

**Open Joint Stock  
Commercial Bank  
BANK OF BAKU**

**Independent Auditors' Report and**

**Financial Statements**

For the Year Ended 31 December 2005

# OPEN JOINT STOCK COMMERCIAL BANK BANK OF BAKU

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE  
PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005**

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The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditor's audit report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint Stock Commercial Bank Bank of Baku (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank at 31 December 2005, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended 31 December 2005 were authorised for issue on 18 April 2006 by the Management Board.

**On behalf of the Management Board**

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**Chairman**

**18 April 2006**

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**Chief Accountant**

**18 April 2006**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of the Open Joint Stock Commercial Bank of Baku:

We have audited the accompanying balance sheet of the Open Joint Stock Commercial Bank of Baku ("the Bank") as at 31 December 2005 and the related profit and loss account and statements of cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.



18 April 2006

**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in Azerbaijan Manats and in thousands)**

	Notes	Year ended 31 December 2005	Bank of Baku Year ended 31 December 2004	Ilkbank Year ended 31 December 2004
Interest income	4, 25	29,294,895	13,933,854	3,879,064
Interest expense	4, 25	<u>(8,488,942)</u>	<u>(5,304,662)</u>	<u>(433,568)</u>
NET INTEREST INCOME BEFORE RECOVERY OF ALLOWANCE/(ALLOWANCE) FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		20,805,953	8,629,192	3,445,496
Recovery of allowance/(allowance) for impairment losses on interest bearing assets	5	<u>3,192,476</u>	<u>238,355</u>	<u>(3,046,680)</u>
NET INTEREST INCOME		<u>23,998,429</u>	<u>8,867,547</u>	<u>398,816</u>
Net (loss)/gain on foreign exchange operations	6	(10,248)	38,545	12,974
Fee and commission income	7, 25	10,541,929	3,834,532	3,744,559
Fee and commission expense	7	(2,463,023)	(1,426,743)	(480,368)
Net loss on investment securities		-	-	(51,883)
Dividend income	8	59,671	-	31,550
Other income	9	<u>587,061</u>	<u>139,700</u>	<u>17</u>
NET NON-INTEREST INCOME		<u>8,715,390</u>	<u>2,586,034</u>	<u>3,256,849</u>
OPERATING INCOME		32,713,819	11,453,581	3,655,665
OPERATING EXPENSES	10, 25	<u>(12,799,235)</u>	<u>(5,882,719)</u>	<u>(2,056,362)</u>
OPERATING PROFIT		19,914,584	5,570,862	1,599,303
(Allowance)/recovery of allowance for impairment losses on other transactions	5	<u>178,385</u>	<u>(164,783)</u>	<u>91,565</u>
PROFIT BEFORE INCOME TAX		20,092,969	5,406,079	1,690,868
Income tax expense	11	<u>(5,029,763)</u>	<u>(1,336,569)</u>	<u>(441,126)</u>
NET PROFIT		<u>15,063,206</u>	<u>4,069,510</u>	<u>1,249,742</u>

**On behalf of the Management Board**

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**Chairman**

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**Chief Accountant**

The notes on pages 8 to 49 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.

**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**BALANCE SHEET  
AS AT 31 DECEMBER 2005  
(in Azerbaijan Manats and in thousands)**

	Notes	31 December 2005	Bank of Baku 31 December 2004	Ilkbank 31 December 2004
<b>ASSETS:</b>				
Cash and balances with the National Bank of Azerbaijan	12	25,100,402	6,027,404	18,820,339
Loans and advances to banks, net	13	72,337,252	17,119,157	38,837,509
Loans and advances to customers, net	14, 25	131,885,782	73,029,095	14,878,974
Investment available for sale	15	417,226	102,905	2,711,108
Investments held to maturity	16	17,737,345	-	-
Fixed assets, net	17	21,622,866	2,896,434	4,500,923
Intangible assets, net	18	658,935	456,855	258,360
Prepaid income tax	11	-	-	82,241
Deferred tax assets	11	-	14,777	37,810
Other assets, net	19	823,121	296,194	42,402
<b>TOTAL ASSETS</b>		<u>270,582,929</u>	<u>99,942,821</u>	<u>80,169,666</u>
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES:</b>				
Deposits from banks and other credit institutions	20	32,839,341	39,794,541	4,668,656
Customer accounts	21, 25	167,679,542	41,645,165	57,530,889
Income tax liabilities	11	3,346,702	617,491	-
Deferred tax liabilities	11	293,427	-	-
Other liabilities	22	5,807,320	375,144	218,123
<b>Total liabilities</b>		<u>209,966,332</u>	<u>82,432,341</u>	<u>62,417,668</u>
<b>EQUITY:</b>				
Share capital	23	34,000,000	13,290,120	12,679,600
Share premium		-	-	8,034
Revaluation reserve	17	11,097,961	-	-
Reserves		15,518,636	4,220,360	5,064,364
<b>Total equity</b>		<u>60,616,597</u>	<u>17,510,480</u>	<u>17,751,998</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>270,582,929</u>	<u>99,942,821</u>	<u>80,169,666</u>

**On behalf of the Management Board**

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**Chairman**

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**Chief Accountant**

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**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in Azerbaijan Manats and in thousands)**

	Share capital	Fixed assets revaluation reserve	Share premium	Revenue reserve	Total equity
<b>Bank of Baku</b>					
<b>31 December 2003</b>	10,677,106	-	-	3,194,840	13,871,946
<b>Ilkbank</b>					
<b>31 December 2003</b>	12,679,600	-	8,034	3,814,622	16,502,256
Bank of Baku					
Share capital increase	2,613,014	-	-	-	2,613,014
Bank of Baku					
Net profit	-	-	-	4,069,510	4,069,510
Bank of Baku					
Dividends	-	-	-	(3,043,991)	(3,043,991)
Ilkbank					
Net profit	-	-	-	1,249,742	1,249,742
<b>31 December 2004</b>	25,969,720	-	8,034	9,284,723	35,262,477
Share capital movement	8,030,280	-	(8,034)	-	8,022,246
Net profit	-	-	-	15,063,206	15,063,206
Fixed assets revaluation	-	11,392,208	-	-	11,392,208
Amortization of revaluation gain	-	(294,247)	-	294,247	-
Dividends	-	-	-	(9,145,167)	(9,145,167)
<b>31 December 2005</b>	<u>34,000,000</u>	<u>11,097,961</u>	<u>-</u>	<u>15,497,009</u>	<u>60,594,970</u>

**On behalf of the Management Board**

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**Chairman**

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**Chief Accountant**

The notes on pages 8 to 49 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.

**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
(in Azerbaijan Manats and in thousands)**

	Notes	Year ended 31 December 2005	Bank of Baku Year ended 31 December 2004	Ilkbank Year ended 31 December 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Profit before income taxes		20,092,969	5,406,079	1,690,868
Adjustments for:				
(Recovery of allowance)/ allowance for impairment losses on interest bearing assets		(3,192,476)	(238,355)	3,046,680
Unrealized loss on investments available for sale			-	51,883
Write-off of assets		(323,175)	(41,393)	-
Net unrealized loss arising from changes in foreign currency exchange		1,043,649	111,850	15,779
(Recovery of allowance)/ allowance for impairment losses on other transactions		(178,385)	164,783	(91,565)
Dividend income		(59,671)	-	(31,550)
Depreciation charge on fixed and intangible assets		1,659,213	477,042	225,773
Profit on disposal of fixed assets		(4,136)	-	1,973
Other income		(38,265)		
Net change in accruals		608,929	(25,158)	(73,715)
Cash flow from operating activities before changes in operating assets and liabilities		19,608,652	5,854,848	4,836,126
Changes in operating assets and liabilities (Increase)/decrease in operating assets:				
Minimum reserve deposit with the National Bank of Azerbaijan		(7,237,997)	7,898	330,855
Loans and advances to banks		6,368,208	(7,237,397)	(13,200,506)
Loans and advances to customers		(42,037,412)	(23,945,766)	528,425
Other assets		(435,985)	(203,029)	287,289
Increase in operating liabilities:				
Deposits from banks and other credit institutions		(11,736,448)	14,798,532	1,068,201
Customer accounts		67,662,866	15,419,904	10,853,534
Other liabilities		5,333,497	(18,166)	22,305
Cash inflow from operating activities before income taxes		37,525,381	4,676,824	4,726,229
Income tax paid		(1,872,297)	(737,935)	(806,505)
Net cash inflow from operating activities		35,653,084	3,938,889	3,919,724
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchase of fixed and intangible assets		(4,436,848)	(1,526,873)	(4,456,369)
Proceeds on sale of fixed assets		4,750	-	12,753
Purchase of securities held to maturity		(17,685,488)	-	-
Sale of securities purchased under agreement to resell		-	-	1,000,000
Purchase of available for sale securities, net		-	(100,000)	(2,399,304)
Sales of available for sale debt securities, net		2,446,404	-	199,273
Dividends received		59,671	-	31,550
Net cash outflow from investing activities		(19,611,511)	(1,626,873)	(5,612,097)



**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)  
(in Azerbaijan Manats and in thousands)**

	Notes	Year ended 31 December 2005	Bank of Baku Year ended 31 December 2004	Ilkbank Year ended 31 December 2004
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Share capital increase		8,030,280	2,613,014	-
Dividends paid		<u>(9,145,167)</u>	<u>(3,043,991)</u>	<u>-</u>
Net cash outflow from financing activities		<u>(1,114,887)</u>	<u>(430,977)</u>	<u>-</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14,926,686	1,881,039	(1,692,373)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	12	45,823,420	4,380,460	41,381,923
Effect of foreign exchange rates		<u>(1,043,649)</u>	<u>(111,850)</u>	<u>(15,779)</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	12	<u><u>59,706,457</u></u>	<u><u>6,149,649</u></u>	<u><u>39,673,771</u></u>

Interest paid and received by the Bank in cash during the year ended 31 December 2005 amounted to AZM 7,583,051 thousand and AZM 28,950,610 thousand, respectively.

