UNIBANK COMMERCIAL BANK

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

31 December 2009

CONTENTS

INDEPENDENT AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

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

Notes to the Consolidated Financial Statements

1 Introduction....5
2 Operating Environment of the Group....5
3 Summary of Significant Accounting Policies....6
4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies....14
5 Adoption of New or Revised Standards and Interpretations....16
6 New Accounting Pronouncements....18
7 Cash and Cash Equivalents....20
8 Due from Other Banks....21
9 Loans and Advances to Customers....22
10 Investment Securities Available for Sale....29
11 Premises, Equipment and Intangible Assets....30
12 Other Financial Assets....31
13 Other Assets....32
14 Due to Other Banks....32
15 Customer Accounts....33
16 Debt Securities in Issue....33
17 Term Borrowings....34
18 Other Financial Liabilities....39
19 Other Liabilities....40
20 Subordinated Debt....40
21 Share Capital....41
22 Interest Income and Expense....42
23 Fee and Commission Income and Expense....42
24 Administrative and Other Operating Expenses....43
25 Income Taxes....43
26 Earnings per Share....45
27 Segment Analysis....45
28 Financial Risk Management....47
29 Management of Capital....61
30 Contingencies and Commitments....62
31 Fair Value of Financial Instruments....65
32 Presentation of Financial Instruments by Measurement Category....67
33 Related Party Transactions....68
34 Subsidiary Undertakings....69

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit Azerbaijan LLC
The Landmark Office Plaza III
12th floor, 90 A Nizami Street
Baku AZ 1010, Azerbaijan
Telephone [994] 12 497 25 15
Facsimile [994] 12 497 74 11
www.pwc.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Unibank Commercial Bank (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the 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 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

16 June 2010
Baku, the Republic of Azerbaijan

In thousands of Azerbaijani Manats	Note	2009	2008
ASSETS			
Cash and cash equivalents	7	52,481	39,117
Mandatory cash balances with the CBAR		637	3,665
Due from other banks	8	35,655	16,117
Loans and advances to customers	9	223,319	317,714
Investment securities available for sale	10	772	869
Premises and equipment	11	11,195	12,387
Intangible assets	11	1,026	945
Other financial assets	12	1,254	419
Other assets	13	35,662	27,762
TOTAL ASSETS		**362,001**	**418,995**
LIABILITIES			
Due to other banks	14	19,614	15,396
Customer accounts	15	148,026	142,281
Debt securities in issue	16	-	750
Term borrowings	17	125,383	192,351
Current income tax liability		2,747	993
Deferred tax liability	25	264	71
Other financial liabilities	18	3,058	799
Other liabilities	19	2,112	1,106
Subordinated debt	20	21,603	21,546
TOTAL LIABILITIES		**322,807**	**375,293**
EQUITY			
Share capital	21	30,000	15,000
Share premium	21	484	12,076
Revaluation reserve for available for sale securities		70	70
Retained earnings		6,822	15,359
Net assets attributable to the Bank's owners		**37,376**	**42,505**
Minority interest	34	**1,818**	**1,197**
TOTAL EQUITY		**39,194**	**43,702**
TOTAL LIABILITIES AND EQUITY		**362,001**	**418,995**

Approved for issue and signed on behalf of the Board of Directors on 16 June 2010.

Faig Huseynov
Chairman of the Board of Directors

Anna Kostina
Chief Accountant

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Interest income	22	52,416	70,578
Interest expense	22	(24,674)	(38,388)
Net interest income		**27,742**	**32,190**
Provision for loan impairment	9	(7,747)	(12,311)
Net interest income after provision for loan impairment		**19,995**	**19,879**
Fee and commission income	23	4,850	8,668
Fee and commission expense	23	(560)	(885)
Gains less losses from trading in foreign currencies		2,448	2,554
Foreign exchange translation gains less losses		(1,456)	1,143
Other operating income		184	313
Administrative and other operating expenses	24	(20,766)	(21,473)
Profit before tax		**4,695**	**10,199**
Income tax expense	25	(3,611)	(3,051)
Profit for the year		**1,084**	**7,148**
Other comprehensive income for the year		**-**	**-**
Total comprehensive income for the year		**1,084**	**7,148**
Profit is attributable to:			
- Owners of the Bank		463	6,663
- Minority interest		621	485
Profit for the year		**1,084**	**7,148**
Earnings per share for profit attributable to the equity holders of the Bank, basic and diluted (expressed in AZN per share)	26	0.09	0.89

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 2008		**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**
New share issue	21	15,000	-	-	(9,000)	6,000	-	6,000
Cancellation of share premium		-	(11,592)	-	-	(11,592)	-	(11,592)
Profit for the year		-	-	-	463	463	621	1,084
Balance at 31 December 2009		**30,000**	**484**	**70**	**6,822**	**37,376**	**1,818**	**39,194**

In thousands of Azerbaijani Manats	Note	2009	2008
Cash flows from operating activities			
Interest received		52,363	68,253
Interest paid		(23,965)	(37,017)
Fees and commissions received		4,850	9,367
Fees and commissions paid		(560)	(885)
Income received from trading in foreign currencies		2,448	2,554
Other operating income received		184	313
Administrative and other operating expenses paid		(17,887)	(18,876)
Income tax paid		(1,664)	(1,934)
Cash flows from operating activities before changes in operating assets and liabilities		**15,769**	**21,775**
Net decrease in mandatory cash balances with the CBAR		3,028	9,342
Net (increase)/decrease in due from other banks		(19,538)	9,676
Net decrease/(increase) in loans and advances to customers		86,701	(55,920)
Net decrease/(increase) in other financial assets		167	(281)
Net increase in other assets		(7,422)	(7,294)
Net increase/(decrease) in due to other banks		4,437	(1,211)
Net (decrease)/increase in customer accounts		(4,656)	17,535
Net (decrease)/increase in debt securities in issue		(750)	50
Net decrease in other financial liabilities		(475)	(1,329)
Net decrease in other liabilities		(968)	(1,138)
Net cash from/(used in) operating activities		**76,293**	**(8,795)**
Cash flows from investing activities			
Acquisition of investment securities available for sale		(10)	(35,094)
Redemption of investment securities available for sale		107	49,278
Acquisition of premises and equipment	11	(1,279)	(7,133)
Disposal of premises and equipment	11	15	321
Net cash (used in)/from investing activities		**(1,167)**	**7,372**
Cash flows from financing activities			
Proceeds from term borrowings		109,714	100,531
Repayment of term borrowings		(176,077)	(103,039)
Proceeds from subordinated debt		-	11,488
Issue of ordinary shares		6,000	-
Net cash (used in)/from financing activities		**(60,363)**	**8,980**
Effect of exchange rate changes on cash and cash equivalents		**(1,399)**	**1,143**
Net increase in cash and cash equivalents		**13,364**	**8,700**
Cash and cash equivalents at the beginning of the year	7	39,117	30,417
Cash and cash equivalents at the end of the year	7	**52,481**	**39,117**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 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 (2008: 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 Central Bank of Azerbaijan Republic (the “CBAR”) since 1992.

The Bank participates in the state deposit insurance scheme, which was introduced by the Azerbaijani Law, “Deposits of individuals insurance in Azerbaijan Republic” dated 29 December 2006. The State Deposit Insurance Fund guarantees full repayment of deposits of individuals in the amount up to AZN 30,000.

The Bank has twenty four (2008: twenty four) 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") unless otherwise stated. The Azerbaijani Manat (“AZN”) is the official currency of the Republic of Azerbaijan.

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. However, the full extent of the impact of the ongoing global crisis is impossible to anticipate or completely guard against. While the Central Bank of Azerbaijan Republic has communicated its intention to provide support to local banks to enhance their liquidity positions as required, utilising available reserves accumulated in the Republic of Azerbaijan during recent years, and has provided such support to date, there remains a risk that asset quality may deteriorate as more borrowers of the Bank are impacted as a result of the global crisis.

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, unless otherwise stated (refer to Note 5).

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.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes *transaction costs*. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Notes 4 and 31.

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

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

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

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 are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

3 Summary of Significant Accounting Policies (Continued)

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.

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

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

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

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year 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 in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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 for the year.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Depreciation. Land and construction in progress are 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:

	Useful lives in years
Buildings	40 years
Office and computer equipment	5 years
Furniture, fixtures and other equipment	5 - 7 years
Motor vehicles	7 years
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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Acquired computer software and licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Acquired computer software licences 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, e.g. 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.

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 for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

3 Summary of Significant Accounting Policies (Continued)

Finance lease receivables. 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 [other operating income] in profit or loss for the year.

Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine whether there is objective evidence that an impairment loss has occurred as for loans carried at amortised cost. 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.

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.

Term borrowings. Term borrowings include non-derivative liabilities to international financial institutions and shareholder loans 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 end of the reporting period. 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.

3 Summary of Significant Accounting Policies (Continued)

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

Deferred income tax is provided on post acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Share premium. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

Share based compensation. For equity-settled share-based payment transactions 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.

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 functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Azerbaijan, Azerbaijani Manates ("AZN").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

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

Earnings per share. Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

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.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying 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 has prepared these consolidated financial statements on a going concern basis. In making this judgment, management has considered current intentions, the profitability of operations and access to financial resources.

As set out in Note 28, at 31 December 2009 the Group had a cumulative liquidity gap of AZN 105,108 thousand in the period up to twelve months. Furthermore, as discussed in Note 31, at 31 December 2009 the Bank was not in compliance with certain financial covenants included in 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 49,938 thousand of term borrowings and AZN 21,603 thousand of subordinated debt 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 non-compliance with covenants.

(ii) The Bank is going to receive equivalent of AZN 29 million in the second half of 2010 under the financing package agreement concluded with a group of international financial institutions during the year ended 31 December 2009.

