UNIBANK COMMERCIAL BANK

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

31 December 2008

CONTENTS

PRICEWATERHOUSECOOPERS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and shareholders of Unibank Commercial Bank:

We have audited the accompanying consolidated financial statements of Unibank Commercial Bank and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Baku, Azerbaijan Republic
29 June 2009

In thousands of Azerbaijani Manats	Note	2008	2007
ASSETS			
Cash and cash equivalents	7	39,117	30,417
Mandatory cash balances with the NBAR		3,665	13,007
Due from other banks	8	16,117	25,793
Loans and advances to customers	9	317,714	272,478
Investment securities available for sale	10	869	15,053
Current income tax prepayment		-	46
Deferred tax asset	25	-	150
Premises and equipment	11	12,387	8,611
Intangible assets	11	945	579
Other financial assets	12	419	138
Other assets	13	27,762	20,468
TOTAL ASSETS		**418,995**	**386,740**
LIABILITIES			
Due to other banks	14	15,396	16,607
Customer accounts	15	142,281	123,865
Debt securities in issue	16	750	700
Term borrowings	17	192,351	194,369
Current income tax liability		993	143
Deferred tax liability	25	71	-
Other financial liabilities	18	799	2,128
Other liabilities	19	1,106	2,316
Subordinated debt	20	21,546	10,058
TOTAL LIABILITIES		**375,293**	**350,186**
EQUITY			
Share capital	21	15,000	15,000
Share premium	21	12,076	12,076
Revaluation reserve for available for sale securities		70	70
Retained earnings		15,359	8,696
Net assets attributable to the Bank's equity holders		**42,505**	**35,842**
Minority interest		**1,197**	**712**
TOTAL EQUITY		**43,702**	**36,554**
TOTAL LIABILITIES AND EQUITY		**418,995**	**386,740**

Approved for issue and signed on behalf of the Board of Directors on 29 June 2009.

The notes set out on pages 5 to 68 form an integral part of these consolidated financial statements.

Faig Huseynov	Anna Kostina
Chairman of the Board of Directors	Chief Accountant

The notes set out on pages 5 to 68 form an integral part of these consolidated financial statements.

In thousands of Azerbaijani Manats	Note	2008	2007
Interest income	22	70,578	36,791
Interest expense	22	(38,388)	(19,912)
Net interest income		**32,190**	**16,879**
Provision for loan impairment	9	(12,311)	(5,771)
Net interest income after provision for loan impairment		**19,879**	**11,108**
Fee and commission income	23	8,668	6,037
Fee and commission expense	23	(885)	(1,059)
Gains less losses from trading in foreign currencies		2,554	1,706
Foreign exchange translation gains less losses		1,143	138
Administrative and other operating expenses	24	(21,473)	(12,890)
Other operating income		313	200
Profit before tax		**10,199**	**5,240**
Income tax expense	25	(3,051)	(1,358)
Profit for the year		**7,148**	**3,882**
Profit is attributable to:			
Equity holders of the Bank		6,663	3,770
Minority interest		485	112
Profit for the year		**7,148**	**3,882**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in AZN per share)	26	**0.89**	**0.66**

The notes set out on pages 5 to 68 form an integral part of these consolidated financial statements.

In thousands of Azerbaijani Manats	**Note**	**Attributable to equity holders of the Bank**					**Minority interest**	**Total equity**
		Share capital	**Share premium**	**Revaluation reserve for available for sale securities**	**Retained earnings**	**Total**		
Balance at 1 January 2007		**6,600**	**484**	**70**	**4,926**	**12,080**	**-**	**12,080**
Share issue	21	8,400	11,592	-	-	19,992	600	20,592
Profit for the year		-	-	-	3,770	3,770	112	3,882
Balance at 31 December 2007		**15,000**	**12,076**	**70**	**8,696**	**35,842**	**712**	**36,554**
Profit for the year		-	-	-	6,663	6,663	485	7,148
Balance at 31 December 2008		**15,000**	**12,076**	**70**	**15,359**	**42,505**	**1,197**	**43,702**

The notes set out on pages 5 to 68 form an integral part of these consolidated financial statements.

In thousands of Azerbaijani Manats	Note	2008	2007
Cash flows from operating activities			
Interest received		68,253	35,720
Interest paid		(37,017)	(16,998)
Fees and commissions received		9,367	5,902
Fees and commissions paid		(885)	(1,059)
Income received from trading in foreign currencies		2,554	1,706
Other operating income received		313	200
Administrative and other operating expenses paid		(18,876)	(11,514)
Income tax paid		(1,934)	(1,849)
Cash flows from operating activities before changes in operating assets and liabilities		**21,775**	**12,108**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the NBAR		9,342	(4,350)
Net decrease/(increase) in due from other banks		9,676	(21,071)
Net increase in loans and advances to customers		(55,920)	(192,814)
Net increase in other financial assets		(281)	(61)
Net increase in other assets		(7,294)	(9,754)
Net (decrease)/increase in due to other banks		(1,211)	10,251
Net increase in customer accounts		17,535	42,077
Net increase/(decrease) in debt securities in issue		50	(1,914)
Net (decrease)/increase in other financial liabilities		(1,329)	1,771
Net (decrease)/increase in other liabilities		(1,138)	4,470
Net cash used in operating activities		**(8,795)**	**(159,287)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(35,094)	(257,887)
Redemption of investment securities available for sale		49,278	244,146
Acquisition of premises and equipment	11	(7,133)	(7,355)
Disposal of premises and equipment	11	321	13
Net cash from/(used in) investing activities		**7,372**	**(21,083)**
Cash flows from financing activities			
Proceeds from term borrowings		100,531	169,659
Repayment of term borrowings		(103,039)	(8,994)
Proceeds from subordinated debt		11,488	5,701
Issue of ordinary shares		-	20,592
Net cash from financing activities		**8,980**	**186,958**
Effect of exchange rate changes on cash and cash equivalents		**1,143**	**117**
Net increase in cash and cash equivalents		**8,700**	**6,705**
Cash and cash equivalents at the beginning of the year	7	30,417	23,712

In thousands of Azerbaijani Manats	**Note**	**2008**	**2007**
Cash and cash equivalents at the end of the year	7	**39,117**	**30,417**

The notes set out on pages 5 to 68 form an integral part of these consolidated financial statements.

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 for Unibank Commercial Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is a joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. The Bank is ultimately controlled by Mr. Eldar Garibov (2007: Mr. Eldar Garibov).

On 17 June 2004, the Bank registered UniLeasing Company (“Unileasing”) with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in August 2004, and is owned 66.7% by the Bank.

On 23 January 2008, the Bank registered its fully owned subsidiary, UniCapital Company (“Unicapital”), with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in February 2008. The company’s major activities are trust management of stock portfolios and dealing in the stock market of Azerbaijan.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking license issued by the National Bank of the Azerbaijan Republic (“NBAR”) since 1992. The Bank participates in the State deposit insurance scheme, which was introduced by the Azeri Law, “Deposits of individuals insurance in Azerbaijan Republic” dated 29 December 2006. Initially, this law guaranteed repayment of 100% of deposits of individuals in the following order:

- from 1 January 2008 till 1 January 2010 – up to AZN 6,000;
- 1 January 2010 and afterwards – up to AZN 8,000.

On 8 May 2009, addendum to the law on insurance of deposits was enacted which guarantees the repayment of all deposits of individuals in the amount up to AZN 30,000 effective from the date of enactment of addendum.

The Bank has twenty four (2007: twelve) branches within the Azerbaijan Republic.

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

57 R. Behbudov Street
AZ1022
Baku, the Republic of Azerbaijan

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

The Board of Directors who approved these consolidated financial statements has the power to amend the consolidated financial statements after issue.

2 Operating Environment of the Group

The Republic of Azerbaijan. The Republic of Azerbaijan displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan, relatively high inflation and strong economic growth. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions. The Azerbaijani economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and consequently what effect, if any, a deterioration in the liquidity of or confidence in the Azerbaijani banking system could have on the financial position of the Group.

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

2 Operating Environment of the Group (Continued)

Recent volatility in global financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, at times much higher than normal interbank lending rates, and lower liquidity levels across the Republic of Azerbaijan banking sector resulting in a significant reduction in the number of new loans and advances made to customers, and higher funding costs where its remains possible to obtain debt finance from International Institutions or other local banks. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

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

3 Summary of Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the revaluation of available-for-sale financial assets. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

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

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

Minority interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Minority interest forms a separate component of the Group’s equity.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. *Transaction costs* are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, impairment is measured using the original effective interest rate before the modification of terms.

Finance lease receivables/Revenue recognition. Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in premises and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in term borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Construction in progress is carried at cost less provision for impairment where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. Upon completion, assets are transferred to premises and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Buildings	3%;
Office and computer equipment	25%;
Furniture, fixtures and other equipment	20%;
Motor vehicles	15%; and
Leasehold improvements	over the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, eg its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 4 to 5 years.

3 Summary of Significant Accounting Policies (Continued)

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

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost.

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

Debt securities in issue. Debt securities in issue include debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Term borrowings. Term borrowings are non-derivative liabilities to international financial institutions and are carried at amortised cost.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in “tier 2 capital” of the Group.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Azerbaijan legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

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

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

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorised for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Azerbaijani legislation identifies the basis of distribution as the current year net profit.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Share based compensation. For equity-settled share-based payment transactons with key management, the Group measures the services received and the corresponding increase in equity, directly, at the fair value of the services received. Because of the difficulty of measuring directly the fair value of the services received by the Group from key management, the Group measures the fair value of the services received by reference to the fair value of the equity instruments granted to key management.

Segment reporting. A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from services to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements, on the basis that, a significant majority of the Group's operations are carried out in the Republic of Azerbaijan and revenues from other segments are not more than ten percent of total revenues earned by the Group.

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

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the NBAR at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the NBAR are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

3 Summary of Significant Accounting Policies (Continued)

Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss. At 31 December 2008, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.8010 (2007: USD 1 = AZN 0.8453).

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

***Going concern*.** Management have prepared these consolidated financial statements on a going concern basis. In making this judgement, management have considered current intentions, the profitability of operations and access to financial resources.

As set out in Note 28, at 31 December 2008 the Group had a negative cumulative liquidity gap of AZN 96,517 thousand in the period up to twelve months. Furthermore, as discussed in Note 30, at 31 December 2008 the Bank was not in compliance with one financial covenant included in a borrowing agreement in one of its term borrowing arrangements, which resulted in outstanding debt under certain other borrowing agreements being classified as in breach due to cross-default clauses. Accordingly, AZN 72,693 thousand of term borrowings have been reclassified as being on demand within these consolidated financial statements.

While recent global events have had a significant impact on the ability to obtain new or extended term borrowings from international financial institutions, and where available, the cost of funding has typically increased, management are actively managing this position and as a result of the following actions believe that the Group will have access to sufficient resources in order to continue to meet all of its liabilities as they fall due:

(i) Management believes that the international financial institutions will not take adverse actions against the Bank due to noncompliance with covenants.

(ii) The management of the Bank is continuing negotiations with international financial institutions to obtain new debt and equity financing. As part of those negotiations, the Bank is in the process of concluding on a long-term financing package in the aggregate amount of approximately AZN 72 million to be disbursed in July 2009, which will consist of the following elements:

- Share capital contribution: AZN 6 million;
- Senior convertible bond: AZN 20 million with a maturity of 5 years;
- Senior loan facility: AZN 41.5 million with a maturity of 5 years;
- Extension of existing facility AZN 4.5 million for one year.

On 30 March 2009, the Bank announced an increase of share capital by AZN 15 million, of which AZN 6 million were to be paid by cash contribution, which was the part of financing package mentioned above, with the remaining AZN 9 million to be transferred from retained earnings. As at the date these consolidated financial statements were approved for issue, the share emission was fully completed. Refer to Note 35.

As at the date these consolidated financial statements were approved for issue, the agreements on a senior loan facility in the amount of AZN 41.5 million and a senior convertible bond for AZN 20 million had not been signed yet; however, the Bank had already received letters confirming final approvals of the ultimate decision making bodies of the respective international financial institutions participating in the financing package.

The above financing package will be used by the Group to finance its current liquidity gap. Refer to Notes 28 and 35.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

(iii) Subsequent to the balance sheet, the National Bank of Azerbaijan provided to the Bank financing in the aggregate amount of AZN 40 million, of which AZN 25 million were issued on 23 April 2009 and the remaining AZN 15 million on 5 May 2009. These borrowings from the NBAR bear an interest rate of 3% p.a. and are for the period of three months with a possibility of prolongation for an additional term. Refer to Note 35.

In addition to the above, the NBAR has expressed its readiness to extend its existing debt facilities to the Bank, if required, to support the Bank. As part of these support actions, subsequent to the balance sheet date the NBAR prolonged for additional six months the outstanding debt of AZN 39 million under its previous lending to the Bank in the amount of AZN 50 million with an initial maturity in May 2009. Refer to Note 17.

(iv) The Government of the Republic of Azerbaijan has taken a number of monetary policy measures to prevent possible impact of global events on the local economy and financial system. As part of those measures, the NBAR gradually decreased its mandatory reserve requirement from 12% to 0.5% and refinancing rate from 15% to 2% throughout the year ended 31 December 2008 and subsequently in 2009.

As a result of management's assessment and the actions being undertaken, management believes that the Group will be able to cover its liquidity gap up to twelve months and thus, the consolidated financial statements have been prepared on a going concern basis.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Refer to Note 9.

Loans and advances to customers. Management have assessed the nature of the agreement with the Azerbaijan Mortgage Fund, and in particular whether the Bank is acting as an agent of the fund, or as a principal with the borrower under this program. Having considered the risks and rewards related to the loans issued under this program, management have concluded that the Bank is acting as principal and accordingly the accounting in these consolidated financial statements follows this judgement. Had an alternative conclusion been reached, the gross amounts of loans to customers and due to the Fund, of AZN 4,109 thousand as at 31 December 2008 (2007: AZN 2,588 thousand), would have been excluded from the Group's consolidated financial statements.