Interest paid and received by the Bank of Baku in cash during the year ended 31 December 2004 amounted to AZM 5,362,019 thousand and AZM 13,851,342 thousand, respectively.

Interest paid and received by Ilkbank in cash during the year ended 31 December 2004 amounted to AZM 344,440 thousand and AZM 3,716,221 thousand, respectively.

**On behalf of the Management Board**

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**Chairman**

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**Chief Accountant**

The notes on pages 8 to 49 form an integral part of these financial statements. The Independent Auditors' Report is on page 2.

# OPEN JOINT STOCK COMMERCIAL BANK BANK OF BAKU

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

*(in Azerbaijan Manats and in thousands, unless otherwise indicated)*

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### 1. ORGANISATION

On 18 February 2005 Open Joint Stock Commercial Bank Bank of Baku (“Bank of Baku”) and Closed Joint Stock Commercial Bank Ilkbank (“Ilkbank”) combined and formed a new bank under the name Open Joint Stock Commercial Bank Bank of Baku (“the Bank”). The Bank received from the NBA a new banking license number 247. The share capital of the Bank was formed in equal amounts by both Bank of Baku and Ilkbank. The Bank is a legal successor of both banks. The address of the Bank’s registered office is 42 Ataturk Avenue, Baku, AZ1069, Azerbaijan. The Bank is regulated by the National Bank of Azerbaijan (the “NBA”). The Bank’s principal business activities are commercial and retail banking operations.

Bank of Baku was an open joint stock bank established on 14 February 1994 as the commercial bank “Tugai”. Ilkbank was a closed joint-stock commercial bank, which was incorporated in the Republic of Azerbaijan in 1991.

The Head Office of the Bank is providing a full range of commercial and retail banking operations. In addition, the Bank has 3 branches and 1 service division in Azerbaijan.

The number of employees of the Bank as at 31 December 2005 was 181. The number of employees of the Bank of Baku and Ilkbank at 31 December 2004 was 104 and 28, respectively.

As at 31 December 2005 the shareholding structure of the Bank was as follows:

	<b>31 December 2005 %</b>
Azpetrol Neft Shirketi LLC	28.890
NAB Holding	40.000
Mr. R. Aliyev	11.215
Mr. E. Isayev	10.000
Azinvest LLC	9.895
	<hr/>
	<b>100.000</b>
	<hr/> <hr/>

On 19 October 2005, Mr. R. Aliyev, one of the shareholders of the Bank, was detained by the Government Authorities and a legal case has been launched against him subsequently. There have been no court hearings as at the date of the issue of these financial statements. Mr. Aliyev’s detention does not relate to his ownership in or dealings with the Bank. Consequently, the Ministry of Taxes of the Azerbaijan Republic and the National Bank of the Azerbaijan Republic have conducted independent audits of the Bank’s operations. These audits were concluded in February of 2006 and did not reveal any instances of unlawful conduct in the Bank’s operations. During the course of these events the Bank, without any disruptions, has maintained its normal course of business.

Mr R Aliyev owns 21.11% (11.2% of direct ownership and 9.9% through Azinvest LLC) of the share capital of the Bank.

These financial statements were authorized for issue by the Management Board on 18 April 2006.

# OPEN JOINT STOCK COMMERCIAL BANK BANK OF BAKU

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued) (in Azerbaijan Manats and in thousands, unless otherwise indicated)

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### 2. BASIS OF PRESENTATION

**Accounting basis** - These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Azerbaijan Manats (“AZM”) unless otherwise indicated. These financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments.

The Bank maintains its accounting records in accordance with Azerbaijan law, which in majority complies with IFRS. These financial statements have been prepared from the Azerbaijan statutory accounting records and have been adjusted to conform to IFRS. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for losses on loans and impairment and the fair value of financial instruments.

**Functional currency** - The functional currency of these financial statements is the Azerbaijan Manat (“AZM”).

### 3. SIGNIFICANT ACCOUNTING POLICIES

**Recognition and measurement of financial instruments** - The Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual obligation of the instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting. Regular way purchases of financial instruments that will be subsequently measured at fair value between the trade date and the settlement date are accounted for in the same way as for acquired instruments.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

**Cash and cash equivalents** - Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the National Bank of Azerbaijan with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”), except for margin deposits for operations with plastic cards, which may be converted to cash within a short period of time and Government trading debt securities denominated in AZM. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of Azerbaijan is not included as a cash equivalent due to restrictions on its availability (Note 12).

# OPEN JOINT STOCK COMMERCIAL BANK BANK OF BAKU

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued) (in Azerbaijan Manats and in thousands, unless otherwise indicated)

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**Loans and advances to banks** - In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Loans and advances to banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method. Those that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Amounts due from credit institutions are carried net of any allowance for losses.

**Originated loans** - Loans originated by the Bank are financial assets that are created by the Bank by providing money directly to a borrower or by participating in a loan facility.

All loans originated are initially recognized at fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the income statement as losses on origination of assets. Subsequently, the loan carrying value is measured using the effective interest method. Loans to customers that do not have fixed maturities are accounted for under the effective interest method based on expected maturity. Loans and advances to customers are carried net of any allowance for impairment losses.

**Write off of loans and advances** - Loans and advances are written off against allowance for loan losses in case of the uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. In accordance with the statutory legislation, loans may only be written off with the approval of the Shareholders' Council.

**Non-accrual loans** - Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**Allowance for impairment losses** - The Bank establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between the carrying amount and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Allowances are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

# OPEN JOINT STOCK COMMERCIAL BANK BANK OF BAKU

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued) (in Azerbaijan Manats and in thousands, unless otherwise indicated)

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The change in the allowance for impairment losses is charged to the income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the balance sheet. Factors that the Bank considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Bank may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

**Investments held to maturity** - Investments held-to-maturity are debt securities with determinable or fixed payments. The Bank has the positive intent and ability to hold them to maturity. Such securities are carried at amortized cost, less any allowance for impairment. Amortized discounts are recognized in interest income over the period to maturity using the effective interest method.

**Investments available for sale** - Securities available for sale represent debt and equity investments that are intended to be held for an indefinite period of time. The securities are measured at fair value. Gains or losses on available-for-sale securities are recognized directly in equity, through the statement of changes in equity, except for impairment losses and foreign exchange gains and losses, until the securities are derecognized, at which time the cumulative gains or losses previously recognized in equity are recognized in the income statement. However, interest calculated using the effective interest method is recognized in the income statement.

The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If such quotes do not exist, management uses appropriate valuation techniques.

When a decline in the fair value of available-for-sale investments has been recognized directly in equity and there is objective evidence that the investments are impaired, the cumulative loss that had been recognized directly in equity is removed from equity and recognized in the income statement even though the securities have not been derecognized. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed, with the amount of the reversal recognized in the income statement.

**Fixed and intangible assets** - Fixed and intangible assets, acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any recognised impairment loss. Fixed and intangible assets, acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and any recognised impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

# OPEN JOINT STOCK COMMERCIAL BANK BANK OF BAKU

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued) *(in Azerbaijan Manats and in thousands, unless otherwise indicated)*

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Depreciation of fixed and intangible assets is charged on the carrying value of fixed assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings	5%
Furniture and fixtures	20%
Computer equipment	25%
Vehicles	20%
Other fixed assets	20%
Intangible assets	10%

The carrying amounts of fixed and intangible assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

**Taxation** - Income tax expense represents the sum of the current and deferred tax expense.

The current tax expense is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Azerbaijan also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the income statement.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued) (in Azerbaijan Manats and in thousands, unless otherwise indicated)

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**Deposits from banks and customers** - Customer and bank deposits are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently amounts due are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

**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 obligation can be made.

**Share capital** - Share capital is recognized at cost. Share capital contributions made in the form of assets other than cash are stated at their fair value at the date of contribution.

External costs directly attributable to the issue of new shares, other than on a business combination, are deducted from equity net of any related income taxes.

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the balance sheet date are treated as a subsequent event under International Accounting Standard 10 "Events after the Balance Sheet Date" (IAS 10) and disclosed accordingly.

