Technikabank OJSC

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

31 December 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Technikabank Open Joint Stock Company:

We have audited the accompanying consolidated financial statements of Technikabank 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 Consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial position of the Group as of 31 December 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan
22 June 2010

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Technikabank OJSC
Consolidated Statement of Financial Position

In thousands of Azerbaijani Manats	Note	2009	2008
Assets			
Cash and cash equivalents	7	47,897	49,392
Mandatory cash balances with CBAR		837	9,933
Due from other banks and financial institutions	8	6,980	15,504
Loans and advances to customers	9	342,509	318,704
Investment securities available for sale	10	609	550
Other investment securities	11	2,336	-
Investment properties	12	1,181	253
Premises and equipment	13	39,111	36,747
Intangible assets	13	2,628	1,251
Other financial assets	14	3,340	1,849
Other assets	15	2,778	4,040
Total assets		**450,206**	**438,223**
Liabilities			
Due to other banks and financial institutions	16	28,826	75,570
Customer accounts	17	189,812	174,603
Debt securities in issue	18	10,906	31,271
Term borrowings from other banks and financial institutions	19	157,007	99,739
Current income tax liability		-	861
Deferred income tax liability	27	971	1,363
Other financial liabilities	20	1,916	4,007
Other liabilities	21	2,173	1,950
Total liabilities		**391,611**	**389,364**
Equity			
Share capital	22	41,712	26,912
Share premium	22	3,464	3,464
Revaluation reserve for premises	23	3,143	2,589
Revaluation reserve for investment available for sale	23	149	90
Retained earnings		10,127	15,804
Total equity		**58,595**	**48,859**
Total liabilities and equity		**450,206**	**438,223**

Approved for issue and signed on behalf of the Board of Directors on 22 June 2010:

Samir Huseynov
Chairman of the Board of Directors

Nijat Abdullayev
Head of Finance Department

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Interest income	24	53,716	53,217
Interest expense	24	(27,527)	(29,171)
Net interest income		**26,189**	**24,046**
Provision for loan impairment		(9,584)	(14,669)
Provision of impairment of due from other banks		(1,778)	(550)
Net interest income after provision for loan impairment		**14,827**	**8,827**
Fee and commission income	25	10,504	14,787
Fee and commission expense	25	(2,355)	(1,961)
Gains less losses from trading in foreign currencies		854	1,900
Gain on revaluation of investment properties		111	-
Loss on revaluation of premises		(2,388)	-
Foreign exchange translation gains less losses		648	3,905
Insurance premiums written		926	1,329
Reinsurance premiums ceded		(87)	(243)
Decrease/(Increase) of provision for unearned premiums		278	(351)
(Decrease)/increase of reinsurer's share of provision for unearned premiums		(89)	368
Claims incurred		(262)	(358)
Provision for losses on credit related commitments		(176)	-
Other operating income		41	466
Administrative and other operating expenses	26	(14,333)	(12,594)
Profit before tax		**8,499**	**16,075**
Income tax credit/(expense)	27	544	(3,971)
Profit for the year		**9,043**	**12,104**
Other comprehensive income:			
Available-for-sale investments:			
- Gains less losses arising during the year	23	59	90
- Reclassification adjustments for gains less losses included in profit or loss		-	-
Revaluation of premises and equipment	23	793	-
Income tax recorded directly in other comprehensive income	23	(159)	-
Other comprehensive income for the year		**693**	**90**
Total comprehensive income for the year		**9,736**	**12,194**
Earnings per share for profit attributable to the equity holders of the Group, basic and diluted	28	**0.217**	**0.450**

In thousands of Azerbaijani Manats	Note	Share capital	Share premium	Other Reserves	Retained earnings	Total equity
Balance at 1 January 2008		**26,912**	**3,464**	**2,669**	**3,620**	**36,665**
Total comprehensive income for 2008		-	-	90	12,104	12,194
Transfer to retained earnings		-	-	(80)	80	-
Balance at 31 December 2008		**26,912**	**3,464**	**2,679**	**15,804**	**48,859**
Total comprehensive income for 2009		-	-	693	9,043	9,736
Transfer to retained earnings		-	-	(80)	80	-
Share issue	22	14,800	-	-	(14,800)	-
Balance at 31 December 2009		**41,712**	**3,464**	**3,292**	**10,127**	**58,595**

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Cash flows from operating activities			
Interest received		40,941	47,234
Interest paid		(28,142)	(27,843)
Fees and commissions received		9,835	14,787
Fees and commissions paid	25	(2,355)	(1,961)
Insurance premium received		846	1,226
Reinsurance premium ceded		(87)	(243)
Insurance claims paid		(262)	(358)
Income received from trading in foreign currencies		854	1,900
Other operating income received		41	466
Staff costs paid		(6,361)	(5,740)
Administrative and other operating expenses		(4,105)	(4,759)
Income tax paid		(861)	(4,942)
Cash flows from operating activities before changes in operating assets and liabilities		**10,344**	**19,767**
Changes in operating assets and liabilities			
Net decrease/(increase) in mandatory cash balances with the CBAR		9,096	(1,520)
Net decrease in due from other banks		7,266	9,736
Net increase in loans and advances to customers		(22,078)	-
Net increase in other investment securities		(2,336)	(90,697)
Net (increase)/decrease in other financial assets		(742)	551
Net decrease/(increase) in other assets		716	(2,361)
Net (decrease)/increase in due to other banks and financial institutions		(46,625)	22,138
Net decrease in liabilities to customers under brokerage agreements		-	(10,793)
Net increase/(decrease) in customer accounts		14,970	(20,897)
Net (decrease)/increase in other financial liabilities		(2,363)	2,830
Net increase/(decrease) in other liabilities		519	(633)
Net cash used in operating activities		**(31,233)**	**(71,879)**
Cash flows from investing activities			
Acquisition of premises and equipment and intangible assets		(9,491)	(19,654)
Acquisition of investment properties		-	(108)
Net cash used in investing activities		**(9,491)**	**(19,762)**
Cash flows from financing activities			
Proceeds from term borrowings from other banks and financial institutions		122,071	67,366
Repayment of term borrowings from other banks and financial institutions		(64,288)	(6,580)
Proceeds from debt securities in issue		-	27,500
Repayment of debt securities in issue		(19,137)	(1,664)
Net cash provided from financing activities		**38,646**	**86,622**
Effect of exchange rate changes on cash and cash equivalents		**583**	**1,184**
Net decrease in cash and cash equivalents		**(1,495)**	**(3,835)**
Cash and cash equivalents at the beginning of the year		49,392	53,227
Cash and cash equivalents at the end of the year	7	**47,897**	**49,392**

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009 for Technikabank OJSC (the "Bank") and its subsidiaries (together referred to as the "Group").

The Bank was incorporated on 14 December 1993 and is domiciled in the Republic of Azerbaijan. The Bank is an open joint stock company limited by shares and was set up in accordance with Azerbaijani regulations.

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 licence issued by the Central Bank of the Republic of Azerbaijan ("CBAR") since 1994. The Bank participates in the state deposit insurance scheme, which was introduced by the Azeri Law, "Deposits of individuals insurance in Azerbaijan Republic" dated 29 December 2006. The State Deposit Insurance Fund guarantees repayment of all individual deposits up to the amounts described below:

- until 1 January 2008 – up to AZN 4,000;
- from 1 January 2008 until 1 January 2010 – up to AZN 6,000;
- 1 January 2010 and afterwards – up to AZN 30,000.

The amounts over respective limits are not insured.

The legal owner and ultimate controlling party of the Group is the majority shareholder, World Wines, a private company registered in the Republic of Azerbaijan, and its controlling party, Mr. Adil Mammadov. However, it has been entrusted to Mr. Etibar Aliyev to continue running the business with control over all day-to-day activities together with longer term strategic planning of the Group. World Wines' registered address is Azizbeyov district, Yesenin str. 11, apt. 4, Baku, Republic of Azerbaijan.

The Group includes four subsidiaries fully owned by the Bank and operating in the brokerage, leasing, insurance and card processing industries respectively.

On 16 May 2002, the Group registered its fully-owned subsidiary, Capital Management Limited LLC ("Capital Management") at the Ministry of Justice of the Republic of Azerbaijan. On 14 March 2003, Capital Management was granted a brokerage licence by the State Committee on Securities to render brokerage services at Baku Stock Exchange.

On 2 June 2004, the Group registered its fully-owned subsidiary, TechnikaLeasing LLC ("TechnikaLeasing") at the Ministry of Justice of the Republic of Azerbaijan. TechnikaLeasing commenced its operations in late 2005.

On 12 December 2006, the Group acquired 100% of the share capital of Alfa Insurance OJSC ("Alfa Insurance"). Alfa Insurance was formed on 28 August 1997 rendering insurance products including auto, health and property insurance.

On 28 December 2009, the Group acquired 100% of the share capital of Texkart OJSC ("Texkart"). Texkart was formed on 2 August 2007 and acts as a clearing and authorisation centre for plastic card transactions in the Republic of Azerbaijan.

The Bank has 35 (2008: 35) branches and 2 (2008: 2) service points within the Republic of Azerbaijan.

The Group had 673 employees as at 31 December 2009 (2008: 605).

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

Narimanov district, Ataturk Avenue, 1107
AZ1069
Baku
Republic of Azerbaijan

Presentation currency. These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN thousands").

2 Operating Environment of the Group

The Republic of Azerbaijan displays certain characteristics of an emerging market, including existence of a currency that is in practice not convertible in most countries outside of the Republic of Azerbaijan, restrictive currency controls and relatively high inflation. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience 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 changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced 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.

Recent volatility in global financial markets. The ongoing global financial 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 new number of new loans and advances made to customers, and higher funding costs where it remains possible to obtain debt finance from International Institutions or other local banks. The uncertainties in the global financial market have 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 it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises and investment properties, and the valuation at fair value of investment securities available for sale. 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 (refer to Note 5). Management, being the Board of Directors, who approved these consolidated financial statements for issue, have the power to amend these consolidated financial statements. Any such change requires the approval of the Board of Directors.

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. 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

3 Summary of Significant Accounting Policies (Continued)

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss for the year.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Inter-company 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.

Key measurement terms. Depending on their classification financial instruments are carried at fair value 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.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments, for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these 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.

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 consolidated statement of financial position items.

3 Summary of Significant Accounting Policies (Continued)

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 re-pricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by a transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and a 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.

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. Cash and cash equivalents include all inter-bank placements with original maturities of less than three months. Funds restricted for a period of more than three months are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Impairment losses are 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.

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 unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at end of 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. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated, using the effective interest method and recognised in profit or loss 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.

3 Summary of Significant Accounting Policies (Continued)

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.

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

Investment properties. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. The fair value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

3 Summary of Significant Accounting Policies (Continued)

Premises and equipment. Premises and equipment are stated at cost, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives at the following annual rates:

Premises	3%;
Computers and communication equipment	25%;
Furniture, fixtures and other equipment	20%;
Motor vehicles	25%; and
Leasehold improvements	over the term of the underlying lease.

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. 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.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Non-life insurance operations

- ***Premiums written***. Upon inception of a contract, insurance premium is recorded as written and a corresponding provision for unearned premium is created.

- ***Provision for unearned premiums.*** Provision for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date. Re-insurers' share of provision for unearned premiums represents the proportion of premiums ceded in the year that relate to unexpired terms of policies in force as at the balance sheet date. The provision for unearned premiums, net of re-insurers' share of provision, is released to income on a time proportion basis, using straight line method.

- ***Claims paid.*** Claims paid including claims handling expenses are charged to the consolidated statement of income as incurred.