Term borrowings. Management has considered whether gains or losses should arise on initial recognition of loans from governmental and international financial institutions and related lending. The Bank obtains long term financing from international financial institutions at interest rates at which such institutions ordinarily lend in emerging markets and which may be lower than rates at which the Bank could source the funds from local lenders. As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates. As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market interest rates and no initial recognition gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Tax legislation. Azerbaijan tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

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

5 Adoption of New or Revised Standards and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2—Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets—Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures* and a subsequent amendment, *Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held to trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

6 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation — IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

6 New Accounting Pronouncements (Continued)

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

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

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group is currently assessing the impact of the Interpretation on its consolidated financial statements. The Group does not operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its consolidated financial statements. IFRIC 15 is not relevant to the Group's operations because it does not have any agreements for the construction of real estate.

6 New Accounting Pronouncements (Continued)

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these consolidated financial statements as the Group does not apply hedge accounting. IFRIC 16 is not relevant to the Group's operations because it does not apply hedge accounting.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

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

6 New Accounting Pronouncements (Continued)

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

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

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

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

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	2008	2007
Cash on hand	22,135	11,017
Cash balances with the NBAR (other than mandatory reserve deposits)	3,406	6,737
Correspondent accounts and overnight placements with other banks:		
- The Republic of Azerbaijan	534	1,929
- Other countries	13,042	10,734
Total cash and cash equivalents	**39,117**	**30,417**

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

In thousands of Azerbaijani Manats	Cash on hand	Cash balances with the NBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	22,135	-	-	22,135
- The NBAR	-	3,406	-	3,406
- Top 15 Azerbaijani banks	-	-	236	236
- Other Azerbaijani banks	-	-	298	298
- OECD banks	-	-	12,811	12,811
- Non-OECD banks	-	-	231	231
Total current and not impaired	**22,135**	**3,406**	**13,576**	**39,117**
Total cash and cash equivalents	**22,135**	**3,406**	**13,576**	**39,117**

Analysis by credit quality of the cash and cash equivalents at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	Cash on hand	Cash balances with the NBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	11,017	-	-	11,017
- The NBAR	-	6,737	-	6,737
- Top 15 Azerbaijani banks	-	-	1,670	1,670
- Other Azerbaijani banks	-	-	259	259
- OECD banks	-	-	9,888	9,888
- Non-OECD banks	-	-	846	846

In thousands of Azerbaijani Manats	Cash on hand	Cash balances with the NBAR	Correspondent accounts and overnight placements with other banks	Total
Total current and not impaired	**11,017**	**6,737**	**12,663**	**30,417**
Total cash and cash equivalents	**11,017**	**6,737**	**12,663**	**30,417**

Interest rate analysis of cash and cash equivalents is disclosed in Note 28. The information on related party balances is disclosed in Note 33.

8 Due from Other Banks

In thousands of Azerbaijani Manats	2008	2007
Current term placements with other banks	16,117	25,793
Total due from other banks	**16,117**	**25,793**

At 31 December 2008, current term placements with other banks included short-term placements with a foreign bank amounting to AZN 8,010 thousand bearing annual interest rate of 4.5% (2007: short-term placements with four resident banks amounting to AZN 4,767 thousand as at 31 December 2007 bearing annual interest rates ranging between 11% and 13%). These placements have subsequently been granted by this foreign bank to Unileasing under separate loan agreements each bearing an annual interest rate of 6% (2007: between 13% and 15%) with maturities in August and September 2009. Refer to Note 14. Short-term placements of the Bank and the loans obtained by Unileasing are not netted off since based on the legal contracts they represent separate assets placed at and liabilities due from third parties. Refer to Note 14.

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

In thousands of Azerbaijani Manats	Current term placements with other banks	Total
Current and not impaired		
- Top 15 Azerbaijani banks	6,358	6,358
- Other Azerbaijani banks	1,749	1,749
- OECD banks	8,010	8,010
Total current and not impaired	**16,117**	**16,117**
Total due from other banks	**16,117**	**16,117**

Analysis by credit quality of the amounts due from other banks outstanding at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	Current term placements with other banks	Total
Current and not impaired		
- Top 15 Azerbaijani banks	13,057	13,057
- Other Azerbaijani banks	12,736	12,736
Total current and not impaired	**25,793**	**25,793**
Total due from other banks	**25,793**	**25,793**

In thousands of Azerbaijani Manats	**Current term placements with other banks**	**Total**

Carrying value of each class of amounts due from other banks approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of due from other banks was AZN 16,117 thousand (2007: AZN 25,793 thousand). Refer to Note 31.

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	**2008**	**2007**
Corporate loans	82,373	94,627
Loans to individuals – entrepreneurs	79,263	66,292
Loans to individuals – purchase of motor vehicles	106,890	63,827
Loans to individuals – consumer loans	32,033	22,513
Mortgage loans	38,427	34,180
Less: Provision for loan impairment	(21,272)	(8,961)
Total loans and advances to customers	**317,714**	**272,478**

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

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2008	**3,574**	**1,528**	**2,209**	**1,092**	**558**	**8,961**
Increase in provision for impairment during the year	3,025	4,804	2,317	1,553	612	12,311
Provision for loan impairment at 31 December 2008	**6,599**	**6,332**	**4,526**	**2,645**	**1,170**	**21,272**

Movements in the provision for loan impairment during 2007 are as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2007	**1,506**	**808**	**602**	**231**	**43**	**3,190**
Increase in provision for impairment during the year	2,068	720	1,607	861	515	5,771
Provision for loan impairment at 31 December 2007	**3,574**	**1,528**	**2,209**	**1,092**	**558**	**8,961**

9 Loans and Advances to Customers (Continued)

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

	2008		2007	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Retail loans				
- purchase of motor vehicles	106,890	31.5	63,827	22.7
- trade and services	50,921	15.0	52,491	18.7
- purchase of apartments and mortgages	38,427	11.3	34,180	12.1
- manufacturing	17,871	5.3	6,486	2.3
- other entrepreneurship	8,912	2.6	7,315	2.6
- credit cards	5,977	1.8	4,293	1.5
- micro loans	4,753	1.4	2,361	0.8
- other purposes	22,862	6.8	15,859	5.7
Total retail loans	**256,613**	**75.7**	**186,812**	**66.4**
Corporate loans				
Trade and services	34,587	10.2	45,978	16.3
Construction	24,954	7.4	26,704	9.5
Production	16,608	4.9	14,953	5.3
Transportation	2,385	0.7	3,618	1.3
Agriculture	1,084	0.3	1,032	0.4
Other	2,755	0.8	2,342	0.8
Total corporate loans	**82,373**	**24.3**	**94,627**	**33.6**
Total loans and advances to customers (before impairment)	**338,986**	**100**	**281,439**	**100**

At 31 December 2008, the Group had 26 borrowers (2007: 28 borrowers) with the outstanding loan amount above AZN 1,000 thousand. The aggregate balance of these borrowers was AZN 54,982 thousand (2007: AZN 51,986 thousand) or 16% (2007: 18%) of the gross loan portfolio.

Of the AZN 38,427 thousand (31 December 2007: AZN 34,180 thousand) total mortgage loans, AZN 4,109 thousand (2007: AZN 2,588 thousand) has been provided under the programme covered by the borrowing agreement with the Azerbaijan Mortgage Fund. Refer to Note 17. In addition, a further AZN 81 thousand (2007: AZN 1,892 thousand) of these loans are awaiting the approval of the Azerbaijan Mortgage Fund to be included as part of this programme and therefore for further funding under the borrowing agreement to be provided to the Bank.

To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately AZN 969 thousand (2007: AZN 448 thousand) higher or lower.

Loans and advances to customers at 31 December 2008 include finance lease receivables of the Group's leasing subsidiary of AZN 17,861 thousand recorded net of provision for uncollectible finance lease receivables of nil (2007: finance lease receivables of the Group's leasing subsidiary of AZN 21,478 thousand recorded net of provision for uncollectible finance lease receivables of nil). At 31 December 2008, finance lease receivables are represented by 555 lease contracts primarily related to the lease of various types of vehicles, construction and medical equipment (2007: 336 lease contracts primarily related to the lease of various types of vehicles and medical equipment). These finance lease contracts usually expire over three to five years. Lease payments are made on a monthly basis. The leasing subsidiary holds title to property subject to the lease during the lease term. Risks related to the leased property such as damage caused by various reasons, theft and other are generally insured in the finance lease agreements. This insurance arrangement is entered into by the lessee and an insurance company to insure the leased property against damages caused by the reasons listed above. The management of the leasing subsidiary periodically assesses the financial performance of the lessees by monitoring debts outstanding and analysing their financial reports.

Management have assessed whether finance leases represent a separate class and therefore should be separately shown within the analysis within this note. However, management have determined that as their approach to the assessment of risk is based on the classes as set out within this note and not based on a consideration of finance leases as a separate class, no separate class for such leases is required.

9 Loans and Advances to Customers (Continued)

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of Azerbaijani Manats	**Due in 1 year**	**Due between 2 and 5 years**	**Due after 5 years**	**Total**
Finance lease payments receivable at 31 December 2007	**1,467**	**26,590**	**-**	**28,057**
Unearned finance income	(163)	(6,416)	-	(6,579)
Present value of lease payments receivable at 31 December 2007	**1,304**	**20,174**	**-**	**21,478**
Finance lease payments receivable at 31 December 2008	**1,501**	**25,931**	**70**	**27,502**
Unearned finance income	(161)	(9,444)	(36)	(9,641)
Present value of lease payments receivable at 31 December 2008	**1,340**	**16,487**	**34**	**17,861**

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	7,615	1,400	39	9,537	217	18,808
Loans collateralised by:						
- real estate	49,071	64,930	365	7,223	38,210	159,799
- personal transport	17,017	12,018	106,486	2,719	-	138,240
- bank deposits	4,410	906	-	10,825	-	16,141
- movable property	2,650	-	-	193	-	2,843
- personal property including jewellery	-	5	-	1,517	-	1,522
- letter of guarantee	161	-	-	13	-	174
- other	1,449	4	-	6	-	1,459
Total loans and advances to customers	**82,373**	**79,263**	**106,890**	**32,033**	**38,427**	**338,986**

Information about collateral at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	27,777	1,044	57	6,895	802	36,575
Loans collateralised by:						
- real estate	57,567	62,877	246	6,675	33,347	160,712
- personal transport	904	626	63,518	1,117	28	66,193
- bank deposits	379	-	-	6,045	-	6,424
- movable property	7,831	1,676	-	50	-	9,557
- personal property including jewellery	-	8	6	1,679	-	1,693
- letter of guarantee	169	60	-	42	3	274
- other	-	1	-	10	-	11
Total loans and advances to customers	**94,627**	**66,292**	**63,827**	**22,513**	**34,180**	**281,439**

9 Loans and Advances to Customers (Continued)

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

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Loans to individuals – consumer loans	Mortgage loans	Total
Current and not impaired						
Unsecured loans	5,121	654	28	7,590	172	13,565
Loans collateralised by:						
- real estate	39,651	48,241	160	5,702	27,312	121,066
- personal transport	862	558	81,761	2,132	-	85,313
- bank deposits	4,356	830	-	9,767	-	14,953
- movable property	292	-	-	133	-	425
- personal property including jewellery	-	5	-	1,271	-	1,276
- letter of guarantee	161	-	-	-	-	161
- other	1,449	4	-	6	-	1,459
Loans renegotiated in 2008	9,406	7,256	14	1,140	-	17,816
Total current and not impaired	**61,298**	**57,548**	**81,963**	**27,741**	**27,484**	**256,034**
Past due but not impaired						
- less than 30 days overdue	10,953	12,141	22,661	3,253	10,432	59,440
- 30 to 90 days overdue	11	513	627	242	392	1,785
- 90 to 180 days overdue	-	225	350	62	25	662
- 180 to 360 days overdue	666	30	284	84	17	1,081
- over 360 days overdue	11	471	257	33	21	793
Total past due but not impaired	**11,641**	**13,380**	**24,179**	**3,674**	**10,887**	**63,761**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	6,970	4,282	632	478	40	12,402
- 30 to 90 days overdue	162	-	22	28	16	228
- 90 to 180 days overdue	115	2,152	16	23	-	2,306
- 180 to 360 days overdue	2,136	1,862	38	49	-	4,085
- over 360 days overdue	51	39	40	40	-	170
Total individually impaired loans (gross)	**9,434**	**8,335**	**748**	**618**	**56**	**19,191**
Less impairment provisions	**(6,599)**	**(6,332)**	**(4,526)**	**(2,645)**	**(1,170)**	**(21,272)**

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Loans to individuals – consumer loans	Mortgage loans	Total
Total loans and advances to customers	**75,774**	**72,931**	**102,364**	**29,388**	**37,257**	**317,714**

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as 'current and not impaired' until a specific objective evidence of impairment of the loan is identified. The impairment provisions exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

9 Loans and Advances to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Loans to individuals – consumer loans	Mortgage loans	Total
Current and not impaired						
Unsecured loans	13,077	377	16	2,300	688	16,458
Loans collateralised by:						
- real estate	45,855	40,975	173	3,063	14,969	105,035
- personal transport	745	306	33,042	817	22	34,932
- bank deposits	149	-	-	4,760	-	4,909
- other	7,927	1,684	5	1,229	-	10,845
Loans renegotiated in 2007	1,783	142	-	322	38	2,285
Total current and not impaired	**69,536**	**43,484**	**33,236**	**12,491**	**15,717**	**174,464**
Past due but not impaired						
- less than 30 days overdue	20,554	18,897	24,795	7,575	16,541	88,362
- 30 to 90 days overdue	3,038	2,799	4,456	1,619	1,607	13,519
- 90 to 180 days overdue	1,240	420	646	365	278	2,949
- 180 to 360 days overdue	-	310	232	236	14	792
- over 360 days overdue	93	223	-	9	-	325
Total past due but not impaired	**24,925**	**22,649**	**30,129**	**9,804**	**18,440**	**105,947**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	-	-	26	-	-	26
- 30 to 90 days overdue	-	-	100	-	-	100
- 90 to 180 days overdue	33	-	126	36	-	195
- 180 to 360 days overdue	-	84	117	120	23	344
- over 360 days overdue	133	75	93	62	-	363
Total individually impaired loans (gross)	**166**	**159**	**462**	**218**	**23**	**1,028**
Less impairment provisions	**(3,574)**	**(1,528)**	**(2,209)**	**(1,092)**	**(558)**	**(8,961)**
Total loans and advances to customers	**91,053**	**64,764**	**61,618**	**21,421**	**33,622**	**272,478**

The primary factors that the Group considers as to whether a loan is impaired is its overdue status and realisability of the related collateral, if any. As a result, the Group presents the above ageing analysis of loans that are individually determined to be impaired.