**Retirement and other benefit obligations** - In accordance with the requirements of the Azerbaijani legislation, the Bank withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. In addition such pension system provides for the calculation of current payments by the employer as a percentage of current total disbursements to staff. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Bank does not have any pension arrangements separate from the state pension system of Azerbaijan, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

**Contingencies** - Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

**Recognition of income and expense** - Interest income and expense are recognized on an accrual basis using the effective interest rate method. Interest income also includes income earned on investments. Other income is credited to the income statement when the related transactions are completed. Loan origination fees, if significant, are deferred (together with related direct costs) and recognized as an adjustment to the loan's effective yield. All other commissions are recognized when services are provided.

**Foreign currency translation** - Monetary assets and liabilities denominated in foreign currencies are translated into Azerbaijan Manats at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued) (in Azerbaijan Manats and in thousands, unless otherwise indicated)

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**Rates of exchange** - The exchange rates at the period end used by the Bank in the preparation of the financial statements are as follows:

	31 December 2005	31 December 2004
AZM/USD	4,593	4,903
AZM/EUR	5,459	6,682

**Offset of financial assets and liabilities** - Financial assets and liabilities are offset and reported net on the balance sheet when the Bank has a legally enforceable right to set off the recognized amounts and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Bank does not offset the transferred asset and the associated liability.

**Critical judgments in applying the accounting policies** - The management of the Bank decided to classify the notes of the National Bank of Azerbaijan and the Ministry of Finance of the Azerbaijan Republic as investments held-to-maturity since these financial assets have fixed payments and fixed maturity and the Bank has the positive intention and ability to hold them to maturity.

**Changes in IFRS** - The International Accounting Standards Board has amended a number of IAS's and issued certain IFRS's effective for the reporting period beginning 1 January 2005. The effect of these changes was not significant for the financial statements of the Bank for the year ended 31 December 2005.

IAS 39 "Financial Instruments: Recognition and Measurement" was amended in July 2005 and is effective for the reporting period beginning 1 January 2006, and IFRS 7 "Financial Instruments: Disclosures" was introduced in August 2005 and is effective for the reporting period beginning 1 January 2007.



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**4. NET INTEREST INCOME**

Net interest income comprises:

	<b>Year ended 31 December 2005</b>	<b>Bank of Baku Year ended 31 December 2004</b>	<b>Ilkbank Year ended 31 December 2004</b>
<b>Interest income</b>			
Interest on loans and advances to customers	26,547,639	13,626,616	2,813,793
Interest on loans and advances to banks	1,980,402	300,087	982,455
Interest on debt securities	631,856	7,151	-
Interest on investment securities	40,540	-	82,691
Interest on reverse repurchase transactions	94,458	-	125
	<u>29,294,895</u>	<u>13,933,854</u>	<u>3,879,064</u>
<b>Interest expense</b>			
Interest on customer accounts	6,536,361	3,666,463	373,535
Interest on deposits from banks and other credit institutions	1,882,719	1,637,489	60,033
Other interest expense	69,862	710	-
	<u>8,488,942</u>	<u>5,304,662</u>	<u>433,568</u>
Net interest income before allowance for impairment losses on interest bearing assets	<u>20,805,953</u>	<u>8,629,192</u>	<u>3,445,496</u>

**5. ALLOWANCE FOR IMPAIRMENT LOSSES**

The movements in allowance for impairment losses during the year ended 31 December 2005 were as follows:

	<b>Loans and advances to banks</b>	<b>Loans and advances to customers</b>	<b>Total</b>
<b>Bank of Baku 31 December 2004</b>	(27,947)	(1,986,115)	(2,014,062)
<b>Ilkbank 31 December 2004</b>	(1,917,645)	(2,162,157)	(4,079,802)
Recovery of allowance	1,945,592	1,246,884	3,192,476
Write-off of assets	-	274,635	274,635
	<u>-</u>	<u>(2,626,753)</u>	<u>(2,626,753)</u>
<b>31 December 2005</b>	<u>-</u>	<u>(2,626,753)</u>	<u>(2,626,753)</u>

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The movements in allowances for guarantees and other commitments during year ended 31 December 2005 were as follows:

	Other assets	Investment securities	Guarantees and other commitments	Total
<b>Bank of Baku 31 December 2004</b>	(48,540)	-	(116,243)	(164,783)
<b>Ilkbank 31 December 2004</b>	-	(58,941)	(3,201)	(62,142)
Recovery of allowance	-	58,941	119,444	178,385
Write-off of assets	48,540	-	-	48,540
<b>31 December 2005</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**6. NET (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS**

Net (loss)/gain on foreign exchange operations comprise:

	Year ended 31 December 2005	Bank of Baku Year ended 31 December 2004	Ilkbank Year ended 31 December 2004
Dealing, net	1,033,401	150,395	28,753
Translation differences, net	<u>(1,043,649)</u>	<u>(111,850)</u>	<u>(15,779)</u>
Total net (loss)/gain on foreign exchange operations	<u><b>(10,248)</b></u>	<u><b>38,545</b></u>	<u><b>12,974</b></u>

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**7. FEE AND COMMISSION INCOME AND EXPENSE**

Fee and commission income and expense comprise:

	<b>Year ended 31 December 2005</b>	<b>Bank of Baku Year ended 31 December 2004</b>	<b>Ilkbank Year ended 31 December 2004</b>
<b>Fee and commission income:</b>			
Foreign exchange operations	3,347,661	567,656	1,908,695
Cash operations	2,809,632	1,127,278	637,682
Settlements	1,941,816	658,606	705,716
Loans origination fees	1,256,562	1,026,710	-
Plastic cards operations	1,100,136	420,445	419,158
Documentary operations	75,713	33,002	48,680
Other operations	10,409	835	24,628
	<u>10,541,929</u>	<u>3,834,532</u>	<u>3,744,559</u>
<b>Fee and commission expense:</b>			
Plastic cards operations	1,507,141	365,021	190,333
Cash transactions	325,350	119,994	19,214
Settlements	314,505	448,960	235,415
Documentary operations	175,791	19,006	24,873
Other operations	114,589	49,430	3,286
Foreign exchange operations	25,647	763	7,247
Insurance of loans	-	423,569	-
	<u>2,463,023</u>	<u>1,426,743</u>	<u>480,368</u>

**8. DIVIDEND INCOME**

For the year ended 31 December 2005 and for the year ended 31 December 2004 (Ilkbank at 31 December 2004) the Bank received dividend income amounting to AZM 59,671 thousand and AZM 31,550 thousand respectively, from its equity investment in the Joint Stock Commercial Bank the International Bank of Azerbaijan.

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**9. OTHER INCOME**

Other income includes AZM 481,611 thousand and AZM 124,870 thousand (Bank of Baku at 31 December 2004) of fines received from customers for delays in repayments of loan principals and early withdrawal of deposits during the year 2005 and the year 2004, respectively.

**10. OPERATING EXPENSES**

Operating expenses comprise:

	<b>Year ended 31 December 2005</b>	<b>Bank of Baku Year ended 31 December 2004</b>	<b>Ilkbank Year ended 31 December 2004</b>
Salary and bonuses	6,111,207	2,352,324	875,236
Depreciation of fixed and intangible assets	1,659,213	477,042	225,773
Social security costs	1,236,387	623,705	216,059
Rent of office premises	707,966	680,345	-
Advertising and marketing expenses	645,631	597,283	-
Professional services fees	512,345	169,470	154,537
Office supplies	400,491	141,924	61,148
Repairs and maintenance expenses	274,602	178,783	36,933
Communication	192,057	186,522	212,274
Utilities	167,992	74,152	14,057
Taxes, other than income tax	173,472	28,927	56,178
Premises security	155,195	72,600	87,031
Software costs	70,880	40,427	-
Travel expenses	57,254	66,491	-
Insurance	47,323	30,682	-
Legal fees	14,542	13,326	-
Other	372,678	148,716	117,136
	<u><b>12,799,235</b></u>	<u><b>5,882,719</b></u>	<u><b>2,056,362</b></u>
Total operating expenses			

**11. INCOME TAXES**

The Bank provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Azerbaijan statutory tax regulations that may differ from International Financial Reporting Standards. The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2005 and 31 December 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

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Temporary differences as at 31 December 2005 and 31 December 2004 comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
<b>Deferred assets:</b>			
Other liabilities	124,131	-	-
Intangible assets	51,469	154,609	157,542
<b>Total deferred assets</b>	<b>175,600</b>	<b>154,609</b>	<b>157,542</b>
<b>Deferred liabilities:</b>			
Loans and advances to banks	30,865	-	-
Loans and advances to customers	814,772	-	-
Investments held to maturity	353,710	-	-
Investments available for sale	8,116	-	-
Fixed assets	301,897	-	-
Provisions for credit lines and guarantees	-	93,037	-
<b>Total deferred liabilities</b>	<b>1,509,360</b>	<b>93,037</b>	<b>-</b>
<b>Net deferred (liabilities)/assets</b>	<b>(1,333,760)</b>	<b>61,572</b>	<b>157,542</b>
Deferred tax (liabilities)/assets at the statutory rate of 22% (2004: 24%)	(293,427)	14,777	37,810