(iii) The Central Bank of Azerbaijan Republic have been providing a continuous support to the Bank in the periods of problems with liquidity.

(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 CBAR gradually decreased its mandatory reserve requirement from 12% to 0.5% and refinancing rate from 15% to 3% in 2008 and 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.

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 profit or loss for the year, 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.

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

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 7,115 thousand as at 31 December 2009 (2008: AZN 4,109 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.

Current and deferred taxes. On 14 November 2008, a new law on "Stimulation of increasing the capitalization of banks, insurance and reinsurance companies" was enacted in the Republic of Azerbaijan. According to the law the profit tax rate for banks, insurance and reinsurance companies will be applicable at 0% for three fiscal years effective from 1 January 2009, for the portion of the profits transferred to share capital. Management applied judgment in assessing whether the Bank would be able to take advantage of the law where the law contains certain areas of ambiguity and performed its calculations of current and deferred taxes based on the assumption that the concession will be available to the Bank. Refer to Notes 25 and 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. Terms and conditions of related party balances are disclosed in Note 33.

5 Adoption of New or Revised Standards and Interpretations

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

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes.

IAS 23, Borrowing Costs, revised in March 2007. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale (a qualifying asset) form part of the cost of that asset, if the commencement date for capitalisation is on or after 1 January 2009. Other borrowing costs are recognised as an expense using the effective interest method.

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

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting.

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

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

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

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

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

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

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

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

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

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

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

6 New Accounting Pronouncements

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

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss for the year when the entity settles the dividend payable. 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.

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 consolidated financial statements.

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

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

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements. The Group does not expect the amended standard to have a material effect 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 for the year. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. 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.

6 New Accounting Pronouncements (Continued)

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

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

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

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

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

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

6 New Accounting Pronouncements (Continued)

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

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

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

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

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	**2009**	**2008**
Cash on hand	15,063	22,135
Cash balances with the CBAR (other than mandatory reserve deposits)	25,226	3,406
Correspondent accounts and overnight placements with other banks:		
- The Republic of Azerbaijan	442	534
- Other countries	11,750	13,042
Total cash and cash equivalents	**52,481**	**39,117**

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

In thousands of Azerbaijani Manats	**Cash balances with the CBAR**	**Correspondent accounts and overnight placements with other banks**	**Total**
Current and not impaired			
- The CBAR	25,226	-	25,226
- Rated Azerbaijani banks	-	213	213
- Unrated top 15 Azerbaijani banks	-	27	27
- Other Azerbaijani banks	-	202	202
- OECD banks	-	11,677	11,677
- Non-OECD banks	-	73	73
Total current and not impaired cash and cash equivalents, excluding cash on hand	**25,226**	**12,192**	**37,418**

The most recently published international rating for the Republic of Azerbaijan is BBB-/Stable (Fitch Ratings- issued on 20 May 2010).

7 Cash and Cash Equivalents (Continued)

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

In thousands of Azerbaijani Manats	**Cash balances with the CBAR**	**Correspondent accounts and overnight placements with other banks**	**Total**
Current and not impaired			
- The CBAR	3,406	-	3,406
- Rated Azerbaijani banks	-	100	100
- Unrated top 15 Azerbaijani banks	-	170	170
- Other Azerbaijani banks	-	264	264
- OECD banks	-	12,811	12,811
- Non-OECD banks	-	231	231
Total current and not impaired cash and cash equivalents, excluding cash on hand	**3,406**	**13,576**	**16,982**

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	**2009**	**2008**
Current term placements with other banks	35,655	16,117
Total due from other banks	**35,655**	**16,117**

At 31 December 2009, current term placements with other banks included short-term placements with a foreign bank amounting to equivalent of AZN 14,456 thousand and bearing annual interest rates ranging between 3.0% and 4.9% (2008: short-term placements with a foreign bank amounting to AZN 8,010 thousand and bearing annual interest rate of 4.5%). These placements have subsequently been granted by this foreign bank to Unileasing under separate loan agreements bearing annual interest rates ranging between 3.5% and 5.4% (2008: 6%) with maturities in August 2010 and October 2011. 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.

An analysis by credit quality of the amounts due from other banks outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	**Current term placements with other banks**	**Total**
Current and not impaired		
- Rated Azerbaijani banks	16,934	16,934
- Unrated top 15 Azerbaijani banks	4,253	4,253
- Other Azerbaijani banks	12	12
- Foreign banks	14,456	14,456
Total current and not impaired due from other banks	**35,655**	**35,655**

8 Due from Other Banks (Continued)

An 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		
- Rated Azerbaijani banks	6,399	6,399
- Other Azerbaijani banks	1,708	1,708
- Foreign banks	8,010	8,010
Total current and not impaired due from other banks	**16,117**	**16,117**

Management of the Bank did not determine any objective evidence of impairment of the balances due from other banks and therefore, no provision for impairment was recorded at 31 December 2009.

Refer to Note 31 for the estimated fair value of each class of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 28.

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	**2009**	**2008**
Corporate loans	66,216	82,373
Loans to individuals – entrepreneurs	64,123	79,263
Loans to individuals – purchase of motor vehicles	58,736	106,890
Loans to individuals – consumer loans	29,024	32,033
Mortgage loans	34,239	38,427
Less: Provision for loan impairment	(29,019)	(21,272)
Total loans and advances to customers	**223,319**	**317,714**

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

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2009	**6,599**	**6,332**	**4,526**	**2,645**	**1,170**	**21,272**
Increase/(decrease) in provision for impairment during the year	5,573	2,551	(554)	(88)	265	7,747
Provision for loan impairment at 31 December 2009	**12,172**	**8,883**	**3,972**	**2,557**	**1,435**	**29,019**

9 Loans and Advances to Customers (Continued)

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**

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

	2009		2008	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Loans to individuals				
- purchase of motor vehicles	64,123	25.4	106,890	31.5
- purchase of apartments and mortgages	34,239	13.6	38,427	11.3
- entrepreneurship	22,788	9.0	8,912	2.6
- trade and services	24,667	9.8	50,921	15.0
- manufacturing	11,160	4.4	17,871	5.3
- credit cards	4,844	1.9	5,977	1.8
- micro loans	2,683	1.1	4,753	1.4
- other purposes	21,618	8.6	22,861	6.7
Total retail loans	**186,122**	**73.8**	**256,612**	**75.7**
Corporate loans				
Trade and services	25,149	10.0	34,587	10.2
Production	18,225	7.2	16,608	4.9
Construction	10,293	4.1	24,954	7.4
Transportation	3,642	1.4	2,385	0.7
Agriculture	1,886	0.7	1,084	0.3
Other	7,021	2.8	2,756	0.8
Total corporate loans	**66,216**	**26.2**	**82,374**	**24.3**
Total loans and advances to customers (before impairment)	**252,338**	**100.0**	**338,986**	**100.0**

At 31 December 2009, the Group had 54 borrowers (2008: 26 borrowers) with the outstanding loan amount above AZN 1,000 thousand. The aggregate balance of these borrowers was AZN 50,164 thousand (2008: AZN 54,982 thousand) or 20% (2008: 16%) of the gross loan portfolio.

Of the AZN 34,239 thousand (2008: AZN 38,427 thousand) total mortgage loans, AZN 7,115 thousand (2008: AZN 4,109 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 110 thousand (2008: AZN 81 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 1,460 thousand (2008: AZN 969 thousand) higher or lower.

9 Loans and Advances to Customers (Continued)

At 31 December 2009, loans and advances to customers included finance lease receivables of the Group's leasing subsidiary of AZN 18,444 thousand recorded net of provision for uncollectible finance lease receivables of nil (2008: 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). At 31 December 2009, finance lease receivables are represented by 631 lease contracts primarily related to the lease of various types of vehicles, construction and medical equipment (2008: 555 lease contracts primarily related to the lease of various types of vehicles, construction 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.

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 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**
Finance lease payments receivable at 31 December 2009	**341**	**23,639**	**6,925**	**30,905**
Unearned finance income	(43)	(9,449)	(2,969)	(12,461)
Present value of lease payments receivable at 31 December 2009	**298**	**14,190**	**3,956**	**18,444**

9 Loans and Advances to Customers (Continued)

Information about collateral at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – entrepreneurs**	**Loans to individuals – purchase of motor vehicles**	**Loans to individuals – consumer loans**	**Mortgage loans**	**Total**
Unsecured loans	1,421	6,740	7	11,921	181	20,270
Loans collateralised by:						
- real estate	36,462	45,950	188	7,952	34,058	124,610
- personal transport	20,430	1,649	63,928	1,279	-	87,286
- bank deposits	98	599	-	6,639	-	7,336
- movable property	5,697	3,517	-	277	-	9,491
- personal property including jewellery	11	23	-	924	-	958
- letter of guarantee	-	-	-	22	-	22
- other	2,097	258	-	10	-	2,365
Total loans and advances to customers	**66,216**	**58,736**	**64,123**	**29,024**	**34,239**	**252,338**