Current and not impaired, but renegotiated loans, represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

9 Loans and Advances to Customers (Continued)

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2008 was as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Loans to individuals – consumer loans	Mortgage loans	Total
Fair value of collateral - loans past due but not impaired						
- real estate	23,755	37,884	371	5,476	14,415	81,901
- personal transport	795	228	45,644	1,031	-	47,698
- bank deposits	-	-	-	1,524	-	1,524
- personal property including jewellery	-	-	-	317	-	317
- movable property	-	-	3	85	-	88
Fair value of collateral - individually impaired loans						
- real estate	9,111	5,583	-	424	673	15,791
- personal transport	3,223	-	1,443	-	-	4,666
- bank deposits	62	-	-	2,307	-	2,369
- letter of guarantee	171	-	-	-	-	171
- personal property including jewellery	-	-	-	22	-	22
- movable property	-	-	-	10	-	10
Total	**37,117**	**43,695**	**47,461**	**11,196**	**15,088**	**154,557**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Loans to individuals – consumer loans	Mortgage loans	Total
Fair value of collateral - loans past due but not impaired						
- real estate	31,987	61,526	406	11,311	23,139	128,369
- bank deposit	17	-	-	3,103	-	3,120
- personal transport	241	537	59,850	644	18	61,290
- other	31	35	3	785	5	859
Fair value of collateral - individually impaired loans						
- real estate	-	138	-	146	31	315
- personal transport	-	-	875	-	-	875
- other	-	-	-	30	-	30

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Total	**32,276**	**62,236**	**61,134**	**16,019**	**23,193**	**194,858**

The collateral value for loans issued to purchase motor vehicles as recorded above are stated at a higher amount than the gross carrying amount of the respective loans. The Group anticipates that the values would be lower by the time it is possible to obtain title and value for the collateral due to the more rapid depreciation of this asset category.

9 Loans and Advances to Customers (Continued)

Carrying value of each class of loans and advances to customers approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of loans and advances to customers was AZN 317,714 thousand (2007: AZN 272,478 thousand). Refer to Note 31.

Interest rate analysis of loans and advances to customers is disclosed in Note 28. The information on related party balances is disclosed in Note 33.

10 Investment Securities Available for Sale

In thousands of Azerbaijani Manats	**2008**	**2007**
Notes of the Ministry of Finance of the Republic of Azerbaijan ("MoF")	107	1,937
Notes of the NBAR	-	11,354
Coupon securities of a resident bank	-	1,000
Total debt securities	**107**	**14,291**
Corporate shares – unquoted	762	762
Total investment securities available for sale	**869**	**15,053**

Notes of the Ministry of Finance of the Republic of Azerbaijan represent short-term treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan with maturity in March 2009 and annual yield of 9.9% (2007: 8.7%).Subsequent to the balance sheet date, notes of the Ministry of Finance of the Republic of Azerbaijan were fully redeemed.

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

In thousands of Azerbaijani Manats	**Notes of the MoF**	**Total**
Current and not impaired		
- Azerbaijan government	107	107
Total current and not impaired	**107**	**107**
Total debt securities available for sale	**107**	**107**

The international rating for Azerbaijan has been published as Ba1/Stable (Moody's).

Analysis by credit quality of debt securities outstanding at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	**Coupon securities of a resident bank**	**Notes of the NBAR**	**Notes of the MoF**	**Total**
Current and not impaired				
- Azerbaijan government	-	11,354	1,937	13,291
- A resident top-15 bank	1,000	-	-	1,000

In thousands of Azerbaijani Manats	Coupon securities of a resident bank	Notes of the NBAR	Notes of the MoF	Total
Total current and not impaired	**1,000**	**11,354**	**1,937**	**14,291**
Total debt securities available for sale	**1,000**	**11,354**	**1,937**	**14,291**

10 Investment Securities Available for Sale (Continued)

Details of corporate unquoted shares available for sale are:

Name	Nature of business	Country of registration	Fair value	
			2008	**2007**
Baku Stock Exchange	Stock Exchange	Republic of Azerbaijan	60	60
Milli Kart	Card Processing	Republic of Azerbaijan	400	400
MBASK Insurance	Insurance	Republic of Azerbaijan	302	302
Total			**762**	**762**

The investment in Baku Stock Exchange was made in 2000 and represents 5.56% of its total share capital.

The investment in Milli Kart was made in 2006 and represents 10% of its total share capital.

The investment in MBASK Insurance was made in 1992 and represents 10.6% of its total share capital.

Interest rate analysis of investment securities available for sale is disclosed in Note 28. The information on related party balances is disclosed in Note 33.

11 Premises, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Note	Leasehold improvements	Land and buildings	Office and computer equipment	Furniture, fixtures and other	Construction in progress	Total premises and equipment	Intangible assets	Total
Cost at 1 January 2007		536	239	1,395	2,389	-	4,559	368	4,927
Accumulated depreciation		(102)	(7)	(625)	(813)	-	(1,547)	(54)	(1,601)
Carrying amount at 1 January 2007		**434**	**232**	**770**	**1,576**	**-**	**3,012**	**314**	**3,326**
Additions		2,103	83	1,830	2,662	339	7,017	338	7,355
Disposals		-	-	-	(60)	-	(60)	-	(60)
Disposed accumulated depreciation		-	-	-	19	-	19	-	19
Depreciation charge	24	(207)	(8)	(622)	(540)	-	(1,377)	(73)	(1,450)
Carrying amount at 31 December 2007		**2,330**	**307**	**1,978**	**3,657**	**339**	**8,611**	**579**	**9,190**
Cost at 31 December 2007		2,639	322	3,225	4,991	339	11,516	706	12,222
Accumulated depreciation		(309)	(15)	(1,247)	(1,334)	-	(2,905)	(127)	(3,032)
Carrying amount at 31 December 2007		**2,330**	**307**	**1,978**	**3,657**	**339**	**8,611**	**579**	**9,190**
Additions		1,234	413	1,694	2,013	1,288	6,642	491	7,133
Disposal		-	-	-	(321)	-	(321)	-	(321)
Disposed accumulated depreciation		-	-	-	7	-	7	-	7
Depreciation charge	24	(546)	(11)	(1,031)	(964)	-	(2,552)	(125)	(2,677)
Carrying amount at 31 December 2008		**3,018**	**709**	**2,641**	**4,392**	**1,627**	**12,387**	**945**	**13,332**
Cost at 31 December 2008		3,873	735	4,919	6,683	1,627	17,837	1,197	19,034
Accumulated depreciation		(855)	(26)	(2,278)	(2,291)	-	(5,450)	(252)	(5,702)
Carrying amount at 31 December 2008		**3,018**	**709**	**2,641**	**4,392**	**1,627**	**12,387**	**945**	**13,332**

11 Premises, Equipment and Intangible Assets (Continued)

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to premises and equipment.

Included in the closing balance of premises and equipment at 31 December 2008 are fully depreciated assets still in use in the amount of AZN 981 thousand (2007: AZN 260 thousand).

12 Other Financial Assets

In thousands of Azerbaijani Manats	**2008**	**2007**
Settlements on money transfer operations	330	49
Credit and debit cards receivables	89	40
Restricted cash	-	49
Total other financial assets	**419**	**138**

Restricted cash balances represent security deposits placed with two resident banks to ensure rendering of plastic cards processing services, as well as a guarantee deposit placed with a payment system operator.

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

In thousands of Azerbaijani Manats	**Settlements on money transfer operations**	**Credit and debit cards receivables**	**Total**
Current and not impaired			
- Medium - sized companies	330	89	419
Total current and not impaired	**330**	**89**	**419**
Total other financial assets	**330**	**89**	**419**

Analysis by credit quality of other financial receivables outstanding at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	**Restricted cash**	**Settlements on money transfer operations**	**Credit and debit cards receivables**	**Total**
Current and not impaired				
- Resident banks	49	-	-	49
- Medium - sized companies	-	49	40	89
Total current and not impaired	**49**	**49**	**40**	**138**

In thousands of Azerbaijani Manats	**Restricted cash**	**Settlements on money transfer operations**	**Credit and debit cards receivables**	**Total**
Total other financial assets	**49**	**49**	**40**	**138**

The carrying value of each class of other financial assets approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of other financial assets was AZN 419 thousand (2007: AZN 138 thousand). Refer to Note 31.

13 Other Assets

In thousands of Azerbaijani Manats	**2008**	**2007**
Prepayments for purchase of property under construction	23,452	15,173
Deferred expenses	1,199	1,539
Advances on equipment purchased for leasing purposes	1,155	2,101
Prepayments for services	1,103	239
Prepayments for equipment	151	1,018
Prepaid insurance	120	-
Miscellaneous	581	398
Total other assets	**27,762**	**20,468**
Current	27,064	19,998
Non-current	698	470

Included in prepayments for purchase of property under construction at 31 December 2008 is a prepayment for the purchase of an office building for AZN 23,452 thousand. The Group expects to take delivery of the completed asset to the end of 2009.

Advances on equipment purchased for leasing purposes represent advances to suppliers of equipment, which is intended for subsequent lease.

The information on related party balances is disclosed in Note 33.

14 Due to Other Banks

In thousands of Azerbaijani Manats	**2008**	**2007**
Correspondent accounts and overnight placements of other banks	5,158	2,339
Current term placements of other banks	10,238	14,268
Total due to other banks	**15,396**	**16,607**

At 31 December 2008, current term placements of other banks include two short-term placements of a foreign bank with Unileasing in total amounting to AZN 8,010 thousand each at an annual interest rate of 6% (2007: short-term placements of four resident banks amounting to AZN 4,767 thousand as at 31 December 2007 bearing annual interest rates ranging between 13% and 15%). These placements have been granted by the Bank to this foreign bank under separate loan agreements each bearing annual interest rate of 4.5% (2007: 11% and 13%) with similar maturities from August 2009 to September 2009. Refer to Note 8. Short-term placements of the Bank and the loans obtained by Unileasing are not netted off since based on the legal contracts they represent separate assets placed at and liabilities due from third parties. Refer to Note 8.

The carrying value of each class of instruments presented as amounts due to other banks approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of due to other banks was AZN 15,396 thousand (2007: AZN 16,607 thousand). Refer to Note 31.

Interest rate analysis of due to other banks is disclosed in Note 28. The information on related party balances is disclosed in Note 33.

15 Customer Accounts

In thousands of Azerbaijani Manats	2008	2007
State and public organisations	**1,164**	**3,285**
- Current/settlement accounts	1,164	2,371
- Term deposits	-	914
Other legal entities	**57,840**	**55,359**
- Current/settlement accounts	34,622	30,583
- Term deposits	23,218	24,776
Individuals	**81,004**	**63,829**
- Current/demand accounts	8,986	8,772
- Term deposits	72,018	55,057
Accrued interest expense	2,273	1,392
Total customer accounts	**142,281**	**123,865**

Economic sector concentrations within customer accounts are as follows:

	2008		2007	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Individuals	82,411	57.9	65,156	52.6
Communication	11,668	8.2	10,000	8.1
Energy	11,294	7.9	19,782	16.0
Trade and Services	9,999	7.1	12,000	9.7
Investment	9,029	6.4	8,664	7.0
Manufacturing	8,314	5.8	2,486	2.0
Insurance	7,092	5.0	3,630	2.9
Construction	2,014	1.4	468	0.4
Public	349	0.2	246	0.2
Transportation	-	-	674	0.5
Other	111	0.1	759	0.6
Total customer accounts	**142,281**	**100**	**123,865**	**100**

At 31 December 2008, the Group had 15 customers (2007: 13 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 58,748 thousand (2007: AZN 56,549 thousand) or 41% (2007: 46%) of total customer accounts.

The carrying value of each class of customer accounts approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of customer accounts was AZN 142,281 thousand (2007: AZN 123,865 thousand). Refer to Note 31.

Interest rate analysis of customer accounts is disclosed in Note 28. The information on related party balances is disclosed in Note 33.

16 Debt Securities in Issue

In thousands of Azerbaijani Manats	2008	2007
Debentures	750	700
Total debt securities in issue	**750**	**700**

On 8 June 2008, the Bank's leasing subsidiary issued 750 debentures with par value of AZN 1,000 each and interest rate of 14% per annum. 500 of these debentures were sold to a related party and the remaining 250 were sold to a third party.

The carrying value of debt securities in issue approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the fair value of debt securities in issue was AZN 750 thousand (2007: AZN 700 thousand).

Interest rate analysis of debt securities in issue are disclosed in Note 28. The information on debt securities in issue held by related parties is disclosed in Note 33.