Relationships between tax expenses and accounting profit for the year ended 31 December 2005 and for the year ended 31 December 2004 are explained as follows:

	<b>Year ended 31 December 2005</b>	<b>Bank of Baku Year ended 31 December 2004</b>	<b>Ilkbank Year ended 31 December 2004</b>
<b>Profit before income taxes</b>	<b>20,092,969</b>	<b>5,406,079</b>	<b>1,690,868</b>
Statutory tax rate	24%	24%	24%
Theoretical tax at the statutory tax rate	4,822,313	1,297,459	405,808
Tax effect of permanent differences	303,896	39,110	35,318
Effect of changes in income tax rates	(96,446)	-	-
<b>Income tax expense</b>	<b>5,029,763</b>	<b>1,336,569</b>	<b>441,126</b>
Current income tax expense	4,683,749	1,355,426	451,541
Deferred income tax expense/(credit)	346,014	(18,857)	(10,415)
<b>Income tax expense</b>	<b>5,029,763</b>	<b>1,336,569</b>	<b>441,126</b>

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	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
<b>Deferred income tax assets</b>			
At beginning of the period	52,587	(4,080)	48,225
(Decrease)/Increase in the deferred income tax for the period	<u>(346,014)</u>	<u>18,857</u>	<u>(10,415)</u>
At end of the period	<u><b>(293,427)</b></u>	<u><b>14,777</b></u>	<u><b>37,810</b></u>

Income tax assets and liabilities consist of the following:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Prepaid income tax	-	-	82,241
Deferred income tax asset	<u>-</u>	<u>14,777</u>	<u>37,810</u>
Income tax assets	<u><b>-</b></u>	<u><b>14,777</b></u>	<u><b>120,051</b></u>

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Current income tax liability	3,346,702	617,491	
Deferred income tax liability	<u>293,427</u>	<u>-</u>	<u>-</u>
Income tax liabilities	<u><b>3,640,129</b></u>	<u><b>617,491</b></u>	<u><b>-</b></u>

**12. CASH AND BALANCES WITH THE NATIONAL BANK OF AZERBAIJAN**

Cash and balances with the National Bank of Azerbaijan comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Cash on hand	7,854,054	4,043,947	2,440,987
Balances with the NBA	<u>17,246,348</u>	<u>1,983,457</u>	<u>16,379,352</u>
Total cash and balances with the NBA	<u><b>25,100,402</b></u>	<u><b>6,027,404</b></u>	<u><b>18,820,339</b></u>

The balances with the NBA as of 31 December 2005 include AZM 11,499,503 thousand, which represent the minimum reserve deposits required by the NBA. The Bank is required to maintain the reserve balance at the NBA at all times.

At 31 December 2004 Bank of Baku and Ilkbank had AZM 1,289,274 thousand and AZM 2,972,232 thousand, respectively, which represent the minimum reserve deposits required by the NBA.

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Cash and cash equivalents for the purposes of the statement of cash flows comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Cash and balances with the National Bank of Azerbaijan	25,100,402	6,027,404	18,820,339
Advances to banks in OECD countries excluding restricted deposits	46,105,558	1,411,519	23,825,664
	<b>71,205,960</b>	<b>7,438,923</b>	<b>42,646,003</b>
Less minimum reserve deposit with the National Bank of Azerbaijan	(11,499,503)	(1,289,274)	(2,972,232)
Total cash and cash equivalents	<b>59,706,457</b>	<b>6,149,649</b>	<b>39,673,771</b>

**13. LOANS AND ADVANCES TO BANKS, NET**

Loans and advances to banks comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Advances to banks	55,395,263	1,583,559	25,422,060
Loans to banks and other institutions	1,378,650	1,225,746	10,354,251
Restricted deposits	15,309,488	14,204,156	4,793,462
Accrued interest income on loans and advances to banks	253,851	133,643	185,381
	72,337,252	17,147,104	40,755,154
Less allowance for impairment losses	-	(27,947)	(1,917,645)
Total loans and advances to banks, net	<b>72,337,252</b>	<b>17,119,157</b>	<b>38,837,509</b>

Movements in allowances for loan losses for the years ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) included in restricted deposits above is cash collateral with Dresdner Bank AG, Germany totaling AZM 12,030,539 thousand and AZM 14,031,801 thousand respectively, which the Bank is obliged to maintain for the whole lifetime of the credit facility provided by the counterparty. As determined by the amendment to the loan agreement made on 24 March 2005 the cash collateral earns an annual interest rate based on EONIA (European Over-Night Index Average) which is floating during the lifetime of the credit facility (Note 20).

As at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) the Bank had loans and advances placed with Dresdner Bank AG, Germany totaling AZM 15,152,392 thousand and AZM 15,393,943 thousand respectively, which exceeded 10% of the Bank's equity and represents significant geographical concentration in Germany forming 21% and 90% respectively of loans and advances to banks.

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As at 31 December 2005 the Bank had loans and advances placed with American Express Bank, USA totaling AZM 45,061,235 thousand, which exceeded 10% of the Bank's equity and represents significant geographical concentration in USA forming 62% of loans and advances to banks.

As at 31 December 2005 the Bank had a restricted deposit of AZM 3,113,601 thousand placed with Dresdner Bank under letters of credit.

As at 31 December 2004 Ilkbank had a restricted deposit of AZM 4,793,462 thousand placed with Dresdner Bank under letters of credit (including AZM 4,553,419 thousand under letters of credit issued to related parties).

**14. LOANS AND ADVANCES TO CUSTOMERS, NET**

Loans and advances to customers comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Originated loans	133,117,708	74,103,989	16,976,307
Accrued interest income on loans and advances to customers	<u>1,394,827</u>	<u>911,221</u>	<u>64,824</u>
	134,512,535	75,015,210	17,041,131
Less allowance for impairment losses	<u>(2,626,753)</u>	<u>(1,986,115)</u>	<u>(2,162,157)</u>
Total loans and advances to customers, net	<b><u>131,885,782</u></b>	<b><u>73,029,095</u></b>	<b><u>14,878,974</u></b>
	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Loans collateralized by real estate	55,927,853	22,695,731	6,524,823
Loans collateralized by equipment	8,608,675	-	4,804,565
Loans collateralized by inventories	-	-	3,190,701
Loans collateralized by goods in turnover	37,020,055	34,956,470	-
Loans collateralized by insurance policies	13,889,423	6,360,261	-
Loans collateralized by others	6,795,579	8,859,744	22,657
Unsecured loans	5,584,596	518,350	1,852,207
Loans collateralized by corporate guarantees	3,277,349	-	91,354
Loans collateralized by bank guarantees	1,837,200	-	490,000
Loans collateralized by deposits and securities	176,978	713,433	-
Accrued interest income on loans and advances to customers	<u>1,394,827</u>	<u>911,221</u>	<u>64,824</u>
	134,512,535	75,015,210	17,041,131
Less allowance for impairment losses	<u>(2,626,753)</u>	<u>(1,986,115)</u>	<u>(2,162,157)</u>
Total loans and advances to customers, net	<b><u>131,885,782</u></b>	<b><u>73,029,095</u></b>	<b><u>14,878,974</u></b>



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Movements in allowances for loan losses for the year ended 31 December 2005 and 2004 are disclosed in Note 5.

As at 31 December 2005 and 31 December 2004 loans collateralized by goods in turnover includes loans collateralized by vehicles amounting to AZM 33,946,270 thousand and AZM 30,696,070 thousand (Bank of Baku at 31 December 2004) respectively.

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
<b>Analysis by industry</b>			
Individuals	71,689,914	42,643,443	302,641
Trading	35,913,010	19,595,114	3,485,851
Manufacturing	15,440,337	7,679,477	3,724,725
Construction	2,866,507	1,715,055	3,432,100
Agriculture	2,770,554	2,470,900	3,306,510
Energy	-	-	1,500,000
Other	4,437,386	-	1,224,480
Accrued interest income on loans and advances to customers	1,394,827	911,221	64,824
	134,512,535	75,015,210	17,041,131
Less allowance for impairment losses	(2,626,753)	(1,986,115)	(2,162,157)
Total loans and advances to customers, net	<b>131,885,782</b>	<b>73,029,095</b>	<b>14,878,974</b>

**15. INVESTMENTS AVAILABLE FOR SALE**

Investments available for sale comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Debt securities available for sale	-	102,905	2,364,249
Equity securities available for sale	417,226	-	405,800
	417,226	102,905	2,770,049
Less allowance for impairment losses	-	-	(58,941)
Total investments available for sale	<b>417,226</b>	<b>102,905</b>	<b>2,711,108</b>

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Debt securities available for sale comprise:

	Interest to nominal	31 December 2005	Interest to nominal	Bank of Baku 31 December 2004
1 year bonds of JSCB RabitaBank	-	-	9.97%	102,905
Total debt securities available for sale		<u>-</u>		<u>102,905</u>

As at 31 December 2004 included in debt securities available for sale is accrued interest income amounting to AZM 8,000 thousand and AZM 2,905 thousand (Bank of Baku at 31 December 2004), respectively.

