

# **OJSC Expressbank**

## **Financial Statements**

*Year ended 31 December 2010  
Together with Independent Auditors' Report*

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## **Independent auditors' report**

### **To the Shareholders and Board of Directors of OJSC Expressbank -**

We have audited the accompanying financial statements of OJSC Expressbank, which comprise the statement of financial position as at 31 December 2010, and the statements of comprehensive income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' responsibility**

Our responsibility is to express an opinion on these 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernst & Young Holdings (CIS) B.V.*

31 March 2011

**Statement of financial position****As at 31 December 2010***(Thousands of Azerbaijani manats)*

	Notes	2010	2009 As restated (Note 2)	2008 As restated (Note 2)
<b>Assets</b>				
Cash and cash equivalents	5	64,832	46,469	31,274
Amounts due from credit institutions	6	1,119	217	1,707
Loans to banks	7	4,000	-	-
Loans to customers	8	47,280	19,155	14,044
Investment securities	9	9,760	316	2,001
Property and equipment	10	4,754	3,573	162
Intangible assets	11	198	123	11
Foreclosed property	12	294	473	483
Other assets	13	1,203	763	1,094
<b>Total assets</b>		<b>133,440</b>	<b>71,089</b>	<b>50,776</b>
<b>Liabilities</b>				
Amounts due to customers	14	75,574	44,479	39,476
Other liabilities	13	1,070	429	54
Advances from shareholders for increase in share capital	15	-	14,216	-
<b>Total liabilities</b>		<b>76,644</b>	<b>59,124</b>	<b>39,530</b>
<b>Equity</b>				
Share capital	15	51,000	10,784	10,784
Retained earnings		5,796	1,181	462
<b>Total equity</b>		<b>56,796</b>	<b>11,965</b>	<b>11,246</b>
<b>Total liabilities and equity</b>		<b>133,440</b>	<b>71,089</b>	<b>50,776</b>

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

Emin Mammadov

Chairman of the Management Board

Sevda Fattayeva

Chief Accountant

31 March 2011

**Statement of comprehensive income**  
**For the year ended 31 December 2010**  
*(Thousands of Azerbaijani manats)*

	<i>Notes</i>	<b>2010</b>	<b>2009 As restated (Note 2)</b>
<b>Interest income</b>			
Loans to customers		8,224	2,775
Amounts due from credit institutions		544	213
Loans to banks		125	-
Investment securities		45	42
		<b>8,938</b>	<b>3,030</b>
<b>Interest expense</b>			
Amounts due to customers		(1,878)	(1,069)
Amounts due to credit institutions		(86)	-
		<b>(1,964)</b>	<b>(1,069)</b>
<b>Net interest income</b>			
		<b>6,974</b>	<b>1,961</b>
Loan impairment charge	8	(2,522)	(2,034)
<b>Net interest income/(expense) after loan impairment charge</b>			
		<b>4,452</b>	<b>(73)</b>
Net fee and commission income	17	3,401	1,681
Net gains from dealing operations		4,075	1,986
Net (losses)/gains from currency translation differences		(22)	10
Other income		12	31
<b>Non-interest income</b>			
		<b>7,466</b>	<b>3,708</b>
Personnel expenses	18	(2,765)	(1,558)
General and administrative expenses	18	(1,525)	(925)
Depreciation and amortization	10,11,18	(1,077)	(317)
Other impairment and provisions	19	(97)	(86)
<b>Non-interest expense</b>			
		<b>(5,464)</b>	<b>(2,886)</b>
<b>Profit before income tax expense</b>			
		<b>6,454</b>	<b>749</b>
Income tax expense	20	(104)	(30)
<b>Profit for the year</b>			
		<b>6,350</b>	<b>719</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>			
		<b>6,350</b>	<b>719</b>

The accompanying notes on pages 5 to 34 are an integral part of these financial statements.

**Statement of changes in equity****For the year ended 31 December 2010***(Thousands of Azerbaijani manats)*

	<b>Share capital</b>	<b>Retained earnings</b>	<b>Total</b>
<b>31 December 2008</b>	<b>10,784</b>	<b>462</b>	<b>11,246</b>
Issuance of share capital (as previously issued)	14,216	-	14,216
Total comprehensive income for the year	-	719	719
<b>31 December 2009 (as previously issued)</b>	<b>25,000</b>	<b>1,181</b>	<b>26,181</b>
Correction of unregistered share capital contribution (Note 2)	(14,216)	-	(14,216)
<b>31 December 2009 (as restated)</b>	<b>10,784</b>	<b>1,181</b>	<b>11,965</b>
Issuance of share capital through cash contributions (Note 15)	39,216	-	39,216
Capitalization of profit for the years 2007, 2008 and 2009 (Note 15)	1,000	(1,000)	-
Tax on capitalized profit of 2007,2008, 2009 and 2010 (Note 15)	-	(735)	(735)
Total comprehensive income for the year	-	6,350	6,350
<b>31 December 2010</b>	<b>51,000</b>	<b>5,796</b>	<b>56,796</b>

*The accompanying notes on pages 5 to 34 are an integral part of these financial statements.*

**Statement of cash flows****For the year ended 31 December 2010***(Thousands of Azerbaijani manats)*

	<i>Notes</i>	<b>2010</b>	<b>2009 As restated (Note 2)</b>
<b>Cash flows from operating activities</b>			
Interest received		8,691	4,087
Interest paid		(1,899)	(1,019)
Fees and commissions received		4,597	2,036
Fees and commissions paid		(1,076)	(355)
Realized gains less losses from dealing in foreign currencies		4,075	1,986
Other income received		12	31
Personnel expenses paid		(2,765)	(1,548)
General and administrative expenses paid		(1,443)	(925)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>10,192</b>	<b>4,293</b>
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(5,788)	1,501
Loans to banks		(4,000)	10
Loans to customers		(30,559)	(8,206)
Other assets		88	991
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to customers		36,382	4,953
Other liabilities		(582)	273
<b>Net cash flows from operating activities before income tax</b>		<b>5,733</b>	<b>3,815</b>
Income tax paid		-	(24)
<b>Net cash from operating activities</b>		<b>5,733</b>	<b>3,791</b>
<b>Cash flows from investing activities</b>			
Purchase of investment securities		(11,410)	(316)
Proceeds from sale and redemption of investment securities		2,000	2,000
Purchase of property and equipment		(2,746)	(4,390)
Acquisition of intangible assets	11	(92)	(116)
<b>Net cash used in investing activities</b>		<b>(12,248)</b>	<b>(2,822)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital	15	25,000	-
Withholding tax paid on capitalization		(100)	-
Advances from shareholders for increase in share capital	15	-	14,216
<b>Net cash from financing activities</b>		<b>24,900</b>	<b>14,216</b>
Effect of exchange rates changes on cash and cash equivalents		(22)	10
<b>Net increase in cash and cash equivalents</b>		<b>18,363</b>	<b>15,195</b>
<b>Cash and cash equivalents, beginning</b>	5	<b>46,469</b>	<b>31,274</b>
<b>Cash and cash equivalents, ending</b>	5	<b>64,832</b>	<b>46,469</b>

The accompanying notes on pages 5 to 34 are an integral part of these financial statements.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 1. Principal activities

**OJSC Expressbank** (the "Bank") was formed on 21 June 1992 as Azernagliyyatbank Commercial Bank and operates under the laws of the Republic of Azerbaijan. On 11 March 2005 the legal structure of the Bank was changed to Open Joint Stock Company. The Bank changed its name from Open Joint Stock Commercial Bank "Azernagliyyatbank" to Open Joint Stock Company "Expressbank" on 4 March 2010. The Bank operates under banking license number 119 issued by the Central Bank of the Republic of Azerbaijan (the "CBA") on 30 December 1992.