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**

9 Loans and Advances to Customers (Continued)

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

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – entrepreneurs	Loans to individuals – purchase of motor vehicles	Loans to individuals – consumer loans	Mortgage loans	Total
Current and not impaired						
Unsecured loans	1,415	6,608	7	7,215	181	15,426
Loans collateralised by:						
- real estate	12,988	23,845	40	3,498	19,977	60,348
- personal transport	18,655	1,414	41,946	846	-	62,861
- bank deposits	2	444	-	5,335	-	5,781
- movable property	5,583	3,517	-	244	-	9,344
- personal property including jewellery	11	22	-	728	-	761
- other	-	258	-	10	-	268
Loans renegotiated in 2009	2,389	1,225	222	3,181	42	7,059
Total current and not impaired	**41,043**	**37,333**	**42,215**	**21,057**	**20,200**	**161,848**
Past due but not impaired						
- less than 30 days overdue	5,372	4,219	11,319	4,523	7,770	33,203
- 30 to 90 days overdue	795	1,807	2,180	1,164	4,067	10,013
- 90 to 180 days overdue	765	1,171	1,545	449	795	4,725
- 180 to 360 days overdue	542	2,171	2,287	610	1,104	6,714
- over 360 days overdue	368	608	753	158	87	1,974
Total past due but not impaired	**7,842**	**9,976**	**18,084**	**6,904**	**13,823**	**56,629**
Loans individually determined to be impaired (gross)						
- less than 30 days overdue	3,500	208	34	-	64	3,806
- 30 to 90 days overdue	1,510	-	64	4	-	1,578
- 90 to 180 days overdue	619	20	47	9	-	695
- 180 to 360 days overdue	5,095	1,198	605	157	79	7,134
- over 360 days overdue	6,607	10,001	3,074	893	73	20,648
Total individually impaired loans (gross)	**17,331**	**11,427**	**3,824**	**1,063**	**216**	**33,861**
Less impairment provisions	**(12,172)**	**(8,883)**	**(3,972)**	**(2,557)**	**(1,435)**	**(29,019)**
Total loans and advances to customers	**54,044**	**49,853**	**60,151**	**26,467**	**32,804**	**223,319**

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 end of the reporting period. 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)

An 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)**
Total loans and advances to customers	**75,774**	**72,931**	**102,364**	**29,388**	**37,257**	**317,714**

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 2009 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	18,462	34,734	931	8,777	18,294	81,198
- personal transport	1,253	1,092	41,952	1,325	-	45,622
- bank deposits	115	165	-	2,586	-	2,866
- movable property	2,223	-	-	39	-	2,262
- personal property including jewellery	1,531	12	-	152	-	1,695
Fair value of collateral - individually impaired loans						
- real estate	16,089	9,592	-	679	385	26,745
- movable property	-	-	-	11	-	11
- bank deposits	-	-	-	62	-	62
Total	**39,673**	**45,595**	**42,883**	**13,631**	**18,679**	**160,461**

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**

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.

Refer to Note 31 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

10 Investment Securities Available for Sale

In thousands of Azerbaijani Manats	**2009**	**2008**
Notes of the Ministry of Finance of the Republic of Azerbaijan ("MoF")	10	107
Total debt securities	**10**	**107**
Corporate shares – unquoted	762	762
Total investment securities available for sale	**772**	**869**

The notes of the Ministry of Finance of the Republic of Azerbaijan represent short-term treasury bills issued by the MoF with maturity in January 2010 and annual yield of 9.8% (2008: 9.9%). Subsequent to the end of the reporting period, the notes of the MoF were fully redeemed.

An analysis by credit quality of debt securities outstanding at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	**Notes of the MoF**	**Total**
Current and not impaired		
- Government of the Republic of Azerbaijan	10	10
Total current and not impaired debt securities available for sale	**10**	**10**

The most recently published international rating for the Republic of Azerbaijan is BBB-/Stable (Fitch Ratings- issued on 20 May 2010),

An 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		
- Government of the Republic of Azerbaijan	107	107
Total current and not impaired debt securities available for sale	**107**	**107**

Details of corporate unquoted shares available for sale are:

Name	**Nature of business**	**Country of registration**	**% of ownership**	**Carrying value**	
				2009	**2008**
Baku Stock Exchange	Stock Exchange	Republic of Azerbaijan	5.56%	60	60
Milli Kart	Card Processing	Republic of Azerbaijan	10.00%	400	400
MBASK	Insurance	Republic of Azerbaijan	10.60%	302	302
Total				**762**	**762**

Management could not reliably estimate the fair value of the Group's investments in shares of the above investees. These investments are carried at total cost of AZN 762 thousand (2008: AZN 762 thousand). The investee companies have not published their recent financial information about its operations, their shares are not quoted and recent trade prices are not publicly accessible. The market for these assets is not liquid, but the management believes potentially interested buyers could be other resident commercial banks and equity investment companies at a price close to their carrying value.

Interest rate analysis of investment securities available for sale is disclosed in Note 28.

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 2008		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 1 January 2008		**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**
Additions		169	-	165	346	361	1,041	238	1,279
Transfer		-	533	-	-	(533)	-	-	-
Disposal		-	-	(101)	(124)	-	(225)	-	(225)
Disposed accumulated depreciation		-	-	100	110	-	210	-	210
Depreciation charge	24	(409)	(30)	(844)	(935)	-	(2,218)	(157)	(2,375)
Carrying amount at 31 December 2009		**2,778**	**1,212**	**1,961**	**3,789**	**1,455**	**11,195**	**1,026**	**12,221**
Cost at 31 December 2009		4,042	1,268	4,983	6,905	1,455	18,653	1,435	20,088
Accumulated depreciation		(1,264)	(56)	(3,022)	(3,116)	-	(7,458)	(409)	(7,867)
Carrying amount at 31 December 2009		**2,778**	**1,212**	**1,961**	**3,789**	**1,455**	**11,195**	**1,026**	**12,221**

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.

At 31 December 2009, included in the closing balance of premises and equipment were fully depreciated assets still in use with the total initial cost of AZN 828 thousand (2008: AZN 981 thousand).

12 Other Financial Assets

In thousands of Azerbaijani Manats	**2009**	**2008**
Credit and debit cards receivables	667	89
Restricted cash	424	-
Settlements on money transfer operations	163	330
Total other financial assets	**1,254**	**419**

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.

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

In thousands of Azerbaijani Manats	**Credit and debit cards receivables**	**Restricted cash**	**Settlements on money transfer operations**	**Total**
Current and not impaired				
- Medium - sized companies	667	424	163	1,254
Total current and not impaired other financial assets	**667**	**424**	**163**	**1,254**

An 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 other financial assets	**330**	**89**	**419**

Refer to Note 31 for the disclosure of the fair value of each class of other financial assets.

13 Other Assets

In thousands of Azerbaijani Manats	**2009**	**2008**
Prepayments for purchase of property under construction	27,532	23,452
Advances on equipment purchased for leasing purposes	3,036	1,199
Deferred expenses	1,445	1,155
Prepayments for services	1,179	1,103
Repossessed collateral	771	-
Prepayments for equipment and software	696	151
Prepaid insurance	132	120
Miscellaneous	871	582
Total other assets	**35,662**	**27,762**
Current	34,749	27,064
Non-current	913	698

At 31 December 2009, prepayments for purchase of property under construction represented a prepayment for the purchase of a new office building. The building was not substantially ready for use at 31 December 2009. Subsequent to the end of the reporting period the Bank started to relocate to the new office building.

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	**2009**	**2008**
Correspondent accounts and overnight placements of other banks	175	5,158
Current term placements of other banks	19,439	10,238
Total due to other banks	**19,614**	**15,396**

At 31 December 2009, current term placements of other banks included two short-term placements of a foreign bank with Unileasing in total amounting to AZN 14,456 thousand at annual interest rates ranging between 3.5% and 5.4% (2008: short-term placements of a foreign bank amounting to AZN 8,010 thousand bearing annual interest rate of 6%). These placements have been granted by the Bank to this foreign bank under separate loan agreements each bearing annual interest rates ranging between 3.0% and 4.9% (2008: 4.5%) with similar maturities from August 2010 to October 2011. 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.

Refer to Note 31 for the disclosure of the fair value of each class of amounts due to other banks. Interest rate analysis of due to other banks is disclosed in Note 28.

15 Customer Accounts

In thousands of Azerbaijani Manats	2009	2008
State and public organisations	**1,498**	**1,164**
- Current/settlement accounts	1,498	1,164
Other legal entities	**48,255**	**58,830**
- Current/settlement accounts	30,449	34,622
- Term deposits	17,806	24,208
Individuals	**98,273**	**82,287**
- Current/demand accounts	17,057	8,986
- Term deposits	81,216	73,301
Total customer accounts	**148,026**	**142,281**

Economic sector concentrations within customer accounts are as follows:

	2009		2008	
In thousands of Azerbaijani Manats	Amount	%	Amount	%
Individuals	98,273	66.4	82,287	57.8
Trade and Services	21,318	14.4	9,029	6.4
Construction	9,740	6.6	2,014	1.4
Energy	9,338	6.3	11,294	7.9
Insurance	8,448	5.7	7,092	5.0
Public	366	0.2	349	0.2
Manufacturing	363	0.2	8,314	5.8
Communication	78	0.1	11,792	8.3
Investment	-	0.0	9,999	7.1
Other	102	0.1	111	0.1
Total customer accounts	**148,026**	**100.0**	**142,281**	**100.0**

At 31 December 2009, the Group had 14 customers (2008: 15 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 53,542 thousand (2008: AZN 58,748 thousand) or 36% (2008: 41%) of total customer accounts.

Refer to Note 31 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 28. Information on related party balances is disclosed in Note 33.

16 Debt Securities in Issue

In thousands of Azerbaijani Manats	2009	2008
Debentures	-	750
Total debt securities in issue	**-**	**750**

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. These debentures were fully redeemed during the year ended 31 December 2009.

Refer to Note 31 for the disclosure of the fair value of each class of debt securities in issue. Interest rate analyses of debt securities in issue are disclosed in Note 28.