At 31 December 2004 Ilkbank had debt securities available for sale as follows:

	Interest to nominal	2004
Short-term notes of the NBA	4.5%	1,500,778
1 year bonds of OJSC UniBank	9%	507,875
1 year bonds of AtaBank OJSC	8%	200,040
5 year bonds of Azerigazbank JSIB	7%	155,556
		<u>2,364,249</u>
Impairment losses		<u>(50,825)</u>
Total debt securities available for sale		<u>2,313,424</u>

As at 31 December 2004 included in debt securities available for sale is accrued interest income amounting to AZM 17,845 thousand.

Equity securities available for sale comprise:

Name	Country of incorporation	Ownership interest	31 December 2005	Ownership interest	Ilkbank 31 December 2004
International Bank of Azerbaijan JSCB	Azerbaijan	0.09%	117,226	0.11%	105,800
CJSC "Baku Stock Exchange"	Azerbaijan	5.56%	300,000	5.56%	300,000
			<b>417,226</b>		405,800
Less allowance for impairment losses			<u>-</u>		<u>(8,116)</u>
Total equity securities available for sale			<u>417,226</u>		<u>397,684</u>

As at 31 December 2005 included in debt securities available for sale is accrued dividends receivable amounting to AZM 11,426 thousand.

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**16. INVESTMENTS HELD TO MATURITY**

	<b>Interest to nominal %</b>	<b>31 December 2005</b>	<b>Interest to Bank of Baku nominal %</b>	<b>31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
National Bank of Azerbaijan	9.85%-12.77%	16,735,719	-	-	-
Ministry of Finance of Azerbaijan Republic	12.47%	<u>1,001,626</u>	-	-	-
Total investments held to maturity		<u><b>17,737,345</b></u>		-	-

As at 31 December 2005 included in debt securities held to maturity issued by the National Bank of Azerbaijan is accrued discount receivable amounting to AZM 48,787 thousand.

As at 31 December 2005 included in debt securities held to maturity issued by the Ministry of Finance of Azerbaijan Republic is accrued discount receivable amounting to AZM 3,070 thousand.

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**17. FIXED ASSETS, LESS ACCUMULATED DEPRECIATION**

	Land	Buildings	Computers	Furniture and equipment	Vehicles	Other fixed assets	Fixed assets in progress	Total
<b>At cost</b>								
Bank of Baku								
31 December 2004	-	1,191,218	1,612,009	1,559,131	198,292	26,618		4,587,268
Ilkbank								
31 December 2004	8,335	3,728,439	272,162	846,402	264,541	11,566		5,131,445
Additions	-	1,566,822	706,083	1,544,214	51,130	7,131	525,524	4,440,904
Disposals	-	-	(7,611)	-	-	-		(7,611)
Transfers	-	-	-	1,548	-	(1,548)		-
Revaluation of fixed assets	835,159	12,613,368	-	-	-	-		13,448,527
31 December 2005	843,494	19,099,847	2,582,643	3,951,295	513,963	43,767	525,524	27,560,533
<b>Accumulated depreciation</b>								
Bank of Baku								
31 December 2004	-	231,940	761,252	608,376	83,759	5,507	-	1,690,834
Ilkbank								
31 December 2004	-	68,295	122,088	339,602	93,931	6,606	-	630,522
Charge for the year	-	477,845	436,727	547,391	97,451	7,575	-	1,566,989
Disposals	-	-	(6,997)	-	-	-	-	(6,997)
Revaluation of fixed assets	-	2,056,319	-	-	-	-	-	2,056,319
31 December 2005	-	2,834,399	1,313,070	1,495,369	275,141	19,688	-	5,937,667
<b>Net book value</b>								
31 December 2005	<u>843,494</u>	<u>16,265,448</u>	<u>1,269,573</u>	<u>2,455,926</u>	<u>238,822</u>	<u>24,079</u>	<u>525,524</u>	<u>21,622,866</u>
<b>Net book value</b>								
Bank of Baku								
31 December 2004	<u>-</u>	<u>959,278</u>	<u>850,757</u>	<u>950,755</u>	<u>114,533</u>	<u>21,111</u>	<u>-</u>	<u>2,896,434</u>
<b>Net book value</b>								
Ilkbank								
31 December 2004	<u>8,335</u>	<u>3,660,144</u>	<u>150,074</u>	<u>506,800</u>	<u>170,610</u>	<u>4,960</u>	<u>-</u>	<u>4,500,923</u>

As at 30 June 2005 the Bank revalued its buildings and associated land area. The revalued amount amounted to AZM 17,633,967 thousand which approximated the fair value of buildings and associated land area. The additional depreciation charge for the six months ended 31 December 2005 amounted to AZM 294,247 thousand.

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**18. INTANGIBLE ASSETS, LESS ACCUMULATED AMORTIZATION**

	<b>Software &amp; licenses</b>
<b>At cost</b>	
Bank of Baku 31 December 2004	553,772
Ilkbank 31 December 2004	336,080
Additions	<u>35,944</u>
31 December 2005	<u>925,796</u>
<b>Accumulated amortization</b>	
Bank of Baku 31 December 2004	96,917
Ilkbank 31 December 2004	77,720
Charge for the year	<u>92,224</u>
31 December 2005	<u>266,861</u>
<b>Net book value</b>	
31 December 2005	<u><u>658,935</u></u>
<b>Net book value</b>	
Bank of Baku 31 December 2004	<u><u>456,855</u></u>
<b>Net book value</b>	
Ilkbank 31 December 2004	<u><u>258,360</u></u>

**19. OTHER ASSETS, NET**

Other assets comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2005</b>
Prepayments and receivables	595,409	6,620	13,291
Unsettled payments on plastic cards operations and money transfers	98,420	305,935	19,514
Other	<u>129,292</u>	<u>32,179</u>	<u>9,597</u>
	823,121	344,734	42,402
Less allowance for impairment losses	<u>-</u>	<u>(48,540)</u>	<u>-</u>
Total other assets, net	<u><u>823,121</u></u>	<u><u>296,194</u></u>	<u><u>42,402</u></u>

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**20. DEPOSITS FROM BANKS AND OTHER CREDIT INSTITUTIONS**

Deposits from banks and other credit institutions comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Demand deposits	113,850	2,994,558	627
Time deposits	32,594,345	36,781,429	4,668,029
Accrued interest expense on deposits from banks and other credit institutions	<u>131,146</u>	<u>18,554</u>	<u>-</u>
Total deposits from banks and other credit institutions	<u><b>32,839,341</b></u>	<u><b>39,794,541</b></u>	<u><b>4,668,656</b></u>

As at 31 December 2004 (Bank of Baku at 31 December 2004), the Bank had a credit facility from Dresdner Bank AG, Germany and obtained an AZM 10,366,740 thousand, respectively, USD denominated credit line with a maturity up to 1 year. As at 31 December 2005 the Bank did not have the outstanding balance on this credit facility. As at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) this credit facility is collateralized by a cash deposit included in loans and advances to banks at fair value of AZM 12,030,539 thousand and AZM 14,031,801 thousand respectively. Under the loan agreement the interest rate applicable to the outstanding amount of the credit facility may be changed at the option of the lender at any time according to changing market conditions. As at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) it was fixed at an annual interest rate of 3.5% and 2.75% respectively.

As at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) included in deposits from banks and other credit institutions are EUR denominated credit lines provided by the German-Azerbaijan Fund amounting to AZM 10,030,931 thousand and AZM 13,363,540 thousand respectively. The credit lines were provided to the Bank solely for the Small and Medium Enterprises Loan Program financing under the Framework Agreement concluded on 31 March 2001 with the German-Azerbaijan Fund and the Kreditanstalt fuer Wiederaufbau, Germany. This credit facility has a maturity period of five years (maturing 2010) and bears a floating interest rate based on six months EURIBOR plus 3.5% premium.

As at 31 December 2005 and 31 December 2004 included in deposits from banks and other credit institutions are loans from the National Bank of Azerbaijan amounting to AZM 1,500,000 thousand and AZM 500,000 thousand, respectively. The loans have 1 year maturity and bear an annual interest rate of 8%. Subsequently, these credits were released to the corporate borrowers of the Bank at an annual interest rate of 10%.

As at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) included in deposits from banks and other credit institutions are credit facilities provided by the European Bank for Reconstruction and Development amounting to AZM 9,186,000 thousand and AZM 4,903,000 thousand, respectively.

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As at 31 December 2005 and 31 December 2004 (Ilkbank at 31 December 2004) included in deposits from banks and other credit institutions are loans from the National Fund for Support of Entrepreneurship amounting to AZM 7,281,414 thousand and AZM 4,668,029 thousand respectively. These loans have different maturity periods from 1 year to 5 years and bear an interest rate of 0.5% to 2%. Subsequently, these funds were used by the Bank to issue loans with the same maturity periods to companies and individual entrepreneurs in Azerbaijan at an annual interest rate of up to 7%.