The Bank accepts deposits from the public and extends credit, transfers payments in Azerbaijan and abroad, exchanges currencies and provides other banking services to its commercial and retail customers. Its main office is in Baku and it has 7 branches (2009: 8) in Baku and other cities in Azerbaijan and 4 servicing outlets (2009: 3). The Bank's registered legal address is 21, A.Nakhchivani Street, Baku, Azerbaijan.

Starting from 07 August 2007, the Bank is a member of the deposit insurance system. The system operates under the Law on Deposit Insurance and other regulations and is governed by the Azerbaijan Deposit Insurance Fund. Insurance covers the Bank's liabilities to individual depositors for the amount up to AZN 30 thousand for each individual in case of business failure and revocation of the CBA banking license.

As of 31 December, the following shareholders owned the outstanding shares of the Bank:

Shareholder	2010 %	2009 %
"ADOR" LLC	42.00	42.00
"Inter Enerji" LLC	40.00	40.00
"EnerqoServis" LLC	17.40	17.06
"Avtoneqliyyatservis"	0.59	0.90
Hamayil Hasanova	0.01	0.04
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

The Bank is ultimately controlled by "ADOR" LLC, a local Azerbaijani entity.

The Management Board (the "Board") of the Bank is composed of the following members:

As of 31 December 2010:

Name	Position
Mr. Emin Mammadov	Chairman
Mr. Ali Imanov	Deputy Chairman
Mr. Ilham Habibullayev	Deputy Chairman

As of 31 December 2009:

Name	Position
Mr. Emin Mammadov	Chairman
Mr. Ali Imanov	Deputy Chairman
Mr. Vidadi Mammadov	Deputy Chairman

## 2. Basis of preparation

### General

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank is required to maintain its records and prepare its financial statements in Azerbaijani manat and in accordance with IFRS.

The Azerbaijani manat is the reporting and functional currency of the Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. These financial statements are presented in thousands of Azerbaijani manats ("AZN"), except per share amounts and unless otherwise indicated.

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale securities have been measured at fair value.



(Thousands of Azerbaijani manats unless otherwise indicated)

## 2. Basis of preparation (continued)

### Restatements and reclassifications

#### Restatements

In the course of preparation of the financial statements as at and for the year ended 31 December 2010, the Bank identified the following errors related to the 2009 IFRS financial statements and accordingly restated the comparative information as at and for the year ended 31 December 2009:

- Obligatory reserve with the CBA amounting to AZN 213 thousand was previously classified within Cash and cash equivalents. This was corrected and presented as amounts due from credit institutions due to the restricted nature of these funds.
- Current accounts with credit institutions amounting to AZN 12,712 thousand was previously classified within Amounts due from credit institutions. This was corrected and presented as Cash and cash equivalents as these funds are not of restricted nature.
- Provision on guarantees in the amount of AZN 82 thousand was previously classified within Loan to customers as loan loss allowance. This was corrected and presented as provisions in Other liabilities.
- Foreclosed property in the amount of AZN 473 thousand was previously classified as Investment property. This was corrected and presented as Foreclosed property.
- Advances received from shareholders for the increase in share capital amounting to AZN 14,216 thousand was previously recognized as share capital as of 31 December 2009. As the increase in share capital had only been duly registered with the relevant authorities as required by the law of the Republic of Azerbaijan on 16 February 2010, such increase should only be reflected as share capital in 2010. The 2009 balances were corrected through the adjustment to the balances of liabilities and equity, respectively.
- Provision on guarantees in the amount of AZN 86 thousand was previously classified within Impairment charge on loans to customers. This was corrected and presented as Other impairment and provisions.
- Interest income on due from credit institutions in the amount of AZN 213 thousand was previously classified within Interest income on loans to customers. This was corrected and presented as Interest income on amounts due from credit institutions
- Interest income on investment securities in the amount of AZN 10 thousand was previously classified within Interest income on loans to customers. This was corrected and presented as Interest income on investment securities.

#### Reclassifications

In addition, certain reclassifications were made in the 2009 balances to conform to the 2010 presentation:

- Reclassification of Intangible assets from Other assets to Intangible assets.
- Reclassification of Deferred tax assets to Other assets.

The effect of the restatements and reclassifications on the statement of financial position as at 31 December 2009 and statement of comprehensive income for the year then ended is presented in the table below:

	<i>As previously reported</i>	<i>Restatements</i>	<i>Effect of reclassifications</i>	<i>As adjusted</i>
<b>Statement of Financial Position</b>				
Cash and cash equivalents	33,970	12,499	-	46,469
Amounts due from credit institutions	12,716	(12,499)	-	217
Loans to customers	19,073	82	-	19,155
Investment property	473	(473)	-	-
Intangible assets	-	-	123	123
Foreclosed property	-	473	-	473
Deferred tax assets	25	-	(25)	-
Other assets	861	-	(98)	763
Other liabilities	347	82	-	429
Advances from shareholders for increase in share capital	-	14,216	-	14,216
Share capital	25,000	(14,216)	-	10,784

(Thousands of Azerbaijani manats unless otherwise indicated)

## 2. Basis of preparation (continued)

### Restatements and reclassifications (continued)

#### Reclassifications (continued)

Statement of comprehensive income	As previously reported	Restatements	Effect of reclassifications	As adjusted
Interest income on loans to customers	2,999	(224)	-	2,775
Interest income on amounts due from credit institutions	-	213	-	213
Interest income on investment securities	32	10	-	42
Impairment charge on loans	(2,120)	86	-	(2,034)
Other impairment and provisions	-	(86)	-	(86)

In accordance with IAS 1 "Presentation of financial statements" (Revised), the Bank has presented a comparative statement of financial position as of 31 December 2008 which is the earliest comparative period, as it has retrospectively restated and reclassified items in the financial statements.

Statement of Financial Position	As previously reported	Restatements	Effect of reclassifications	As adjusted
Cash and cash equivalents	24,092	7,182	-	31,274
Amounts due from credit institutions	8,889	(7,182)	-	1,707
Investment property	483	(483)	-	-
Intangible assets	-	-	11	11
Foreclosed property	-	483	-	483
Other assets	1,105	-	(11)	1,094

## 3. Summary of significant accounting policies

### Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

#### *Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items*

The amendment to IAS 39 was issued in August 2008, and became effective for annual periods beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The amendment did not affect the Bank's financial statements as the Bank has not entered into any such hedges.

#### *IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008)*

The revised standards were issued in January 2008 and became effective for financial years beginning on or after 1 July 2009. Revised IFRS 3 introduces a number of changes in the accounting for business combinations that impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. Revised IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change has no impact on goodwill, nor it gives rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised Standards are applied prospectively and will affect only future acquisitions and transactions with non-controlling interests.