17 Term Borrowings

In thousands of Azerbaijani Manats	2009	2008
Funds borrowed from resident banks and organisations:		
- Central Bank of Azerbaijan Republic	46,000	50,000
- National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	8,802	11,276
- Azerbaijan Mortgage Fund (the Republic of Azerbaijan)	7,115	4,109
- Funds borrowed from or through EBRD	25,615	36,507
- Funds borrowed from Netherlands Development Finance Company	10,096	2,861
- Funds borrowed from Deutsche Investitions-und Entwiklungsgesellschaft MBH	8,002	3,948
- Funds borrowed from Black Sea Trade and Development Bank	5,681	4,886
- Funds borrowed from Development Bank of Austria (“OeEB”)	4,016	-
- Funds borrowed from International Finance Corporation	3,413	4,406
- Funds borrowed from Raiffeisen Zentralbank Osterreich AG	2,141	2,803
- Funds borrowed from German-Azerbaijan Fund	1,932	2,541
- Funds borrowed from ING Bank N.V.	315	941
- Funds borrowed from Citigroup Global Markets Limited	-	28,649
- 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 Micro Vest 1 L.P.	-	521
Accrued interest expense	2,255	2,858
Total term borrowings	**125,383**	**192,351**

At 31 December 2008, 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 the Central Bank of Azerbaijan Republic for obtaining funds in the total amount of AZN 50,000 thousand for the financing purposes. The loan was taken at the CBAR’s refinancing rate applicable at the date of the agreement and had a maturity 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 were no financial covenants with regard to this borrowing from the CBAR that the Bank should have complied with. On 18 May 2009, the repayment of outstanding balance of AZN 38,000 thousand under the above Loan Agreement was prolonged for an additional six-month period and on 13 November 2009 the debt was fully repaid.

On 23 April 2009, the Bank signed a Loan Agreement with the CBAR for obtaining funds in the amount of AZN 25,000 thousand bearing the CBAR’s refinancing rate applicable at the date of the agreement. The debt under this agreement was fully repaid on 22 July 2009. On 5 May 2009, the Bank signed another Loan Agreement with the CBAR for obtaining funds in the amount of AZN 15,000 thousand, bearing the CBAR’s refinancing rate applicable at the date of the agreement. The debt under this agreement was fully repaid on 23 October 2009.

On 21 May 2009, the Bank signed a Loan Agreement with the CBAR for obtaining funds in the amount of AZN 10,000 thousand, which was fully repaid on the contractual maturity date of 21 November 2009.

On 11 November 2009, the Bank signed a Loan Agreement with the CBAR for obtaining funds in the amount of AZN 48,000 thousand for the financing purposes. The loan bears the CBAR’s refinancing rate applicable at the date of the agreement and matures on 5 May 2011. At 31 December 2009, the outstanding debt of the Bank under the above Loan Agreement comprised AZN 46,000 thousand. 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 the CBAR that the Bank should comply with.

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.

17 Term Borrowings (Continued)

On 17 February 2006, the Bank signed a credit agreement with the Azerbaijan Mortgage Fund, a programme under the auspices of the CBAR, 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 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 2009, the Bank had drawn down USD 1,000 thousand or AZN 803 thousand (2008: USD 1,633 thousand or AZN 1,308 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Participation Agreement and, therefore, outstanding balance of the borrowing from EBRD in the amount of USD 1,000 thousand or AZN 803 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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 2009, the Bank had drawn down USD 433 thousand or AZN 348 thousand from this credit line facility (2008: USD 767 thousand or AZN 614 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Loan Agreement and, therefore, outstanding balance of the borrowing from EBRD in the amount of USD 433 thousand or AZN 348 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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 2009, the outstanding balance of the debt under the above Revolving Credit Agreement was USD 900 thousand or AZN 723 thousand (2008: USD 3,510 thousand or AZN 2,812 thousand). There are no financial covenants with regard to this Revolving Credit Agreement that the Bank should comply with.

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 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 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. At 31 December 2009, the outstanding balance of the debt under this Syndicated Borrowing Agreement was USD 833 thousand or AZN 669 thousand (2008: USD 1,666 thousand or AZN 1,335 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Syndicated Borrowing Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Syndicated Borrowing Agreement and, therefore, outstanding balance of the borrowing in the amount of USD 833 thousand or AZN 669 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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 repaid in one single installment on 5 May 2009. At 31 December 2009, the outstanding balance of the debt under the above agreement was USD 8,750 thousand or AZN 7,027 thousand (2008: USD 35,000 thousand or AZN 28,035 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Facility agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Loan Agreement and, therefore, the outstanding balance of the borrowing in the amount of USD 8,750 thousand or AZN 7,027 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

On 14 March 2007, the Bank's leasing subsidiary, Unileasing signed a Loan Agreement with EBRD, for obtaining USD 3,000 thousand with maturity date of 7 October 2010, for the purpose of financing leasing operations. On 13 April 2007, the first tranche of these funds in the amount of USD 1,500 thousand was disbursed by EBRD. The second tranche in the amount of USD 1,500 thousand was disbursed in June 2008. In 2009, USD 1,500 thousand of the total debt was repaid and the outstanding debt comprised USD 1,500 thousand payable in October 2010. The Unileasing is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2009, management of the Unileasing believes that the Company was in compliance.

On 8 July 2009, the Bank signed financing package including agreements with EBRD, DEG, FMO and OeEB.

- The agreement stipulated EBRD's provision of USD 18,500 thousand, which were fully disbursed in eight equal transhes each converted into AZN at the date of disbursement and the total amount of disbursements amounted to AZN 14,841 thousand. The borrowing bears market interest rate and matures between January 2011 and July 2014. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned agreement with EBRD. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants, except for three of them. Refer to Note 30.
- The agreement with Deutsche Investitions-und Entwicklungsgesellschaft mbH ("DEG") stipulated provision of USD 7,500 thousand. At 31 December 2009, DEG fully disbursed the amount under the financial package in amount of USD 7,500 thousand or AZN 6,023 thousand. The borrowing bears market interest rate and matures in July 2014. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned agreement with DEG. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants.
- The agreement with the Netherlands Development Finance Company ("FMO") stipulated provision of USD 15,000 thousand. At 31 December 2009, FMO disbursed five transhes in total amount of USD 9,000 thousand or AZN 7,228 thousand. The borrowing bears market interest rate and matures between January 2011 and January 2013. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned agreement with FMO. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants, except for one of them. Refer to Note 30.
- The agreement with Development Bank of Austria ("OeEB") stipulated provision of USD 10,000 thousand under this financing package. At 31 December 2009, first transh disbursed by OeEB was USD 5,000 thousand or AZN 4,016 thousand. The borrowing bears market interest rate and matures in January 2011 and July 2014. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned agreement with OeEB. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants, except for three of them. Refer to Note 30.

17 Term Borrowings (Continued)

On 11 December 2006, the Bank signed the Term Facility Agreement Funds with the Netherlands Development Finance Company ("FMO") for obtaining up to USD 5,000 thousand for financing business activity in the country. The borrowing bears a market interest rate and is repayable in seven equal semi-annual installments starting from June 2010 till June 2013. At 31 December 2009, the Bank had drawn down USD 3,571 thousand or AZN 2,868 thousand (2008: USD 3,571 thousand or AZN 2,861 thousand) under the Term Facility Agreement. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Term Facility Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Term Facility Agreement and, therefore, the outstanding balance of the borrowing in the amount of USD 3,571 thousand or AZN 2,868 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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 2009, the outstanding debt of the Bank under the above Loan Agreement comprised USD 750 thousand or AZN 602 thousand (2008: USD 1,500 thousand or AZN 1,201 thousand). At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Loan Agreement and, therefore, the outstanding balance of the borrowing in the amount of USD 750 thousand or AZN 602 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

On 17 August 2006, the Bank signed a second Loan Agreement with DEG on obtaining a credit line up to USD 6,000 thousand 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 2009, the outstanding balance of debt under this agreement was USD 1,715 thousand or AZN 1,377 thousand (2008: USD 3,429 thousand or AZN 2,747 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Loan Agreement and, therefore, the outstanding balance of this borrowing from this agreement in the amount of USD 1,715 thousand or AZN 1,377 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

On 30 November 2005, the Bank signed Revolving Credit Agreement with the Black Sea Trade and Development Bank ("BSTDB") registered in Greece on opening a credit line of USD 3,000 thousand which was subsequently increased to USD 5,000 thousand. The borrowing bear market interest rate and matures in June 2013. At 31 December 2009, the outstanding amount of debt under this borrowing Credit Agreement was USD 3,000 thousand or AZN 2,410 thousand (2008: USD 3,000 thousand or AZN 2,403 thousand). There are no financial covenants with regard to the above Revolving Credit Agreement that the Bank should comply with.

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 2009, the outstanding amount of debt under this credit agreement was USD 4,074 thousand or AZN 3,271 thousand. The borrowing bear market interest rate and matures in December 2013. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Credit Agreement. At 31 December 2009, 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 was repayable in eight equal semi-annual installments with the first installment paid on 15 June 2007. At 31 December 2009, the outstanding debt of the Bank under the above Loan Agreement comprised USD 1,250 thousand or AZN 1,003 thousand (2008: USD 2,500 thousand or AZN 2,003 thousand). At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Loan Agreement and, therefore, the outstanding balance of the borrowing in the amount of USD 1,250 thousand or AZN 1,003 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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 2009, the amount drawn down under the latter Loan Agreement was USD 3,000 thousand or AZN 2,410 thousand (2008: USD 3,000 thousand of AZN 2,403 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Loan Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreements between the Bank and other third parties. Because of this the Bank formally breached this Loan Agreement and, therefore, outstanding balance of the borrowing in the amount of USD 3,000 thousand or AZN 2,410 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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. At 31 December 2009, the outstanding debt under this agreement was EUR 1,862 thousand or AZN 2,141 thousand (2008: EUR 2,482 thousand or AZN 2,803 thousand). The borrowing carries a market interest rate and matures in April 2010. 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 2009 represent EUR 1,680 thousand or AZN 1,932 thousand (2008: EUR 2,250 thousand or AZN 2,541 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.