17 Term Borrowings

In thousands of Azerbaijani Manats	2008	2007
Funds borrowed from resident banks and organisations:		
- National Bank of Azerbaijan Republic	50,000	-
- National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	11,276	7,483
- Azerbaijan Mortgage Fund (the Republic of Azerbaijan)	4,109	2,588
Funds borrowed from or through EBRD	36,507	41,902
Funds borrowed from Citigroup Global Markets Limited	28,649	37,116
Funds borrowed from Deutshe Bank AG London	24,030	-
Funds borrowed from Banif-Banco International	6,408	-
Funds borrowed from GFM Cossack Bond Company Limited	5,607	-
Funds borrowed from Black Sea Trade and Development Bank	4,886	1,268
Funds borrowed from International Finance Corporation	4,406	3,170
Funds borrowed from Deutsche Investitions-und Entwiklungsgesellschaft mbH	3,948	6,249
Funds borrowed from Netherlands Development Finance Company	2,861	4,228
Funds borrowed from Raiffeisen Zentralbank Osterreich AG	2,803	-
Funds borrowed from German-Azerbaijan Fund	2,541	2,291
Funds borrowed from ING Bank N.V.	941	-
Funds borrowed from Micro Vest 1 L.P.	521	642
Funds borrowed from Morgan Stanley & Co International	-	42,840
Funds borrowed from BNP Paribas	-	16,866
Syndicated funds borrowed: VTB Bank Europe Plc (facility agent)	-	25,359
Accrued interest expense	2,858	2,367
Total term borrowings	**192,351**	**194,369**

Management classified a number of deposits placed with the Bank within "Term borrowings" where these agreements are in substance representing term borrowings and therefore appropriate to be classified as such.

On 18 November 2008, the Bank signed a Loan Agreement with National Bank of Azerbaijan for obtaining funds in the total amount of AZN 50,000 thousand for the financing purposes. The loan bears a market interest rate and matures on 17 May 2009. The Bank pledged against this borrowing a pool of cars with a total value of AZN 80,011 thousand which were accepted as collateral for car loans. There are no financial covenants with regard to this borrowing from National Bank of Azerbaijan that the Bank should comply with. On 18 May 2009, the repayment of outstanding balance of AZN 39 million under the above Loan Agreement was prolonged for additional six-month period till November 2009. Refer to Note 35.

17 Term Borrowings (Continued)

On 5 September 2003, the Bank signed a credit agreement with the National Fund for Support of Entrepreneurship, a programme under the auspices of the Ministry for Economic Development of the Republic of Azerbaijan, for financing of small and medium size enterprises. Under this programme, funds are made available to the Bank at an interest rate of 1.0%-2.0% per annum and the Bank further on lends these funds to eligible borrowers at rates not higher than 7.0% per annum.

On 17 February 2006, the Bank signed a credit agreement with the Azerbaijan Mortgage Fund, a programme under the auspices of the National Bank of Azerbaijan, for granting long-term mortgage loans to individuals. Under this programme, funds are made available to the Bank at an interest rate of 2.0% per annum and the Bank further on lends these funds to eligible borrowers at rates not higher than 7.0% per annum.

On 8 April 2005, the Bank signed a Syndicated Borrowing Agreement with foreign banks led by EBRD in the total amount of USD 5,000 thousand for the purposes of financing loans to small and medium size enterprises in the Republic of Azerbaijan. Under the agreement, EBRD, the lead lender, provided USD 1,500 thousand with a maturity of three years from the date of the placement at a market interest rate. The other lenders, Anglo-Romanian Bank, registered in the Great Britain, and Bank Creditanstalt, registered in Austria, provided the remaining USD 3,500 thousand of the loan for the period of one year with a potential extension of another year and an additional credit line of USD 250 thousand at a market interest rate. The outstanding balance of debt under this Syndicated Borrowing Agreement was fully repaid in January 2008 (2007: balance of debt was USD 2,500 thousand or AZN 2,113 thousand).

On 19 December 2005, the Bank signed a Participation Agreement with EBRD whereby the parties agreed to co-finance large-scale business projects in the country. According to this agreement projects are financed equally by the Bank and EBRD, where the latter pays the Bank a fixed percentage of an annual administration fee in respect of its share in each project financed. As at 31 December 2008, the Bank had drawn down USD 1,633 thousand or AZN 1,308 thousand (2007: USD 325 thousand or AZN 274 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

On 20 May 2006, the Bank signed a Loan Agreement with EBRD for obtaining a credit line in the amount not exceeding USD 2,500 thousand to finance loans to small and medium sized enterprises of the Republic of Azerbaijan. The credit line carries a market interest rate and is repayable in six equal semi-annual installments with the first installment due on 20 May 2008. At 31 December 2008, the Bank had drawn down USD 767 thousand or AZN 614 thousand from this credit line facility (2007: USD 1,100 thousand or AZN 930 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

On 17 August 2006, the Bank signed a Revolving Credit Agreement with EBRD for obtaining funds in the aggregate amount not exceeding USD 4,500 thousand. Each disbursement under the above agreement has an individual interest rate and maturity date. At 31 December 2008, the outstanding balance of the debt under the above Revolving Credit Agreement was USD 3,510 thousand or AZN 2,812 thousand (2007: USD 1,945 thousand or AZN 1,644 thousand).

On 7 September 2006, the Bank signed a second Syndicated Borrowing Agreement with foreign banks led by EBRD in the total amount of USD 7,500 thousand for the purposes of financing loans to small and medium size enterprises in the Republic of Azerbaijan. Under the agreement, EBRD, the lead lender, provided USD 2,500 thousand with maturity of four years from the date of placement and market interest rate. The other lenders, Anglo-Romanian Bank registered in the Great Britain and Bank Creditanstalt registered in Austria, provided the remaining USD 5,000 thousand of the loan for the period of one and a half year, with an option of extending for one additional year, at a market interest rate. On 31 December 2008, the outstanding balance of the borrowing under the second Syndicated Borrowing Agreement was USD 1,666 thousand or AZN 1,335 thousand (2007: USD 7,200 thousand or AZN 6,086 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Syndicated Borrowing Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

17 Term Borrowings (Continued)

On 31 October 2007, the Bank signed a Loan Agreement with EBRD on obtaining funds not exceeding USD 35,000 thousand consisting of two separate parts in the amount of USD 8,750 thousand and USD 26,250 thousand for medium and long-term financing of eligible manufacturing and export projects. The borrowing bears a market interest rate. The first part of the loan in the amount of USD 8,750 thousand is repayable in three equal semi-annual installments with the first installment payable on 5 November 2009. The second part of the loan of USD 26,250 thousand was subsequently repayed in one single installment on 5 May 2009. At 31 December 2008, the Bank had fully drawn the amounts available under the above agreement (2007: USD 35,000 thousand or 28,035 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Facility agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

On 15 March 2007, the Bank's leasing subsidiary, Unileasing, signed a Loan Agreement with EBRD on obtaining funds not exceeding USD 3,000 thousand for financing leasing operations of the former. At 31 December 2008, USD 3,000 thousand or AZN 2,403 thousand were drawn down under the above loan agreement which is repayable in eight equal semi-annual installments with the first installment due in October 2008. The borrowing carries a market interest rate.

Amounts borrowed from Citigroup Global Markets Limited represent funds obtained by the Bank from the former under the Master Deposit Agreement signed on 18 May 2007. Initially, AZN 20,210 thousand was placed by Citigroup Global Markets Limited with the Bank at a market interest rate and with maturity in May 2009. Subsequent to the balance sheet date, all of these funds were repaid by the Bank. On 19 July 2007, additional USD 20,000 thousand or AZN 16,906 thousand were placed by Citigroup Global Markets Limited with the Bank for the period of six months at a market interest rate and was closed in January 2008 on the contractual maturity date. On 18 January 2008, additional AZN 8,439 thousand were placed with the Bank according to Master Deposit Agreement signed on 18 May 2007 with maturity on 16 January 2009 and at a market interest rate. Subsequent to the balance sheet date, this deposit of AZN 8,439 thousand was repaid by the Bank on its contractual maturity date. There are no financial covenants with regard to borrowings from Citigroup Global Markets Limited that the Bank should comply with.

On 24 April 2008, the Bank signed a Syndicated Facility Agreement with foreign financial institutions led by Deutsche Bank AG London Branch in the total amount of USD 30,000 thousand at a market interest rate for the purposes of financing certain trade contracts. The borrowing has a maturity of one year and is to be repaid in one installment. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Syndicated Facility Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

On 16 May 2008 and on 8 July 2008, the Bank signed two Facility Agreements with Banif-Banco International for obtaining a loan facility in the amount of USD 4,000 thousand each to provide funds for financing eligible commercial projects. As of 31 December 2008, the whole facility amount was drawn down. The loans bear a market interest rate and mature in June 2009. There are no financial covenants with regard to this borrowing that the Bank should comply with.

On 1 July 2008 and on 10 September 2008, the Bank signed seven Loan Agreements with GFM Cossack Bond Company Limited in the total amount of USD 7,000 thousand for the purposes of financing cross border trade finance operations. As of 31 December 2008, the Bank drew down USD 7,000 thousand from the amount available under these agreements. The loans bear market interest rates and have maturities in June 2009 and July 2009.

On 30 November 2005, the Bank signed Credit Agreement with the Black Sea Trade and Development Bank ("BSTDB") registered in Greece on opening a credit line of USD 3,000 thousand. At 31 December 2008, the outstanding amount of debt under the above credit agreement was USD 3,000 thousand or AZN 2,403 thousand (2007: USD 760 thousand or AZN 642 thousand). On 14 February 2008, the Bank signed second Credit Agreement with the BSTDB on opening credit line of USD 5,000 thousand. At 31 December 2008, the outstanding amount of debt under the latter credit agreement was USD 3,100 thousand or AZN 2,483 thousand. The borrowings bear market interest rates and have maturities in June 2013 and December 2013. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Credit Agreement. At 31 December 2008, management of the Bank believes that, the Bank was in compliance with those covenants.

17 Term Borrowings (Continued)

On 26 December 2006, a Loan Agreement was signed between the Bank and International Finance Corporation ("IFC") for obtaining a credit line not exceeding USD 5,000 thousand to finance leasing operations of the Bank. The borrowing bears a market interest rate and is repayable in eight equal semi-annual installments with the first installment due on 15 June 2007. At 31 December 2008, the outstanding debt of the Bank under the above Loan Agreement comprised USD 2,500 thousand or AZN 2,003 thousand (2007: USD 3,750 thousand or AZN 3,170 thousand). On 31 March 2008, the second Loan Agreement was signed with IFC for obtaining a credit line not exceeding USD 15,000 thousand to finance loans which meet the Eligible Mortgage Loan Criteria. At 31 December 2008, the amount drawn down under the latter Loan Agreement was USD 3,000 thousand or AZN 2,403 thousand (2007: USD 3,750 thousand of AZN 3,170 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

On 31 December 2005, the Bank signed Loan Agreement with Deutsche Investitions-und Entwiklungsgesellschaft mbH ("DEG") on obtaining a credit line up to USD 3,000 thousand to provide financing for eligible investment projects of regional private small and medium sized enterprises. The credit line carries a market interest rate and was repayable in eight equal semi-annual installments with the first installment payable on 15 July 2007. At 31 December 2008, the outstanding debt of the Bank under the above Loan Agreement comprised USD 1,500 thousand or AZN 1,201 thousand (2007: USD 2,250 thousand or AZN 1,902 thousand). On 17 August 2006, the Bank signed a second Loan Agreement with DEG on obtaining a credit line up to USD 6,000 thousand to be used for financing small and medium-sized enterprises. The borrowing bears a market interest rate and was to be repaid in seven equal semi-annual installments with the first installment due on 15 December 2007. At 31 December 2008, the outstanding balance of debt under the second loan agreement was USD 3,429 thousand or AZN 2,747 thousand (2007: USD 5,143 thousand or AZN 4,347 thousand) available under the above Loan Agreement. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants, except for one. Refer to Note 30.

Funds borrowed from the Netherlands Development Finance Company ("FMO") represent USD 5,000 thousand obtained by the Bank from FMO under the Term Facility Agreement signed between the parties on 11 December 2006 for financing business activity in Azerbaijan. The borrowing bears a market interest rate and is repayable in seven equal semi-annual installments starting from April 2007 till June 2011. At 31 December 2008, the outstanding debt under the Term Facility Agreement was USD 3,571 thousand or AZN 2,861 thousand (2007: USD 5,000 thousand or AZN 4,227 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Term Facility Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

On 28 November 2007, the Bank signed a Credit Facility Agreement with Raiffeisen Zentralbank Osterreich AG for obtaining a credit line without any specified limit to provide funds for financing eligible individual credit agreements. As of 31 December 2008, the Bank had drawn down EUR 2,482 thousand or AZN 2,803 thousand under this agreement. The borrowing carries a market interest rate and matures in two years. There are no financial covenants with regard to this borrowing that the Bank should comply with.

Funds borrowed from German-Azerbaijan Fund ("GAF") at 31 December 2008 represent EUR 2,250 thousand or AZN 2,541 thousand (2007: EUR 1,840 thousand or AZN 2,291 thousand) received from GAF as part of a programme to finance loans to private small and medium enterprises of the Republic of Azerbaijan. GAF was established pursuant to the agreement on financial cooperation signed by the governments of the Republic of Azerbaijan and the Federal Republic of Germany on 21 December 1998 and subsequent loan and financing agreement between Kreditanstalt fur Wiederaufbau ("KFW") of Germany and the Republic of Azerbaijan dated 8 September 1999.

17 Term Borrowings (Continued)

On 16 January 2003, a revised framework agreement was signed between the Bank and the Savings Bank Foundation for International Cooperation (Germany), which superseded all previously signed agreements. In accordance with this framework agreement (hereinafter referred to as "the Framework Agreement") the Bank restructured all the loans previously received from GAF into one credit line amounting to EUR 1,000 thousand repayable in ten equal semi-annual instalments following a grace period of 2 years after 16 January 2003, but no later than on 31 December 2010. The credit line bears a market interest rate. In accordance with two amendments to the Framework Agreement signed on 3 July 2003 and 14 October 2003 respectively the amount of credit line was increased up to EUR 1,500 thousand. On 20 September 2004, the amount of the credit line was further increased up to EUR 2,000 thousand. The first repayment of EUR 100 thousand was made by the Bank on 30 June 2005.