**21. CUSTOMER ACCOUNTS**

Customer accounts comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Time deposits	58,092,289	33,521,622	14,236,044
Repayable on demand	108,386,829	7,915,695	43,142,891
Accrued interest expense on customer accounts	1,200,424	207,848	151,954
	<u><b>167,679,542</b></u>	<u><b>41,645,165</b></u>	<u><b>57,530,889</b></u>

Analysis of customer accounts by industry:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Individuals	63,791,090	32,873,441	2,739,879
Transport and communication	60,332,015	93,106	6,556,009
Other	30,323,817	4,762,426	7,373,186
Trade	7,549,990	578,120	2,559,529
Construction	3,480,177	117	369,550
Manufacturing	193,610	3,114,662	29,829,560
Agriculture	9,165	15,445	32,206
Energy	799,254	-	7,919,016
Accrued interest expense on customer accounts	1,200,424	207,848	151,954
	<u><b>167,679,542</b></u>	<u><b>41,645,165</b></u>	<u><b>57,530,889</b></u>

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**22. OTHER LIABILITIES**

Other liabilities comprise:

	<b>31 December 2005</b>	<b>Bank of Baku 31 December 2004</b>	<b>Ilkbank 31 December 2004</b>
Payments on the course of settlement	4,147,479	-	-
Deferred interest income	660,262	-	-
Taxes other than income tax	488,600	-	34,604
Payables to suppliers	456,301	128,713	73,526
Salary payable	21,890	-	3,660
Provisions for credit lines and guarantees	-	116,243	3,201
Temporary accounts	-	-	58,836
Accrued expenses payable	-	-	34,608
Other	32,788	130,188	9,688
	<u><b>5,807,320</b></u>	<u><b>375,144</b></u>	<u><b>218,123</b></u>
Total other liabilities			

**23. SHARE CAPITAL**

On 18 February 2005 Bank of Baku and Ilkbank combined and formed a new bank under the name Open JSCB Bank of Baku (“the Bank”). The combination has been made on an equal basis where the former Bank of Baku and Ilkbank have 50% each in the share capital of the new bank.

As at 31 December 2005 the authorized and issued share capital comprised 3,400,000 shares with a par value of AZM 10 thousand each. All shares are ranked equally and carry one vote. As at 31 December 2005 the share capital was fully paid up by the shareholders.

The total nominal value of the paid-in share capital of Bank of Baku and Ilkbank as at 31 December 2004 comprised AZM 13,290,120 thousand and AZM 12,679,600 thousand, respectively.

During the year ended 31 December 2005 AZM 9,145,167 thousand of dividends declared for 2004 were paid to the shareholders of Bank of Baku and Ilkbank. Subsequently, this amount was reinvested into the share capital of the newly combined bank.



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**24. FINANCIAL COMMITMENTS AND CONTINGENCIES**

In the normal course of business the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet. The risk-weighted amount is obtained by applying credit conversion factors and counterparty risk weightings according to the principles employed by the Basle Committee on Banking Supervision.

As at 31 December 2005 and 31 December 2004, the nominal or contract amounts and the risk amounts were:

	<b>31 December 2005</b>	
	<b>Nominal Amount</b>	<b>Risk Weighted Amount</b>
Guarantees issued and similar commitments	4,426,634	4,426,634
Standby letters of credit secured by customer funds	3,113,601	-
Commitments on credits and unused credit lines	<u>13,977,476</u>	<u>889,978</u>
Total contingent liabilities and credit commitments	<u><b>21,517,711</b></u>	<u><b>5,316,612</b></u>

	<b>Bank of Baku 31 December 2004</b>		<b>Ilkbank 31 December 2004</b>	
	<b>Nominal Amount</b>	<b>Risk Weighted Amount</b>	<b>Nominal Amount</b>	<b>Risk Weighted Amount</b>
Guarantees issued and similar commitments	2,816,774	2,816,774	-	-
Commitments on credits and unused credit lines	4,828,210	4,828,210	160,025	160,025
Standby letters of credit secured by customer funds	<u>-</u>	<u>-</u>	<u>7,050,421</u>	<u>-</u>
Total contingent liabilities and credit commitments	<u><b>7,644,984</b></u>	<u><b>7,644,984</b></u>	<u><b>7,210,446</b></u>	<u><b>160,025</b></u>

As at 31 December 2005 the Bank did not consider that the creation of an allowance for impairment losses was required against these commitments given that they are fully collateralized.

The Bank has made an allowance for impairment losses of AZM 116,243 thousand and AZM 3,201 thousand (Bank of Baku at 31 December 2004 and IlkBank at 31 December 2004, respectively) against guarantees issued as at 31 December 2004.

As at 31 December 2005 the Bank had stand-by letters of credit of AZM 3,113,601 thousand secured by cash deposited in customer accounts. As at 31 December 2005 the Bank did not consider that the creation of an allowance for impairment losses was required against these commitments, provided that these are fully cash covered.

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As at 31 December 2004 Ilkbank had stand-by letters of credit of AZM 7,050,421 thousand secured by cash deposited in customer accounts. As at 31 December 2004 Ilkbank did not consider that the creation of an allowance for impairment losses was required against these commitments, provided that these are fully cash covered.

**Capital commitments** - The Bank had no material commitments for capital expenditures outstanding as at 31 December 2005.

**Operating Leases** - The Bank's future minimum rental payments under non-cancelable operating leases of the office building in effect as at 31 December 2005 and 31 December 2004 (Bank of Baku at 31 December 2004) are presented in the table below.

	31 December 2005	31 December 2004
Not later than 1 year	<u>199,058</u>	<u>394,101</u>
Total operating leases	<u><u>199,058</u></u>	<u><u>394,101</u></u>

**Legal proceedings** - As at 31 December 2005, the Bank was not engaged in any litigation proceedings. From time to time and in the normal course of business, claims against the Bank can be received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

**Taxes** - Azerbaijan commercial legislation and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. The Bank believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

In February 2006 the Ministry of Taxes of the Azerbaijan Republic concluded its three years tax audit and did not reveal any significant discrepancies.

**Pensions and retirement plans** - Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2005, the Bank was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

**Operating Environment** - The Bank's principal business activities are within Azerbaijan. Laws and regulations affecting the business environment in Azerbaijan are subject to rapid changes and the Bank's assets and operations could be at risk due to negative changes in the political and business environment.

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**25. TRANSACTIONS WITH RELATED PARTIES**

Related parties or transactions with related parties, as defined by IAS 24 “Related party disclosures”, represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Bank (this includes holding companies, subsidiaries and fellow subsidiaries);
- (b) Associates – enterprises in which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank;
- (d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, including directors and officers of the Bank (also non-executive directors and close members of the families of such individuals);
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Bank and enterprises that have a member of key management in common with the Bank;
- (f) Parties with joint control over the Bank;
- (g) Joint ventures in which the Bank is a venture; and
- (h) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party to the Bank.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding with related parties:

	<b>31 December 2005</b>	
	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>
Loans to customers	4,593	133,117,708
Accrued interest income on loans and advances to customers	5	1,394,827
Allowance for impairment losses	-	(2,626,753)
	<u>4,598</u>	<u>131,885,782</u>
Loans to customers, net		
Customer deposits	4,394,157	166,479,118
Accrued interest expense on customer deposits	2,970	1,200,424
	<u>4,397,127</u>	<u>167,679,542</u>
Customer accounts		

During the year ended 31 December 2005 the Bank has repaid loans from customers - related parties amounting to AZM 1,650,770 thousand.

During the year ended 31 December 2005 the Bank received deposits from customers - related parties totaling AZM 22,251,562 thousand and repaid deposits totaling AZM 26,759,472 thousand.

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	Bank of Baku 31 December 2004		Ilkbank 31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers	108,344	74,103,989	1,547,019	16,976,307
Accrued interest income on loans and advances to customers	1,498	911,221	290	64,824
Allowance for impairment losses	(2,339)	(1,986,115)	(30,940)	(2,162,157)
Loans to customers, net	<b>107,503</b>	<b>73,029,095</b>	<b>1,516,369</b>	<b>14,878,974</b>
Customer deposits	578,935	41,437,317	8,323,132	57,378,935
Accrued interest expense on customer deposits	3,572	207,848	-	151,954
Letter of credit and other contingent obligations	-	-	<b>6,810,378</b>	<b>7,050,421</b>

During the year ended 31 December 2004 Bank of Baku and Ilkbank originated loans and advances to related party customers amounting to AZM 104,221 thousand and AZM 1,532,847 thousand respectively, and received loans and advances repaid of AZM 14,008 thousand and AZM 55,981 thousand respectively.

During the year ended 31 December 2004 Bank of Baku and Ilkbank received deposits from customers - related parties totaling AZM 2,749,181 thousand and AZM 1,421,787 thousand respectively, and repaid deposits totaling AZM 2,346,237 thousand and AZM 1,443,124 thousand respectively.