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 agreements signed previously. 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 in 2005, the second repayment in the amount of EUR 570 thousand was made in 2009.

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 2,587 thousand (2008: EUR 2,250 thousand or AZN 2,541 thousand) the borrower is subject to repayment of EUR 2,846 thousand or AZN 2,795 thousand (2008: EUR 2,475 thousand or AZN 2,795 thousand). There are no financial covenants attached to this Framework Agreement.

17 Term Borrowings (Continued)

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 six tranches of USD 196 thousand each with maturities ranging from March 2009 to June 2010. The four of tranches were repaid in 2009 and the outstanding balance at 31 December 2009 comprised USD 392 thousand or AZN 315 thousand (2008: 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. Subsequent to the end of the reporting period, the remaining portion of the debt was fully repaid.

At 31 December 2009, amounts borrowed from Citigroup Global Markets Limited represented 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 this deposit was repaid by the Bank on a contractual maturity date in May 2009. 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 on the contractual maturity date in January 2008. 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 18 January 2009 and at a market interest rate. This deposit was repaid by the Bank on its contractual maturity date.

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 had a maturity of one year and was fully repaid in April 2009.

In 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. These loans bore a market interest rate and were repaid in June 2009.

In 2008, the Bank signed seven Loan Agreements with GFM Cossack Bond Company Limited in the total amount of USD 7,000 thousand at market interest rates for the purposes of financing cross border trade finance operations. The amounts available under these loan agreements were fully drawn down and repaid during the period from signing of the agreements to 31 December 2009.

At 31 December 2008, amounts borrowed from Micro Vest 1 L.P. represented funds obtained under two deposit agreements in total amount of USD 650 thousand or AZN 521 thousand. The deposits were at market interest rates and were repaid at contractual maturity dates during 2009.

Market interest rates for the borrowings range between 4.5% and 10.5% per annum for the year ended 31 December 2009 (5% and 14% per annum for the year ended 31 December 2008).

Refer to Note 31 for disclosure of the fair value of each class of term borrowings. Interest rate analysis of term borrowings is disclosed in Note 28.

18 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Cancelled share premium payable to foreign shareholders	21	2,723	-
Professional fees payable		196	700
Amounts received for brokerage operations		117	-
Temporary accounts of legal entities in the process of registration		22	99
Total other financial liabilities		**3,058**	**799**

Refer to Note 31 for disclosure of the fair value of each class of other financial liabilities.

19 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	Note	2009	2008
Penalties payable to Ministry of Taxes for current tax of prior years	24, 25	1,481	-
Payables to lease object suppliers		324	577
Advances received from lessees on equipment leased out		150	492
Other		157	37
Total other liabilities		**2,112**	**1,106**
Current		2,112	1,106

As at 31 December 2009 and at the date these 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 2009, therefore no liabilities were recorded in this respect.

20 Subordinated Debt

In thousands of Azerbaijani Manats	2009	2008
Subordinated debt Deutsche Investitions-und Entwicklungsgesellschaft mbH	12,047	12,015
Subordinated debt from Deutsche Bank	5,541	5,526
Subordinated debt from Netherlands Development Finance Company	4,015	4,005
Total subordinated debt	**21,603**	**21,546**

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 for financing small and medium-sized enterprises. As of 31 December 2009, the Bank had drawn down total amount of USD 15,000 thousand or AZN 12,047 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 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreement between the Bank and other third parties. Because of this the Bank formally breached this Subordinated Loan Agreement and, therefore, the outstanding balance of the this subordinated debt in the amount of USD 15,000 thousand or AZN 12,047 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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 2009, 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 Subordinated Loan Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreement between the Bank and other third parties. Because of this the Bank formally breached this covenant and, therefore, the outstanding balance of this subordinated debt in the amount of USD 6,899 thousand or AZN 5,541 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

20 Subordinated Debt (Continued)

On 13 December 2006, the Bank signed a Subordinated Term Facility Agreement with the Netherlands Development Finance Company ("FMO") for obtaining USD 5,000 thousand for financing business activity in Azerbaijan. The borrowing bears a market interest rate and is repayable in seven equal semi-annual installments, first installment being in December 2006 and with final maturity in December 2013. At 31 December 2009, the Bank had fully utilized the facility available by drawing down USD 5,000 thousand or AZN 4,015 thousand (2008: USD 5,000 thousand or AZN 4,005 thousand). The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned Subordinated Term Facility Agreement. At 31 December 2009, management of the Bank believes that the Bank was in compliance with those covenants with the exception of a cross-default clause related to breaches of covenants stipulated by borrowing agreement between the Bank and other third parties. Because of this the Bank formally breached this Subordinated Term Facility Agreement and, therefore, the outstanding balance of the subordinated debt in the amount of USD 5,000 thousand or AZN 4,015 thousand was classified as being on demand in the maturity analysis table disclosed in the Note 28 of these consolidated financial statements. The breaches that have occurred are detailed in Note 30.

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

Refer to Note 31 for disclosure of the fair value of subordinated debt. Interest rate analysis of subordinated debts 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 2008	**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**
New shares issued	7,500,000	15,000	-	15,000
Cancellation of share premium	-	-	(11,592)	(11,592)
At 31 December 2009	**15,000,000**	**30,000**	**484**	**30,484**

The par value of the registered amount of the Bank's issued share capital is AZN 30,000 thousand (2008: AZN 15,000 thousand).

On 25 May 2009, the Bank offered additional 7,500 ordinary shares to increase its share capital to AZN 30,000 thousand. This issue granted a right to existing shareholders to purchase these shares at the nominal face value of AZN 2 per share. At 31 December 2009, all shareholders exercised this right and AZN 6,000 thousand were subscribed for and paid in by cash contribution and AZN 9,000 thousand were paid in through transfer from retained earnings.

On 24 November 2009, a decision was made at the General Meeting of Shareholders to cancel the share premium in the amount of AZN 11,592 thousand, which was recorded as a result of shares issued at a price above par value during the year of 2007. The proportion of cancelled share premium owed to local shareholders amounting to AZN 8,869 thousand was reclassified to their respective current accounts with the Bank, whereas AZN 2,723 thousand representing the proportion of EBRD and DEG was recorded as a financial liability at 31 December 2009. Refer to Note 18.

At 31 December 2009, Mr. Eldar Garibov, the Chairman of the Bank's Supervisory Council, owned 50.614% of the Bank's shares (2008: 50.614%). The European Bank for Reconstruction and Development ("EBRD") owned 15.152% of the Bank's shares (2008: 15.152%). Deutsche Investitions Entwicklunsgesllshaft mbH bank ("DEG") owned 8.333% of the Bank's shares (2008: 8.333%). The remaining shares are owned by individuals, which held 25.901%.

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 (2008: AZN 2 per share) and rank equally. Each share carries one vote.

22 Interest Income and Expense

In thousands of Azerbaijani Manats	**2009**	**2008**
Interest income		
Interest income on loans and advances to customers	46,320	63,891
Interest income on finance leases	3,904	3,100
Interest income on correspondent accounts and due from other banks	2,191	3,105
Interest income on investment securities	1	482
Total interest income	**52,416**	**70,578**
Interest expense		
Interest expense on customer accounts	11,233	10,958
Interest expense on due to banks and term borrowings	11,146	25,117
Interest expense on subordinated debts	2,247	2,160
Interest expense on debt securities in issue	48	153
Total interest expense	**24,674**	**38,388**
Net interest income	**27,742**	**32,190**

23 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	**2009**	**2008**
Fee and commission income		
Commissions on settlement transactions	1,301	1,254
Commission on cash transactions	947	3,175
Commissions on guarantees and letters of credit issued	490	640
Commissions on plastic cards operations	508	854
Commissions on servicing customer accounts	12	724
Other fees and commissions	1,592	2,021
Total fee and commission income	**4,850**	**8,668**
Fee and commission expense		
Commissions on plastic cards operations	187	149
Commissions on settlement transactions	185	167
Commissions on guarantees and letters of credit	138	370
Commissions on cash collection	18	69
Other fees and commissions	32	130
Total fee and commission expense	**560**	**885**
Net fee and commission income	**4,290**	**7,783**

24 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	Note	2009	2008
Staff costs		9,784	10,663
Depreciation on premises and equipment	11	2,218	2,545
Rent expenses		1,807	1,974
Penalties for unpaid taxes for prior years	25	1,481	-
Advertising		841	819
Communication expenses		747	651
Security expenses		684	671
Professional fees		662	732
Repair and maintenance expenses		254	217
Expenses for insurance of customer deposits		229	355
Utility expenses		203	336
Insurance expenses		183	447
Publishing and stationery expenses		183	394
Amortisation of intangible assets	11	157	125
Business trip expense		84	273
Expenses related to plastic cards operations		55	91
Other expenses		1,194	1,180
Total administrative and other operating expenses		**20,766**	**21,473**

Included in staff costs are statutory social security contributions of AZN 1,615 thousand (2008: AZN 2,037 thousand). In addition, AZN 220 thousand was collected by the Group as a deduction to employee salaries and paid to the State Pension Fund on their behalf (2008: AZN 259 thousand).