- ***Loss provision.*** Loss provision represents the accumulation of estimates for incurred losses and includes outstanding claims provision ("OCP") and provision for losses incurred, but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Group during investigation of insurance cases expected to be settled after the balance sheet date. IBNR is actuarially determined by the Group by line of business, using simplified Bornhuetter-Ferguson method, based on implied expected ultimate loss ratios and implied reported claims development factors, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of income as they arise. The loss reserves are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

3 Summary of Significant Accounting Policies (Continued)

- ***Reinsurance.*** The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance receivables include balances due from reinsurance companies for paid claims, including claims handling expenses, and premiums ceded to the Group. Amounts recoverable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to re-insurers and of the Group's share in claims in respect of insurance cases reinsured by the Group. Reinsurance contracts that do not transfer insurance risk are accounted for directly through the consolidated balance sheet and are included in other receivables or payables.

- ***Deferred acquisition costs.*** Acquisition costs, representing commissions and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortised over the period, in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

- ***Insurance related payables.*** All payables are accounted for on an accruals basis. Reinsurance receivables and payables are offset where the legal right for this offset exists. Claims in the process of settlement include the amounts payable by the Group to its customers under claims that have been processed, evaluated and approved for repayment under the Group's policy.

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. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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 promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Term borrowings from other banks and financial institutions. Term borrowings from other banks and financial institutions are carried at amortised cost.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year (gains less losses on derivatives). The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

3 Summary of Significant Accounting Policies (Continued)

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

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

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

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

Income and expense recognition. Interest income and expense are recorded in the consolidated statement of comprehensive income 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.

3 Summary of Significant Accounting Policies (Continued)

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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 all of the Group's entities and the Group's presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBAR at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the 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. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

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

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

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

Going concern. Management have prepared these consolidated financial statements on a going concern basis. In making this judgement management have considered the current macroeconomic environment for financial institutions operating in the Republic of Azerbaijan, the profitability of operations and access to foreign financial resources as required. As disclosed in Note 30 to these consolidated financial statements, the Group has a net liquidity gap in the period up to twelve months as at 31 December 2009. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, Management believe that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Note 30.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (Continued)

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, 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.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AZN 958 thousand (2008: AZN 1,467 thousand), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of AZN 663 thousand (2008: AZN 735 thousand), respectively.

Loans and advances to customers. The Bank has acquired long term financing from the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan and Mortgage Fund of the Republic of Azerbaijan at interest rates, at which similar organisations ordinarily lend in emerging markets and which may be lower than rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank was able to issue funds to specific customers at favorable rates. The Group's policy is to recognise financial instruments initially based on their fair values, as required by IAS 39, *Financial Instruments: Recognition and Measurement*. Management has therefore considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgment is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise.

Management have also 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 from such loans to customers and due to the Fund, of AZN 14,025 thousand as at 31 December 2009 (2008: AZN 9,259 thousand) would have been excluded from the Group's consolidated financial statements.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 33.

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

5 Adoption of New or Revised Standards and Interpretations

Certain new 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. The revised IFRS 8 had an impact on the Groups's financial statements and the Group made extended disclosures about the reportable segments in the Note 29.

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

IAS 23, Borrowing Costs, revised in March 2007. The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. 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 will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The Group has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Group's 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 (early adopted by the Group in 2009); possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The amendments did not have an impact on the Group.

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 a financial liability. 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 clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The 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. The Group does not operate any loyalty programmes.

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

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, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. 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 relevant to the Group's operations.

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. This amendment is not relevant to the Group's operations.

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. This amendment is not relevant to the Group's operations.

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.

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

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6 New accounting Pronouncements (Continued)

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

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 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 the 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.

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.

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6 New accounting Pronouncements (Continued)

- 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.

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 renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The Interpretation will not have any impact on the Bank's financial statements as the Bank does not extinguish its financial liabilities with equity instruments.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The amendment will not have any impact on the Bank's financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment will not have any impact on the Bank's financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010; amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. The amendments are generally applicable for annual periods beginning after 1 January 2011. Early application is permitted). Summary of the changes is given below:

- IFRS 1 – A first-time adopter that changes its accounting policies or its use of IFRS 1 exemptions after publishing a set of IAS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual IFRS reporting.
- IFRS 1 – The exemption to use a 'deemed cost' arising from a revaluation triggered by an event such as a privatisation that occurred at or before the date of transition to IFRS is extended to revaluations that occur during the period covered by the first IFRS financial statements.
- IFRS 1 – Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.
- IFRS 3 – Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of IFRS 3 (2008) are to be accounted for in accordance with the guidance in the previous version of IFRS 3 (as issued in 2004).
- IFRS 3 – The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS.
- IFRS 3 – The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards.

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6 New accounting Pronouncements (Continued)

- IFRS 7 – The amendments include multiple clarifications related to the disclosure of financial instruments.
- IAS 1 – Entities may present either in the statement of changes in equity or within the notes an analysis of the components of other comprehensive income by item.
- IAS 27 – The consequential amendments to IAS 21, IAS 28 and IAS 31 resulting from the 2008 revisions to IAS 27 are to be applied prospectively.
- IAS 34 – Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report.
- IFRIC 13 – The meaning of the term 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes.

The Group does not expect the amendments to have any material effect on its consolidated financial statements

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

7 Cash and Cash Equivalents

In thousands of Azerbaijani Manats	**2009**	**2008**
Cash on hand	33,240	38,004
Cash balances with the CBAR (other than mandatory reserve deposits)	12,440	7,366
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	163	481
- Other countries	2,054	3,541
Total cash and cash equivalents	**47,897**	**49,392**

Cash balances with the CBAR represent balances on the correspondent account of the Group with the CBAR, which are used by the Group to perform settlements with other banks within the Republic of Azerbaijan. These accounts are non-interest bearing.

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

In thousands of Azerbaijani Manats	**Cash on hand**	**Cash balances with the CBAR**	**Correspondent accounts and overnight placements with other banks**	**Total**
Current and not impaired				
- Cash on hand	33,240	-	-	33,240
- The CBAR	-	12,440	-	12,440
- Top 15 Azerbaijani banks*	-	-	87	87
- Other Azerbaijani banks	-	-	77	77
- OECD banks	-	-	1,091	1,091
- Non-OECD banks	-	-	962	962
Total current and not impaired	**33,240**	**12,440**	**2,217**	**47,897**
Total cash and cash equivalents	**33,240**	**12,440**	**2,217**	**47,897**

* Cash held in top 15 Azerbaijani banks represent the classes of the banks that the management listed in the order from highest to lowest credit quality as used for the purposes of internal monitoring and assessment.

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7 Cash and Cash Equivalents (Continued)

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

In thousands of Azerbaijani Manats	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	38,004	-	-	38,004
- The CBAR	-	7,366	-	7,366
- Top 15 Azerbaijani banks*	-	-	211	211
- Other Azerbaijani banks	-	-	270	270
- OECD banks	-	-	1,572	1,572
- Non-OECD banks	-	-	1,969	1,969
Total current and not impaired	**38,004**	**7,366**	**4,022**	**49,392**
Total cash and cash equivalents	**38,004**	**7,366**	**4,022**	**49,392**

Geographical and interest rate analyses of cash and cash equivalents are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

In accordance with the CBAR regulations, the Bank is required to maintain mandatory cash balances with the CBAR calculated as 0.5% (2008: 6%) of the average qualifying customer accounts balances. These mandatory cash balances may be utilised by the Group if the minimum required balance is maintained over the thirty-day reference period (2008: thirty-day period). The Group has maintained the required level of mandatory reserves throughout the year and subsequently. As at 31 December 2009 and 31 December 2008 none of the mandatory cash balances with the CBAR were overdue.

8 Due from Other Banks and Financial Institutions

In thousands of Azerbaijani Manats	2009	2008
Placements with other banks with original maturities of more than three months	6,980	15,504
Total due from other banks and financial institutions	**6,980**	**15,504**

Placements with other banks with original maturities of more than three months include placements with resident banks with annual interest rates ranging from 15% to 18% (2008: 15% to 18%).

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8 Due from Other Banks and Financial Institutions (Continued)

Amounts due from other banks are normally collateralised. The analysis by credit quality of amounts due from other banks outstanding at 31 December 2009 is, as follows:

In thousands of Azerbaijani Manats	**Placements with other banks with original maturities of more than three months**
Current and not impaired	
- Top 15 Azerbaijan banks	704
- Other Azerbaijani banks (unrated) *	1,363
- Balances renegotiated in 2009	1,800
Total current and not impaired	**3,867**
Balances individually determined to be impaired (gross)	
- 181 to 360 days overdue	2,395
- over 360 days overdue	3,046
Total individually impaired (gross)	**5,441**
Less provision for impairment	(2,328)
Total carrying value of due from other banks and financial institutions	**6,980**

* Amounts due from other Azerbaijani banks represent balances with top 25 Azerbaijani banks, which do not have international credit or investment rating

The analysis by credit quality of amounts due from other banks outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	**Placements with other banks with original maturities of more than three months**
Current and not impaired	
- Top 15 Azerbaijan banks	640
- Other Azerbaijani banks (unrated)	11,705
- Balances renegotiated in 2008	1,027
Total current and not impaired	**13,372**
Balances individually determined to be impaired (gross)	
- 30 to 90 days overdue	2,682
Total individually impaired (gross)	**2,682**
Less provision for impairment	(550)
Total carrying value of due from other banks and financial institutions	**15,504**

The primary factor that the Group considers whether a deposit is impaired is its overdue status.

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8 Due from Other Banks and financial institutions (Continued)

The carrying value of each class of amounts due from other banks and financial institutions approximates fair value at 31 December 2009 and 31 December 2008. As at 31 December 2009, the estimated fair value of due from other banks and other financial institutions was AZN 6,980 thousand (31 December 2008: AZN 15,504 thousand). Refer to Note 34.

Geographical, maturity and interest rate analyses of due from other banks and financial institutions are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

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

In thousands of Azerbaijani Manats	
Provision for impairment at 1 January 2009	**550**
Provision for impairment during the year	1,778
Provision for impairment at 31 December 2009	**2,328**

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

In thousands of Azerbaijani Manats	
Provision for impairment at 1 January 2008	-
Provision for impairment during the year	550
Amounts written off during the year as uncollectible	-
Provision for impairment at 31 December 2008	**550**

9 Loans and Advances to Customers

In thousands of Azerbaijani Manats	**2009**	**2008**
Corporate loans	282,913	249,918
Loans to individuals – consumer loans	42,537	56,625
Loans to individuals – entrepreneurs	19,889	16,029
Mortgage loans	31,431	20,809
Less: Provision for loan impairment	(34,261)	(24,677)
Total loans and advances to customers	**342,509**	**318,704**

Of the AZN 31,431 thousand (31 December 2008: AZN 20,809 thousand) total mortgage loans, AZN 14,025 thousand (31 December 2008: AZN 9,259 thousand) has been provided under the programme covered by the borrowing agreement with the Azerbaijan Mortgage Fund, AZN 4,673 thousand (31 December 2008: AZN 5,825 thousand) has been provided under the programme covered by the borrowing agreement with the Black Sea Trade and Development Bank. Refer to Note 19. The remaining mortgage loans were covered by the Bank's own resources.