#### *IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions*

The amendment to IFRS 2 was issued in June 2009 and became effective for financial years beginning on or after 1 January 2010. The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. This amendment had no impact on the Bank's financial statements.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Changes in accounting policies (continued)

##### *IFRIC 17 "Distribution of Non-Cash Assets to Owners"*

IFRIC Interpretation 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. This interpretation had no impact on the Bank's financial statements.

##### *Improvements to IFRSs*

In April 2009 the IASB issued the second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2010. There are separate transitional provisions for each standard. Amendments included in April 2009 "Improvements to IFRS" had no impact on the accounting policies, financial position or performance of the Bank, except the following amendments resulting in changes to accounting policies, as described below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segment Information: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Bank's chief operating decision maker does not review segment assets and liabilities, the Bank does not disclose this information.
- IAS 7 Statement of Cash Flows: Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

#### Financial assets

##### *Initial recognition*

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

##### *Date of recognition*

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

##### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

### **3. Summary of significant accounting policies (continued)**

#### **Financial assets (continued)**

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

##### *Determination of fair value*

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

##### *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

##### *Reclassification of financial assets*

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, amounts due from the CBA, excluding obligatory reserves, and current accounts with other credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

### 3. Summary of significant accounting policies (continued)

#### Leases

##### Operating -Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as expenses on a straight-line basis over the lease term and included into other operating expenses.

##### Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

##### *Amounts due from credit institutions, loans to banks and customers*

For amounts due from credit institutions and loans to banks and customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

### **3. Summary of significant accounting policies (continued)**

#### **Impairment of financial assets (continued)**

##### *Held-to-maturity financial investments*

For held-to-maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to profit or loss.

##### *Available-for-sale financial investments*

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss – is reclassified from other comprehensive income to profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

##### *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

#### **Derecognition of financial assets and liabilities**

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(Thousands of Azerbaijani manats unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Derecognition of financial assets and liabilities (continued)

##### Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

##### Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to profit or loss. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

##### Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Azerbaijan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of general and administrative expenses.

##### Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis using the following useful lives:

	<u>Years</u>
Buildings	14
Furniture and fixtures	4
Computers and office equipment	4
Vehicles	4
Other fixed assets	4
Leasehold improvements	5

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Assets under construction includes assets being constructed by the Bank and completed assets which are not yet ready for intended use. The assets are transferred from Assets under construction category to the respective category of Property and Equipment and depreciation of these assets commences at the time when the assets are put into use.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

### **3. Summary of significant accounting policies (continued)**

#### **Intangible assets**

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

#### **Foreclosed property**

The Bank classifies a non-current asset as foreclosed property if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Bank measures an foreclosed property at the lower of its carrying amount and fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell if events or changes in circumstance indicate that their carrying amount may be impaired.

#### **Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and 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 obligation can be made.

#### **Retirement and other employee benefit obligations**

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no significant post-retirement benefits.

#### **Share capital**

##### *Share capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

##### *Dividends*

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorized for issue.

#### **Segment reporting**

The Bank's operations are in Azerbaijan and constitute a single operating segment - commercial banking. Accordingly, for purposes of IFRS 8 "Operating Segments", the Bank is treated as one operating segment.

#### **Contingencies**

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.



(Thousands of Azerbaijani manats unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### *Interest and similar income and expense*

For all financial instruments measured at amortized cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

##### *Fee and commission income*

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

##### *Dividend income*

Revenue is recognized when the Bank's right to receive the payment is established.

#### Foreign currency translation

The financial statements are presented in Azerbaijani manats, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in profit or loss as gains less losses from foreign currencies - translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBA exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

The Bank mainly used the following official exchange rates in the preparation of these financial statements:

	2010	2009	2008
1 US Dollar	0.7979 AZN	0.8031 AZN	0.8010 AZN
1 Euro	1.0560 AZN	1.1499 AZN	1.1292 AZN

(Thousands of Azerbaijani manats unless otherwise indicated)

### 3. Summary of significant accounting policies (continued)

#### Future changes in accounting policies

*Standards and interpretations issued but not yet effective*

##### *IAS 24 "Related party disclosures" (Revised)*

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. The Bank expects that revised standard will have no impact on the Bank's financial statements.

##### *Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"*

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Bank expects that this amendment will have no impact on the Bank's financial statements.

##### *IFRS 9 "Financial Instruments"*

In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortized cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income. The Bank now evaluates the impact of the adoption of new Standard and considers the initial application date.

##### *IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement*

The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction was developed by the International Financial Reporting Interpretations Committee and issued by the International Accounting Standards Board in July 2007. IFRIC 14 and its accompanying documents have been amended by Prepayments of a Minimum Funding Requirement (issued November 2009). Those amendments have an effective date of 1 January 2011. IFRIC 14 is not expected to have any material impact on the Bank's financial statements.

##### *IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"*

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 is not expected to have any material impact on the Bank's financial statements.

##### *IFRS 1 - Structural Amendment*

This version was issued in November 2008. Its effective date is 1 July 2009. It includes amendments made by IFRSs issued up to 31 December 2009 with an effective date no later than 1 January 2010.

IFRS 1 and its accompanying documents have been amended by:

- IFRS 9 Financial Instruments (issued November 2009) (effective date 1 January 2013)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (issued November 2009) (effective date 1 July 2010)

##### *Improvements to IFRSs*

In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 "Improvements to IFRS" will have impact on the accounting policies, financial position or performance of the Bank, as described below.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

### **3. Summary of significant accounting policies (continued)**

#### **Future changes in accounting policies (continued)**

*Standards and interpretations issued but not yet effective (continued)*

*Improvements to IFRSs (continued)*

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Bank applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Bank expects that other amendments to IFRS 3 will have no impact on financial statements of the Bank.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting; adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Additional disclosures required will be introduced in interim financial statements of the Bank.
- Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 will have no impact on the accounting policies, financial position or performance of the Bank.

### **4. Significant accounting judgments and estimates**

In the process of applying the Bank's accounting policies, management has made the following judgements and made estimates which have affected the amounts recognised in the financial statements:

#### *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

#### *Allowance for loan impairment*

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the 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 group of loans and receivables. The Bank uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

#### *Taxation*

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes, including the new law allowing financial institutions to be exempt from payment of profit tax starting 1 January 2009 (for 3 consequent years) if the current year profit is capitalized, as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as at 31 December 2010 its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

#### *Leasehold improvements*

The Management of the Bank revisited the contracts on leased properties and analyzed the period that they intend to hold the properties under lease at least for five years. Accordingly, useful lives on leasehold improvements were increased from two years to five years. The effect of the change in estimates to 2010 depreciation charge amounted to AZN 682 thousand.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 5. Cash and cash equivalents

	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Cash and cash equivalents comprise:			
Cash on hand	4,948	6,218	264
Current accounts with the CBA	45,486	27,539	22,121
Current accounts with other credit institutions	14,398	12,712	8,889
<b>Cash and cash equivalents</b>	<b>64,832</b>	<b>46,469</b>	<b>31,274</b>

As of 31 December 2010, current accounts with other credit institutions included AZN 13,796 thousand placed with two Azerbaijani banks (2009 – AZN 7,130 thousand placed with two Azerbaijani banks; 2008 - AZN 8,889 thousand placed with one Azerbaijani bank).

