amortization	(325)	(183)
Transportation and business trip expenses	(144)	(64)
Operating leases	(56)	(41)
Taxes, other than income tax	(45)	(2)
Insurance	(40)	(32)
Advertising costs	(36)	(88)
Communications	(27)	(19)
Repair and maintenance	(26)	(14)
Security expenses	(25)	(21)
Utilities	(17)	(9)
Stationery	(12)	(18)
Membership fees	(8)	(12)
Printing expenses	(6)	(25)
Other expenses	(85)	(52)
General and administrative expenses	(1,614)	(979)

20. Fair values of financial instruments*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 2010 (unaudited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Trading securities	680	-	-	680
Investment securities available-for-sale	79,208	-	-	79,208
	79,888	-	-	79,888
<i>At 31 December 2009</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets				
Trading securities	858	-	-	858
Investment securities available-for-sale	82,027	-	-	82,027
	82,885	-	-	82,885

For the six months ended 30 June 2009*(Figures in Tables are in 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 end of the period, and related expense and income for the period are as follows:

	<i>30 June 2010</i>					<i>31 December 2009</i>				
	<i>Parent</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>	<i>Parent</i>	<i>Entities under common control</i>	<i>Key management personnel</i>	<i>Other</i>	<i>Total</i>
Loans outstanding at 1 January	-	2,350	113	-	2,463	-	-	4	-	4
Loans issued during the period	-	20,860	282	-	21,142	-	4,539	172	-	4,711
Loan repayments during the period	-	(2,623)	(167)	-	(2,790)	-	(2,189)	(63)	-	(2,252)
Loans outstanding at reporting period, gross	-	20,587	228	-	20,815	-	2,350	113	-	2,463
Less: allowance for impairment at reporting period	-	-	-	-	-	-	-	-	-	-
Loans outstanding at reporting period, net	-	20,587	228	-	20,815	-	2,350	113	-	2,463
Deposits outstanding at 1 January	14,310	100	317	37,881	52,608	33,303	100	100	-	33,503
Deposits received during the reporting period	15,000	-	-	16,484	31,484	20,753	-	217	51,777	72,747
Deposits repaid during the reporting period	(11,700)	-	-	(21,405)	(33,105)	(39,746)	-	-	(13,896)	(53,642)
Deposits outstanding at reporting period	17,610	100	317	32,960	50,987	14,310	100	317	37,881	52,608
Current accounts at the end of reporting period	2,857	26,043	50	63,835	92,785	6,101	32,994	21	35,354	74,470
Commitments and guarantees issued	-	-	-	-	-	-	3,082	-	-	3,082
Commitments on loans and unused credit lines	-	496	-	-	496	-	1,659	-	-	1,659
	<i>For the six months ended</i>									
	<i>30 June 2010 (unaudited)</i>					<i>30 June 2009 (unaudited)</i>				
Interest income on loans to customers	-	644	9	-	653	-	86	7	-	93
Interest expense on amounts due to customers	(787)	(5)	(15)	(1,443)	(2,250)	(1,230)	(9)	(10)	(1,790)	(3,039)
Fee and commission income	17	244	-	-	261	61	513	-	-	574
General and administrative expenses	-	(17)	-	(30)	(47)	-	(154)	-	(60)	(214)

For the six months ended 30 June 2009*(Figures in Tables are in thousands of Azerbaijani Manats)***21. Related party disclosures (continued)**

Compensation of key management personnel was comprised of the following:

	<i>2010 (6 months)</i> <i>(unaudited)</i>	<i>2009 (6 months)</i> <i>(unaudited)</i>
Salaries and bonuses	802	476
Social security costs	176	105
Key management personnel compensation	978	581

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 and the Basel Capital Accord 1988 in supervising the Bank.

During the past period, the Bank had complied in full with all its 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.

Capital adequacy ratio under CBA requirements

The CBA requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets. As of 30 June 2010 and 31 December 2009 the Bank's capital adequacy ratio on this basis was as follows:

	<i>30 June 2010</i>	<i>31 December 2009</i>
Tier 1 capital	124,216	108,809
Tier 2 capital	9,516	17,901
Less deductions from capital	(1,559)	(712)
Total capital	132,173	125,998
Risk-weighted assets	255,461	199,549
Capital adequacy ratio	52%	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 requires a minimum of 8% on Tier 1 and Total capital, with subsequent amendments including the amendment to incorporate market risks, as of 30 June 2010 and 31 December 2009, comprised:

	<i>30 June 2010</i>	<i>31 December 2009</i>
Tier 1 capital	135,110	126,570
Tier 2 capital	-	-
Total capital	135,110	126,570
Risk-weighted assets	204,635	163,377
Tier 1 capital ratio	66%	77%
Total capital ratio	66%	77%