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9 Loans and Advances to Customers (Continued)

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

In thousands of Azerbaijani Manats	Corporate loans	Consumer loans	Individuals – entrepreneurs	Mortgage loans	Total
Provision for loan impairment at 1 January 2009	**21,350**	**2,357**	**548**	**422**	**24,677**
Provision for impairment during the year	8,206	856	286	236	9,584
Provision for loan impairment at 31 December 2009	**29,556**	**3,213**	**834**	**658**	**34,261**

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

In thousands of Azerbaijani Manats	Corporate loans	Consumer loans	Individuals – entrepreneurs	Mortgage loans	Total
Provision for loan impairment at 1 January 2008	**8,154**	**1,174**	**292**	**388**	**10,008**
Provision for impairment during the year	13,196	1,183	256	34	14,669
Provision for loan impairment at 31 December 2008	**21,350**	**2,357**	**548**	**422**	**24,677**

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

	2009		2008	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Loans to individuals:				
- Consumer loans	42,537	11	56,625	16
- Entrepreneurship	19,889	5	16,029	5
- Mortgage	31,431	9	20,809	6
Total loans to individuals	**93,857**	**25**	**93,463**	**27**
Corporate loans:				
- Trade	77,652	21	88,431	26
- Services	14,697	4	29,600	9
- Construction	75,839	20	56,880	16
- Manufacturing	87,583	23	60,114	17
- Agricultural	10,928	3	9,426	3
- Transport and communication	16,209	4	5,435	2
- Other	5	-	32	-
Total corporate loans	**282,913**	**75**	**249,918**	**73**
Total loans and advances to customers (before impairment)	**376,770**	**100**	**343,381**	**100**

At 31 December 2009, the Group had 84 borrowers (2008: 84 borrowers) with aggregated loan amounts above AZN 1,000 thousand. The total aggregate amount of these loans was AZN 213,617 thousand (2008: AZN 185,361 thousand) or 57% of the gross loan portfolio (2008: 54%).

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 – consumer loans**	**Loans to individuals – entrepreneurs**	**Mortgage loans**	**Total**
Unsecured loans	39,524	17,532	3,266	2,337	**62,659**
Loans collateralised by:					
- real estate	198,209	15,784	16,067	26,041	**256,101**
- movable property	-	4,819	-	-	**4,819**
- tradable securities	10,816	4,299	303	234	**15,652**
- cash deposits	26,571	-	-	2,685	**29,256**
- other assets	7,793	103	253	134	**8,283**
Total loans and advances to customers	**282,913**	**42,537**	**19,889**	**31,431**	**376,770**

Information about collateral at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – consumer loans**	**Loans to individuals – entrepreneurs**	**Mortgage loans**	**Total**
Unsecured loans	47,854	26,998	2,329	-	77,171
Loans collateralised by:					
- real estate	183,084	17,465	13,161	17,254	230,964
- movable property	5,872	6,996	272	-	13,140
- tradable securities	11,571	75	-	3,430	15,076
- cash deposits	52	4,834	-	-	4,886
- other assets	1,485	267	267	125	2,144
Total loans and advances to customers	**249,918**	**56,625**	**16,029**	**20.809**	**343,381**

9 Loans and Advances to Customers (Continued)

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

In thousands of Azerbaijani Manats	Corporate loans	Consumer loans	Individuals – entrepreneurs	Mortgage loans	Total
Current and not impaired					
Unsecured loans	35,042	15,739	3,215	2,337	56,333
Loans collateralised by:					
- real estate	164,200	13,886	15,168	25,917	219,171
- movable property	7,318	3,582	203	234	11,337
- tradable securities	18,006	-	-	2,685	20,691
- cash deposits	-	4,819	-	-	4,819
- other assets	7,794	103	-	134	8,031
Total current and not impaired	**232,360**	**38,129**	**18,586**	**31,307**	**320,382**
Past due, but not impaired					
- less than 30 days overdue	18,268	694	447	18	19,427
- 30 to 90 days overdue	1,942	674	115	2	2,733
- 90 to 180 days overdue	847	470	105	17	1,439
- 180 to 360 days overdue	3,306	1,229	430	7	4,972
- over 360 days overdue	7,756	866	166	80	8,868
Total past due but not impaired	**32,119**	**3,933**	**1,263**	**124**	**37,439**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	4,449	49	14	-	4,512
- 30 to 90 days overdue	9	53	-	-	62
- 90 to 180 days overdue	733	275	-	-	1,008
- 180 to 360 days overdue	6,923	56	6	-	6,985
- over 360 days overdue	6,320	42	20	-	6,382
Total individually impaired loans (gross)	**18,434**	**475**	**40**	**-**	**18,949**
Gross carrying value of loans	**282,913**	**42,537**	**19,889**	**31,431**	**376,770**
Less impairment provisions	**(29,556)**	**(3,213)**	**(834)**	**(658)**	**(34,261)**
Total loans and advances to customers	**253,357**	**39,324**	**19,055**	**30,773**	**342,509**

9 Loans and Advances to Customers (Continued)

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

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Mortgage loans	Total
Current and not impaired					
Unsecured loans	43,218	25,793	2,329	-	71,340
Loans collateralised by:					
- real estate	171,448	16,343	13,150	17,232	218,173
- movable property	4,897	6,602	272	-	11,771
- tradable securities	4,914	74	-	3,428	8,416
- cash deposits	53	4,834	-	-	4,887
- other assets	1,462	249	267	125	2,103
Total current and not impaired	**225,992**	**53,895**	**16,018**	**20,875**	**316,690**
Past due, but not impaired					
- less than 30 days overdue	13,972	623	11	20	14,626
- 30 to 90 days overdue	1,586	395	-	4	1,985
- 90 to 180 days overdue	20	347	-	-	367
- 180 to 360 days overdue	118	319	-	-	437
- over 360 days overdue	-	34	-	-	34
Total past due but not impaired	**15,696**	**1,718**	**11**	**24**	**17,449**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	651	66	-	-	717
- 30 to 90 days overdue	-	49	-	-	49
- 90 to 180 days overdue	4,142	487	-	-	4,629
- 180 to 360 days overdue	79	142	-	-	221
- over 360 days overdue	3,358	268	-	-	3,626
Total individually impaired loans (gross)	**8,230**	**1,012**	**-**	**-**	**9,242**
Gross carrying value of loans	**249,918**	**56,625**	**16,029**	**20,809**	**343,381**
Less impairment provisions	**(21,350)**	**(2,358)**	**(548)**	**(421)**	**(24,667)**
Total loans and advances to customers	**228,568**	**54,267**	**15,481**	**20,388**	**318,704**

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. Included in "Current and not impaired" loans as at 31 December 2009 are loans renegotiated during 2009 in the amount of AZN 120,685 thousand (2008: AZN 106,219 thousand).

9 Loans and Advances to Customers (Continued)

The primary factors that the Group considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. The Group presents above an 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.

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 – consumer loans**	**Loans to individuals – entrepreneurs**	**Mortgage loans**	**Total**
Fair value of collateral - loan past due but not impaired					
- real estate	32,619	3,234	1,639	410	37,902
- movable property	2,715	1,055	246	-	4,016
- tradable securities	11,228	-	-	-	11,228
- other assets	-	-	-	-	-
Fair value of collateral - individually impaired loans					
- real estate	15,339	242	40	-	15,621
- movable property	2,216	214	-	-	2,430
- other assets	-	-	-	-	-
Total	**64,117**	**4,745**	**1,925**	**410**	**71,197**

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 – consumer loans**	**Loans to individuals – entrepreneurs**	**Mortgage loans**	**Total**
Fair value of collateral - loan past due but not impaired					
- real estate	22,149	2,186	20	171	24,526
- movable property	671	833	-	-	1,504
- tradable securities	10,000	-	-	33	10,033
- other assets	-	2	-	-	2
Fair value of collateral - individually impaired loans					
- real estate	1,284	658	-	-	1,942
- movable property	29	126	-	-	155
Total	**34,133**	**2,805**	**20**	**204**	**38,162**

The fair value of real estate and other assets was determined by the Group's credit department, using the Group's internal guidelines. These internal guidelines prescribe the basis that fair values are determined based on available market information (for example, related to recent transactions involving similar properties) and the need to consult with third party valuers to the extent that information on fair values is not readily ascertainable.

9 Loans and Advances to Customers (Continued)

The carrying value of each class of loans and advances to customers approximates fair value at 31 December 2009 and 31 December 2008. At 31 December 2009, the estimated fair value of loans and advances to customers was AZN 342,509 thousand (2008: AZN 318,704 thousand). Refer to Note 34.

The interest rate analysis of loans and advances to customers is disclosed in Note 30. The information on related party balances is disclosed in Note 36.

10 Investment Securities Available for Sale

In thousands of Azerbaijani Manats	**2009**	**2008**
Corporate shares – unquoted	609	550
Total investment securities available for sale	**609**	**550**

The movements in investment securities available for sale are as follows:

In thousands of Azerbaijani Manats	**2009**	**2008**
Carrying amount at 1 January	**550**	**460**
Acquisition of investment securities available for sale	-	90
Revaluation	59	-
Carrying amount at 31 December	**609**	**550**

At 31 December 2009, the principal equity investment securities available for sale are:

Name	**Nature of business**	**Country of registration**	**Carrying value**	
			2009	**2008**
Milli Kart	Plastic card operator	Azerbaijan	400	400
Baku Stock Exchange	Financial services	Azerbaijan	60	60
Visa Inc.	Clearing house	USA	149	90
Total			**609**	**550**

The investment in Baku Stock Exchange was made in 2006 and represents 5.6% of its total share capital. Currently the stock market in the Republic of Azerbaijan is practically non-existent, and the activity of Baku Stock Exchange as at the reporting date is still limited. However, management of the Group believes that the fair value of this investment does not differ materially from its carrying value (which is its cost).

The investment in Milli Kart was made in 2006 and represents 10% of its total share capital. Management of the Group believes that the fair value of this investment does not differ materially from its carrying value.

These securities are not actively traded in the stock market. Transactions occur from time to time between existing shareholders at nominal values of the shares.

The investment in Visa Inc. was made in 2008, number of shares 2,131 with a nominal value of 42 AZN.

11 Other Investment Securities

In thousands of Azerbaijani Manats	**2009**	**2008**
Mortgage Fund Notes	2,186	-
Other non government notes	150	-
Total other investment securities	**2,336**	-

On October and December 2009 Bank obtained Mortgage Fund notes in amount of AZN 2,186 thousand. The interest rate is 3% and the year of payback is 2016, repayable at maturity.

Management could not reliably estimate the fair value of the securities issued by Mortgage Fund. These securities are not actively traded in the stock market. The notes are carried at amortized cost of AZN 2,186 thousand (31 December 2008: nil).

During 2009 Group obtained non government notes in amount of AZN 150 thousand. These notes bear an interest rate of 14.0% per annum and mature on November 2011.

12 Investment Properties

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Investment properties at fair value as at 1 January		**253**	**145**
Transfer from owner occupied premises	13	817	108
Fair value gains/(losses)		111	-
Investment properties at fair value as at 31 December		**1,181**	**253**

During 2009, the Group leased out 284 square metres (2008: 284 square metres) of its Mingechevir branch, 70 square metres (2008: 70 square metres) of its Beylagan branch and 300 square metres (2008: nil) of Head Office.

The rental income on investment property in 2009 amounted to AZN 20 thousand (2008: AZN 8 thousand) and is included in other operating income.

The Group did not classify any operating leases as investment properties. Investment property was independently valued at 31 December 2009. The valuation was carried out by an independent firm of valuers, REC - INVEST, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Fair values were estimated, using appropriate valuation techniques under the assumption that observable prices in an active market for the property of characteristics and locations similar to those of the Group's property do not differ significantly from, and, therefore, are a good indication of the fair value of the Group's property.