Non-cash transactions performed by the Bank during 2010 comprised the capitalization of its 2007, 2008 and 2009 profits and issuance of share capital for AZN 1,000 thousand and reclassification of advances from shareholders for increase in share capital for AZN 14,216 thousand to share capital upon completion of the registration of shares in 2010.

## 6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Obligatory reserve with the CBA	582	213	1,707
Blocked accounts	537	4	-
<b>Amounts due from credit institutions</b>	<b>1,119</b>	<b>217</b>	<b>1,707</b>

Credit institutions in Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA, the amount of which depends on the level of funds attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

As of 31 December 2010 blocked accounts represent security deposits placed to secure documentary and settlement operations through Visa International (2009: to secure settlement operations through Visa International; 2008 – nil).

## 7. Loans to banks

As of 31 December 2010 the Bank had outstanding amount of AZN 4,000 thousand (2009 – nil; 2008 - nil) unsecured loans denominated in Azerbaijani manat, issued to two resident commercial banks with contractual maturities through January 2011 and June 2011 and annual interest rate of 9.0% - 10.0%.

## 8. Loans to customers

	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Loans to customers comprise:			
Corporate lending	36,810	10,518	2,831
Consumer lending	12,885	10,228	12,782
<b>Gross loans to customers</b>	<b>49,695</b>	<b>20,746</b>	<b>15,613</b>
Less – Allowance for impairment	(2,415)	(1,591)	(1,569)
<b>Loans to customers</b>	<b>47,280</b>	<b>19,155</b>	<b>14,044</b>

(Thousands of Azerbaijani manats unless otherwise indicated)

## 8. Loans to customers (continued)

### Allowance for impairment of loans to customers

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<b>Corporate lending 2010</b>	<b>Consumer lending 2010</b>	<b>Total 2010</b>
<b>At 1 January 2010</b>	<b>196</b>	<b>1,395</b>	<b>1,591</b>
Charge for the year	221	2,301	2,522
Amounts written off	-	(1,698)	(1,698)
<b>At 31 December 2010</b>	<b>417</b>	<b>1,998</b>	<b>2,415</b>
Individual impairment	247	809	1,056
Collective impairment	170	1,189	1,359
	<b>417</b>	<b>1,998</b>	<b>2,415</b>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<b>756</b>	<b>2,025</b>	<b>2,781</b>
	<b>Corporate lending 2009</b>	<b>Consumer lending 2009</b>	<b>Total 2009 As restated</b>
<b>At 1 January 2009</b>	<b>50</b>	<b>1,519</b>	<b>1,569</b>
Charge for the year	156	1,878	2,034
Amounts written off	(10)	(2,686)	(2,696)
Recoveries	-	684	684
<b>At 31 December 2009</b>	<b>196</b>	<b>1,395</b>	<b>1,591</b>
Individual impairment	104	1,195	1,299
Collective impairment	92	200	292
	<b>196</b>	<b>1,395</b>	<b>1,591</b>
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	<b>237</b>	<b>4,604</b>	<b>4,841</b>

### Individually impaired loans

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2010, comprised AZN 144 thousand (2009 - AZN 209 thousand).

The Bank is unable to estimate the fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2010. In accordance with the CBA requirements, loans may only be written off with the approval of the Board of Directors and, in certain cases, with the respective decision of the Court.

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate lending, government guarantees, real estate properties, inventory;
- For consumer lending, real estate properties, inventory, vehicles.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 8. Loans to customers (continued)

### Concentration of loans to customers

As of 31 December 2010, the Bank had a concentration of loans represented by AZN 30,172 thousand due from the ten largest borrowers (61% of gross loan portfolio) (2009 - AZN 13,711 thousand or 66% – 4%). An allowance of AZN 1,051 thousand (2009 - AZN 1,063 thousand – 8%) was recognized against these loans.

Loans have been extended to the following types of customers:

	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
State companies	22,645	8,247	1,972
Private companies	14,165	2,271	859
Individuals	7,488	5,516	11,658
Individual entrepreneurs	5,397	4,712	1,124
	<b>49,695</b>	<b>20,746</b>	<b>15,613</b>

Loans are made principally within Azerbaijan in the following industry sectors:

	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Energy	24,159	6,726	1,952
Construction	11,050	3,752	600
Individuals	7,488	5,516	11,658
Trade and services	5,405	4,611	1,232
Agriculture and food processing	1,524	29	171
Other	69	112	-
	<b>49,695</b>	<b>20,746</b>	<b>15,613</b>

## 9. Investment securities

Investment securities comprise:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	4,519	-	-
Notes issued by Azerbaijan Mortgage Fund	5,241	-	-
<b>Available-for-sale securities</b>	<b>9,760</b>	<b>-</b>	<b>-</b>
Notes issued by Azerbaijan Mortgage Fund	-	316	2,001
<b>Held to maturity securities</b>	<b>-</b>	<b>316</b>	<b>2,001</b>
<b>Investment securities</b>	<b>9,760</b>	<b>316</b>	<b>2,001</b>

### Reclassifications

During 2010 the Bank reclassified one security in the amount of AZN 316 thousand that met the definition of available for sale investment security, out of held to maturity category to available for sale. No fair value gain or loss has been recognized on the reclassified asset as the fair value of this asset approximated carrying value at the time of reclassification.

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

	<b>2010</b>		<b>2009</b>	
	<b>Annual interest rate</b>	<b>Maturity</b>	<b>Annual interest rate</b>	<b>Maturity</b>
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	1.46% - 2.50%	1 – 3 months	-	-
Notes issued by Azerbaijan Mortgage Fund	3.00% - 3.25%	78 - 109 months	3.00%	80 months

(Thousands of Azerbaijani manats unless otherwise indicated)

## 10. Property and equipment

The movements in property and equipment were as follows:

	<i>Land and buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and office equipment</i>	<i>Vehicles</i>	<i>Other fixed assets</i>	<i>Leasehold improvements</i>	<i>Assets under construction</i>	<i>Total</i>
<b>Cost</b>								
<b>31 December 2008</b>	-	55	75	250	4	8	-	392
Additions	-	1,364	578	203	67	1,518	-	3,730
Disposals	-	(22)	(22)	(56)	(4)	(10)	-	(114)
<b>31 December 2009</b>	-	1,397	631	397	67	1,516	-	4,008
Additions	180	776	107	415	103	534	132	2,247
Disposals	-	(32)	(48)	(62)	(1)	-	-	(143)
Transfers	-	(16)	18	4	(6)	-	-	-
<b>31 December 2010</b>	180	2,125	708	754	163	2,050	132	6,112
<b>Accumulated depreciation</b>								
<b>31 December 2008</b>	-	(42)	(61)	(122)	(2)	(3)	-	(230)
Depreciation charge	-	(95)	(34)	(50)	(5)	(129)	-	(313)
Disposals	-	19	22	56	3	8	-	108
<b>31 December 2009</b>	-	(118)	(73)	(116)	(4)	(124)	-	(435)
Depreciation charge	(5)	(408)	(159)	(112)	(20)	(356)	-	(1,060)
Disposals	-	31	47	58	1	-	-	137
<b>31 December 2010</b>	(5)	(495)	(185)	(170)	(23)	(480)	-	(1,358)
<b>Net book value:</b>								
<b>31 December 2008</b>	-	13	14	128	2	5	-	162
<b>31 December 2009</b>	-	1,279	558	281	63	1,392	-	3,573
<b>31 December 2010</b>	175	1,630	523	584	140	1,570	132	4,754

As of 31 December 2010, included in property and equipment were fully depreciated assets of AZN 96 thousand (2009: AZN 113 thousand).