In accordance with the Framework Agreement, the Bank issued promissory notes for each drawdown received from GAF plus an additional amount representing collateral in case of non-repayment by the Bank. In the event of default on the principal amount of the borrowing for EUR 2,250 thousand or AZN 2,541 thousand (2007: EUR 1,840 thousand or AZN 2,291 thousand) the borrower is subject to repayment of EUR 2,475 thousand or AZN 2,795 thousand (2007: EUR 2,475 thousand or AZN 3,081 thousand). There are no financial covenants attached to this Framework Agreement.

On 29 April 2008, the Bank signed a Loan Agreement with ING Bank N.V. for obtaining a loan facility in the amount of USD 2,000 thousand with a purpose of purchasing hardware and software products for the Bank's use. At 31 December 2008, the facility amount was partially drawn down in eight tranches of USD 196 thousand each with maturities ranging from September 2008 to December 2009. The two of tranches were repaid on 17 September and 17 December 2008 and the outstanding balance at 31 December 2008 comprised USD 1,176 thousand or AZN 941 thousand. Each drawdown carries a market interest rate. There are no financial covenants with regard to this borrowing that the Bank should comply with.

Amounts borrowed from Micro Vest 1 L.P. represent funds obtained under two deposit agreements in total for USD 650 thousand or AZN 521 thousand. Deposits bear market interest rates, one of them was subsequently repaid in January and March 2009. There are no financial covenants with regard to borrowing from Micro Vest 1 L.P. that the Bank should comply with.

On 27 April 2007, the Bank signed an Agreement on Bank Deposit with Morgan Stanley & Co International Plc, under which USD 25,000 thousand were placed by the latter with the Bank, having been converted into Azerbaijani Manats at the spot rate on the date of placement. The deposit carried a market interest rate and was fully repaid on its contractual maturity date in October 2008.

On 22 October 2007, the Bank signed a second Agreement on Bank Deposit with Morgan Stanley & Co International Plc, under which USD 25,000 thousand were placed by the latter with the Bank, having been converted into Azerbaijani Manats at the spot rate on the date of placement. The deposit carried a market interest rate and was fully repaid on its contractual maturity date in October 2008.

On 19 December 2007, the Bank signed an Agreement on Bank Deposit with BNP Paribas and under this agreement AZN 16,866 thousand was placed by the latter with the Bank for one year at a market interest rate. The deposit was closed on contractual maturity date of 12 December 2008.

On 4 June 2007, the Bank signed a Facility Agreement with foreign banks led by VTB Bank Europe plc. For obtaining a syndicated trade finance facility in the amount of USD 30,000 thousand to provide funds for financing eligible investment projects of private small and medium sized enterprises. The facility amount was allocated in two tranches of USD 13,000 thousand and USD 17,000 thousand with respective maturities in June 2008 and September 2008 and at market interest rates. VTB Bank Europe plc, a facility agent, provided USD 4,000 thousand of total amount, while the remaining amount was provided by fourteen other banks. The debt under the above facility agreement was fully repaid on contractual maturity dates in June and September 2008.

On 6 March 2008, the Bank signed an Agreement on Bank Deposit with HBK Master Fund L.P., a partnership duly organized under the laws of the Cayman Islands, under which USD 5,000 thousand were placed by the latter with the Bank, having been converted into Azerbaijani Manats at the spot rate on the date of placement. The deposit carried a market interest rate and was closed on contractual maturity date of 24 December 2008.

17 Term Borrowings (Continued)

On 5 June 2008, BCP Banque de Commerce et de Placements established a credit line for the Bank in the amount of CHF 1,200 thousand for carrying out money market operations. The credit line amount was fully drawn down, having been converted into US dollars at the spot rate on the date of drawdown. The borrowing carried a market interest rate and was repaid on 14 July 2008.

Market interest rates for the borrowings range between 5% and 14% per annum for the year ended 31 December 2008 (8% and 13% per annum for the year ended 31 December 2007).

At 31 December 2008, the estimated fair value of term borrowings was AZN 191,874 thousand (2007: AZN 194,369 thousand).

Interest rate analysis of term borrowings is disclosed in Note 28. The information on related party balances is disclosed in Note 33.

18 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	**2008**	**2007**
Professional fees payable	700	80
Temporary accounts of legal entities in the process of registration	99	315
Amounts received for brokerage operations	-	1,634
Other	-	99
Total other financial liabilities	**799**	**2,128**

The carrying value of each class of other financial liabilities approximates fair value at 31 December 2008 and 31 December 2007. At 31 December 2008, the estimated fair value of other financial liabilities was AZN 799 thousand (2007: AZN 2,128 thousand). Refer to Note 31.

19 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	**2008**	**2007**
Payables to lease object suppliers	577	100
Advances received from lessees on equipment leased out	492	1,252
Accrued employee benefit costs	-	861
Other	37	103
Total other liabilities	**1,106**	**2,316**
Current	1,106	2,316
Non-current	-	-

At 31 December 2007, “Accrued employee benefit costs” included AZN 500 thousand of bonuses, AZN 206 thousand of payables for unused vacations and AZN 155 thousand of the related social security contribution. These liabilities were fully settled during the year ended 31 December 2008.

As at 31 December 2008 and at the date these financial consolidated financial statements were approved for issue, the management of the Bank had no intention to pay bonuses for the results of the year ended 31 December 2008, therefore no liabilities were recorded in this respect.

20 Subordinated Debt

In thousands of Azerbaijani Manats	2008	2007
Subordinated debt Deutsche Investitions-und Entwicklungsgesellschaft mbH	12,015	-
Subordinated debt from Deutsche Bank	5,526	5,832
Subordinated debt from Netherlands Development Finance Company	4,005	4,226
Total subordinated debt	**21,546**	**10,058**

On 6 March 2008, the Bank signed a Subordinated Loan Agreement with Deutsche Investitions-und Entwicklungsgesellschaft mbH on obtaining a credit line up to USD 15,000 thousand to be used for financing small and medium-sized enterprises. As of 31 December 2008, the Bank had drawn down total amount of USD 15,000 thousand or AZN 12,015 thousand under this agreement. The borrowing bears a market interest rate and is to be repaid on 31 March 2014. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Subordinated Loan Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

Funds borrowed from the Netherlands Development Finance Company ("FMO") represent funds for USD 5,000 thousand obtained by the Bank from the FMO under the Subordinated Term Facility Agreement signed between the parties on 13 December 2006 for financing business activity in Azerbaijan. The borrowing bears a market interest rate and is repayable in seven equal semi-annual installments with maturity on December 2013. At 31 December 2008, the Bank had fully utilized the facility available by drawing down USD 5,000 thousand or AZN 4,005 thousand (2007: USD 5,000 thousand or AZN 4,226 thousand).

On 2 July 2007, the Bank signed a Subordinated Loan agreement with Deutsche Bank AG for obtaining funds in the amount of USD 6,899 thousand for financing eligible projects of small and medium sized enterprises. The borrowing carries a market interest rate and is repayable in one instalment on 31 December 2014. At 31 December 2008, the Bank had fully drawn down the amount available under the above agreement. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2008, management of the Bank believes that the Bank was in compliance with those covenants.

The above subordinated debts rank after all other creditors in case of liquidation.

At 31 December 2008, the estimated fair value of subordinated debt was AZN 21,546 thousand (2007: AZN 10,058 thousand). Refer to Note 31.

Interest rate analysis of subordinated debt is disclosed in Note 28.

21 Share Capital

In thousands of AZN except for number of shares	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2007	**3,300,000**	**6,600**	**484**	**7,084**
New shares issued	4,200,000	8,400	11,592	19,992
At 31 December 2007	**7,500,000**	**15,000**	**12,076**	**27,076**
New shares issued	-	-	-	-
At 31 December 2008	**7,500,000**	**15,000**	**12,076**	**27,076**

The par value of the registered amount of the Bank's issued share capital is AZN 15,000 thousand (2007: AZN 15,000 thousand).

During the year ended 31 December 2008, a change in the share capital structure of the Bank took place. The Bank purchased back 3,858 ordinary shares from 8 legal entities and sold them to the CEO of the Bank at nominal value.

21 Share Capital (Continued)

At 31 December 2008, Mr. Eldar Garibov, the Chairman of the Bank's Supervisory Council, owned 50.614% of the Bank's shares (2007: 50.614%). The European Bank for Reconstruction and Development ("EBRD"), owned 15.152% of the Bank's shares (2007: 15.152%). Deutsche Investitions Entwicklunsgesllshaft mbH bank ("DEG") owned 8.333% of the Bank's shares (2007: 8.333%). The remaining shares are owned by individuals, which held 26.901%.

Share premium represents the excess of contributions received over the nominal value of shares issued.

All ordinary shares have a nominal value of AZN 2 per share (2007: AZN 2 per share) and rank equally. Each share carries one vote.

22 Interest Income and Expense

In thousands of Azerbaijani Manats	**2008**	**2007**
Interest income		
Interest income on loans and advances to customers	63,891	31,293
Interest income on correspondent accounts and due from other banks	3,105	2,157
Interest income on finance leases	3,100	1,468
Interest income on investment securities	482	1,873
Total interest income	**70,578**	**36,791**
Interest expense		
Interest expense on due to banks and term borrowings	25,117	11,253
Interest expense on customer accounts	10,958	7,558
Interest expense on subordinated debts	2,160	388
Interest expense on debt securities in issue	153	713
Total interest expense	**38,388**	**19,912**
Net interest income	**32,190**	**16,879**

23 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	**2008**	**2007**
Fee and commission income		
Commission on cash transactions	3,175	2,618
Commissions on settlement transactions	1,254	1,075
Commissions on guarantees and letters of credit issued	854	573
Commissions on servicing customer accounts	724	639
Commissions on plastic cards operations	640	414
Other fees and commissions	2,021	718
Total fee and commission income	**8,668**	**6,037**
Fee and commission expense		
Commissions on guarantees and letters of credit	370	307
Commissions on settlement transactions	167	199
Commissions on plastic cards operations	149	130

Commissions on cash collection	69	203
Other fees and commissions	130	220
Total fee and commission expense	**885**	**1,059**
Net fee and commission income	**7,783**	**4,978**

24 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	Note	2008	2007
Staff costs		10,663	6,171
Depreciation on premises and equipment	11	2,552	1,377
Rent expenses		1,974	988
Advertising		819	742
Professional fees		732	547
Security expenses		671	483
Communication expenses		651	349
Insurance expenses		447	82
Publishing and stationery expenses		394	276
Expenses for insurance of customer deposits		355	76
Utility expenses		336	115
Business trip expense		273	133
Repair and maintenance expenses		217	144
Amortisation of intangible assets	11	125	73
Expenses related to plastic cards operations		91	105
Other expenses		1,173	1,229
Total administrative and other operating expenses		**21,473**	**12,890**

Included in staff costs are statutory social security contributions of AZN 2,037 thousand (2007: AZN 879 thousand). In addition, AZN 259 thousand was collected by the Group as a deduction to employee salaries and paid to the State Pension Fund on their behalf (2007: AZN 135 thousand).

25 Income Taxes

Income tax expense comprises the following:

In thousands of Azerbaijani Manats	2008	2007
Current tax	2,830	1,421
Deferred tax	221	(63)
Income tax expense for the year	**3,051**	**1,358**

The income tax rate applicable to the majority of the Group's income is 22% (2007: 22%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2008	2007
IFRS profit before tax	**10,199**	**5,240**
Theoretical tax charge at statutory rate (2008: 22%; 2007: 22%)	(2,244)	(1,153)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	(383)	(205)
- Effect of three-year tax holiday	(424)	-

Income tax expense for the year	**(3,051)**	**(1,358)**

25 Income Taxes (Continued)

Differences between IFRS and Azerbaijan statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 22% (2007: 22%).

In thousands of Azerbaijani Manats	31 December 2007	Recorded in the income statement	31 December 2008
Tax effect of deductible/(taxable) temporary differences			
Loan loss provision	-	64	64
Fair valuation of investment securities available for sale	(20)	-	(20)
Depreciation of premises and equipment	(87)	(28)	(115)
Accrual of payables to employees	189	(189)	-
Deferral of commission income	68	(68)	-
Recognised deferred tax asset/(liability)	**150**	**(221)**	**(71)**

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

In thousands of Azerbaijani Manats	31 December 2006 (Restated)	Recorded in the income statement	31 December 2007
Tax effect of deductible/(taxable) temporary differences			
Fair valuation of investment securities available for sale	(20)	-	(20)
Depreciation of premises and equipment	(55)	(32)	(87)
Accrual of payables to employees	162	27	189
Deferral of commission income	-	68	68
Recognised deferred tax asset	**87**	**63**	**150**

On 14 November 2008, a new law on “Stimulation of Increasing the Capitalization of Banks, Insurance and Reinsurance Companies” was enacted. According to the law the profit tax rate for banks, insurance and reinsurance companies is reduced to 0% for three fiscal years from 1 January 2009, where all profits are retained within the business. Management considered the impact of the enactment of this law on the Group’s deferred tax calculation.

At 31 December 2008, deferred tax balances represent the deferred tax impact of the temporary differences reversing after the expiration of the tax holiday on 1 January 2012.

26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Azerbaijani Manats	Note	2008	2007
Profit for the year attributable to ordinary shareholders		6,663	3,770
Weighted average number of ordinary shares in issue (thousands)	21	7,500	5,750
Basic and diluted earnings per ordinary share (expressed in AZN per share)		**0.89**	**0.66**

27 Segment Analysis

The Group's primary format for reporting segment information is business segments.

Business Segments. The Group is organised on a basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation.