13 Premises, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Note	Premises	Office and computer equipment	Motor vehicles	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2008		12,099	3,667	981	5,530	22,277	145	22,422
Accumulated depreciation/amortisation		(184)	(1,355)	(428)	-	(1,967)	(50)	(2,017)
Carrying amount at 1 January 2008		**11,915**	**2,312**	**553**	**5,530**	**20,310**	**95**	**20,405**
Additions		13,091	3,982	634	970	18,677	1,175	19,852
Transfers		4,100	-	-	(4,100)	-	-	-
Transfer to Investment property	12	(108)	-	-	-	(108)	-	(108)
Disposals		(60)	(165)	(9)	-	(234)	-	(234)
Disposed accumulated depreciation		3	142	-	-	145	-	145
Depreciation/amortisation charge	26	(549)	(1,180)	(314)	-	(2,043)	(19)	(2,062)
Carrying amount at 31 December 2008		**28,392**	**5,091**	**864**	**2,400**	**36,747**	**1,251**	**37,998**
Cost or valuation at 31 December 2008		29,122	7,484	1,606	2,400	40,612	1,320	41,932
Accumulated depreciation/ amortisation		(730)	(2,393)	(742)	-	(3,865)	(69)	(3,934)
Carrying amount at 31 December 2008		**28,392**	**5,091**	**864**	**2,400**	**36,747**	**1,251**	**37,998**
Additions		4,516	2,966	101	-	7,583	956	8,539
Revaluation		(1,542)		-	-	(1,542)		(1,542)
Acquisitions through business combinations		-	480	-	-	480	479	959
Transfers		2,244	156	-	(2,400)	-	-	-
Transfer to Investment property	12	(817)	-	-	-	(817)	-	(817)
Disposals		-	(474)		-	(474)	-	(474)
Disposed accumulated depreciation		-	409	-	-	409	-	409
Depreciation/amortisation charge	26	(1,005)	(1,926)	(344)	-	(3,275)	(58)	(3,333)
Carrying amount at 31 December 2009		31,788	6,702	621	-	39,111	2,628	41,739
Cost or valuation at 31 December 2009		31,788	10,612	1,707	-	44,107	2,755	46,862
Accumulated depreciation/amortisation		-	(3,910)	(1,086)	-	(4,996)	(127)	(5,123)
Carrying amount at 31 December 2009		**31,788**	**6,702**	**621**	**-**	**39,111**	**2,628**	**41,739**

13 Premises, Equipment and Intangible Assets (Continued)

Premises were independently valued at 31 December 2009. The valuation was carried out by an independent firm of valuers, REC - INVEST. The basis used for the appraisal was market value. Fair values were estimated, using appropriate valuation techniques under the assumption that observable prices in an active market for the premises of characteristics and locations similar to those of the Group's premises do not differ significantly from, and, therefore, are a good indication of the fair value of the Group's premises. As a result of the valuation, the net carrying amount of buildings decreased by AZN 1,542 thousand. Revaluation increase through revaluation reserve of AZN 793 thousand and revaluation decrease of AZN 2,335 thousand through comprehensive income relating to revaluation of buildings of the Bank were recorded.

The realised portion of revaluation reserve on buildings in the amount of AZN 80 thousand (2008: AZN 80 thousand) was transferred to retained earnings in 2009 due to depreciation of revalued buildings.

AZN 2,400 thousand transferred from construction in progress into premises during 2009 represents completed portion of refurbishment of Qebele and Khachmaz branch premises.

Intangible assets as at 31 December 2009 represent mainly cost incurred during development stage of new banking software installation.

14 Other Financial Assets

In thousands of Azerbaijani Manats	**2009**	**2008**
Restricted cash	2,204	661
Fee and commission receivable	669	262
Settlements with operators of payment systems	341	272
Insurance premium receivable	80	290
Credit and debit cards receivables	46	364
Total other financial assets	**3,340**	**1,849**

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Group on behalf of its customers. The Group does not have the right to use these funds for the purposes of funding its own activities.

The analysis by credit quality of other financial assets at 31 December 2009 is, as follows:

In thousands of Azerbaijani Manats	**Restricted cash**	**Fee and commission receivable**	**Settlements with operators of payment systems**	**Insurance premium receivable**	**Credit and debit cards receivable**	**Total**
Current and not impaired						
- Azerbaijan banks	-	669	-	80	46	795
- OECD banks	1,835	-	-	-	-	1,835
- Non OECD banks	369	-	341	-	-	710
Total current and not impaired	**2,204**	**669**	**341**	**80**	**46**	**3,340**

14 Other Financial Assets (Continued)

The analysis by credit quality of amounts outstanding at 31 December 2008 is as follows:

In thousands of Azerbaijani Manats	Restricted cash	Fee and commission receivable	Settlements with operators of payment systems	Insurance premium receivable	Credit and debit cards receivable	Total
Current and not impaired						
- Azerbaijan banks		262	-	290	228	780
- OECD banks	282	-	40	-	136	458
- Non OECD banks	379	-	232	-	-	611
Total current and not impaired	**661**	**262**	**272**	**290**	**364**	**1,849**

The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any.

The carrying value of each class of other financial assets approximates fair value at 31 December 2009 and 31 December 2008. Refer to Note 34. Geographical and maturity analyses of other financial assets are disclosed in Note 30.

15 Other Assets

In thousands of Azerbaijani Manats	2009	2008
Prepayments for purchase of premises and equipment / intangible assets	1,237	1,207
Prepayments to suppliers for lease equipment	512	-
Reinsurers' share of reserve for unearned premiums	457	546
Prepayments for other services	315	2,107
Prepayment for other taxes	111	-
Other	146	180
Total other assets	**2,778**	**4,040**

All other assets represent current and not impaired assets as at 31 December 2009 and 31 December 2008 and have an expected settlement period of less than one year.

16 Due to Other Banks and Financial Institutions

In thousands of Azerbaijani Manats	2009	2008
Correspondent accounts and overnight placements of other banks	6,144	1,875
Short - term placements of other banks	22,612	73,686
Long - term placements of other banks	70	9
Total due to other banks and financial institutions	**28,826**	**75,570**

The carrying value of each class of due to other banks and financial institutions approximates fair value at 31 December 2009 and 31 December 2008. As at 31 December 2009, the estimated fair value of due to other banks was AZN 28,826 thousand (31 December 2008: AZN 75,570 thousand). Refer to Note 34.

Placements of other banks include placements of resident and non resident banks and financial institutions with annual interest rates ranging from 6% to 16% (2008: 7% to 16%) and maturities from January to December 2010.

16 Due to Other Banks and financial institutions (Continued)

Term placement of Nikoil ICB and Kazimir Caspian Fund Limited amounting to AZN 35,185 thousand and AZN 11,496 thousand outstanding as at 31 December 2008 were repaid by the Group during 2009.

At 31 December 2009, 4 banks had balances with the Group (2008: 10 banks) with aggregated amounts above AZN 1,500 thousand. The total aggregate amount of these deposits was AZN 24,103 thousand (2008: AZN 72,948 thousand) or 84% of the total amount due to other banks and financial institutions (2008: 97%).

Geographical, maturity and interest rate analyses of due to other banks are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

17 Customer Accounts

In thousands of Azerbaijani Manats	**2009**	**2008**
State and public organisations		
- Current/settlement accounts	14,036	8,431
- Term deposits	315	7,814
Other legal entities		
- Current/settlement accounts	50,397	46,962
- Term deposits	10,430	17,956
Individuals		
- Current/settlement accounts	19,281	11,755
- Term deposits	95,353	81,685
Total customer accounts	**189,812**	**174,603**

Economic sector concentrations within customer accounts are as follows:

	2009		**2008**	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Individuals	114,634	60	93,440	54
Trade	22,073	12	31,137	18
Transportation and communication	14,854	8	14,288	8
Real estate	14,577	8	13,772	8
State and public organisations	4,503	2	7,636	4
Manufacturing	8,947	5	6,716	4
Energy	3,743	2	4,348	2
Agriculture	403	-	1,801	1
Other	6,078	3	1,465	1
Total customer accounts	**189,812**	**100**	**174,603**	**100**

The carrying value of each class of customer accounts approximates fair value at 31 December 2009 and 31 December 2008. At 31 December 2009, the estimated fair value of customer accounts was AZN 189,812 thousand (31 December 2008: AZN 174,603 thousand). Refer to Note 34.

Geographical, maturity and interest rate analyses of customer accounts are disclosed in Note 30. The information on related party balances is disclosed in Note 36.

At 31 December 2009, the Group had 30 customers (2008: 32 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 83,648 thousand (2008: AZN 83,261 thousand) or 44% (2008: 48%) of total customer accounts.

18 Debt Securities in Issue

In thousands of Azerbaijani Manats	**2009**	**2008**
Loan participation notes	-	20,333
Debentures	10,906	10,938
Total debt securities in issue	**10,906**	**31,271**

On 14 March 2007, the Group issued 2,000 corporate debentures through a primary placement at the Baku Stock Exchange, with a par value of AZN 1,000 each. These debentures are denominated in AZN, bear interest at a rate of 14% p.a. and mature on 12 March 2012. These debentures were sold on the issue date to a foreign investment fund company registered in the Cayman Islands and domiciled in the Russian Federation. These debentures with the total amount of AZN 2,000 thousand have been purchased by Kazimir Growth and Kazimir Master Funds; both affiliated with Kazimir Caspian Fund Limited, a 10% shareholder of the Bank. This has been disclosed in Note 36.

On 15 March 2007, the Group issued 1,000 corporate debentures through a primary placement at the Baku Stock Exchange, with a par value of USD 1,000 each. These debentures are denominated in USD, bear interest rate of 15% p.a. and mature on 22 November 2012.

On 15 August 2008, the Group issued 100,000 corporate debentures through a primary placement at the Baku Stock Exchange, with par value of USD 100 each. These debentures are denominated in USD and have an effective interest rate of 15, 83% p.a and mature on 15 August 2011. These debentures were sold on the issue date to a foreign "Parex bank" (Arranger). Note holders have the right to demand repayment of Principal on 15 February 2010. In order to exercise the put option Note holders must submit an appropriate request indicating a number of the Notes to be put to the Arranger from 2 January 2010 to 31 January 2010. The Arranger will account all requests and inform Technikabank not later than on 1 February 2010 at 18:00 (Riga time zone) by sending a fax message to Technikabank with a total number of the Notes that Note holders wish to put. Technikabank then shall transfer an amount in US dollars to the Arranger to fully satisfy all the requests. The Arranger shall inform the LCD about the number of the Notes redeemed. Put option right was used by most of the Note holders; Group repaid USD 9,804 thousand in February 2010.

On 9 June 2009, the Group repaid on maturity 260 Loan Participation Notes with a par value of USD 100,000. These Loan Participation Notes were denominated in USD and had an effective interest rate of 20.07% p.a. These Loan Participation Notes were sold on the issue date to “Pharo Management UK LLP”, ”UNIQA Versicherungs Austria” and “Rheinish portfolio Austria”.

The carrying value of each class of debt securities approximates fair value at 31 December 2009 and 31 December 2008. As at 31 December 2009, the estimated fair value of debt securities was AZN 10,906 thousand (31 December 2008: AZN 31,271 thousand). For information on the fair value of debt securities in issue refer to Note 34. The interest rate analysis of debt securities in issue is disclosed in Note 30. The information on debt securities in issue held by related parties is disclosed in Note 36.