25 Income Taxes

Income tax expense comprises the following:

In thousands of Azerbaijani Manats	2009	2008
Current taxes on income for the reporting period	868	2,830
Current taxes relating to previous periods	2,550	-
Deferred tax	193	221
Income tax expense for the year	**3,611**	**3,051**

The income tax rate applicable to the majority of the Group's income is 22% (2008: 22%). A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2009	2008
IFRS profit before tax	**4,695**	**10,199**
Theoretical tax charge at statutory rate (2009: 22%; 2008: 22%)	1,033	2,244
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	335	383
- Impact of change in tax rate to 20% effective from 1 January 2010	(6)	-
Under-provision of current tax in prior years	2,550	-
Effect of three-year tax holiday	491	424
Income tax not accrued due to tax holiday	(792)	-
Income tax expense for the year	**3,611**	**3,051**

On 19 June 2009, the Republic of Azerbaijan reduced the standard corporate income tax rate from 22% to 20% with effect from 1 January 2010. The impact of the change in tax rate presented above represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2008.

25 Income Taxes (Continued)

At 31 December 2009, the Bank was in a dispute with the Ministry of Taxes of the Republic of Azerbaijan arising from the taxation authorities' distinct interpretation of the Tax Code of the Republic of Azerbaijan in such a way that a share premium recorded by the Bank in prior years was considered as a taxable income. Management assessed this dispute to give rise to an uncertain tax position and recorded an additional current tax liability in the amount of AZN 2,550 thousand for prior periods measured at the amount expected to be paid if the position is successfully challenged by the taxation authorities. In addition, AZN 1,481 thousand representing a penalty charge accrued in relation to the aforementioned tax liability was recorded in administrative and other operating expenses for the year ended 31 December 2009. Refer to Notes 19, 24.

On 14 November 2008, a new law on “Stimulation of increasing the capitalization of banks, insurance and reinsurance companies” was enacted in the Republic of Azerbaijan. According to the law the profit tax rate for banks, insurance and reinsurance companies will be applicable at 0% for three fiscal years effective from 1 January 2009, for the portion of the profits transferred to share capital. At 31 December 2009, the management had an intention to take advantage of this concession with regard to the year ended 31 December 2009 and therefore, assessments of the current and deferred taxes were made on this basis.

The management recorded a current tax charge of AZN 316 thousand for the results of the Bank for the year ended 31 December 2009 representing 22% of the excess of taxable profit over the portion of statutory finance profit equal to AZN 3,600 thousand representing the amount the Bank would transfer to the share capital in order to take advantage of the tax concession. Refer to Note 30.

At 31 December 2009, the tax effects were calculated only for deductible/taxable temporary differences to exist at 1 January 2012, when the tax concession is ineffective.

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% (2008: 22%).

In thousands of Azerbaijani Manats	**31 December 2008**	**Charged to profit or loss**	**31 December 2009**
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	(115)	(171)	(286)
Other temporary differences	-	(22)	(22)
Recognised deferred tax liability	**(71)**	**(193)**	**(264)**

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 2007**	**(Charged)/ credited to profit or loss**	**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)**

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	2009	2008
Profit for the year attributable to ordinary shareholders	1,084	6,663
Weighted average number of ordinary shares in issue (thousands)	11,875	7,500
Basic and diluted earnings per ordinary share (expressed in AZN per share)	**0.09**	**0.89**

27 Segment Analysis

The chief operating decision maker, the Board of Directors, reviews the Group's internal reporting which primarily comprise the information prepared for statutory reporting purposes in order to assess performance and allocate resources. The operating segments have been determined based on these reports as follows:

- 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 2009 and 2008 is set out below:

	Retail banking		**Corporate banking**		**Total**	
In thousands of Azerbaijani Manats	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
External revenues						
- Interest income	18,161	38,803	34,256	31,776	52,417	70,579
- Fee and commission income	1,688	2,074	3,162	6,593	4,850	8,667
- Other operating income	-	-	183	313	183	313
Total revenues	**19,849**	**40,877**	**37,601**	**38,682**	**57,450**	**79,559**
- Interest expense	(8,525)	(19,723)	(16,149)	(18,665)	(24,674)	(38,388)
- Fee and commission expenses	(195)	(212)	(365)	(674)	(560)	(886)
- Provision for loan impairment	(2,801)	(7,131)	(4,946)	(5,180)	(7,747)	(12,311)
- Administrative and other operating expenses	(6,343)	(9,660)	(12,048)	(9,142)	(18,391)	(18,802)
Adjusted profit before income tax	**1,985**	**4,151**	**4,093**	**5,021**	**6,078**	**9,172**

27 Segment Analysis (Continued)

In thousands of Azerbaijani Manats	Retail banking 2009	Retail banking 2008	Corporate banking 2009	Corporate banking 2008	Total 2009	Total 2008
Total reportable segment assets	237,007	267,983	75,857	109,499	312,864	377,482
Total reportable segment liabilities	(53,524)	(82,411)	(261,102)	(289,914)	(314,626)	(372,325)
Capital expenditure	4,648	10,872	1,409	4,540	6,057	15,412

A reconciliation of adjusted profit before income tax to total profit before income tax is provided as follows:

In thousands of Azerbaijani Manats	2009	2008
Adjusted profit before income tax for reportable segments	**6,078**	**9,172**
Depreciation of premises and equipment	(2,218)	(2,545)
Amortization of intangible assets	(157)	(125)
Foreign currency translation (losses less gains)/gains less losses	(1,456)	1,143
Gains less losses arising from trading in foreign currencies	2,448	2,554
Profit before income tax	**4,695**	**10,199**

The adjustments are attributable to the following:

- The Group does not allocate depreciation and amortisation to the segments.

Reportable segments' assets are reconciled to total assets as follows:

In thousands of Azerbaijani Manats	2009	2008
Total reportable segment assets	**312,864**	**377,482**
Other assets	35,662	27,762
Other financial assets	1,254	419
Premises, equipment and intangible assets	12,221	13,332
Total consolidated assets	**362,001**	**418,995**

The adjustments are attributable to the following:

- Other assets and other financial assets are not allocated between the reporting segments for internal management reporting.
- Premises and equipment and intangible assets are not allocated between the reporting segments for internal management reporting.

The Group does not report the geographical segment information based on the fact that the majority of its operations are carried out in the Republic of Azerbaijan.

Reportable segments' liabilities are reconciled to total liabilities as follows:

In thousands of Azerbaijani Manats	2009	2008
Total reportable segment liabilities	**314,626**	**372,324**
Deferred tax liability	264	71
Current income tax liability	2,747	993
Other financial liabilities	3,058	799
Other liabilities	2,112	1,106
Total consolidated liabilities	**322,807**	**375,293**

27 Segment Analysis (Continued)

The adjustments are attributable to the following:

- Deferred income tax liability is not calculated for the purpose of internal management reporting.
- Current income tax liability, other financial liabilities and other liabilities are not allocated between the reportable segments for internal management reporting.

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 Bank's leasing subsidiary. The Group has established executive bodies, committees and departments which conform to Azerbaijani law, the Central Bank of Azerbaijan Republic 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 him 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 report on these issues to the Supervisory Board.

28 Financial Risk Management (Continued)

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.

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. Normally, the only credit risk arising from market operations is Azerbaijani government bonds and the notes issued by the Central Bank of Azerbaijan Republic. 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 and chairman of the Supervisory Board review and approve limits above AZN 1,000 thousand up to a maximum limit of 10% of the total statutory equity and meets on a regular basis;
- The Executive Board reviews and approves limits above AZN 500 thousand up to a maximum limit of AZN 1,000 thousand and meets on a regular basis;
- The Credit Committee reviews and approves limits above AZN 250 thousand up to a maximum limit of AZN 500 thousand and meets on a regular basis;
- The Supervisory Director reviews and approves limits above AZN 100 thousand up to a maximum limit of AZN 150 thousand;
- The Chief Executive Manager reviews and approves limits above branch limit up to a maximum limit of AZN 100 thousand; and
- The loans below the limits stipulated above are reviewed and approved by the Head of the branch.

28 Financial Risk Management (Continued)

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 and chairman of the Supervisory Board review and approve limits above AZN 100 thousand up to a maximum limit of 6% of the total statutory equity and meets on a regular basis;
- The Executive Board reviews and approves limits above AZN 30 thousand up to a maximum limit of AZN 100 thousand and meets on a regular basis;
- The Credit Committee reviews and approves limits above AZN 5 thousand up to a maximum limit of AZN 30 thousand and meets on a regular basis;
- The loans below the limits stipulated above are reviewed and approved by the Head of the branch.

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.

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 2009, 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.

28 Financial Risk Management (Continued)

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 Central Bank of Azerbaijan Republic 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.

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

28 Financial Risk Management (Continued)

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 2009 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 Central Bank of Azerbaijan Republic 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.

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

The Central Bank of Azerbaijan Republic also has a provisioning 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.

28 Financial Risk Management (Continued)

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 consolidated statement of financial position. 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 Central Bank of Azerbaijan Republic 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 Central Bank of Azerbaijan Republic 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.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2009			At 31 December 2008		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
AZN	174,765	167,545	7,220	248,194	182,303	65,891
USD	121,289	136,539	(15,250)	115,778	178,468	(62,690)
EUR	16,587	13,565	3,022	11,812	12,503	(691)
Other	715	35	680	1,355	156	1,199
Total	**313,356**	**317,684**	**(4,328)**	**377,139**	**373,430**	**3,709**

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.

28 Financial Risk Management (Continued)

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 end of the reporting period, with all other variables held constant:

	At 31 December 2009	At 31 December 2008
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollars strengthening by 5%	(763)	(3,135)
US Dollars weakening by 5%	763	3,135
Euro strengthening by 5%	(151)	(35)
Euro weakening by 5%	151	35
Great Britain pounds strengthening by 5%	(169)	(180)
Great Britain pounds weakening by 5%	169	180
Russian Roubles strengthening by 5%	15	18
Russian Roubles weakening by 5%	(15)	(18)

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.