Segment information for the main reportable business segments of the Group for the years ended 31 December 2008 and 2007 is set out below:

	Retail banking		Corporate banking		Total	
In thousands of Azerbaijani Manats	2008	2007	2008	2007	2008	2007
External revenues	40,801	23,209	38,758	19,819	79,559	43,028
Total revenues	**40,801**	**23,209**	**38,758**	**19,819**	**79,559**	**43,028**
Total revenues comprise:						
- Interest income	38,726	21,863	31,852	14,928	70,578	36,791
- Fee and commission income	2,075	1,346	6,593	4,691	8,668	6,037
- Other operating income	-	-	313	200	313	200
Total revenues	**40,801**	**23,209**	**38,758**	**19,819**	**79,559**	**43,028**

27 Segment Analysis (Continued)

In thousands of Azerbaijani Manats	Retail banking 2008	2007	Corporate banking 2008	2007	Total 2008	2007
Segment result	**4,051**	**1,900**	**6,148**	**3,340**	**10,199**	**5,240**
Profit before tax					**10,199**	**5,240**
Income tax expense					(3,051)	(1,358)
Profit for the year					**7,148**	**3,882**
Other segment items						
Capital expenditure	(11,073)	(8,108)	(4,339)	(4,778)	(15,412)	(12,886)
Depreciation and amortisation expense	(1,926)	(893)	(751)	(557)	(2,677)	(1,450)
Other non-cash income and expense items	(6,658)	(3,544)	(2,609)	(2,089)	(9,267)	(5,633)

Information about segment assets and liabilities of the Group at 31 December 2008 and 31 December 2007 is given in the following table:

In thousands of Azerbaijani Manats	Retail banking 2008	2007	Corporate banking 2008	2007	Total 2008	2007
Total segment assets	**267,983**	**207,768**	**109,499**	**149,070**	**377,482**	**356,748**
Current and deferred income tax asset					-	196
Other unallocated assets					41,513	29,796
Total assets					**418,995**	**386,740**
Total segment liabilities	**(82,411)**	**(65,156)**	**(289,913)**	**(280,443)**	**(372,324)**	**(345,599)**
Current and deferred income tax liability					(1,063)	(143)
Other unallocated liabilities					(1,906)	(8,081)
Total liabilities					**(375,293)**	**(353,823)**

28 Financial Risk Management

The Group has exposure to financial risks which include credit, liquidity, market and operational risks. The taking of risk is integral to the Group's business. The Group's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Group's financial performance.

Risk Management Framework. The risk management function is an integral part of the Group's internal control system and is centralised. The Group's risk management policies and approaches aim to identify, analyse, mitigate and manage the risks faced by the Group. This is accomplished through setting appropriate risk limits and controls, continuously monitoring risk levels and the adherence to limits and procedures and ensuring that business processes are correctly formulated and maintained.

Risk Management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and to ensure that "best practices" are implemented. The Group, as part of its risk culture, emphasises integrity, management and employee standards in order to maintain and continuously improve upon a conservative control environment.

Risk Management Bodies and Governance. Risk management policy, assessment, approval, monitoring and controls are conducted by a number of specialised bodies within the Group. These bodies also oversee the risk management policies and controls at the Group's leasing subsidiary. The Group has established executive bodies, committees and departments which conform to Azerbaijani law, the National Bank of the Republic of Azerbaijan regulations and the best industry practices.

The Supervisory Board of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing and approving risk management policies as well as several key risk limit approval authorities, including significantly large exposures, economic and product sector limits. It also delegates certain authority levels to the Executive Board and the Credit Committee.

Established by, appointed by and reporting directly to the Supervisory Board are the Executive Board, the Risk Management Committee, the Audit Committee ("AC"), the Internal Audit Department, the Credit Committee and the Asset and Liability Committee ("ALCO").

The Executive Board is responsible for the implementation and monitoring of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Member of the Executive Board responsible for risk management along with the Risk Management Department which reports to this Director are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, mitigating, managing and reporting both financial and non-financial risks.

The Risk Management Committee is chaired by the Member of the Executive Board responsible for risk management. This Committee is responsible for establishing risk management methodologies and ensuring that the risk appetite of the Group is correctly reflected in the strategic and business plans of the Group. It is the main forum for discussing and recommending changes in all risk approaches and procedures to the Executive and Supervisory Boards. It ensures that the Risk Management Department, the Credit Committee and ALCO, as well as the Executive Board, address all potential risks facing the Group and reports on these issues to the Supervisory Board.

The Audit Committee is responsible for overseeing and monitoring the internal control framework of the Group and for assessing the adequacy of risk management policies and procedures, as an integral part of the internal control system of the Group. The Chairman of the AC, an independent professional auditor, and the other two Committee members are representatives of two of the shareholders. The AC members cannot be employees or part of the management structure of the Group. They provide recommendations to the Executive Board, the Risk Management Committee and the Supervisory Board on development of the framework, as well as their views on, the quality of risk management and compliance with established policies, procedures and limits. The AC supervises the work of the Internal Audit, which reports directly to the AC. The Internal Audit's working plans, schedule of audits and its reports, including non-planned audits, are closely reviewed and approved by the AC. Implementation plans based on Internal Audit's and the AC's recommendations, including status reports, are approved by the Executive Board and reported to the Executive Board, the Supervisory Board and the General Meeting of the Shareholders.

28 Financial Risk Management (Continued)

The Credit Committee consists of five members. They are nominated by the Risk Management Committee and the Executive Board and elected by the Supervisory Board. The Credit Committee manages and approves, or recommends for approval, corporate, retail and financial organisations' counterparty credit risk exposures within its credit approval authority. It also continuously reviews and makes recommendations as to analysis methodology and portfolio quality, including overall structure, diversification and pricing. The Credit Committee is one of the bodies which ensures adherence to all approval and authority limits and high standards for risk analysis and assessments.

ALCO is responsible for the management and optimisation of the Group's asset and liability structure. It is an integral part of the risk management process that focuses on various market risks, including liquidity, foreign currency and interest rate risks. ALCO's functions include making recommendations for approval of strategies, policies and limits associated with the aforementioned risks. It is responsible for providing timely and reliable information and reports regarding these risk areas. ALCO assists in setting pricing policies and funding strategies. It is also responsible, along with other risk management and controlling units of the Group, for ensuring that Treasury and other relevant units work with the parameters set by ALCO, the Risk Management Committee, the Executive Board and the Supervisory Board.

Credit risk. Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations when due. The major portion of credit risk arises from the Groups' loans and advances to customers and banks and other on and off balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk. At present, the only credit risk arising from market operations is Azerbaijani government bonds and the notes issued by the National Bank of the Republic of Azerbaijan. These securities are used exclusively to help manage the liquidity position of the Group.

The general credit risk approval structure, for corporate legal entities, private individuals and financial organisations, is as follows:

For secured loans:

- The Supervisory Board reviews and approves limits above 10% of the total statutory equity up to a maximum limit of 20% of the total statutory equity and meets on a regular basis;

- The Executive Board reviews and approves limits above AZN 1,500 thousand up to a maximum limit of 10% of the total statutory equity and meets on a regular basis; and

- The Credit Committee reviews and approves limits above AZN 350 thousand up to a maximum limit of AZN 1,500 thousand and meets on a regular basis.

For unsecured loans:

- The Supervisory Board reviews and approves limits above 6% of the total statutory equity up to a maximum limit of 7% of the total statutory equity and meets on a regular basis;

- The Executive Board reviews and approves limits above 0.5% of the total statutory equity up to a maximum limit of 6% of the total statutory equity and meets on a regular basis; and

- The Credit Committee reviews and approves limits above AZN 50 thousand up to a maximum limit of 0.5% of the total statutory equity and meets on a regular basis.

The Supervisory Board also approves general limits so as to control and manage risk diversification:

- Portfolio limits: Corporate loans, retail loans and interbank exposures as percentages of the total portfolio;
- Portfolio limits: Secured facilities and unsecured facilities as percentages of the total portfolios and as a percentage of the retail portfolio; and
- Economic sector and product exposures: as a percentage of the corporate and retail portfolios.

28 Financial Risk Management (Continued)

The Executive Board also approves limits and authority levels for exposures, as follows:

- By branch;
- By collateral type and loan to value ratios;
- By individual authority.

As of 31 December 2008, the breakdown of the loan portfolio by economic and product sectors is provided in Note 9.

Credit Risk Management. Credit risk policy is developed by the Risk Management Committee and Executive Board in line with the risk profile and strategic plans of the Group. It is approved by the Supervisory Board.

This policy establishes:

- Procedures for generating, analysing, reviewing and approving counterparty risk exposures;
- The methodology for the credit assessment of counterparties;
- The methodology for the credit rating of counterparties;
- The methodology for the evaluation and control of collateral;
- Credit documentation requirements;
- Loan administration procedures;
- Procedures for the ongoing monitoring of credit exposures;
- Environmental policy; and
- Loan loss provisioning policy.

Loan/credit requests are originated and generated by client managers and credit inspectors. Credit applications within approved authority limits are approved by the branches or relevant business generating units. Then copies of these approved requests are submitted to the Risk Management Department for post-control, including being assigned a rating and input into a monitoring schedule. Risk exposure requests above these limits are sent to the Credit Group of the Risk Management Department. The Credit Group performs a secondary analysis and issues a report, rating and opinion. If the credit request is below a certain authorised limit and receives a positive opinion from Risk Management, and is signed off by the appropriate individuals, then the request is considered approved. If the opinion of risk management is negative then the request is sent to the Credit Committee for adjudication. If approved and the transaction is in an amount higher than the competence of the Credit Committee then it is sent to the Executive Board for approval. Large transactions, as defined above, have to be submitted to the Supervisory Board for approval.

The Group uses a rating system based on a 7-point scale. A customer rating is generated based on an analysis of four basic criteria: creditworthiness, financial performance, credit history and other risks.

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

For certain retail loan products, a credit scoring system is used, plus the Group uses its internally developed database and that of the National Bank of the Republic of Azerbaijan to identify potentially risky customers. Credit assessments are done on a portfolio basis concentrating on amount and term limits, approval procedures, target groups, types of product, default statistics, loan/value ratios (if applicable), and pricing.

Collateral and other credit enhancements. Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including deposits, corporate and personal guarantees.

28 Financial Risk Management (Continued)

While collateral is an important mitigating factor in assessing the credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured. The Group has in place various limits on the unsecured portions of its risk portfolio.

The principal types of collateral accepted by the Group are as follows:

- Commercial real estate
- Residential real estate
- Corporate capital assets
- Corporate liquid assets
- Transport vehicles
- Term deposits
- Other including precious metals

Strict appraisal, documentation and, where applicable, registration procedures are in place for all forms of collaterals. Loan to values ratios are approved by the Executive Board and controlled by the Risk Management Department. The loan to value limits as of 31 December 2007 are as follows:

Type of collateral	Ratio of loan amount to liquid value of collateral
• Real estate	up to 60%
• Precious metals	up to 80%
• Machinery, equipment	up to 50%
• Inventory	up to 60%
• Vehicles, transport	up to 70%
• Term deposit	up to 90%

The Monitoring Group of the Risk Management Department is responsible for establishing a schedule of monitoring events, fulfilling this plan and notifying the appropriate parties if the monitoring results are unsatisfactory and recommending a plan of action. The Monitoring Group physically monitors all transactions above an established amount plus does selected checks of transactions below this amount. All transactions above a certain amount are first monitored either before or at least within one month of disbursement. Following this, risk exposures are monitored according to a schedule.

The Statistical Group of the Risk Management Department is charged with compiling and reporting on all counterparty credit risk issues, including compliance with all limits, risk concentrations, portfolio trends, past due and default statistics, loan loss reserves and collateral statistics. Besides regular monthly reporting, they also compile reports on adherence to selected credit procedures.

Related Party Lending. The National Bank of the Republic of Azerbaijan has strict definitions regarding the category of "related parties". Mainly, these are corporate entities owned/controlled by the Shareholders or the private individuals themselves or immediate family members. Also included are individuals with senior management/authority positions in the Group. The largest loan per related party private individual may not be more that 3% of the consolidated capital of the Group. Per related corporate entity, the limit is 10%. The overall limit for related party risk exposure is 20%. Pricing and other terms and conditions must be done on an arms-length basis.

Past Due, Non-Performing Loans. The Group has in place procedures for reporting and dealing with past-due and non-performing loans from the first day past-due. Up to 60-day past-dues are all handled by the relevant business units unless obvious problems are identified earlier. Unsecured retail loans over 60-days past-due are automatically transferred to the Problematic Loans Department. Corporate loans over 90-days past-due are also transferred to this department. All loans are placed on non-accrual after 90 days past due. If the Problematic Loans Department is unsuccessful in collecting on these obligations, then legal proceedings are instituted. When a loan is deemed uncollectible, recommendations to write-off these amounts are presented to the Credit Committee and the Executive Board. Final decisions regarding write-offs are taken by the Supervisory Board.

All past-dues statistics are reported to the Credit Committee on at least a monthly basis. All corporate loan past-due issues are individually reported to the Credit Committee.

28 Financial Risk Management (Continued)

Allowance for loan losses – reserve policy. The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures.

The National Bank of the Republic of Azerbaijan also has a reserve policy which is a minimum standard for banks. The categories with reserve requirements are as follows:

Standard assets	2%
Controllable assets	10%
Unsatisfactory assets	30%
Assets-at-risk	60%
Hopeless assets	100%

These categories are strictly defined.

In its IFRS reporting, the Group utilises the methodology contained in IAS 39.

Maximum exposure to credit risk. The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum credit risk for off-balance items, mainly letters of credit and guarantees, represents the gross amount of the commitment. The Group's maximum exposure to off-balance credit risk is disclosed in Note 30 "Contingencies and Commitments".

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

Market risk. The Group is exposed to market risks. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The Group manages market risk through policies of very limited exposures to these risks and periodic estimations of the Group's positions regarding these risks.

The Group does not have any trading positions in financial instruments. Its only exposure to the securities market is the investment, from time to time, in the National Bank of the Republic of Azerbaijan notes and Azerbaijan Ministry of Finance obligations in order to help manage its liquidity position. The Group does not normally trade in the derivatives market and has no exposure to this market.