19 Term Borrowings from Other Banks and Financial Institutions

In thousands of Azerbaijani Manats	**2009**	**2008**
Term borrowings from the CBAR	100,418	62,323
Term borrowings from National Fund for Financial Aid to Entrepreneurs	27,328	16,874
Term borrowings from National Mortgage Fund	14,025	9,259
Term borrowings from Ministry of Agriculture	10,419	5,400
Term borrowings from Black Sea Trade and Development	4,817	5,883
Total term borrowings from other banks and financial institutions	**157,007**	**99,379**

The interest rate on funds borrowed from the CBAR is 2% (2008: 8% and 13%) per annum. These borrowings mature between February and December 2010. There are no financial covenant requirements applicable to these borrowings. Refer to Note 38

19 Term Borrowings from Other Banks and Financial Institutions (Continued)

On 5 May 2005, the Group signed 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 Group at an interest rate of 1%-2% per annum and the Group further on lends these funds to eligible borrowers at rates not higher than 7%-8% per annum. There are no financial covenant requirements applicable to these borrowings.

On 17 February 2006, the Group signed a credit agreement with the Azerbaijan Mortgage Fund, a programme under the auspices of the Central Bank of Azerbaijan Republic, for granting long-term mortgage loans to individuals. Under this programme, funds are made available to the Group at an interest rate of 2% per annum and the Group further on lends these funds to eligible borrowers at rates not higher than 5%-8% per annum. These borrowings mature between June 2011 and December 2021. There are no financial covenant requirements applicable to these borrowings.

On 4 September 2007, the Group signed an agreement with the Ministry of Agriculture of the Republic of Azerbaijan for financing of agricultural projects. Under this programme, funds are made available to the Group at an interest rate of 2% per annum and the Group further on lends these funds to eligible borrowers at rates not higher than 7% per annum. There are no financial covenant requirements applicable to these borrowings.

On 6 December 2007, the Group signed credit agreement with Black Sea Trade and Development Bank, registered in the Republic of Greece, for a total of USD 8,000 thousand for financing mortgage loans. These borrowings bear interest of 6 month LIBOR plus 3.7% per annum and mature in December 2013. The Group is obliged to comply with certain financial covenants stipulated by the loan agreement. As at 31 December 2009, the Group was not in compliance with certain financial covenants specified in this loan agreement. For information on covenants related to these borrowings refer to Note 33.

The carrying value of each class of term borrowings from other banks and other financial institutions approximates fair value at 31 December 2009 and 31 December 2008. As at 31 December 2009, the estimated fair value of term borrowings from other banks and financial institutions was AZN 157,007 thousand (31 December 2008: AZN 99,739 thousand). For information on the fair value of term borrowings from other banks and other financial institutions refer to Note 34.

Geographical, maturity and interest rate analyses of term borrowings from other banks and financial institutions are disclosed in Note 30.

20 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	**2009**	**2008**
Amounts in the course of settlement	673	3,915
Payable to supplier of lease equipment	508	-
Trade payables	466	92
Provision on credit related instruments	176	-
Other payables	93	-
Total other financial liabilities	**1,916**	**4,007**

All other financial liabilities represent current liabilities as at 31 December 2009 and 31 December 2008.

Carrying value of each class of other financial liabilities approximates fair value at 31 December 2009 and 31 December 2008. At 31 December 2009 the estimated fair value of other financial liabilities was AZN 1,916 thousand (2008: AZN 4,007 thousand). For information on the fair value of other financial liabilities refer to Note 34.

21 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	**2009**	**2008**
Unearned insurance premiums reserve (UPR)	1,448	1,726
Advances received from customers for lease equipment	403	-
Property tax payable	165	-
Other	132	6
Outstanding claims reserve	25	218
Total other liabilities	**2,173**	**1,950**

All items included in other liabilities as at 31 December 2009 and 31 December 2008 are classified as current liabilities.

The movement in the unearned premiums reserve is shown below:

In thousands of Azerbaijani Manats	**Gross**	**Reinsurers' share**	**Net**
Balance at 1 January 2008	**1,375**	**(178)**	**1,197**
Increase during the year	351	(368)	(17)
Balance at 31 December 2008	**1,726**	**(546)**	**1,180**
Decrease during the year	(278)	89	(189)
Balance at 31 December 2009	**1,448**	**(457)**	**991**

22 Share Capital

In thousands of AZN except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2008	**26,912**	**26,912**	**3,464**	**30,376**
New shares issued	-	-	-	-
At 31 December 2008	**26,912**	**26,912**	**3,464**	**30,376**
New shares issued	14,800	14,800	**-**	**14,800**
At 31 December 2009	**41,712**	**41,712**	**3,464**	**45,176**

The par value of the Group's issued share capital as at 31 December 2009 was AZN 41,712 thousand (2008: AZN 26,912 thousand).

All ordinary shares have a nominal value of AZN 1,000 per share (2008: AZN 1,000 per share) and rank equally. Each share carries one vote.

As at 31 December 2009, Mr. Etibar Aliyev, the Chairman of the Group's Supervisory Council, owned 15% of the Group's shares (2008: 15%). As at 31 December 2009, the other major shareholders comprised World Wines 75% (2008: 75%) and Kazimir Caspian Fund Limited 10% (2008: 10%). World Wines is a private company registered in the Republic of Azerbaijan, operating in wine production, food processing and agriculture. The company was established on 23 October 2000 and is owned by Mr. Adil Mammadov. Kazimir Caspian Fund Limited ("Kazimir") is a legal entity registered in the Cayman Islands and domiciled in the Russian Federation. Kazimir is an affiliated company to Kazimir Russia Master Fund Limited.

22 Share Capital (Continued)

On 9 July 2009, the Group capitalised its profit and issued an additional 14,800 ordinary shares with a nominal value of AZN 1,000 per share through a primary registration at the Baku Stock Exchange. As a result, the allocation of shares following this transaction was as follows: Mr. Etibar Aliyev – 6,257 shares; Kazimir – 4,171 shares; and World Wines – 31,284 shares.

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

23 Other Reserves

In thousands of Azerbaijani Manats	**Available for sale securities**	**Premises and equipment**	**Total other reserves**
At 1 January 2008	**-**	**2,669**	**2,669**
Revaluation	90	-	90
Realised revaluation reserve	-	(80)	(80)
At 31 December 2008	**90**	**2,589**	**2,679**
Revaluation	59	793	852
Realised revaluation reserve	-	(80)	(80)
Income tax effect	-	(159)	(159)
	-	-	-
At 31 December 2009	**149**	**3,143**	**3,292**

The revaluation reserve for premises is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

24 Interest Income and Expense

In thousands of Azerbaijani Manats	**2009**	**2008**
Interest income		
Loans and advances to customers	49,368	48,892
Interest income on impaired financial assets	3,521	1,994
Correspondent accounts with other banks	753	2,331
Other investment securities	74	-
Total interest income	**53,716**	**53,217**
Interest expense		
Term borrowings from other banks and financial institutions	12,731	12,651
Term deposits of individuals	10,415	9,851
Debt securities in issue	3,262	3,416
Term deposits of legal entities	1,110	3,204
Other interest expenses	9	49
Total interest expense	**27,527**	**29,171**
Net interest income	**26,189**	**24,046**

25 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	**2009**	**2008**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Cash transactions	4,947	7,131
- Settlement transactions	2,696	3,570
- Guarantees and letters of credit issued	1,899	2,909
- Plastic cards operations	841	1,078
- Other	121	99
Total fee and commission income	**10,504**	**14,787**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Settlement transactions	1,062	491
- Guarantees and letters of credit	404	459
- Cash collection	377	284
- Plastic cards operations	273	617
- Other	239	110
Total fee and commission expense	**2,355**	**1,961**
Net fee and commission income	**8,149**	**12,826**

26 Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	**Note**	**2009**	**2008**
Staff costs		6,361	5,740
Depreciation of premises and equipment	13	3,275	2,043
Rent expenses		690	551
Security services		626	486
Professional services		594	850
Repair expenses		488	293
Insurance of customer deposit accounts		481	494
Communication		395	345
Stationery and office supplies		339	379
Taxes other than on income		334	216
Representative expenses		157	239
Utilities		136	98
Advertising and marketing services		100	92
Amortisation of software and other intangible assets	13	58	19
Other		299	749
Total administrative and other operating expenses		**14,333**	**12,594**

The increase in administrative and other operating expenses during the year ended 31 December 2009 is largely driven by a general increase in volume of operations of the Group, which required additional human resources, office space and equipment.

Included in staff costs are statutory social security costs of AZN 1,060 thousand (2008: AZN 967 thousand) and pension contributions of AZN 144 thousand (2008: AZN 143 thousand).

27 Income Taxes

Income tax expense comprises the following:

In thousands of Azerbaijani Manats	**2009**	**2008**
Current tax	6	3,951
Deferred tax	(550)	20
Income tax expense for the year	**(544)**	**3,971**

The income tax rate applicable to the majority of the Group's income is 22% (2008: 22%). The income tax rate applicable to subsidiaries income is 22% (2008: 22%). 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 changes in tax rates presented below represents the effect of applying the reduced 20% tax rate to deferred tax balances at 31 December 2009 and 31 December 2008.

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	**2009**	**2008**
IFRS profit before tax	**8,499**	**16,075**
Theoretical tax charge at statutory rate (2009: 22%; 2008: 22%)	(1,870)	(3,536)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Unrecognised deferred taxation	(44)	(306)
- Non deductible expenses	(121)	(129)
-Effect of changes in income tax rate	(55)	-
Current income tax liability not accrued due to free-year tax holiday	2,634	-
Income tax credit/ (expense) for the year	**544**	**(3,971)**

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 20% (2008: 22%).

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.

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. The deferred tax liability recorded in this consolidated financial statement is non current.

27 Income Taxes (Continued)

In thousands of Azerbaijani Manats	31 December 2008	Charged/ (credited) to profit or loss	Charged directly to equity	31 December 2009
Tax effect of deductible/(taxable) temporary differences				
Gains arising from a change in fair value of investment property	490	22		512
Premises and equipment	873	(483)	159	549
Provision on credit related commitments	-	-	-	-
Provision on loans to banks	-	(89)	-	(90)
Deferred tax liability	**1,363**	**(550)**	**159**	**971**

In the context of the Group's current structure and Azerbaijani 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 consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In thousands of Azerbaijani Manats	31 December 2007	Charged/ (credited) to profit or loss	Charged directly to equity	31 December 2008
Tax effect of deductible/(taxable) temporary differences				
Gains arising from a change in fair value of investment property	490	-	-	490
Premises and equipment	728	145	-	873
Provision on credit related commitments	3	(3)	-	-
Provision on loans to banks	122	(122)	-	-
Deferred tax liability	**1,343**	**20**	**-**	**1,363**

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

In thousands of Azerbaijani Manats except for number of shares	2009	2008
Profit for the year attributable to ordinary shareholders	9,043	12,104
Profit for the year	**9,043**	**12,104**
Weighted average number of ordinary shares in issue	41,712	26,912
Basic earnings per ordinary share	**0.217**	**0.450**

29 Segment Analysis

Starting from 1 January 2009, the Group prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Board of Directors (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

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

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

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

The Board of Directors reviews financial information prepared based on Azerbaijan accounting standards adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from International Financial Reporting Standards:

(i) funds are generally reallocated between segments at internal interest rates set by the treasury department, which are determined by reference to market interest rate benchmarks, contractual maturities for loans and observed actual maturities of customer accounts balances;

(ii) income taxes are not allocated to segments;

(iii) loan provisions are recognized based on management judgment and availability of information rather than based on the incurred loss model prescribed in IAS 39; and

(iv) commission income related to lending is recognized immediately rather than deferred using the effective interest method.