## 11. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
<b>Cost</b>			
<b>31 December 2008</b>	17	-	17
Additions	55	61	116
<b>31 December 2009</b>	72	61	133
Additions	82	10	92
<b>31 December 2010</b>	154	71	225
<b>Accumulated amortization</b>			
<b>31 December 2008</b>	(6)	-	(6)
Amortization charge	(2)	(2)	(4)
<b>31 December 2009</b>	(8)	(2)	(10)
Amortization charge	(11)	(6)	(17)
<b>31 December 2010</b>	(19)	(8)	(27)
<b>Net book value:</b>			
<b>31 December 2008</b>	11	-	11
<b>31 December 2009</b>	64	59	123
<b>31 December 2010</b>	135	63	198

(Thousands of Azerbaijani manats unless otherwise indicated)

## 12. Foreclosed property

As of 31 December 2010 foreclosed property in the amount of AZN 294 thousand (2009 - AZN 473 thousand; 2008 - AZN 483 thousand) are represented by two apartments which the Bank took possession of, and is in the process of selling. As of 31 December 2010 the Bank engaged an independent appraiser to determine the fair value of these apartments which are estimated at a total of AZN 294 thousand. The Bank recognized an allowance for impairment of AZN 179 thousand (see Note 19).

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds will be used to reduce or repay the outstanding loans. In general, the Bank does not occupy repossessed properties for business use.

## 13. Other assets and liabilities

Other assets comprise:	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Prepayments and other debtors	403	77	-
Prepayments for purchase of property and equipment	499	660	1,094
Deferred expenses	253	-	-
Items in the course of collections	12	2	-
Other	36	24	-
<b>Other assets</b>	<b>1,203</b>	<b>763</b>	<b>1,094</b>

  

Other liabilities comprise:	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Taxes payable	824	59	29
Accrued expenses	215	-	-
Payments in the course of settlements	30	288	25
Other	1	82	-
<b>Other liabilities</b>	<b>1,070</b>	<b>429</b>	<b>54</b>

## 14. Amounts due to customers

The amounts due to customers include the following:

	<b>2010</b>	<b>2009 As restated</b>	<b>2008 As restated</b>
Current accounts	61,129	31,759	32,840
Time deposits	14,445	12,720	6,636
<b>Amounts due to customers</b>	<b>75,574</b>	<b>44,479</b>	<b>39,476</b>
<b>Held as security against letters of credit</b>	<b>533</b>	<b>-</b>	<b>-</b>

As of 31 December 2010, time deposits were due to customers with effective annual interest rates of 3.0% - 17.0% (2009 - 1.0% - 20.0%) and mature in 2013 (2009: mature in 2013).

As of 31 December 2010, amounts due to customers AZN 53,561 thousand (71%) were due to the three largest customers (2009 - AZN 24,225 thousand (55%)).

Included in time deposits are deposits of individuals in the amount of AZN 12,988 thousand (2009 - AZN 10,860 thousand). In accordance with the Azerbaijan Civil Code, the Bank is obliged to repay such deposits upon demand of a depositor. In case a term deposit is repaid upon demand of the depositor prior to maturity, interest on it is paid based on the interest rate for demand deposits, unless a different interest rate is specified in the agreement.

Amounts due to customers include accounts with the following types of customers:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
State and budgetary organizations	58,681	28,671	32,553
Individuals	15,270	15,321	6,648
Private enterprises	1,585	300	125
Employees	38	187	150
<b>Amounts due to customers</b>	<b>75,574</b>	<b>44,479</b>	<b>39,476</b>



(Thousands of Azerbaijani manats unless otherwise indicated)

#### 14. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>
Energy	55,293	28,671	32,553
Individuals	15,270	15,321	6,648
Construction	2,783	-	6
Trade and service	162	280	110
Transport and communication	80	20	9
Other	1,986	187	150
<b>Amounts due to customers</b>	<b>75,574</b>	<b>44,479</b>	<b>39,476</b>

#### 15. Equity

Movements in shares outstanding, issued and fully paid were as follows:

	<b>Number of shares</b>	<b>Date registered</b>	<b>Nominal amount</b>	<b>Total</b>
<b>31 December 2008</b>	<b>53,922</b>		<b>0.200</b>	<b>10,784</b>
Increase in share capital (as previously issued)	71,079		0.200	14,216
<b>31 December 2009 (as previously issued)</b>	<b>125,001</b>		<b>0.200</b>	<b>25,000</b>
Correction of unregistered share capital contribution (Note 2)	(71,079)		0.200	(14,216)
<b>31 December 2009 (as restated)</b>	<b>53,922</b>		<b>0.200</b>	<b>10,784</b>
Increase in share capital through cash contributions	71,079	16 February 2010	0.200	14,216
Capitalization of retained earnings	4,808	27 April 2010	0.208	1,000
Increase in share capital through cash contributions	67,308	7 October 2010	0.208	15,000
Increase in share capital through cash contributions	48,077	8 December 2010	0.208	10,000
<b>31 December 2010</b>	<b>245,194</b>		<b>0.208</b>	<b>51,000</b>

As of 31 December 2010 the number of issued and fully paid ordinary shares is 245,194 (2009 – 53,922; 2008 - 53,922) with a nominal value per share of 0.208 AZN thousand (2009 - AZN 0.200 thousand; 2008 - AZN 0.200 thousand). The share capital of the Bank was contributed by the shareholders in AZN and they are entitled to dividends and any capital distribution in AZN.

On 24 February 2009 the Bank's shareholders approved the issuance of 75,000 ordinary shares. The total consideration received for these shares was comprised of cash for AZN 14,216 thousand. As of 31 December 2009, the state registration of the increase has not been completed, and accordingly, the cash contributions made by the Bank's shareholders were recognized as advances by shareholders for increase in share capital in the Bank's statement of financial position. On 16 February 2010, the issue of 71,079 additional ordinary shares out of the authorized 75,000 ordinary shares was officially registered as completed by the State Committee for Securities of the Republic of Azerbaijan under the auspices of the President of Azerbaijan, and accordingly, the advances from shareholders for increase in share capital of AZN 14,216 thousand in 2009 was recognized as share capital in 2010.

Following the availment of tax exemption as described in Note 20, on 9 March 2010 the shareholders decided to increase the share capital by AZN 1,000 thousand from AZN 25,000 thousand to AZN 26,000 thousand through capitalization of the profit earned for the years ended 31 December 2007, 2008 and 2009. The Bank completed the registration of the increase in share capital on 27 April 2010, thus, bringing share par value from AZN 0.200 thousand to AZN 0.208 thousand each.

As of 31 December 2010 the Bank accrued tax on capitalized profit of AZN 735 thousand (2009 - nil), of which AZN 635 thousand relates to 2010 and AZN 100 thousand relates to 2007, 2008 and 2009.