The Group's exposure to currency risk at the end of the reporting period 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:

	Average exposure during 2009	Average exposure during 2008
In thousands of Azerbaijani Manats	Impact on profit or loss	Impact on profit or loss
US Dollars strengthening by 5%	(1,665)	(1,996)
US Dollars weakening by 5%	1,665	1,996
Euro strengthening by 5%	(313)	(19)
Euro weakening by 5%	313	19
Great Britain pounds strengthening by 5%	8	8
Great Britain pounds weakening by 5%	(8)	(8)
Russian Roubles strengthening by 5%	483	11
Russian Roubles weakening by 5%	(483)	(11)

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.

28 Financial Risk Management (Continued)

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

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Total
31 December 2009					
Total financial assets	96,237	39,226	24,764	153,129	313,356
Total financial liabilities	76,918	114,857	71,882	54,027	317,684
Net interest sensitivity gap at 31 December 2009	**19,319**	**(75,631)**	**(47,118)**	**99,102**	**(4,328)**
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**

At 31 December 2009, 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 602 thousand (2008: AZN 1,166 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 602 thousand (2008: AZN 1,166 thousand) lower, mainly as a result of higher interest expense on variable interest liabilities. The Group'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:

	2009			2008		
In % p.a.	USD	AZN	EUR	USD	AZN	EUR
Assets						
Cash and cash equivalents	0.9	-	-	0.9	-	-
Due from other banks	13.3	-	13.6	14.0	15.7	-
Loans and advances to customers	18.8	15.7	14.3	22.1	18.8	14.3
Investment securities available-for-sale	-	8.0	-	-	9.9	-
Liabilities						
Due to other banks	-	10.0	-	11.1	-	14.0
Customer accounts	14.9	13.8	9.2	14.9	13.0	9.1
Debt securities in issue	-	-	-	-	14.0	-
Term borrowings	8.8	3.8	5.3	8.2	7.7	6.8
Subordinated debt	10.4	-	-	10.4	-	-

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 2009 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	40,731	11,665	85	52,481
Mandatory cash balances with the CBAR	637	-	-	637
Due from other banks	21,199	14,456	-	35,655
Loans and advances to customers	223,319	-	-	223,319
Investment securities available for sale	10	-	-	10
Other financial assets	1,254	-	-	1,254
Total financial assets	**287,150**	**26,121**	**85**	**313,356**
Non-financial assets	**48,645**	**-**	**-**	**48,645**
Total assets	**335,795**	**26,121**	**85**	**362,001**
Liabilities				
Due to other banks	4,799	14,807	8	19,614
Customer accounts	148,026	-	-	148,026
Term borrowings	61,917	63,466	-	125,383
Other financial liabilities	3,058	-	-	3,058
Subordinated debt	-	21,603	-	21,603
Total financial liabilities	**217,800**	**99,876**	**8**	**317,684**
Non-financial liabilities	**5,123**	**-**	**-**	**5,123**
Total liabilities	**222,923**	**99,876**	**8**	**322,807**
Net position in on-balance sheet financial instruments	**112,872**	**(73,755)**	**77**	**39,194**
Credit related commitments	**44,882**	**-**	**-**	**44,882**

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 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 CBAR	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 position in on-balance sheet financial instruments	**171,787**	**(128,316)**	**231**	**43,702**
Credit related commitments	**57,845**	**-**	**-**	**57,845**

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 Central Bank of Azerbaijan Republic has in place minimum levels of liquidity required. The loan agreements with international financial institutions also have minimum liquidity covenants in their agreements with the Group. As of 31 December 2009, the Group was in compliance with all these covenants.

28 Financial Risk Management (Continued)

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 Central Bank of Azerbaijan Republic 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, changes in the consolidated statement of financial position;
- 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.

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

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	52,481	-	-	-	-	52,481
Mandatory cash balances with the CBAR	126	192	230	89	-	637
Due from other banks	16,397	18,346	1,556	-	-	36,299
Loans and advances to customers	21,996	37,600	39,583	172,924	74,706	346,809
Investment securities available for sale	10	-	-	-	-	10
Other financial assets	1,254	-	-	-	-	1,254
Total	**92,264**	**56,138**	**41,369**	**173,013**	**74,706**	**437,490**
Liabilities						
Due to other banks	19,636	-	-	-	-	19,636
Customer accounts	30,435	48,690	58,060	22,725	-	159,910
Term borrowings	537	2,502	2,466	7,435	4,927	17,867
Other financial liabilities	3,058	-	-	-	-	3,058
Subordinated debt	187	935	1,122	7,615	21,605	31,464
Credit related commitments	19,682	7,879	8,102	9,415	-	45,078
Total potential future payments for financial obligations	**73,535**	**60,006**	**69,750**	**47,190**	**26,532**	**277,013**
Liquidity gap arising from financial instruments	**18,729**	**(3,868)**	**(28,381)**	**125,823**	**48,174**	**160,477**

28 Financial Risk Management (Continued)

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

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	39,122	-	-	-	-	39,122
Mandatory cash balances with the CBAR	661	992	1,190	822	-	3,665
Due from other banks	1,815	1,894	12,879	-	-	16,588
Loans and advances to customers	10,032	51,552	74,248	287,267	74,965	498,064
Investment securities available for sale	107	-	-	-	-	107
Other financial assets	419	-	-	-	-	419
Total	**52,156**	**54,438**	**88,317**	**288,089**	**74,965**	**557,965**
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**
Liquidity gap arising from financial instruments	**(10,561)**	**(141,063)**	**(12,601)**	**197,586**	**51,072**	**84,433**

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.

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

28 Financial Risk Management (Continued)

The following table show carrying amounts of assets and liabilities of the Group grouped on the basis of the remaining period from the end of the reporting period 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**
At 31 December 2009					
Financial assets	96,237	39,226	24,764	153,129	313,356
Financial liabilities	126,856	62,515	75,964	52,349	317,684
Net liquidity gap based on expected maturities	**(30,619)**	**(23,289)**	**(51,200)**	**100,780**	**(4,328)**
At 31 December 2008					
Financial assets	50,901	64,119	85,516	176,603	377,139
Financial liabilities	111,436	119,362	66,255	76,070	373,123
Net liquidity gap based on expected maturities	**(60,535)**	**(55,243)**	**19,261**	**100,533**	**4,016**

As at 31 December 2009, the Group had a cumulative liquidity gap of AZN 105,108 thousand up to 12 months (2008: AZN 96,517 thousand).

As set out in Note 30, in the above analysis of maturities, total term borrowings of AZN 49,938 thousand and subordinated debt of AZN 21,603 thousand are included in the "demand and less than 1 month" category due to breaches of certain covenants imposed in those term borrowing and subordinated debt agreements as at 31 December 2009. The contractual maturity dates are set out in Note 17 and 20 for the individual term borrowings and subordinated debt, respectively.

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 CBAR, (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 CBAR 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 CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 10,000 thousand (2008: 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% (2008: 12%) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 6% (2008: 6%).

For the CBAR statutory capital adequacy purposes the amount of the cumulative capital that the Bank manages as at 31 December 2009 is AZN 59,460 thousand (2008: AZN 64,064 thousand).

Management consider that the Group was in compliance with the statutory capital ratio during the year ended 31 December 2009. 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	**2009**	**2008**
Tier 1 capital		
Share capital	30,000	15,000
Share premium	484	12,076
Retained earnings	6,822	15,359
Minority interest	1,818	1,197
Total qualifying Tier 1 capital	**39,124**	**43,632**
Tier 2 capital		
Revaluation reserve – available-for-sale investments	70	70
Subordinated debt	21,603	21,546
Total qualifying Tier 2 capital	**21,673**	**21,616**
Less: Investments in equity shares	(762)	(762)
Total regulatory capital	**60,035**	**64,486**
Risk-weighted assets:		
On-balance sheet	308,873	376,106
Off-balance sheet	8,616	20,904
Total risk-weighted assets	**317,489**	**397,010**
Basel ratio	**18.9%**	**16.2%**

Management considers that the Bank has complied with all externally imposed capital requirements throughout 2009 and 2008.

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.

As disclosed in Note 25, on 14 November 2008, a new law on "Stimulation of increasing the capitalization of banks, insurance and reinsurance companies" was enacted in the Republic of Azerbaijan. According to the law the profit tax rate for banks, insurance and reinsurance companies will be applicable at 0% for three fiscal years effective from 1 January 2009, for the portion of the profits transferred to share capital. The management of the Bank believes that its interpretation of the requirements of this law is appropriate and the Bank will be able to take advantage of the law. Should the management's interpretation of the requirements of the law turn out to be inappropriate, additional current tax liability of AZN 792 thousand may arise with regard to the results of operations of the Bank for the year ended 31 December 2009.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2009 no provision for potential tax liabilities has been recorded (2008: no provision). 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 2009, the Group does not have material contractual capital expenditure commitments. (2008: 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	**2009**	**2008**
Not later than 1 year	471	415
Total operating lease commitments	**471**	**415**

30 Contingencies and Commitments (Continued)

Compliance with covenants. The Bank is subject to certain covenants related primarily to its term borrowings and subordinated debt. 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 ended 31 December 2009 the Bank has materially complied with the covenants that were in force. However, at 31 December 2009 the Bank failed to comply with five covenants included in two of its term borrowing arrangements. At 31 December 2009, the Bank was in breach of the following covenants:

- "Non-Performing Loans ratio" as stipulated in the borrowing agreement with FMO. The Bank was required not to exceed 10%, while the actual percentage was equal to 14.6% as at 31 December 2009.
- "Open Loan Exposure Ratio" as stipulated in the borrowing agreement with FMO. The Bank was required not to exceed 10%, while the actual percentage was equal to 11.6% as at 31 December 2009.
- "Ratio of non-performing loans in the Bank's gross corporate loan portfolio to its Tier 1 Capital" as stipulated in one of the borrowing agreements with EBRD. The Bank was required not to exceed 12%, while the actual percentage was equal to 25.9% as at 31 December 2009.
- "Ratio of non-performing loans in the Bank's gross retail loan portfolio to its Tier 1 Capital" as stipulated in one of the borrowing agreements with EBRD. The Bank was required not to exceed 20%, while the actual percentage was equal to 28.8% as at 31 December 2009.
- "Ratio of net non-performing loans to the Bank's Tier 1 Capital" as stipulated in one of the borrowing agreements with EBRD. The Bank was required not to exceed 15%, while the actual percentage was equal to 25.4% as at 31 December 2009.