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

The main element in the Group's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Group uses every effort to match its assets and liabilities by currency.

Exposure to foreign exchange risk faced by the Bank is also limited by the National Bank of the Republic of Azerbaijan normative requirements which places a 10% of capital limit on open positions in any single currency and a 20% open limit on all currencies.

The foreign exchange exposures are managed by the Treasury Department, who issue daily reports, reviewed by ALCO and controlled by the Risk Management Department.

28 Financial Risk Management (Continued)

The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2008			At 31 December 2007		
In thousands of Azerbaijani Manats	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
AZN	248,194	182,303	65,891	175,516	157,107	18,409
USD	115,778	178,468	(62,690)	168,107	179,394	(11,287)
EUR	11,812	12,503	(691)	11,509	11,138	371
Other	1,355	156	1,199	992	88	904
Total	**377,139**	**373,430**	**3,709**	**356,124**	**347,727**	**8,397**

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

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream and cost structure of the borrower, the possible appreciation of the currencies in which loans and advances have been extended against the Azerbaijani Manat may adversely affect the borrower's repayment ability and therefore increase the potential of future loan losses.

The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied at the balance sheet date, with all other variables held constant:

	At 31 December 2008	At 31 December 2007
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollars strengthening by 5%	(3,135)	(83)
US Dollars weakening by 5%	3,135	83
Euro strengthening by 5%	(35)	18
Euro weakening by 5%	35	(18)
Great Britain pounds strengthening by 5%	(180)	25
Great Britain pounds weakening by 5%	180	(25)
Russian Roubles strengthening by 5%	18	20
Russian Roubles weakening by 5%	(18)	(20)

Other than as a result of any impact on the Group's profit or loss, there is no other impact on the Group's equity as a result of such changes in exchange rates.

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

28 Financial Risk Management (Continued)

The Group's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to average exposure to currency risk during the year, with all other variables held constant:

In thousands of Azerbaijani Manats	**Average exposure during 2008** **Impact on profit or loss**	**Average exposure during 2007** **Impact on profit or loss**
US Dollars strengthening by 5%	(1,996)	(191)
US Dollars weakening by 5%	1,996	191
Euro strengthening by 5%	(19)	(12)
Euro weakening by 5%	19	12
Great Britain pounds strengthening by 5%	8	2
Great Britain pounds weakening by 5%	(8)	(2)
Russian Roubles strengthening by 5%	11	5
Russian Roubles weakening by 5%	(11)	(5)

Other than as a result of any impact on the Group's profit or loss, there is no other impact on the Group's equity as a result of such changes in exchange rates.

Interest rate risk. The Group is exposed to interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments or the projected profitability of these instruments. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise.

At present, the Group manages its interest rate risk by matching, where possible, its maturity and/or repricing positions. In addition, the Group's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate. Operational procedures set the acceptable interest rate margin at a minimum of 10%. ALCO and the Risk Management Department constantly monitor the maintenance of this margin. ALCO is also responsible for presenting interest rate movement reports and forecasts. At present, through the Group's matching policies and high interest rate margins, potential interest rate risk is not considered to be significant.

ALCO and Treasury are responsible for managing interest rate risk, the Risk Management Department for controlling and the Executive Board must approve all guidelines and asset/liability repricing.

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

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
31 December 2008					
Total financial assets	51,304	62,538	82,175	181,121	**377,139**
Total financial liabilities	74,238	153,585	62,856	82,750	**373,430**
Net interest sensitivity gap at 31 December 2008	**(22,934)**	**(91,047)**	**19,319**	**98,371**	**3,709**
31 December 2007					
Total financial assets	59,898	28,428	43,262	224,536	**356,124**
Total financial liabilities	72,279	128,612	99,073	47,763	**347,727**
Net interest sensitivity gap at 31 December 2007	**(12,381)**	**(100,184)**	**(55,811)**	**176,773**	**8,397**

28 Financial Risk Management (Continued)

At 31 December 2008, if USD interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been AZN 1,166 thousand (2007: AZN 1,078 thousand) higher, mainly as a result of lower interest expense on variable interest liabilities.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been AZN 1,166 thousand (2007: AZN 1,078 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. The Bank's profit is not exposed to AZN market interest rate changes because the bank does not have variable interest assets or liabilities denominated in AZN. The impact of a reasonably possible shift in market interest rates on other components of equity, including as a result of an increase in the fair value of fixed rate financial assets classified as available for sale, would not be significant.

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

	2008			2007		
In % p.a.	**USD**	**AZN**	**EUR**	**USD**	**AZN**	**EUR**
Assets						
Cash and cash equivalents	0.9	-	-	5.2	-	-
Due from other banks	14.0	15.7	-	11.6	14.5	-
Loans and advances to customers	22.1	18.8	14.3	20.8	16.8	19.0
Investment securities available-for-sale	-	9.9	-	-	10.6	-
Liabilities						
Due to other banks	11.1	-	14.0	9.5	-	14.0
Customer accounts	14.9	13.0	9.1	13.7	11.4	7.9
Debt securities in issue	-	14.0	-	-	14.0	-
Term borrowings	8.2	7.7	6.8	9.3	10.9	7.3
Subordinated debt	10.4	-	-	10.3	-	-

The sign “-“ in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

28 Financial Risk Management (Continued)

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

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	18,064	20,822	231	39,117
Mandatory cash balances with the NBAR	3,665	-	-	3,665
Due from other banks	8,107	8,010	-	16,117
Loans and advances to customers	317,714	-	-	317,714
Investment securities available for sale	107	-	-	107
Other financial assets	419	-	-	419
Total financial assets	**348,076**	**28,832**	**231**	**377,139**
Non-financial assets	**41,856**	**-**	**-**	**41,856**
Total assets	**389,932**	**28,832**	**231**	**418,995**
Liabilities				
Due to other banks	6,760	8,636	-	15,396
Customer accounts	142,281	-	-	142,281
Debt securities in issue	750	-	-	750
Term borrowings	65,385	126,966	-	192,351
Other financial liabilities	799	-	-	799
Subordinated debt	-	21,546	-	21,546
Total financial liabilities	**215,975**	**157,148**	**-**	**373,123**
Non-financial liabilities	**2,170**	**-**	**-**	**2,170**
Total liabilities	**218,145**	**157,148**	**-**	**375,293**
Net balance sheet position	**171,787**	**(128,316)**	**231**	**43,702**
Credit related commitments	**57,845**	**-**	**-**	**57,845**

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with Azerbaijan counterparties actually outstanding to/from off-shore companies of these Azerbaijan counterparties are allocated to the caption “Azerbaijan”. Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

28 Financial Risk Management (Continued)

The geographical concentration of the Group's assets and liabilities at 31 December 2007 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	19,682	9,888	847	30,417
Mandatory cash balances with the NBAR	13,007	-	-	13,007
Due from other banks	25,793	-	-	25,793
Loans and advances to customers	272,478	-	-	272,478
Investment securities available for sale	14,291	-	-	14,291
Other financial assets	89	49	-	138
Total financial assets	**345,340**	**9,937**	**847**	**356,124**
Non-financial assets	**30,616**	**-**	**-**	**30,616**
Total assets	**375,956**	**9,937**	**847**	**386,740**
Liabilities				
Due to other banks	8,242	1,129	7,236	16,607
Customer accounts	123,865	-	-	123,865
Debt securities in issue	700	-	-	700
Term borrowings	10,086	184,283	-	194,369
Other financial liabilities	494	-	1,634	2,128
Subordinated debt	-	10,058	-	10,058
Total financial liabilities	**143,387**	**195,470**	**8,870**	**347,727**
Non-financial liabilities	**2,459**	**-**	**-**	**2,459**
Total liabilities	**145,846**	**195,470**	**8,870**	**350,186**
Net balance sheet position	**230,110**	**(185,533)**	**(8,023)**	**36,554**
Credit related commitments	**64,130**	**-**	**-**	**64,130**

28 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Executive Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The National Bank of the Republic of Azerbaijan has in place minimum levels of liquidity required. Loan agreements with international financial institutions also have minimum liquidity covenants in their agreements with the Group. As of 31 December, 2008, the Group was in compliance with all these covenants.

The Group's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Group's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Group's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

The treasury function within the Group is charged with the following responsibilities:

- Compliance with the liquidity requirements of the National Bank of the Republic of Azerbaijan as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (AZN, USD, EUR), cash positions, balance sheet changes;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

ALCO is responsible for ensuring that Treasury properly manages the Group's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Executive Board. Funding plans are approved by the Supervisory Board.

28 Financial Risk Management (Continued)

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

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	3,263	5,113	8,107	560	-	17,043
Customer accounts	25,434	43,357	52,920	32,733	-	154,444
Debt securities in issue	-	722	54	-	-	776
Term borrowings	24,830	128,963	17,780	34,553	5,464	211,590
Other financial liabilities	799	-	-	-	-	799
Subordinated debt	187	933	373	11,114	18,429	31,036
Credit related commitments	8,204	16,413	21,684	11,543	-	57,844
Total potential future payments for financial obligations	**62,717**	**195,501**	**100,918**	**90,503**	**23,893**	**473,532**

The undiscounted maturity analysis of financial liabilities at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	8,447	1,331	6,155	1,384	-	17,317
Customer accounts	26,304	39,502	45,085	17,458	-	128,349
Debt securities in issue	-	732	-	-	-	732
Term borrowings	2,278	35,086	88,372	97,664	-	223,400
Other financial liabilities	1,633	495	-	-	-	2,128
Subordinated debt	-	516	516	8,893	6,798	16,723
Credit related commitments	40,192	13,138	3,875	6,925	-	64,130
Total potential future payments for financial obligations	**78,854**	**90,800**	**144,003**	**132,324**	**6,798**	**452,779**

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

28 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities.

The following two tables show carrying amounts of assets and liabilities of the Group grouped on the basis of the remaining period from the balance sheet date to their contractual maturity date with the exception of government securities which are shown in the category "Demand and less than 1 month" based on the fact that management believes that these securities could be liquidated within one week in the normal course of business.

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**Over 12 months**	**Total**
Assets					
Cash and cash equivalents	39,117	-	-	-	39,117
Mandatory cash balances with the NBAR	661	992	1,190	822	3,665
Due from other banks	1,601	6,506	8,010	-	16,117
Loans and advances to customers	8,996	56,621	76,316	175,781	317,714
Investment securities available for sale	107	-	-	-	107
Other financial assets	419	-	-	-	419
Total financial assets	**50,901**	**64,119**	**85,516**	**176,603**	**377,139**
Liabilities					
Due to other banks	3,116	4,000	8,010	270	15,396
Customer accounts	25,673	38,523	46,207	31,878	142,281
Debt securities in issue	-	700	50	-	750
Term borrowings	81,848	76,139	11,988	22,376	192,351
Other financial liabilities	799	-	-	-	799
Subordinated debt	-	-	-	21,546	21,546
Total financial liabilities	**111,436**	**119,362**	**66,255**	**76,070**	**373,123**
Net liquidity gap at 31 December 2008	**(60,535)**	**(55,243)**	**19,261**	**100,533**	**4,016**
Cumulative liquidity gap at 31 December 2008	**(60,535)**	**(115,778)**	**(96,517)**	**4,016**	

As set out in Note 30, included in the above analysis of maturities, total term borrowings of AZN 72,693 thousand are included as "on demand" due to breaches of certain covenants imposed in those term borrowings as at 31 December 2008. Subsequent to the year end, management has been in the process of obtaining waivers in respect of those breaches that have occurred. Management believes that all such waivers will be forthcoming and that these borrowings will not be required to be repaid prior to the contractual maturity dates as set out in the relevant agreements. The contractual maturity dates are set out in Note 17 for the individual term borrowings.

28 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised as follows at 31 December 2007:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
Assets					
Cash and cash equivalents	30,417	-	-	-	30,417
Mandatory cash balances with the NBAR	2,748	4,041	4,424	1,794	13,007
Due from other banks	10,293	6,495	8,005	1,000	25,793
Loans and advances to customers	11,351	58,722	70,574	131,831	272,478
Investment securities available for sale	11,409	-	2,882	-	14,291
Other financial assets	-	89	-	49	138
Total financial assets	**66,218**	**69,347**	**85,885**	**134,674**	**356,124**
Liabilities					
Due to other banks	8,429	1,295	5,622	1,261	16,607
Customer accounts	26,174	38,482	42,128	17,081	123,865
Debt securities in issue	-	700	-	-	700
Term borrowings	894	30,453	80,323	82,699	194,369
Other financial liabilities	1,633	495	-	-	2,128
Subordinated debt	-	-	-	10,058	10,058
Total financial liabilities	**37,130**	**71,425**	**128,073**	**111,099**	**347,727**
Net liquidity gap at 31 December 2007	**29,088**	**(2,078)**	**(42,188)**	**23,575**	**8,397**
Cumulative liquidity gap at 31 December 2007	**29,088**	**27,010**	**(15,178)**	**8,397**	

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

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

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

28 Financial Risk Management (Continued)

Operational Risk. The Group is exposed to operational risk. Operational risk is defined as the risk of loss, whether direct or indirect, resulting from inadequate or failed internal processes, people or systems or due to external factors other than credit, market and liquidity risks. Inadequate or inappropriately designed business process systems, management failures, technology failures, faulty control structures, human error, fraud and non-conformance to generally accepted standards of corporate behaviour can cause losses for an organisation.

The Group's objective in managing operational risk is to balance the avoidance of financial losses and damage to the Group's reputation with overall operational efficiencies and cost effectiveness.