Included in the profit and loss account for the year ended 31 December 2005 is the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2005	
	Related party transactions	Total category as per financial statements caption
Interest income		29,294,895
- directors	16,086	
Interest expense		(8,488,942)
- directors	(632,887)	
Fee and commission income		10,541,929
- related companies	180,626	
Operating expenses		(12,799,235)
- related companies	(652,232)	
- directors	(1,707,424)	

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	2005	
	Related party transactions	Total category as per financial statements caption
<b>Key management personnel compensation:</b>		
short-term employee benefits	<u>(1,707,424)</u>	<u>(7,347,594)</u>

	Bank of Baku Year ended 31 December 2004		Ilkbank Year ended 31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		13,933,854		3,879,064
- directors	13,506		-	
- related companies	-		52,744	
Interest expense		(5,304,662)		(433,568)
- directors	(28,161)		-	
- related companies	-		141,860	
Fee and commission income		3,834,532		3,744,559
-directors	4,601		-	
- related companies	-		1,245,022	
Operating expenses		(5,882,719)		(2,056,362)
- directors	(408,047)		(207,350)	
- related companies	(365,497)		-	

	Bank of Baku Year ended 31 December 2004		Ilkbank Year ended 31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
<b>Key management personnel compensation:</b>				
short-term employee benefits	<u>(408,047)</u>	<u>(2,976,029)</u>	<u>(257,114)</u>	<u>(1,091,295)</u>

Transactions with related parties entered into by the Bank during the year ended 31 December 2005 and the year ended 31 December 2004 and outstanding as at 31 December 2005 and 31 December 2004 were made in the normal course of business and under arms length conditions.

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**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available published price quotations in an active market exists for a large part of the Bank’s financial instruments, judgment is necessary in arriving at fair value using a valuation technique, based on current economic conditions and specific risks attributable to the instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank as at 31 December 2005 is presented below:

	<b>31 December 2005</b>	
	<b>Carrying value</b>	<b>Fair value</b>
Cash and balances with the National Bank of Azerbaijan	25,100,402	25,100,402
Loans and advances to banks, net	72,337,252	72,337,252
Loans and advances to customers, net	131,885,782	131,885,782
Investments available for sale	417,226	417,226
Investments held to maturity	17,737,345	17,737,345
Other assets, net	823,121	823,121
Loans and advances from banks and other institutions	32,839,341	32,839,341
Customer accounts	167,679,542	167,679,542
Other liabilities	5,807,320	5,807,320

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the balance sheet of the Bank as at 31 December 2004 is presented below:

	<b>Bank of Baku 31</b>		<b>IlkBank 31 December 2004</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Cash and balances with the National Bank of Azerbaijan	6,027,404	6,027,404	18,820,339	18,820,339
Loans and advances to banks, net	17,119,157	17,119,157	38,837,509	38,837,509
Loans and advances to customers, net	73,029,095	73,029,095	14,878,974	14,878,974
Investment available for sale	102,905	102,905	2,711,108	2,711,108
Other assets, net	296,194	296,194	42,402	42,402
Loans and advances from banks and other institutions	39,794,541	39,794,541	4,668,656	4,668,656
Customer accounts	41,645,165	41,645,165	57,530,889	57,530,889
Other liabilities	375,144	375,144	218,123	218,123

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### 27. SUBSEQUENT EVENTS

The management of the Bank plans to launch leasing operations in the year 2006. On 5 April 2006 the Bank received the license from the National Bank of Azerbaijan for the operation of Bank of Baku Express, service points, in Baku, rendering a full range of bank services, except for lending. The bank is planning to open two more such service points in Baku in the near future. In addition, two branches in Baku and one in Sumgait will open in the summer of 2006, which will provide full banking services.

The Azerbaijani Manat was denominated on 1 January 2006 and, starting from that date, AZM 5 thousand is equal to 1 New Azerbaijani Manat ("AZN").

### 28. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates:

<b>Estimate</b>	<b>Description of position</b>
0%	Cash and balances with the National Bank of Azerbaijan
0%	State debt securities in Azerbaijani Manats
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
	Obligations and commitments on unused loans with the initial maturity of
50%	over 1 year
100%	Guarantees

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The Bank's actual capital amounts and ratios are presented in the following table:

<b>Capital amounts and ratios</b>	<b>Actual Amount in AZM thousand</b>	<b>For Capital Adequacy purposes Amount in AZM thousand</b>	<b>Ratio For Capital Adequacy purposes</b>	<b>Minimum Required Ratio</b>
<b>As at 31 December 2005</b>				
Total capital	62,443,286	51,345,325	21.48%	8%
Tier 1 capital	62,443,286	62,037,486	25.96%	4%

<b>Capital amounts and ratios</b>	<b>Actual Amount in AZM thousand</b>	<b>For Capital Adequacy purposes Amount in AZM thousand</b>	<b>Ratio For Capital Adequacy purposes</b>	<b>Minimum Required Ratio</b>
<b>Bank of Baku</b>				
<b>As at 31 December 2004</b>				
Total capital	17,510,479	17,510,479	21.28%	8%
Tier 1 capital	17,510,479	17,510,479	21.28%	4%
<b>Ilkbank</b>				
<b>As at 31 December 2004</b>				
Total capital	17,751,998	17,751,998	59%	8%
Tier 1 capital	17,751,998	17,751,998	59%	4%

**29. RISK MANAGEMENT POLICIES**

Management of risk is fundamental to the Bank's banking business and is an essential element of the Bank's operations. The main risks inherent to the Bank's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Bank's risk management policies in relation to those risks follows.

The Bank manages the following risks:

**Liquidity risk**

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. The Assets and Liabilities Committee ("ALCO") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimisation.

The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.



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**Cash flow interest rate risk**

Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates.

The ALCO also manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The Risk Management Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

The following table presents an analysis of interest rate risk and thus the potential of the Bank for gain or loss. Effective interest rates are presented by categories of financial assets and liabilities to determine interest rate exposure and effectiveness of the interest rate policy used by the Bank.

					<b>31 December 2005 EUR</b>	
	<b>AZM</b>	<b>USD</b>	<b>AZM</b>	<b>USD</b>		
<b>ASSETS</b>						
Loans and advances to banks	-	2%-15%			1.87%-2.20%	
Loans and advances to customers	5%-26%	15%-36%			26%	
Investments available for sale	57%	-			-	
Investments held to maturity	10%-13%	-			-	
<b>LIABILITIES</b>						
Deposits from banks and other credit institutions	0.5%-8%	7.58%-8.93%			5.72%	
Customer accounts	7.4%-17%	3%-16%			3.67%-16%	
			<b>Bank of Baku 31 December 2004 EUR</b>		<b>Ilkbank 31 December 2004 Other Currencies</b>	
	<b>AZM</b>	<b>USD</b>	<b>AZM</b>	<b>USD</b>		
<b>ASSETS</b>						
Loans and advances to banks	-	2.5%-12%	2%	13%	2%	1%
Loans and advances to customers	18%-30%	15%-36%	26%	11%	22%	-
Investment available for sale	9.97%	-	-	6%	7%	-
<b>LIABILITIES</b>						
Deposits from banks and other institutions	7%-11%	0%-12%	5.7%	1.3%	-	-
Customer accounts	8%-17%	3%-16%	3%-16%	7%	8%	-

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The analysis of the interest rate and the liquidity risks on balance sheet transactions is presented in the following table:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	31 December 2005 Total
<b>ASSETS</b>								
Loans and advances to banks, net	46,531,779	-	16,819,899	-	-	-	27,558	63,379,236
Loans and advances to customers, net	2,160,003	8,424,219	68,276,499	52,931,914	-	93,147	-	131,885,782
Investments held to maturity	17,737,345	-	-	-	-	-	-	17,737,345
Total interest bearing assets	66,429,127	8,424,219	85,096,398	52,931,914	-	93,147	27,558	213,002,363
Cash and balances with the NBA	13,600,899	-	-	-	-	-	11,499,503	25,100,402
Loans and advances to banks, net	8,820,226	-	-	-	-	-	137,790	8,958,016
Investment available for sale	-	-	-	-	-	-	417,226	417,226
Fixed assets, net	-	-	-	-	-	-	21,622,866	21,622,866
Intangible assets, net	-	-	-	-	-	-	658,935	658,935
Deferred tax assets	-	-	-	-	-	-	-	-
Other assets, net	823,121	-	-	-	-	-	-	823,121
<b>TOTAL ASSETS</b>	<b>89,673,373</b>	<b>8,424,219</b>	<b>85,096,398</b>	<b>52,931,914</b>	<b>-</b>	<b>93,147</b>	<b>34,363,878</b>	<b>270,582,929</b>
<b>LIABILITIES</b>								
Deposit from banks and other credit institutions	4,727,146	-	1,500,000	26,498,345	-	-	-	32,725,491
Customer accounts	3,397,629	6,061,747	29,424,200	20,368,766	56,153	-	-	59,308,495
Total interest bearing liabilities	8,124,775	6,061,747	30,924,200	46,867,111	56,153	-	-	92,033,986
Deposits from banks and other credit institutions	113,850	-	-	-	-	-	-	113,850
Customer accounts	108,371,047	-	-	-	-	-	-	108,371,047
Income tax liability	-	3,346,702	-	-	-	-	-	3,346,702
Deferred tax liability	-	-	293,427	-	-	-	-	293,427
Other liabilities	5,590,071	-	217,249	-	-	-	-	5,807,320
<b>TOTAL LIABILITIES</b>	<b>122,199,743</b>	<b>9,408,449</b>	<b>31,434,876</b>	<b>46,867,111</b>	<b>56,153</b>	<b>-</b>	<b>-</b>	<b>209,966,332</b>
Liquidity gap	(32,526,370)	(984,230)	53,661,522	6,064,803	(56,153)			
Interest sensitivity gap	58,304,352	2,362,472	54,172,198	6,064,803	(56,153)			
Cumulative interest sensitivity gap	58,304,352	60,666,824	114,839,022	120,903,825	120,847,672			
Cumulative interest sensitivity gap as a percentage of total assets	22%	22%	42%	45%	45%			