29 Segment Analysis (Continued)

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**
Total segment revenues	**16,226**	**18,211**	**50,574**	**57,393**	**66,800**	**75,604**
Total revenues comprise:						
- Interest income	12,979	13,608	40,737	39,609	53,716	53,217
- Fee and commission income	2,419	2,589	8,085	12,198	10,504	14,787
- Gains less losses from trading in foreign currencies	197	333	657	1,567	854	1,900
- Gains arising from a change in fair value of investment property	49	-	62	-	111	-
- Foreign exchange translation losses less gains	161	1,063	487	2,842	648	3,905
- Insurance premiums written	412	536	514	793	926	1,329
- Other operating income	9	82	32	384	41	466
Total segment revenues	**16,226**	**18,211**	**50,574**	**57,393**	**66,800**	**75,604**
Interest expense	(6,670)	(7,026)	(20,857)	(22,145)	(27,527)	(29,171)
Provision for loan impairment	(2,945)	(4,417)	(8,870)	(11,823)	(11,815)	(16,240)
Provision for impairment of due from other banks	(557)	-	(692)	(550)	(1,249)	(550)
Fee and commission expense	(542)	(343)	(1,813)	(1,618)	(2,355)	(1,961)
Loss on revaluation of premises	(1,061)	-	(1,327)	-	(2,388)	-
Reinsurance premiums ceded	(39)	(98)	(48)	(145)	(87)	(243)
Increase of provision for unearned premiums	64	(140)	214	(211)	278	(351)
Increase of reinsurer's share of provision for unearned premium	(20)	147	(69)	221	(89)	368
Net claims incurred	(60)		(202)		(262)	
Provision for losses on credit related commitments	(78)	(143)	(98)	(215)	(176)	(358)
Administrative and other operating expenses	(3,515)	(3,033)	(10,818)	(9,561)	(14,333)	(12,594)
Adjusted profit/(loss) before income tax	**803**	**3,158**	**5,994**	**11,346**	**6,797**	**14,504**

In thousands of Azerbaijani Manats	**2009**	**2008**
Adjusted profit before income tax for reportable segments	**6,797**	**14,504**
Adjustments to bring management information in line with IFRS:		
-Increase of statutory charge for loan impairment	2,231	1,571
- Reversal of statutory charge for impairment of due from other banks	(529)	-
Profit before income tax	**8,499**	**16,075**

29 Segment Analysis (Continued)

In thousands of Azerbaijani Manats	Retail Banking 31 December 2009	Retail Banking 31 December 2008	Corporate banking 31 December 2009	Corporate banking 31 December 2008	Total 31 December 2009	Total 31 December 2008
Total segment assets	**132,568**	**129,930**	**315,936**	**306,722**	**448,504**	**436,652**
Total segment liabilities	**162,726**	**95,955**	**227,914**	**291,185**	**390,640**	**387,140**
Current income tax liability					-	861
Deferred income tax liability					971	1,363
Total liabilities	**162,523**	**95,737**	**227,660**	**290,857**	**391,611**	**389,364**

In thousands of Azerbaijani Manats	2009	2008
Total segment assets	**448,504**	**436,652**
Adjustments to bring management information in line with IFRS:		
- Increase of statutory charge for loan impairment of	2,231	1,571
- Reversal of statutory charge for impairment of due from other banks	(529)	-
Total assets per statement of financial position	**450,206**	**438,223**

Geographical segments.

As at 31 December 2009 and 31 December 2008 all non-current assets are located in Azerbaijan .

30 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties giving rise to financial assets.

Management of credit risk is an integral part of the Group's operations. Risk management covers all stages of the credit process, from loan origination and credit approval to collection. The Bank's Risk Management, Asset Liability Committee ("ALCO"), and Credit Committees meet regularly and report at least once a month to the Supervisory Board. The committees have clearly defined responsibilities and guidelines for maximum risk levels in accordance with the CBAR's Risk Management Standards and Procedures, approved by the Management Board of the CBAR as of 29 December 2004, classification of assets and the Bank's internal asset management policy. Under the CBAR Risk Management Standards and Procedures established by the CBAR, the process of risk management entails the control over and reduction of risks through their determination and evaluation, the preparation of reports about such risks (for example, by the Executive Board, the committees and the risk management officers) and the adoption by the Supervisory Board of risk limits.

30 Financial Risk Management (Continued)

These are the primary objectives of the risk management function which are described below. Under the CBAR Risk Management Standards, the risk management infrastructure and the risks of a bank must be evaluated by an outside specialist or auditor at least once a year. Generally, the CBAR's standards require the Bank to adopt an appropriate methodology to evaluate risks, though no specific quantitative limits or standards are prescribed.

The risk management function is within the overall structure of the duties and powers of all bank personnel, from the supervisory board down to the employees of a bank. This function requires the determination of: (i) the volume or levels of the risks controlled by the risk management function, (ii) the position of the body responsible for the performance of risk management functions within the internal organisational structure of the bank and (iii) the methodology used to evaluate information about the risks, prepare reports thereon, control such risks (i.e., determine their limits) and taking such information into account as part of the decision-making process. The structure of the risk management function consists of the risk management responsibilities borne by each of the Supervisory Board, Executive Board and the Risk Management, ALCO and Credit Committees as well as the risk management divisions or departments within a bank. The Bank's internal asset management policy is the same as required by the standards set by the CBAR.

The CBAR Risk Management Standards explain the nature of credit risks as well as their measurement and evaluation methodology. Furthermore, the Standards envision the adoption by the supervisory board of a bank of the following risk limits: limits for capital exposed to risk, market risk limits, credit risk limits as well as concentration risk limits.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a day-to-day basis by the relevant responsible sections of the Bank such as the Credit Committee. Such risks are also monitored on a monthly basis by the Risk Management Committee and are subject to an annual or more frequent review of risk management procedures by the Risk Management Committee for possible overhaul to improve procedures, if the need arises to reduce the number of overdue loans. Limits on the level of credit risk by product, borrower and industry sector are reviewed regularly by the Executive Board.

The exposure to any one borrower, including banks and brokers, is further restricted by the CBAR regulatory sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. The following sub-limits are applied by the Group:

(1) the maximum loan amount for one borrower or related borrowers' group is, as follows:

(i) 20 per cent of the Bank's total equity if the market value of the collateral is at least equal to 150 per cent of the value of the loan; and

(ii) 7 per cent of the Bank's total equity if the market value of the collateral is less than 150 per cent of the value of the loan;

(2) for large loans without collateral exceeding 10 per cent of the Bank's total equity, such loans in aggregate must not exceed 800 per cent in total of the Bank's total equity;

(3) the total maximum amount of the Bank's loans to related parties must not exceed

(i) 20 per cent of the Bank's total equity; and

(ii) 10 per cent of the Bank's equity per legal person; or

(iii) 3 per cent of the Bank's equity per physical person.

30 Financial Risk Management (Continued)

Exposure to credit risk is managed through the regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. This analysis is undertaken on a monthly basis by the Credit Committee. The analysis is based on information including overdue payments due to the Group, any changes in the financial condition of the Group's customers, substantial changes in any segment of the market or country's economic sector, or any negative information regarding the customer's reputation. The analysis also takes into consideration the Group's consolidated exposure to credit risk at the time the analysis is performed. This allows the Group to assess whether any preventive measures are needed to avoid these risks.

The Group's consolidated maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 33.

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.

The Group's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in 8, 10 and 14.

Credit approval process and structure. Management believes the credit approval process described below enhances its ability to accurately monitor and limit its credit exposure. Under the Bank's credit approval structure, smaller loans (loans up to AZN 5 thousand) may be issued by local branches while larger loans are issued by the head office. The Bank has established the following credit approval structures:

(1) Each of the Bank's branches has a credit officer. Each branch credit officer is authorised to approve loans of up to AZN 5 thousand. Although the branches do not have any aggregate lending limits, they are monitored regularly by the Bank's head office for any unusual lending activities.

(2) The Credit Committee at the head office in Baku is authorised to extend loans of up to AZN 100 thousand.

(3) All loans exceeding AZN 100 thousand but less than AZN 300 thousand must also be approved by the Executive Board in addition to the Credit Committee. Loans over AZN 300 thousand and all transactions with related parties must be approved by the Supervisory Board in accordance with Article 25 of the Azerbaijani Law on Banks. The Bank intends to implement an internal policy in 2010 whereby no more than 20 per cent of its loan portfolio is comprised of loans in each sector in which its clients operate.

(4)The pricing of the loan is based on a number of factors including the inflation rate, average cost of funding and the premium imposed by the Bank for the specific loan type and the customer risk profile.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The goal of the Group's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The Executive Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. These limits are set in accordance with the CBAR guidelines on *Determining and Regulating the Open Foreign Currency Position*. The open currency position of the Bank in any single currency may not exceed 10.0 per cent, and in all foreign currencies 20.0 per cent of the Bank's total equity. The Bank's management uses its discretion to apply limits stricter than those of CBAR if it believes such action is necessary.

30 Financial Risk Management (Continued)

Currency risk. The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Bank does not deal in any derivative instruments for speculative or hedging purposes. Such instruments are not commonly used in Azerbaijan.

In accordance with the guidelines of the management board of the CBAR on *Determining and Regulating the Open Foreign Currency Position*, the open foreign currency position of the Bank in any single currency should not exceed 10 per cent, and in all foreign currencies, 20 per cent of the Bank's total equity.

The Bank has exposure to the US Dollar. The Bank expects the Azerbaijani Manat to appreciate against the US Dollar in the future, therefore the Bank's policy has been to make loans mostly in Azerbaijani Manats. Management believes that the Bank will be able to obtain the resources necessary in order to cover any losses resulting from open currency positions without a material impact on the Bank, and is actively taking measures to reduce such risks. These measures include active forecasting the appreciation of the Azerbaijani Manat against the US Dollar, as well as monitoring studies by the International Monetary Fund.

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

	2009			2008		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Azerbaijani Manats	344,102	283,667	60,435	351,997	240,768	111,229
US Dollars	51,819	81,082	(29,263)	37,738	90,947	(53,209)
Euro	7,737	22,114	(14,377)	5,139	52,531	(47,392)
Other	850	1,604	(754)	1,058	944	114
Total	**404,508**	**388,467**	**16,041**	**395,932**	**385,190**	**10,742**

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.

As at 31 December 2009, the Bank has entered into forward foreign exchange contracts. Management believe that those contracts fully meet the definition of a forward foreign exchange agreement as set out within IFRS and are effective in reducing the Bank's open foreign currency exposure. Consequently, the Management included these instruments in calculation of open foreign currency limits as an integral part of the Bank's foreign currency position, and believes that the Bank is fully compliant with the covenants related to the open currency position as at 31 December 2009. However, it is noted that for all such forward foreign exchange contracts entered into by the Group to date, the contracts have been cancelled following the mutual agreement of the parties prior to the contractual maturity dates as specified in the contracts. As a result, no foreign exchange risk transfer has been realised as a result of these forward foreign exchange contracts agreed by the Group to date.