The total amount of term borrowings and subordinated debt affected by the breach of these covenants comprised equivalent of AZN 49,938 thousand and AZN 21,603 thousand, respectively, as at 31 December 2009. 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, equivalent of AZN 49,938 thousand of term borrowings and AZN 21,603 thousand of subordinated debt impacted have been reclassified to being on demand within these consolidated financial statements. Refer to Note 28.

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.

30 Contingencies and Commitments (Continued)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. 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:

	2009		2008	
In thousands of Azerbaijani Manats	**Outstanding amount**	**Fair value**	**Outstanding amount**	**Fair value**
Cancellable undrawn credit lines	35,389	-	34,065	-
Letters of guarantee	7,738	197	18,028	338
Import letters of credit	1,755	13	5,752	66
Total credit related commitments	**44,882**	**210**	**57,845**	**404**

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 210 thousand at 31 December 2009 (2008: AZN 404 thousand). Credit related commitments are denominated in currencies as follows:

In thousands of Azerbaijani Manats	**2009**	**2008**
Azerbaijani Manats	16,784	18,034
US Dollars	22,530	25,594
Euro	5,568	14,217
Total	**44,882**	**57,845**

31 Fair Value of Financial Instruments

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

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

In thousands of Azerbaijan Manats	**2009** Carrying amount	**2009** Fair value	**2008** Carrying amount	**2008** Fair value
FINANCIAL ASSETS				
Cash and cash equivalents				
- Cash on hand	15,063	15,063	22,135	22,135
- Cash balances with the CBAR (other than mandatory reserve deposits)	25,226	25,226	3,406	3,406
- Correspondent accounts and overnight placements with other banks	12,192	12,192	13,576	13,576
Mandatory cash balances with the CBAR	637	637	3,665	3,665
Due from other banks				
- Current term placements with other banks	35,655	35,655	16,117	16,117
Loans and advances to customers				
- Corporate loans	54,044	54,044	75,774	75,774
- Loans to individuals – purchase of motor vehicles	60,151	60,151	102,364	102,364
- Loans to individuals – consumer loans	49,853	49,853	29,388	29,388
- Loans to individuals – entrepreneurs	26,467	26,467	72,931	72,931
- Mortgage loans	32,804	32,804	37,257	37,257
Other financial assets				
- Credit and debit card receivables	667	667	89	89
- Restricted cash	424	424	-	-
- Settlements on money transfer operations	163	163	330	330
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**313,346**	**313,346**	**377,032**	**377,032**
FINANCIAL LIABILITIES				
Due to other banks				
- Correspondent accounts and overnight placements of other banks	175	175	5,158	5,158
- Current term placements of other banks	19,439	19,439	10,238	10,238
Customer accounts				
- Current/settlement accounts of state and public organisations	1,498	1,498	1,164	1,164
- Current/settlement accounts of other legal entities	30,449	30,449	34,622	34,622
- Term deposits of other legal entities	17,806	17,806	24,208	24,208
- Current/demand accounts of individuals	17,057	17,057	8,986	8,986
- Term deposits of individuals	81,216	81,216	73,301	73,301
Debt securities in issue				
- Debentures	-	-	750	750
Term borrowings				
- Term borrowings from government agencies and international financial institutions	125,383	125,383	192,351	192,351
Other financial liabilities				
- Cancelled share premium payable to foreign shareholders	2,723	2,723	-	-
- Professional fees payable	196	196	700	700
- Amounts received for brokerage operations	117	117	-	-
- Temporary accounts of legal entities in the process of registration	22	22	99	99
Subordinated debt				
- Subordinated debt	21,603	21,603	21,546	21,546
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**317,684**	**317,684**	**373,123**	**373,123**

31 Fair Value of Financial Instruments (Continued)

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

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

	2009			2008		
In thousands of Azerbaijan Manats	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**	**Quoted price in an active market (Level 1)**	**Valuation technique with inputs observable in markets (Level 2)**	**Valuation technique with significant non-observable inputs (Level 3)**
FINANCIAL ASSETS						
Investment securities available for sale						
Notes of the MoF	-	10	-	-	107	-
Corporate shares – unquoted	-	-	762	-	-	762
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**-**	**10**	**762**	**10**	**107**	**762**

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

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

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

	2009	**2008**
Due from other banks		
- Current term placements with other banks	12% to 16% p.a.	4% to 17% p.a.
Loans and advances to customers		
- Corporate loans	5% to 30% p.a.	5% to 30% p.a.
- Loans to individuals - consumer loans	12% to 36% p.a.	11% to 36% p.a.
- Loans to individuals - purchase of motor vehicles	14% to 30% p.a.	13% to 36% p.a.
- Loans to individuals – entrepreneurs	6% to 36% p.a.	7% to 30% p.a.
- Mortgage loans	4% to 26% p.a.	4% to 30% p.a.
Due to other banks		
- Current term placements of other banks	3.5% to 10% p.a.	15% to 18% p.a.
Customer accounts		
- Term deposits of other legal entities	6% to 15% p.a.	8% to 14% p.a.
- Term deposits of individuals	5% to 20% p.a.	8% to 19% p.a.
Debt securities in issue		
- Debentures	-	14% p.a.
Term borrowings		
- Term borrowings from government agencies and international financial institutions	1% to 11.5% p.a.	0.5% to 14% p.a.
Subordinated debt		
- Subordinated debt	10% to 10.5% p.a.	10% to 10.5% p.a.

32 Presentation of Financial Instruments by Measurement Category

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

	2009			2008		
In thousands of Azerbaijani Manats	**Loans and receivables**	**Available-for-sale assets**	**Total**	**Loans and receivables**	**Available-for-sale assets**	**Total**
Assets						
Cash and cash equivalents	52,481	-	52,481	39,117	-	39,117
Mandatory cash balances with the CBAR	637	-	637	3,665	-	3,665
Due from other banks						
- Current term placements with other banks	35,655	-	35,655	16,117	-	16,117
Loans and advances to customers						
- Corporate loans	54,044	-	54,044	75,774	-	75,774
- Loans to individuals - purchase of motor vehicles	60,151	-	60,151	102,364	-	102,364
- Loans to individuals - consumer loans	49,853	-	49,853	29,388	-	29,388
- Loans to individuals – entrepreneurs	26,467	-	26,467	72,931	-	72,931
- Mortgage loans	32,804	-	32,804	37,257	-	37,257
Investment securities available for sale	-	10	10	-	107	107
Other financial assets:						
- Credit and debit cards receivables	667	-	667	89	-	89
- Restricted cash	424	-	424	-	-	-
- Settlements on money transfer operations	163	-	163	330	-	330
Total financial assets	**313,346**	**10**	**313,356**	**377,032**	**107**	**377,139**
Non-financial assets			**48,645**			**41,856**
Total assets			**362,001**			**418,995**

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 2009 and 31 December 2008, the outstanding balances with related parties were as follows:

	2009				2008			
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: 2009: 9% - 12% p.a.; 2008: 6% - 18% p.a.)	1,111	10	62	402	330	16	1	670
Impairment provisions for loans and advances to customers at the year end	(21)	-	(1)	(8)	(7)	-	-	(13)
Prepaid insurance expense	-	-	-	132	-	-	-	56
Current/settlements accounts	1,243	6,050	976	11	91	372	30	422
Term deposits (contractual interest rate: 2009: 12%-15% p.a.; 2008: 11%-15% p.a.)	465	-	191	-	293	7,930	292	3,330
Debt securities in issue	-	-	-	-	-	-	-	500
Term borrowings	-	-	33,617	-	-	-	40,455	-
Subordinated debt	-	-	12,047	-	-	-	12,015	-

The income and expense items with related parties for the years ended 31 December 2009 and 31 December 2008 were as follows:

	2009				2008			
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	10	6	4	15	24	-	-	96
Interest expense	55	33	6	-	7	136	5,395	-
Provision for loan impairment	(14)	-	(1)	5	-	5	3	(13)
Fee and commission income	3	-	-	-	1	1	-	7
Fee and commission expense	27	-	187	13	-	-	-	-
Insurance expense	-	-	-	183	-	-	-	258
Other income	-	-	-	94	-	-	-	-

33 Related Party Transactions (Continued)

Other rights and obligations with related parties at 31 December 2009 and 31 December 2008 were as follows:

	2009				2008			
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	-	-	-	807	-	-	-	370

The Bank is ultimately controlled by Mr. Eldar Garibov (2008: Mr. Eldar Garibov).

During the year ended 31 December 2009, the remuneration of key management personnel comprised salaries, discretionary bonuses and other short-term benefits totalling AZN 897 thousand (2008: AZN 902 thousand). During the year ended 31 December 2008, included in management remuneration was a total of AZN 80 thousand paid by EBRD on behalf of the Group.

34 Subsidiary Undertakings

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 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 1,818 thousand included in the consolidated statement of financial position of the Group as at 31 December 2009 represents EBRD's share of 33.3% of Unileasing's net assets at 31 December 2009.

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.