On 11 May 2010 the Bank's shareholders decided to increase the share capital from AZN 26,000 thousand to AZN 41,000 thousand and made cash contribution of AZN 15,000 thousand for the increase in share capital. As of 7 October 2010 the Bank has registered its share capital of AZN 41,000 thousand consisting of 197,117 shares with par value of AZN 0.208 thousand each with the appropriate authorities.

On 11 October 2010 the Bank's shareholders have decided to increase the share capital from AZN 41,000 thousand to AZN 51,000 thousand and have made cash contribution of AZN 10,000 thousand for the increase in share capital. The Bank has applied for state registration of the share capital increase. On 8 December 2010 the Bank has registered its share capital of AZN 51,000 thousand consisting of 245,194 shares with par value of AZN 0.208 thousand each with the appropriate authorities.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 16. Commitments and contingencies

### Operating environment

As an emerging market, Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. However, there have been a number of developments that positively affect the overall investment climate of the country.

While operations in Azerbaijan may involve risks that are not typically associated with those in developed markets (including the risk that the Azerbaijan Manat is not freely convertible outside of the country and undeveloped debt and equity markets), over the last few years the Azerbaijani government has made progress in implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Azerbaijani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. However, the Azerbaijan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The Azerbaijan Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Azerbaijan banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

### Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

### Taxation

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

As at 31 December 2010 management believes that its interpretation of the relevant legislation is appropriate and that the Bank's tax, currency and customs positions will be sustained.

### Commitments and contingencies

As of 31 December the Bank's commitments and contingencies comprised the following:

	<u>2010</u>	<u>2009</u>
<b>Credit related commitments</b>		
Guarantees issued	1,753	4,103
Undrawn loan commitments	976	1,072
Letters of credit	536	-
	<u>3,265</u>	<u>5,175</u>
<b>Operating lease commitments</b>		
Not later than 1 year	352	311
Later than 1 year but not later than 5 years	378	295
Later than 5 years	70	-
	<u>800</u>	<u>606</u>
Less - Provisions (Note 19)	(4)	(86)
<b>Commitments and contingencies (before deducting collateral)</b>	<u>4,061</u>	<u>5,695</u>
Less – Cash held as security against letters of credit (Note 14)	(533)	-
<b>Commitments and contingencies</b>	<u>3,528</u>	<u>5,695</u>

(Thousands of Azerbaijani manats unless otherwise indicated)

## 16. Commitments and contingencies (continued)

### Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

## 17. Net fee and commission income

Net fee and commission income comprises:

	<u>2010</u>	<u>2009</u>
Currency conversion operations	2,750	1,045
Settlements operations	756	532
Plastic card operations	533	35
Cash operations	268	196
Loan servicing	150	113
Guarantees and letters of credit	20	68
Other	-	46
<b>Fee and commission income</b>	<b><u>4,477</u></b>	<b><u>2,035</u></b>
Plastic card operations	(709)	(167)
Settlements operations	(350)	(166)
Other	(17)	(21)
<b>Fee and commission expense</b>	<b><u>(1,076)</u></b>	<b><u>(354)</u></b>
<b>Net fee and commission income</b>	<b><u><u>3,401</u></u></b>	<b><u><u>1,681</u></u></b>

## 18. Personnel and general and administrative expenses

Personnel and general and administrative expenses comprise:

	<u>2010</u>	<u>2009</u>
Salaries and bonuses	(2,212)	(1,261)
Social security costs	(485)	(275)
Other	(68)	(22)
<b>Personnel expenses</b>	<b><u>(2,765)</u></b>	<b><u>(1,558)</u></b>
Depreciation charge (Note 10)	(1,060)	(313)
Amortization charge (Note 11)	(17)	(4)
<b>Depreciation and amortization</b>	<b><u>(1,077)</u></b>	<b><u>(317)</u></b>
Occupancy and rent	(478)	(309)
Security	(303)	(147)
Printing and office supplies	(119)	(65)
Communications	(111)	(135)
Legal and consultancy	(90)	(39)
Operating taxes	(82)	(18)
Marketing and advertising	(57)	(7)
Vehicle running costs	(55)	(12)
Deposit insurance fee	(52)	(28)
Business travel and related expenses	(30)	(11)
Repair and maintenance	(28)	(34)
Utilities	(26)	(22)
Membership	(19)	(52)
Other	(75)	(46)
<b>General and administrative expenses</b>	<b><u>(1,525)</u></b>	<b><u>(925)</u></b>

(Thousands of Azerbaijani manats unless otherwise indicated)

## 19. Other impairment and provisions

The movements in other impairment allowances and provisions were as follows:

	<b>Foreclosed property</b>	<b>Guarantees and commitments</b>	<b>Total</b>
<b>31 December 2008</b>	-	-	-
Charge for the year	-	(86)	(86)
<b>31 December 2009</b>	-	<b>(86)</b>	<b>(86)</b>
(Charge)/reversal for the year	(179)	82	(97)
<b>31 December 2010</b>	<b>(179)</b>	<b>(4)</b>	<b>(183)</b>

Allowance for impairment of foreclosed property is deducted from the carrying amounts of the related assets. Provisions for guarantees and commitments are recorded in liabilities.

## 20. Taxation

The corporate income tax expense comprises:

	<b>2010</b>	<b>2009</b>
Current tax charge	(104)	(55)
Deferred tax benefit	-	25
<b>Income tax expense</b>	<b>(104)</b>	<b>(30)</b>

On 19 June 2009 an amendment to the Tax Code was enacted to reduce the corporate income tax rate from 22% to 20% effective from 1 January 2010.

In accordance with the Law of the Republic of Azerbaijan on enhancement of the activities of banks, insurance and reinsurance companies (N710-IIIQ and dated 28 October 2008), financial institutions are exempt from payment of profit tax with effect from 1 January 2009 for a period of three consecutive years, if the current year's profit is capitalized. As a result, based on the shareholders' meeting held on 9 March 2010, the Bank decided to utilise the tax exemption in accordance with the law for the years 2009 – 2011.

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	<b>2010</b>	<b>2009</b>
<b>Profit before income tax expense</b>	<b>6,454</b>	<b>749</b>
Statutory tax rate	20%	22%
<b>Theoretical income tax expense at the statutory rate</b>	<b>(1,291)</b>	<b>(165)</b>
Tax-exempt income arising from capitalization of profit	1,291	24
Tax effect of non-deductible expenses	(104)	111
<b>Income tax expense</b>	<b>(104)</b>	<b>(30)</b>

## 21. Risk management

### Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's sustainability and profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit, liquidity, market and operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

### Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

*(Thousands of Azerbaijani manats unless otherwise indicated)*

## **21. Risk management (continued)**

### **Introduction (continued)**

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

#### *Management Board*

The Management Board has the responsibility to monitor the overall risk process within the Bank.

#### *The Assets and Liabilities Management Committee ("ALMC")*

The ALMC is responsible for the development and implementation of strategy and tools related to all aspects of financial management of the Bank.

#### *Risk Committee*

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

#### *Risk Management*

The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

#### *Bank Treasury*

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

#### *Internal Audit*

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

#### *Risk measurement and reporting systems*

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities. Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. On a regular basis detailed reporting of industry and customer risks takes place.

#### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Bank intends to expand its position in retail sector in 2011. This expansion will be implemented through existing and new branches and sub-branches. The number of loan and deposit products is planned to be increased, along with the services offered to individuals. These efforts will be supported by active promotion in media and on the web.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 21. Risk management (continued)

### Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The Bank actively uses collateral to reduce its credit risks.

#### Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	Maximum exposure 2010	Maximum exposure 2009 As restated
Cash and cash equivalents (excluding cash on hand)	5	59,884	40,251
Amounts due from credit institutions	6	1,119	217
Loans to banks	7	4,000	-
Loans to customers	8	47,280	19,155
Investment securities	9	9,760	316
Other assets	13	12	2
		<b>122,055</b>	<b>59,941</b>
Financial commitments and contingencies	16	3,261	5,089
<b>Total credit risk exposure</b>		<b>125,316</b>	<b>65,030</b>

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

#### Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system. In the table below loans to banks and customers of high grade are those having a minimal level of credit risk, normally with a government guarantee or very well collateralized. Other borrowers with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade but not individually impaired. Investment securities of high grade are those issued by government and its agencies with very low default probability and at risk free rate.

Notes	Neither past due nor impaired			Past due but not impaired 2010	Individually impaired 2010	Total 2010
	High grade 2010	Standard grade 2010	Sub-standard grade 2010			
Amounts due from credit institutions	6	-	1,119	-	-	1,119
Loans to banks	7	-	4,000	-	-	4,000
Loans to customers	8					
Corporate lending		12,456	7,699	15,899	-	36,810
Consumer lending		31	-	10,112	717	12,885
		<b>12,487</b>	<b>7,699</b>	<b>26,011</b>	<b>717</b>	<b>49,695</b>
Investment securities	9	-	9,760	-	-	9,760
<b>Total</b>		<b>12,487</b>	<b>22,578</b>	<b>26,011</b>	<b>717</b>	<b>64,574</b>

(Thousands of Azerbaijani manats unless otherwise indicated)

## 21. Risk management (continued)

### Credit risk (continued)

Credit quality per class of financial assets (continued)

	Notes	Neither past due nor impaired			Past due but not impaired 2009	Individually impaired 2009	Total 2009 As restated
		High grade 2009	Standard grade 2009	Sub-standard grade 2009			
Amounts due from credit institutions	6	-	217	-	-	-	217
Loans to customers	8						
Corporate lending		-	10	-	10,271	237	10,518
Consumer lending		-	3,878	-	1,746	4,604	10,228
		-	3,888	-	12,017	4,841	20,746
Investment securities	9	-	316	-	-	-	316
<b>Total</b>		-	<b>4,421</b>	-	<b>12,017</b>	<b>4,841</b>	<b>21,279</b>

Past due loans to customers include those that are only past due by a few days. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets

	Less than 30 days 2010	31 to 60 days 2010	61 to 90 days 2010	More than 90 days 2010	Total 2010
Loans to customers					
Corporate lending	-	-	-	-	-
Consumer lending	-	-	717	-	717
<b>Total</b>	-	-	<b>717</b>	-	<b>717</b>

  

	Less than 30 days 2009	31 to 60 days 2009	61 to 90 days 2009	More than 90 days 2009	Total 2009
Loans to customers					
Corporate lending	-	-	-	10,271	10,271
Consumer lending	1	2	2	1,741	1,746
<b>Total</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>12,012</b>	<b>12,017</b>

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

#### Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

#### Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 21. Risk management (continued)

### Credit risk (continued)

#### Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the historical losses on the portfolio and expected receipts and recoveries once impaired. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of Bank's monetary assets and liabilities is set out below:

	2010				2009 As restated			
	Azerbaijan	OECD	CIS and other countries	Total	Azerbaijan	OECD	CIS and other countries	Total
<b>Assets:</b>								
Cash and cash equivalents	64,436	146	250	64,832	40,940	5,529	-	46,469
Amounts due from credit institutions	582	537	-	1,119	217	-	-	217
Loans to banks	4,000	-	-	4,000	-	-	-	-
Loans to customers	47,280	-	-	47,280	19,155	-	-	19,155
Investment securities	9,760	-	-	9,760	316	-	-	316
Other assets	12	-	-	12	2	-	-	2
	<b>126,070</b>	<b>683</b>	<b>250</b>	<b>127,003</b>	<b>60,630</b>	<b>5,529</b>	<b>-</b>	<b>66,159</b>
<b>Liabilities:</b>								
Amounts due to customers	75,574	-	-	75,574	44,479	-	-	44,479
Other liabilities	242	4	-	246	369	1	-	370
Advances from shareholders for increase in share capital	-	-	-	-	14,216	-	-	14,216
	<b>75,816</b>	<b>4</b>	<b>-</b>	<b>75,820</b>	<b>59,064</b>	<b>1</b>	<b>-</b>	<b>59,065</b>
<b>Net assets</b>	<b>50,254</b>	<b>679</b>	<b>250</b>	<b>51,183</b>	<b>1,566</b>	<b>5,528</b>	<b>-</b>	<b>7,094</b>

### Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. The methodology of the liquidity management tools and reports is approved by the Board of Directors of the Bank, prepared by the Assets and Liabilities Management department and reviewed on the monthly basis by Asset Liabilities Committee.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a cash deposit (obligatory reserve) with the CBA, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on minimum liquidity ratio of 30% established by the CBA. As at 31 December, these ratios were as follows:

	2010, %	2009, %
Instant Liquidity Ratio	131	117



(Thousands of Azerbaijani manats unless otherwise indicated)

## 21. Risk management (continued)

### Liquidity risk (continued)

*Analysis of financial liabilities by remaining contractual maturities*

The tables below summarize the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<b>Financial liabilities</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
As at 31 December 2010					
Amounts due to customers	62,722	8,596	7,034		78,352
Other liabilities	241	-	-	5	246
<b>Total undiscounted financial liabilities</b>	<b>62,963</b>	<b>8,596</b>	<b>7,034</b>	<b>5</b>	<b>78,598</b>
<b>Financial liabilities</b>	<b>Less than 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
As at 31 December 2009 (as restated)					
Amounts due to customers	36,833	4,359	7,675	-	48,867
Other liabilities	370	-	-	-	370
Advances from shareholders for increase in share capital	14,216	-	-	-	14,216
<b>Total undiscounted financial liabilities</b>	<b>51,419</b>	<b>4,359</b>	<b>7,675</b>	<b>-</b>	<b>63,453</b>

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<b>Less than 3 months</b>	<b>3 to 12 Months</b>	<b>1 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
2010	-	2,289	-	-	2,289
2009	-	4,103	-	-	4,103

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank does not receive any significant funds from any one organization or private individual. The maturity analysis does not exhibit any significant negative gaps in any given period.

Included in due to customers are term deposits of individuals. In accordance with the Azerbaijan legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 14.

### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Bank does not have any significant equity, corporate fixed income or derivatives holdings.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ALMC on regular basis reviews the overall interest rate spreads by detailed analysis of the assets and liabilities interest rate structure.