30 Financial Risk Management (Continued)

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

In thousands of Azerbaijani Manats	2009 Impact on profit or loss and equity	2008 Impact on profit or loss and equity
US Dollars strengthening by 5%	(1,463)	(2,660)
US Dollars weakening by 5%	1,463	2,660
Euro strengthening by 15%	(2,157)	(7,180)
Euro weakening by 15%	2,157	7,180
Other strengthening by 5%	(38)	6
Other weakening by 5%	38	(6)

Other than as a result of any impact on the Group's consolidated profit or loss, there is no other impact on the Group's consolidated 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 balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to average exposure to currency risk during the year, with all other variables held constant:

In thousands of Azerbaijani Manats	Average exposure during 2009 Impact on profit or loss and equity	Average exposure during 2008 Impact on profit or loss and equity
US Dollars strengthening by 5%	(1,871)	(2,977)
US Dollars weakening by 5%	1,871	2,977
Euro strengthening by 10%	(2,499)	(1,014)
Euro weakening by 10%	2,499	1,014
RUR strengthening by 5%	3	(23)
RUR weakening by 5%	(3)	23
GBP strengthening by 5%	(40)	(25)
GBP weakening by 5%	40	25

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

30 Financial Risk Management (Continued)

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Executive Board monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions. The table below summarises the Group's consolidated exposure to interest rate risks. The table presents the aggregated amounts of the Group's consolidated financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Over 5 years**	**Total**
31 December 2009						
Total financial assets	83,912	20,264	202,360	73,225	24,747	404,508
Total financial liabilities	112,065	16,917	199,096	23,239	37,150	388,467
Net interest sensitivity gap at 31 December 2009	**(28,153)**	**3,347**	**3,264**	**49,986**	**(12,403)**	**16,041**
31 December 2008						
Total financial assets	101,956	32,626	199,202	49,126	13,022	395,932
Total financial liabilities	110,340	15,736	209,738	36,438	12,938	385,190
Net interest sensitivity gap at 31 December 2008	**(8,384)**	**16,890**	**(10,536)**	**12,688**	**84**	**10,742**

The Bank's profit is not exposed to market interest rate changes because the bank does not have variable interest assets or liabilities. 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 effective 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.	**AZN**	**USD**	**Euro**	**Other**	**AZN**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Due from other banks	15	18	-	-	15	18	-	-
Loans and advances to customers	15	16	18	-	18	17	18	-
Other Investment securities								
Liabilities								
Due to other banks	12	8		-	14	14	13	-
Customer accounts								
- current and settlement accounts	-	-	-	-	-	-	-	-
- term deposits	12	14	12	13	11	13	12	12
Debt securities in issue	14	14	-	-	14	19	-	-
Term borrowings from other banks and financial institutions	2	6	-	-	6	6	-	-

30 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Group's consolidated financial assets and liabilities at 31 December 2009 is set out below.

Assets, liabilities and credit related commitments have been based on the country, in which the counterparty is located. Cash on hand, investment property and premises and equipment have been allocated based on the country, in which they are physically held.

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	45,845	1,091	961	47,897
Mandatory cash balances with the CBAR	837	-	-	837
Due from other banks and financial institutions	6,979	1	-	6,980
Loans and advances to customers	342,509	-	-	342,509
Investments	460	149	-	609
Other investment securities	2,336	-	-	2,336
Other financial assets	795	1,835	710	3,340
Total financial assets	**399,761**	**3,076**	**1,671**	**404,508**
Non-financial assets	**45,698**	**-**	**-**	**45,698**
Total assets	**445,459**	**3,076**	**1,671**	**450,206**
Liabilities				
Due to other banks and financial institutions	28,826	-	-	28,826
Customer accounts	189,812	-	-	189,812
Debt securities in issue	2,921	-	7,985	10,906
Term borrowings from other banks and other financial institutions	152,190	4,817	-	157,007
Other financial liabilities	1,408	-	508	1,916
Total financial liabilities	**375,157**	**4,817**	**8,493**	**388,467**
Non-financial liabilities	**3,144**	**-**	**-**	**3,144**
Total liabilities	**378,301**	**4,817**	**8,493**	**391,611**
Net position in on-balance sheet financial instruments	**67,158**	**(1,741)**	**(6,822)**	**58,595**
Credit related commitments	**8,995**	**-**	**-**	**8,995**

30 Financial Risk Management (Continued)

The geographical concentration of the Group's consolidated 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	45,851	1,572	1,969	49,392
Mandatory cash balances with the CBAR	9,933	-	-	9,933
Due from other banks and financial institutions	15,504	-	-	15,504
Loans and advances to customers	318,704	-	-	318,704
Investment securities available for sale	460	90	-	550
Other financial assets	780	458	611	1,849
Total financial assets	**391,232**	**2,120**	**2,580**	**395,932**
Non-financial assets	**42,291**	**-**	**-**	**42,291**
Total assets	**433,523**	**2,120**	**2,580**	**438,223**
Liabilities				
Due to other banks and financial institutions	62,814	1,197	11,559	75,570
Liabilities to customers under brokerage agreements	-	-	-	-
Customer accounts	174,603	-	-	174,603
Debt securities in issue	2,918	20,518	7,835	31,271
Term borrowings from other banks and other financial institutions	93,856	5,883	-	99,739
Other financial liabilities	4,007	-	-	4,007
Total financial liabilities	**338,198**	**27,598**	**19,394**	**385,190**
Non-financial liabilities	**4,174**	**-**	**-**	**4,174**
Total liabilities	**342,372**	**27,598**	**19,394**	**389,364**
Net position in on-balance sheet financial instruments	**91,151**	**(25,478)**	**(16,814)**	**48,859**
Credit related commitments	**13,471**	**-**	**-**	**13,471**

30 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Group seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Group calculates liquidity ratios on a monthly basis in accordance with the requirement of the CBAR. According to instructions set by the Central Bank of Azerbaijan, the Bank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. The ratio was 67% at 31 December 2009 (2008: 49%). These ratios are calculated based on balances derived from statutory financial statements as at 31 December 2009.

The Treasury Department receives information about the liquidity profile of the consolidated financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The table below shows liabilities at 31 December 2009 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated into AZN using official exchange rate of AZN to foreign currencies established by the CBAR as at the balance sheet date.

30 Financial Risk Management (Continued)

The undiscounted maturity analysis of financial assets and liabilities at 31 December 2009 is as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks and financial institutions	9,118	455	20,754	-	-	30,327
Customer accounts – individuals	26,288	7,197	80,069	10,223	299	124,076
Customer accounts – other	66,806	4,156	4,088	-	-	75,050
Debt securities in issue	265	7,874	400	4,605	-	13,144
Term borrowings from other banks and financial institutions	11,563	486	95,801	12,633	45,190	165,673
Other financial liabilities	942	125	849	-	-	1,916
Gross settled forwards	48,410	-	-	-	-	48,410
Import letters of credit (Note 33)	7,303	-	-	-	-	7,303
Guarantees issued (Note 33)	1,402	-	-	-	-	1,402
Undrawn credit lines (Note 33)	290	-	-	-	-	290
Total potential future payments for financial obligations	**172,387**	**20,293**	**201,961**	**27,461**	**45,489**	**467,591**

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

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks and financial institutions	17,340	3,827	59,977	-	-	81,144
Customer accounts – individuals	16,976	5,771	71,435	6,471	255	100,908
Customer accounts – other	70,538	8,634	2,365	-	-	81,537
Debt securities in issue	341	818	22,270	13,153	-	36,582
Term borrowings from other banks and financial institutions	7,144	1,034	64,106	21,603	15,525	109,412
Other financial liabilities	602	618	1,034	1,753	-	4,007
Import letters of credit (Note 33)	2,154	-	-	-	-	2,154
Guarantees issued (Note 33)	9,886	-	-	-	-	9,886
Undrawn credit lines (Note 33)	1,071	-	-	-	-	1,071
Total potential future payments for financial obligations	**126,052**	**20,702**	**221,187**	**42,980**	**15,780**	**426,701**

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.

30 Financial Risk Management (Continued)

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised, as follows at 31 December 2009:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	47,897		-	-	-	47,897
Mandatory cash balances with CBAR	66	74	623	74	-	837
Due from other banks and financial institutions	320	93	3,179	3,388	-	6,980
Loans and advances to customers	34,493	20,097	196,354	69,004	22,561	342,509
Investments	-	-	-	609	-	609
Other Investment securities	-	-	-	150	2,186	2,336
Other financial assets	1,136	-	2,204	-	-	3,340
Total financial assets	**83,912**	**20,264**	**202,360**	**73,225**	**24,747**	**404,508**
Liabilities						
Due to other banks and financial institutions	8,874	-	19,951	-	-	28,825
Customer accounts	92,008	9,356	78,983	9,326	139	189,812
Debt securities in issue	265	7,436	-	3,205	-	10,906
Term borrowings from other banks and other financial institutions	9,976	-	94,496	10,708	41,828	157,008
Other financial liabilities	942	125	849	-	-	1,916
Total financial liabilities	**112,065**	**16,917**	**194,279**	**23,239**	**41,967**	**388,467**
Net liquidity gap at 31 December 2009	**(28,153)**	**3,347**	**8,081**	**49,986**	**(17,220)**	**16,041**
Cumulative liquidity gap at 31 December 2009	**(28,153)**	**(24,806)**	**(16,725)**	**33,261**	**16,041**	

30 Financial Risk Management (Continued)

The analysis by expected maturities may be summarised, as follows at 31 December 2008:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	49,392	-	-	-	-	49,392
Mandatory cash balances with CBAR	4,924	724	3,930	348	7	9,933
Due from other banks and financial institutions	3,351	30	11,097	1,026	-	15,504
Loans and advances to customers	42,523	31,870	184,174	47,122	13,015	318,704
Investment securities available for sale	-	-	-	550	-	550
Other financial assets	1,766	2	1	80	-	1,849
Total financial assets	**101,956**	**32,626**	**199,202**	**49,126**	**13,022**	**395,932**
Liabilities						
Due to other banks and financial institutions	16,547	2,252	56,771	-	-	75,570
Liabilities to customers under brokerage agreements	-	-	-	-	-	-
Customer accounts	86,564	12,729	69,087	6,109	114	174,603
Debt securities in issue	20,334	137	302	10,498	-	31,271
Term borrowings from other banks and other financial institutions	6,627	-	62,210	18,078	12,824	99,739
Other financial liabilities	602	618	1,034	1,753	-	4,007
Total financial liabilities	**130,674**	**15,736**	**189,404**	**36,438**	**12,938**	**385,190**
Net liquidity gap at 31 December 2008	**(28,718)**	**16,890**	**9,798**	**12,688**	**84**	**10,742**
Cumulative liquidity gap at 31 December 2008	**(28,718)**	**(11,828)**	**(2,030)**	**10,658**	**10,742**	

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 consolidated exposure to changes in interest and exchange rates.

Management believe that despite 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 customers' 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.

31 Management of Insurance Risk

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable for each individual insurance contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Group manages its insurance risk by means of established internal procedures which include underwriting authority levels, pricing policy, approved reinsurers list and ongoing monitoring.

Estimation of insurance loss reserves. Loss provisions are calculated based on the Group's historical data. In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques include a combination of loss ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where a greater weight is given to actual claims experience as time passes.

The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analysed by type of risk for current and prior year premiums earned.

Sources of uncertainty in the estimation of future claim payments. Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, if the loss is discovered before the end of the contract term. As a result, liability claims are settled within a short period of time, which historically has not exceeded 3 months from the end of the contract term. There are several variables that affect the amount and timing of cash flows from insurance contracts. These mainly relate to the inherent risks of the activities carried out by both corporate and individual contract holders and the risk management procedures they adopted. The compensation paid on insurance contracts in the Group's portfolio primarily consists of monetary awards granted for:

- medical insurance;
- physical damage to motor vehicles (for motor vehicle insurance covers);
- financial loss, bodily injury and physical damage suffered by the third parties (caused by the vehicle owners); and
- physical damage to property (for property insurance covers).

Such awards are lump-sum payments that are calculated by the Group's in-house underwriters as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

Reinsurance policy. An element of the Group's motor, property, third party liability, employer liability and cargo portfolios is reinsured with local and foreign insurance companies under reinsurance agreements that reduce the potential maximum exposure that the Group is subject to.