Operational risk arises in the unit that generates an operation, and so the primary responsibility for addressing operational risk lies within each business unit. This responsibility is supported by the development of overall standards within the general internal control system of the Group. The approach of the Group's internal control system covers the following areas:

- requirements for the appropriate segregation of duties, including avoidance of conflicts of interest, independent authorisation of transactions and strict delineations of system access rights;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls, procedures and instructions and their approval across business and risk management lines;
- constant control and monitoring of adherence to controls, procedures and instructions, including a strong internal audit function;
- continuous evaluation of present and potential operational risks;
- continuous evaluation of the adequacy of controls and procedures in addressing the risks identified;
- development of contingency plans;
- continual evaluation of IT security issues;
- requirements for the reporting of operational errors and losses and proposed remedial actions;
- appropriate recruitment, training and professional development;
- ensuring adherence to the Group's out-sourcing policy;
- ethical and code of conduct standards; and
- implementation of risk mitigation measures, including insurance.

The Operational Risk Group of the Risk Management Department and Internal Audit have primary responsibility for monitoring, reporting and making recommendations to improve the Group's operational risk management.

29 Management of Capital

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

Under the current capital requirements set by the NBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 10,000 thousand (2007: AZN 10,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% (2007: 12%) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 6% (2007: 6%).

For the NBAR statutory capital adequacy purposes the amount of the cumulative capital that the Bank manages as at 31 December 2008 is AZN 64,064 thousand (2007: AZN 49,487 thousand).

29 Management of Capital (Continued)

Management consider that the Group was in compliance with the statutory capital ratio during the year ended 31 December 2008. The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of Azerbaijani Manats	**2008**	**2007**
Tier 1 capital		
Share capital	15,000	15,000
Share premium	12,076	12,076
Retained earnings	15,359	8,696
Minority interest	1,197	712
Total qualifying Tier 1 capital	**43,632**	**36,484**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	70	70
Subordinated debt	21,546	10,058
Total qualifying Tier 2 capital	**21,616**	**10,128**
Less: Investments in equity shares	(762)	(762)
Total regulatory capital	**64,486**	**45,850**
Risk-weighted assets:		
On-balance sheet	376,106	337,408
Off-balance sheet	20,904	23,377
Total risk-weighted assets	**397,010**	**360,785**
Basel ratio	**16.2%**	**12.7%**

Management considers that the Bank has complied with all externally imposed capital requirements throughout 2008 and 2007.

30 Contingencies and Commitments

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

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

Management have assessed whether capital transactions involving the Bank's own shares may give rise to non-sales income of the Bank that is subject to income tax in accordance with the Tax Code of the Republic of Azerbaijan. Management now firmly believe that such transactions, for example, the issuance by the Bank of new shares which gave rise to share premium, are not within the scope of the Tax Code and therefore not required to be included in the Bank's income tax calculation. Accordingly, the Bank has not paid or accrued any income tax in relation to such transactions that have resulted in a total share premium amount of AZN 12,076 thousand as at 31 December 2008 (2007: AZN 12,076 thousand). If the Ministry of Taxes of the Republic of Azerbaijan explicitly requires the Bank to pay tax with regard to capital gains resulting from capital transactions involving the Bank's own shares, i.e. share premium, then the Bank will have to pay AZN 2,550 thousand plus potential tax penalties in the amount of AZN 1,838 thousand in relation to the share premium arising during the year ended 31 December 2007.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2008 no provision for potential tax liabilities has been recorded (2007: no provision). Should any additional tax liabilities be raised, the Group would likely to be subject to additional penalties and late payment interest.

Capital expenditure commitments. At 31 December 2008, the Group does not have material contractual capital expenditure commitments. (2007: no capital expenditure commitments).

Operating lease commitments. The Group has operating leases which may be cancelled subject to a certain minimum notice period. The future minimum lease payments under operating leases until the end of the notice period are as follows:

In thousands of Azerbaijani Manats	**2008**	**2007**
Not later than 1 year	415	378
Total operating lease commitments	**415**	**378**

Compliance with covenants. The Bank is subject to certain covenants related primarily to its term borrowings. Non-compliance with such covenants may result in negative consequences for the Bank including growth in the cost of borrowings and timing of repayment of existing facilities. Management believes that during the year the Bank has materially complied with the covenants that were in force. However, at 31 December 2008 the Bank failed to comply with one covenant included in a borrowing agreement in one of its term borrowing arrangements. At 31 December 2008, the Bank in breach of the following covenant:

- "Liquidity ratio" stipulated in the loan agreement with DEG. The Group was required to exceed 15%, while the actual percentage was equal to 14% as at 31 December 2008.

30 Contingencies and Commitments (Continued)

The total of term borrowings affected by the breach of these covenants comprised AZN 72,693 thousand as at 31 December 2008. In accordance with those agreements, where covenants are breached or are affected by cross-default clauses, provision is made for the borrowings to become due and/or repayable on demand. Accordingly, AZN 72,693 thousand of term borrowings impacted have been reclassified to being on demand within these consolidated financial statements. Refer to Note 28.

Subsequent to the balance sheet date, the Bank obtained a waiver from DEG, and thus, as at the date that these consolidated financial statements were approved for issue, the Bank was in breach of the aforementioned covenant.

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

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

	2008		**2007**	
In thousands of Azerbaijani Manats	**Outstanding amount**	**Fair value**	**Outstanding amount**	**Fair value**
Cancellable undrawn credit lines	34,065	-	37,776	
Letters of guarantee	18,028	338	20,399	674
Import letters of credit	5,752	66	5,955	125
Total credit related commitments	**57,845**	**404**	**64,130**	**799**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was AZN 404 thousand at 31 December 2008 (2007: AZN 799 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Azerbaijani Manats	**2008**	**2007**
Azerbaijani Manats	18,034	26,255
US Dollars	25,594	27,263
Euro	14,217	10,612
Total	**57,845**	**64,130**

31 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Azerbaijan Republic continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment securities available for sale are carried on the consolidated balance sheet at their fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale (Note 10) for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Loans and receivables carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were as follows:

In thousands of Azerbaijani Manats	**2008**	**2007**
Due from other banks – Note 8		
Current term placements with other banks	4% to 17% p.a.	9% to 18% p.a.
Loans and advances to customers – Note 9		
Corporate loans	5% to 30% p.a.	5% to 30% p.a.
Loans to individuals - consumer loans	11% to 36% p.a.	11% to 36% p.a.
Loans to individuals - purchase of motor vehicles	13% to 36% p.a.	13% to 28% p.a.
Loans to individuals – entrepreneurs	7% to 30% p.a.	7% to 28% p.a.
Mortgage loans	4% to 30% p.a.	4% to 28% p.a.

Refer to Notes 8 and 9 for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 14, 15, 16, 17 and 18 for the estimated fair values of due to other banks, customer accounts, debt securities in issue, term borrowings, and other financial liabilities respectively. Discount rates used were consistent with the Bank's credit risk and also depend on currency and maturity of the instrument and ranged from 2% p.a. to 14% p.a. (2007: from 2% p.a. to 14% p.a.).

32 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

	2008			2007		
In thousands of Azerbaijani Manats	**Loans and receivables**	**Available-for-sale assets**	**Total**	**Loans and receivables**	**Available-for-sale assets**	**Total**
Assets						
Cash and cash equivalents	39,117	-	39,117	30,417	-	30,417
Mandatory cash balances with the NBAR	3,665	-	3,665	13,007	-	13,007
Due from other banks						
- Current term placements with other banks	16,117	-	16,117	25,793	-	25,793
Loans and advances to customers						
- Corporate loans	75,774	-	75,774	91,053	-	91,053
- Loans to individuals – entrepreneurs	72,931	-	72,931	64,764	-	64,764
- Loans to individuals - purchase of motor vehicles	102,364	-	102,364	61,618	-	61,618
- Loans to individuals - consumer loans	29,388	-	29,388	21,421	-	21,421
- Mortgage loans	37,257	-	37,257	33,622	-	33,622
Investment securities available for sale	-	107	107	-	14,291	14,291
Other financial assets:						
- Restricted cash	-	-	-	49	-	49
- Settlements on money transfer operations	330	-	330	49	-	49
- Credit and debit cards receivables	89	-	89	40	-	40
Total financial assets	**377,032**	**107**	**377,139**	**341,833**	**14,291**	**356,124**
Non-financial assets			**41,856**			**30,616**
Total assets			**418,995**			**386,740**

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

33 Related Party Transactions

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

At 31 December 2008 and 31 December 2007, the outstanding balances with related parties were as follows:

	2008				2007			
In thousands of Azerbaijani Manats	**Key management personnel**	**Ultimate controlling party**	**Other shareholders**	**Other related parties**	**Key management personnel**	**Ultimate controlling party**	**Other shareholders**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 2008: 6%-18% p.a.; 2007: 11%-23% p.a.)	330	16	1	670	347	237	19	-
Impairment provisions for loans and advances to customers at the year end	(7)	-	-	(13)	(7)	(5)	(3)	-
Prepaid insurance expense	-	-	-	56	-	-	-	-
Current/settlements accounts	91	372	30	422	8	32	26	-
Term deposits (contractual interest rate: 2008: 11%-15% p.a.; 2007: 10%-13% p.a.)	293	7,930	292	3,330	71	200	213	1,091
Debt securities in issue	-	-	-	500	-	-	-	-
Term borrowings	-	-	40,455	-	-	-	48,151	-
Subordinated debt	-	-	12,015	-	-	-	-	-

The income and expense items with related parties for the years ended 31 December 2008 and 31 December 2007 were as follows:

	2008				2007			
In thousands of Azerbaijani Manats	**Key management personnel**	**Ultimate controlling party**	**Other shareholders**	**Other related parties**	**Key management personnel**	**Ultimate controlling party**	**Other shareholders**	**Other related parties**
Interest income	24	-	-	96	59	40	10	31
Interest expense	7	136	5,395	-	10	25	4,176	120
Provision for loan impairment	-	5	3	(13)	3	5	(14)	-
Fee and commission income	1	1	-	7	-	-	-	116
Fee and commission expense	-	-	221	-	-	-	136	-
Insurance expense	-	-	-	258	-	-	-	-

33 Related Party Transactions (Continued)

Other rights and obligations with related parties at 31 December 2008 and 31 December 2007 were as follows:

	2008				2007			
In thousands of Azerbaijani Manats	**Key management personnel**	**Ultimate controlling party**	**Other shareholders**	**Other related parties**	**Key management personnel**	**Ultimate controlling party**	**Other shareholders**	**Other related parties**
Guarantees issued by the Group at year end	-	-	-	370	-	-	154	692

The Bank is ultimately controlled by Mr. Eldar Garibov (2007: Mr. Eldar Garibov).

During the year ended 31 December 2008, the remuneration of key management personnel comprised salaries, discretionary bonuses and other short-term benefits totalling AZN 902 thousand (2007: AZN 915 thousand). Included in management remuneration is a total of AZN 80 thousand paid by EBRD on behalf of the Group (2007: 80 thousand).

34 Subsidiary Undertaking

Name	**Nature of business**	**Percentage of voting rights**	**Percentage of ownership**	**Country of registration**
Unileasing	Leasing	66.7%	66.7%	Azerbaijan
Unicapital	Brokerage	100.0%	100.0%	Azerbaijan

On 17 June 2004, the Bank registered its fully owned subsidiary, UniLeasing Company, with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in August 2004.

On 23 January 2008, the Bank registered its fully owned subsidiary, UniCapital Company (“Unicapital”), with the Ministry of Justice of the Republic of Azerbaijan. The company commenced its operations in February 2008. The company’s major activities are trust management of stock portfolios and dealing in the stock market of Azerbaijan.

On 14 March 2007, the Bank signed a Shareholders Agreement with EBRD on EBRD’s contribution of AZN 600 thousand to the share capital of Unileasing. EBRD’s share after the contribution represents 33.3% of the share capital of Unileasing. The Bank retains the remaining 66.7%. The minority interest of AZN 1,197 thousand included in the consolidated financial statements of the Group for the year ended 31 December 2008 represents EBRD’s share of 33.3% of Unileasing’s net assets at 31 December 2008.

35 Subsequent Events

Financing package. On 16 June 2009, the Bank reached an agreement with EBRD, DEG, FMO and Austrian Development Bank for attraction of a long-term financing package in the total amount equivalent to approximately AZN 72 million, which will consist of the following elements:

- Share capital contribution: AZN 6 million;
- Senior convertible bond: AZN 20 million with a maturity of five years;
- Senior loan facility: AZN 41.5 million with a maturity of five years;
- Extension of existing facility AZN 4.5 million for one year.

Share capital contribution. On 30 March 2009, the Bank registered an issue of an additional 7,500,000 ordinary shares each with a nominal value of AZN 2. Of the new shares issued 3,000,000 shares were to be paid-in in the form of cash contribution, whereas transfer from retained earnings was to be made for the remaining 4,500,000 ordinary shares. As at the date these consolidated financial statements were approved for issue, share emission was fully completed through cash contribution of AZN 6 million and transfer from retained earnings of AZN 9 million by existing shareholders of the Bank.

35 Subsequent Events (Continued)

New borrowing facilities obtained. On 23 April 2009, the Bank signed a Loan Agreement with the National Bank of the Republic of Azerbaijan for obtaining AZN 25 million. The borrowing has a term of three months and bears an interest rate within the range applied by the NBAR for similar loans to commercial banks.

On 5 May 2009, the Bank signed another Loan Agreement with the National Bank of the Republic of Azerbaijan for obtaining AZN 15 million. The borrowing has a term of three months and bears an interest rate within the range applied by the NBAR for similar loans to commercial banks.

Extension of old borrowing facilities. On 18 May 2009, the NBAR approved an addendum to the previously signed Loan Agreement for AZN 50 million with the Bank. This addendum implies the prolongation of outstanding debt in the amount AZN 39 million for additional six months till November 2009 at the interest rate originally agreed in the Loan Agreement. Refer to Note 17.

Compliance with covenants. Subsequent to the balance sheet date, the Bank obtained a waiver from DEG, and thus, as at the date that these consolidated financial statements were approved for issue, the Bank was in breach of the covenant disclosed in Note 30.