The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2010 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. However, as interest rate of available-for-sale securities in the local market is based on the carried accrued discount or premiums on these securities at the time of purchase or sale (as included in actual price of purchased or sold securities), thus, any change in the rates to be applied to the fixed-rate available-for-sale financial assets does not have any impact or effect on equity. The sensitivity analyses are unrepresentative of a risk inherent in a financial instrument because the exposure at the end of the reporting period does not reflect the exposure during the reporting period.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 21. Risk management (continued)

### Market risk (continued)

#### Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Assets and Liabilities Management Committee controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of CBA.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AZN, with all other variables held constant on profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on profit or loss. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

<b>Currency</b>	<b>Change in currency rate in % 2010</b>	<b>Effect on profit before tax 2010</b>	<b>Change in currency rate in % 2009</b>	<b>Effect on profit before tax 2009</b>
USD	8.35%	275	15.60%	-
EUR	14.70%	4	12.40%	-

### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 22. Fair values of financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<b>At 31 December 2010</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Investment securities	-	9,760	-	9,760
	<b>-</b>	<b>9,760</b>	<b>-</b>	<b>9,760</b>

#### Investment securities available-for-sale

Investment securities available-for-sale in the local market are based on the carried accrued discount or premiums on these securities at the time of purchase or sale (as included in actual price of purchased or sold securities). These securities are valued using models which incorporate data observable in the market.

(Thousands of Azerbaijani manats unless otherwise indicated)

## 22. Fair values of financial instruments (continued)

*Fair value of financial assets and liabilities not carried at fair value*

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2010	Fair value 2010	Unrecognized gain/(loss) 2010	Carrying value 2009 As restated	Fair value 2009	Unrecognized gain/(loss) 2009
<b>Financial assets</b>						
Cash and cash equivalents	64,832	64,832	-	46,469	46,469	-
Amounts due from credit institutions	1,119	1,119	-	217	217	-
Loans to banks	4,000	4,000	-	-	-	-
Loans to customers	47,280	47,402	122	19,155	19,155	-
Investment securities	-	-	-	316	316	-
Other assets	12	12	-	2	2	-
<b>Financial liabilities</b>						
Amounts due to customers	75,574	75,574	-	44,479	44,479	-
Other liabilities	246	246	-	370	370	-
Advances from shareholders for increase in share capital	-	-	-	14,216	14,216	-
<b>Total unrecognized change in unrealized fair value</b>			<b>122</b>			<b>-</b>

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

*Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

*Fixed and variable rate financial instruments*

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## 23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 21 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2010			2009 As restated		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	64,832	-	64,832	46,469	-	46,469
Amounts due from credit institutions	1,115	4	1,119	213	4	217
Loans to banks	4,000	-	4,000	-	-	-
Loans to customers	38,952	8,328	47,280	13,873	5,282	19,155
Investment securities	9,760	-	9,760	-	316	316
Property and equipment	-	4,754	4,754	-	3,573	3,573
Intangible assets	-	198	198	-	123	123
Foreclosed property	294	-	294	473	-	473
Other assets	1,120	183	1,203	763	-	763
<b>Total</b>	<b>119,973</b>	<b>13,467</b>	<b>133,440</b>	<b>61,791</b>	<b>9,298</b>	<b>71,089</b>
Amounts due to customers	67,295	8,279	75,574	44,479	-	44,479
Other liabilities	1,065	5	1,070	429	-	429
Advances from shareholders for increase in share capital	-	-	-	14,216	-	14,216
<b>Total</b>	<b>68,360</b>	<b>8,284</b>	<b>76,644</b>	<b>59,124</b>	<b>-</b>	<b>59,124</b>
<b>Net</b>	<b>51,613</b>	<b>5,183</b>	<b>56,796</b>	<b>2,667</b>	<b>9,298</b>	<b>11,965</b>

(Thousands of Azerbaijani manats unless otherwise indicated)

## 24. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The outstanding balances of related party transactions are as follows:

	2010				2009 As restated			
	Entities under common control		Key management personnel	Total	Entities under common control		Key management personnel	Total
	Shareholders				Shareholders			
<b>Loans outstanding at 1 January, gross</b>	<b>1,700</b>	<b>274</b>	<b>30</b>	<b>2,004</b>	<b>255</b>	-	-	<b>255</b>
Loans issued during the year	7,400	-	75	7,475	2,194	300	30	2,524
Loan repayments during the year	(7,400)	(274)	(83)	(7,757)	(749)	(26)	-	(775)
Other movements	-	-	-	-	-	-	-	-
Loans outstanding at 31 December, gross	1,700	-	22	1,722	1,700	274	30	2,004
Less: allowance for impairment at 31 December	(8)	-	(4)	(12)	-	-	(1)	(1)
<b>Loans outstanding at 31 December, net</b>	<b>1,692</b>	<b>-</b>	<b>18</b>	<b>1,710</b>	<b>1,700</b>	<b>274</b>	<b>29</b>	<b>2,003</b>
<b>Deposits at 1 January</b>	-	-	<b>170</b>	<b>170</b>	-	-	-	-
Deposits received during the year	-	-	2,129	2,129	-	-	1,167	1,167
Deposits repaid during the year	-	-	(2,070)	(2,070)	-	-	(997)	(997)
<b>Deposits at 31 December</b>	<b>-</b>	<b>-</b>	<b>229</b>	<b>229</b>	<b>-</b>	<b>-</b>	<b>170</b>	<b>170</b>
Current accounts at 31 December	28	31	5	64	28	31	5	64
Commitments and guarantees issued	670	-	-	670	1,000	-	-	1,000

The income and expense arising from related party transactions are as follows:

	For the year ended 31 December							
	2010				2009 As restated			
	Entities under common control		Key management personnel	Total	Entities under common control		Key management personnel	Total
Shareholders			Shareholders					
Interest income on loans	553	7	5	565	337	59	-	396
Loan impairment charge	(8)	-	(3)	(11)	-	-	(1)	(1)
Interest expense on deposits	-	-	46	46	-	-	19	19
Fee and commission income	76	-	-	76	85	-	-	85
General and administrative expenses	-	-	(157)	(157)	-	-	(73)	(73)

Compensation of key management personnel was comprised of the following:

	2010	2009
Salaries and other short-term benefits	210	409
Social security costs	46	90
<b>Total key management personnel compensation</b>	<b>256</b>	<b>499</b>

(Thousands of Azerbaijani manats unless otherwise indicated)

## 25. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the CBA in supervising the Bank.

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by CBA, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Compliance with capital adequacy ratios set by CBA is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Accountant and Chairman of the Management Board. The other objectives of capital management are evaluated annually.

### *CBA capital adequacy ratio*

The CBA requires each bank or banking group to:

- a) hold the minimum level of share capital of AZN 10,000 thousand (2009: AZN 10,000 thousand);
- b) maintain a ratio of total regulatory capital to risk-weighted assets (the 'total capital ratio') at or above the prescribed minimum of 12% (2009: 12%) and
- c) maintain a ratio of tier 1 capital to risk-weighted assets (the 'Tier 1 capital ratio') at or above the prescribed minimum of 6% (2009: 6%).

Management believes that the Bank was in compliance with the statutory capital adequacy ratio throughout 2010.

As of 31 December 2010, the Bank's capital adequacy ratio on this basis was as follows:

	<b>2010</b>	<b>2009 As restated</b>
Main capital	57,677	25,297
Additional capital	1,042	1,143
Less: deductions from capital	(198)	(123)
<b>Total capital</b>	<b>58,521</b>	<b>26,317</b>
<b>Risk weighted assets</b>	<b>84,429</b>	<b>29,589</b>
Tier 1 capital adequacy ratio	68%	85%
Total capital adequacy ratio	69%	89%