Diversification. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

32 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital adequacy requirements set by the Central Bank of the Azerbaijan Republic, and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by the Central Bank of the Azerbaijan Republic is monitored monthly with reports outlining their calculation reviewed and signed by the Group's Chief Executive Officer and Chief Accountant. These reports are prepared based on balances derived from statutory financial statements. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Central Bank of the Azerbaijan Republic banks have to maintain a ratio of regulatory capital to risk weighted assets ("total capital ratio") and a ratio of Tier I capital to risk weighted assets above the prescribed minimum level. As at 31 December 2009, these minimum levels were 12% and 6% respectively (2008: 12% and 6%) The minimum total capital requirement set by the Central Bank of the Azerbaijan Republic was AZN 10,000 thousand (2008: AZN 10,000 thousand). The Bank was in compliance with these requirements as at 31 December 2009.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in the loan agreement with Black Sea Trade and Development, 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 June 2006), commonly known as Basel I. The composition of the Group's consolidated capital calculated in accordance with the Basel Accord is as follows:

For the CBAR statutory capital adequacy purposes the amount of the cumulative capital that the Bank manages as at 31 December 2009 is AZN 59,927 thousand (2008: AZN 49,360 thousand)

In thousands of Azerbaijani Manats	**2009**	**2008**
Tier 1 capital		
Share capital	41,712	26,912
Share premium	3,464	3,464
Retained earnings	1,084	3,700
Current year profit	9,043	12,104
Total tier 1 capital	**55,303**	**46,180**
Tier 2 capital		
Revaluation reserves	3,143	2,589
Revaluation reserves - available for-sale investment	149	90
Total tier 2 capital	**3,292**	**2,679**
Total capital	**58,595**	**48,859**
Share capital requirement (minimum 2009: AZN 10,000 thousand; 2008: AZN 10,000 thousand)	**41,712**	**26,912**
Total capital ratio (minimum 2009: 12%; 2008: 12%)	**15%**	**13%**
Tier I Capital to risk weighted assets (minimum 2009: 6%; 2008: 6%)	**14%**	**12%**

The Group has complied with externally imposed capital requirement throughout 2009 and 2008.

33 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 both internal and external professional advice, 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 and activity of the Group, may be challenged by the relevant state authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management have assessed whether capital transactions involving the Bank's own shares may give rise to non-sales income in the hands of the Group that is subject to income tax in accordance with the Tax Code of the Republic of Azerbaijan. Management firmly believe that such transactions, for example, the issuance by the Group of new shares giving rise to share premium, are not within the scope of the Tax Code and therefore not required to be included in the Bank's income tax calculation. Accordingly, the Bank has not paid or accrued any income tax in relation to such transactions that have resulted in a total share premium account of AZN 3,464 thousand as at 31 December 2009 (2008: AZN 3,464 thousand).

Tax liabilities arising from inter-company transactions are determined, using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Republic of Azerbaijan and the changes in the approach of the Azerbaijani tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Azerbaijani transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. As at 31 December 2009 management estimates that the Group has other possible obligations from exposure to other than remote income tax risks in the amount of AZN 381 thousand (2008: 381 thousand) in respect of taxation of share premium accounts.

Capital expenditure commitments. At 31 December 2009, the Group has contractual capital expenditure commitments in respect of premises and equipment totalling AZN nil (2008: AZN 1,879 thousand).

The Group has also contractual commitment in respect of acquisition of new T24 core banking system software AZN 502 thousand (2008: AZN 1,170 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. At 31 December 2009 and 2008, the Group has no operating lease commitments under non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related to borrowings from Black Sea Trade and Development Bank. Non-compliance with such covenants may result in negative consequences for the Group, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believes that during the period the Group has complied with the covenants that were in force, except capital adequacy ratio, liquidity ratio and ratio of loans in arrears for more than thirty days.

33 Contingencies and Commitments (Continued)

Details of the breaches identified as at 31 December 2009 are as follows:

a) Ratio of liquid assets to short-term liabilities - as at 31 December 2009, the Group's liquidity ratio was 43% (31 December 2008: 41%), lower than the 60% level specified in the loan agreement;

b) Ratio of capital to risk-weighted assets - as at 31 December 2009, the Group's ratio was 13.97% (31 December 2008: 13%), lower than the 15% level specified in the loan agreement.

c) Ratio of loans in arrears for more than thirty (30) days to all loans in to the Borrower's portfolio - as at 31 December 2009, the Group's ratio was 5.54% (31 December 2008: 1.54%), greater than the 5% level specified in the loan agreement.

The total borrowings affected by the breach of the covenant related to the liquidity ratio were AZN 4,817 thousand as at 31 December 2009 (31 December 2008: AZN 5,825 thousand). In accordance with the loan agreement, the borrowings are classified as due and/or repayable on demand in the liquidity disclosures in Note 30.

Accordingly, the borrowings impacted have been reclassified to being on demand within these consolidated financial statements. Management believes that the Group is in compliance with all other covenants as at 31 December 2009.

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

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

In thousands of Azerbaijani Manats	**2009**	**2008**
Import letters of credit	7,303	2,514
Guarantees issued	1,402	9,886
Undrawn credit	290	1,071
Less: Provision for credit related commitments	(176)	-
Total credit related commitments	**8,819**	**13,471**

33 Contingencies and Commitments (Continued)

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 107 thousand at 31 December 2009 (2008: AZN 385 thousand). Credit related commitments are denominated in the following currencies:

In thousands of Azerbaijani Manats	**2009**	**2008**
Azerbaijani Manats	5,689	9,602
US Dollars	2,103	2,024
Euro	1,203	1,845
Total	**8,995**	**13,471**

34 Fair Value of Financial Instruments

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

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

Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment securities available for sale are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

Fair values of available for sale securities have been fair valued by the Group based on financial data of the investees. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

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

	2009	**2008**
Due from other banks – Note 8		
Short-term placements with other banks with original maturities of more than three months	12% to 20% p.a.	12% to 20% p.a.
Loans and advances to customers – Note 9		
Corporate loans	5% to 48% p.a.	5% to 36% p.a.
Loans to individuals - consumer loans	3% to 44% p.a.	6% to 36% p.a.
Loans to individuals – entrepreneurs	5% to 56% p.a.	5% to 28% p.a.
Mortgage loans	3% to 25% p.a.	3% to 18% p.a.

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

34 Fair Value of Financial Instruments (Continued)

Liabilities carried at amortised cost. The fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Notes 16, 17, 18 and 19 for the estimated fair values of due to other banks, customer accounts, debt securities in issue and term borrowings, respectively.

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 Azerbaijani 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						
- Milli kart	-	-	400	-	-	400
- Baku Stock Exchange	-	-	60	-	-	60
- Visa	149	-	-	90	-	-

35 Reconciliation of Classes of Financial Instruments with Measurement Categories

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

In thousands of Azerbaijani Manats	Loans and receivables		Available for-sale assets		Total	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Assets						
Cash and cash equivalents	47,897	49,392	-	-	47,897	49,392
Mandatory Reserves	837	9,933	-	-	837	9,933
Due from other banks:	6,980	15,504			6,980	15,504
Loans and advances to customers						
- Corporate loans	253,357	228,568	-	-	253,357	228,568
- Loans to individuals - consumer loans	39,324	54,267	-	-	39,324	54,267
- Loans to individuals - entrepreneurs	19,055	15,481	-	-	19,055	15,481
- Mortgage loans	30,773	20,388	-	-	30,773	20,388
Investment securities available for sale	-	-	609	550	609	550
- Other investment securities	2,336	-	-	-	2,336	-
Other financial assets:						
- Restricted cash	2,204	661			2,204	661
- Fee and commission receivables	669	262			669	262
- Settlements with operators of payment systems	341	272	-	-	341	272
- Insurance premium receivable	80	290	-	-	80	290
- Credit and debit cards receivables	46	364	-	-	46	364
Total financial assets	**403,899**	**395,382**	**609**	**550**	**404,508**	**395,932**
Non-financial assets					**45,698**	**42,291**
Total assets					**450,206**	**438,223**

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

36 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, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 0% - 26% p.a.)	73	53	2,291
Impairment provisions for loans and advances to customers at 31 December	1	-	226
Customer accounts (contractual interest rate: 12% - 16% p.a.)	27	1	224
Debt securities in issue (contractual interest rate: 14% p.a.)	2,000	-	-
Purchase of premises	-	-	2,400

The income and expense items with related parties for the year 2009 were as follows:

In thousands of Azerbaijani Manats	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Interest income	-	7	540
Interest expense	1,080	-	-
Fee and commission income	-	-	1

Aggregate amounts lent to and repaid by related parties during 2009 were, as follows:

In thousands of Azerbaijani Manats	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the year	32	-	51
Amounts repaid by related parties during the year	-	1	866
Amounts lend by related parties during the year	-	-	-
Amounts repaid to related parties during the year	11,496	-	2,400

36 Related Party Transactions (Continued)

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

In thousands of Azerbaijani Manats	**Significant shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 0% - 26% p.a.)	41	54	3,157
Impairment provisions for loans and advances to customers at 31 December	1	1	279
Due to other banks (contractual interest rate: 15.5% p.a.)	11,496	-	-
Customer accounts (contractual interest rate: 12% - 16% p.a.)	98	20	363
Debt securities in issue (contractual interest rate: 14% p.a.)	2,000	-	-

The income and expense items with related parties for the year 2008 were, as follows:

In thousands of Azerbaijani Manats	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Interest income	-	4	543
Interest expense	3,535	17	45
Fee and commission income	-	1	3
Rental payments for lease of premises	-	-	114

Aggregate amounts lent to and repaid by related parties during 2008 were, as follows:

In thousands of Azerbaijani Manats	**Other significant shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the year	87	75	4,152
Amounts repaid by related parties during the year	47	86	3,612
Amounts lend by related parties during the year	69,882	1,049	175
Amounts repaid to related parties during the year	63,487	1,046	100

Key management compensation is presented below:

In thousands of Azerbaijani Manats	**2009**	**2008**
Short-term benefits:		
- Salaries	379	358
Total	**379**	**358**

37 Business Combinations

On 29 December 2009 the Group acquired 100% of the share capital of Texkart OJSC. The acquired subsidiary contributed revenue of AZN nil and profit of AZN nil to the Group for the period from the date of acquisition to 31 December 2009.

The consideration paid by the Group was based on results of an internal appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, net fair value of the acquiree's identifiable assets are equal to cost. Details of the assets and liabilities acquired and goodwill arising are as follows:

In thousands of Azerbaijani Manats	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents	2	2
Premises and equipment	480	480
Intangible assets	479	479
Other assets	39	39
Fair value of net assets of subsidiary	**1,000**	**1,000**
Fair value of acquired interest in net assets of subsidiary		**1,000**
Goodwill arising from the acquisition		-
Total purchase consideration		**1,000**
Less: deferred purchase consideration		-
Less: cash and cash equivalents of subsidiary acquired		2
Outflow of cash and cash equivalents on acquisition		**998**

The fair values of assets and liabilities acquired are based on discounted cash flow model as appropriate. The valuation of identifiable intangible assets was performed internally by management based on a number of reference points.

38 Subsequent Events

On 10 March 2010, the Group capitalised its profit and issued an additional 11,973 ordinary shares with a nominal value of AZN 1,000 per share through a primary registration at the Baku Stock Exchange. As a result, the allocation of shares following this transaction was as follows: Mr. Etibar Aliyev – 8,053 shares; Kazimir – 5,369 shares; and World Wines – 40,263 shares.

During May 2010, the Group repaid AZN 30 million of its term borrowing from the Central Bank of Azerbaijan Republic outstanding as at 31 December 2009.