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	Bank of Baku 31 December 2004 Total
<b>ASSETS</b>								
Loans and advances to banks, net	1,225,746	-	14,137,497	24,515	-	-	-	15,387,758
Loans and advances to customers, net	1,657,918	6,016,890	27,153,237	38,201,120	-	-	-	73,029,095
Investment available for sale	-	-	102,905	-	-	-	-	102,905
Total interest bearing assets	2,883,664	6,016,890	41,393,639	38,225,635	-	-	-	88,519,758
Cash and balances with the NBA	4,043,947	-	-	-	-	-	1,983,457	6,027,404
Loans and advances to banks, net	1,583,558	-	-	147,841	-	-	-	1,731,399
Fixed assets, net	-	-	-	-	-	-	2,896,434	2,896,434
Intangible assets, net	-	-	-	-	-	-	456,855	456,855
Deferred tax assets	-	-	14,777	-	-	-	-	14,777
Other assets, net	296,194	-	-	-	-	-	-	296,194
<b>TOTAL ASSETS</b>	<b>8,807,363</b>	<b>6,016,890</b>	<b>41,408,416</b>	<b>38,373,406</b>	<b>-</b>	<b>-</b>	<b>5,336,746</b>	<b>99,942,821</b>
<b>LIABILITIES</b>								
Deposit from banks and other credit institutions	3,244,779	3,948,098	17,976,090	-	13,386,343	-	-	38,555,310
Customer accounts	2,514,955	2,822,207	10,261,925	18,107,580	22,803	-	-	33,521,622
Total interest bearing liabilities	5,759,734	6,770,305	28,238,015	18,107,580	13,409,146	-	-	72,284,780
Deposits from banks and other credit institutions	1,239,231	-	-	-	-	-	-	1,239,231
Customer accounts	7,915,695	-	-	-	-	-	-	7,915,695
Income tax liability	-	617,491	-	-	-	-	-	617,491
Other liabilities	375,144	-	-	-	-	-	-	375,144
<b>TOTAL LIABILITIES</b>	<b>15,289,804</b>	<b>7,387,796</b>	<b>28,238,015</b>	<b>18,107,580</b>	<b>13,409,146</b>	<b>-</b>	<b>-</b>	<b>82,432,341</b>
Liquidity gap	(6,482,441)	(1,370,906)	13,170,401	20,265,826	(13,409,146)			
Interest sensitivity gap	(2,876,070)	(753,415)	13,155,624	20,117,985	(13,409,146)			
Cumulative interest sensitivity gap	(2,876,070)	(3,629,485)	9,526,139	29,644,124	16,234,978			
Cumulative interest sensitivity gap as a percentage of total assets	(2.88%)	(3.31%)	10%	30%	17%			

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Overdue	Maturity undefined	Ikkbank 31 December 2004 Total
<b>ASSETS</b>								
Loans and advances to banks, net	30,227,964	4,960,482	-	-	-	3,500,000	-	38,688,446
Loans and advances to customers, net	1,304,468	1,783,461	4,514,556	4,421,664	-	2,854,825	-	14,878,974
Investments available for sale	-	1,466,366	700,000	138,942	-	-	-	2,305,308
Total interest bearing assets	31,532,432	8,210,309	5,214,556	4,560,606	-	6,354,825	-	55,872,728
Cash and balances with the NBA	15,848,107	-	-	-	-	-	2,972,232	18,820,339
Loans and advances to banks, net	70,615	49,030	-	-	-	-	29,418	149,063
Investments available for sale	-	-	-	-	-	-	405,800	405,800
Fixed assets, net	-	-	-	-	-	-	4,500,923	4,500,923
Intangible assets, net	-	-	-	-	-	-	258,360	258,360
Prepaid income tax	82,241	-	-	-	-	-	-	82,241
Deferred income tax asset	-	-	-	37,810	-	-	-	37,810
Other assets	32,655	150	6,739	2,858	-	-	-	42,402
<b>TOTAL ASSETS</b>	<b>47,702,331</b>	<b>8,241,644</b>	<b>5,221,295</b>	<b>4,601,274</b>	<b>-</b>	<b>6,354,825</b>	<b>8,166,733</b>	<b>80,169,666</b>
<b>LIABILITIES</b>								
Deposits and loans from banks and other institutions	-	-	48,370	4,619,659	-	-	-	4,668,029
Customer accounts	316,962	2,552,260	3,215,638	1,252,717	-	-	-	7,337,577
Total interest bearing liabilities	316,962	2,552,260	3,264,008	5,872,376	-	-	-	12,005,606
Deposits and loans from banks and other institutions	627	-	-	-	-	-	-	627
Customer accounts	47,334,029	2,619,240	240,043	-	-	-	-	50,193,312
Other liabilities	218,123	-	-	-	-	-	-	218,123
<b>TOTAL LIABILITIES</b>	<b>47,869,741</b>	<b>5,171,500</b>	<b>3,504,051</b>	<b>5,872,376</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>62,417,668</b>
Liquidity gap	(303,691)	3,087,989	1,717,244	(1,271,102)	-	-	-	-
Interest sensitivity gap	31,215,470	5,658,049	1,950,548	(1,311,770)	-	-	-	-
Cumulative interest sensitivity gap	31,215,470	36,873,519	38,824,067	37,512,297	37,513,09	-	-	-
Cumulative interest sensitivity gap as a percentage of total assets	39%	46%	48%	47%	47%	-	-	-

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Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

**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 Management Board sets limits on the level of exposure by currencies and in total. These limits also comply with the minimum requirements of the NBA.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	<b>AZM</b>	<b>USD</b> 1 USD= AZM 4,593	<b>EUR</b> 1 EUR= AZM 5,459	<b>Other currencies</b>	<b>31 December 2005 Total</b>
<b>ASSETS</b>					
Cash and balances with the NBA	12,954,154	11,837,835	289,012	19,401	25,100,402
Loans and advances to banks, net	750	56,899,672	15,343,400	93,430	72,337,252
Loans and advances to customers, net	46,063,832	85,819,295	2,655	-	131,885,782
Investments available for sale	417,226	-	-	-	417,226
Investments held to maturity	17,737,345	-	-	-	17,737,345
Fixed assets, net	21,622,866	-	-	-	21,622,866
Intangible assets, net	658,935	-	-	-	658,935
Other assets, net	182,784	94,436	545,901	-	823,121
<b>TOTAL ASSETS</b>	<b>99,637,892</b>	<b>154,651,238</b>	<b>16,180,968</b>	<b>112,831</b>	<b>270,582,929</b>
<b>LIABILITIES</b>					
Deposits from banks and other credit institutions	13,377,413	9,430,970	10,030,958	-	32,839,341
Customer accounts	28,100,220	134,678,295	4,866,775	34,252	167,679,542
Income tax liabilities	3,346,702	-	-	-	3,346,702
Deferred tax liabilities	293,427	-	-	-	293,427
Other liabilities	1,004,695	4,792,406	10,219	-	5,807,320
<b>TOTAL LIABILITIES</b>	<b>46,122,457</b>	<b>148,901,671</b>	<b>14,907,952</b>	<b>34,252</b>	<b>209,966,332</b>
<b>OPEN POSITION</b>	<b>53,515,435</b>	<b>5,749,567</b>	<b>1,273,016</b>	<b>78,579</b>	

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	<b>AZM</b>	<b>USD</b> 1 USD= AZM 4,903	<b>EUR</b> 1 EUR= AZM 6,682	<b>Other currencies</b>	<b>Bank of Baku 31 December 2004 Total</b>
<b>ASSETS</b>					
Cash and balances with the NBA	3,961,364	1,564,336	495,599	6,105	6,027,404
Loans and advances to banks, net	750	2,854,726	14,242,646	21,035	17,119,157
Loans and advances to customers, net	3,059,733	69,965,251	4,111	-	73,029,095
Available for sale debt securities	102,905	-	-	-	102,905
Fixed assets, net	2,896,434	-	-	-	2,896,434
Intangible assets, net	456,855	-	-	-	456,855
Deferred income tax assets	14,777	-	-	-	14,777
Other assets, net	41,939	254,255	-	-	296,194
<b>TOTAL ASSETS</b>	<b>10,534,757</b>	<b>74,638,568</b>	<b>14,742,356</b>	<b>27,140</b>	<b>99,942,821</b>
<b>LIABILITIES</b>					
Deposits from banks and other credit institutions	3,000,000	23,426,518	13,363,540	4,483	39,794,541
Customer accounts	3,697,740	36,703,699	1,242,849	877	41,645,165
Income tax liabilities	617,491	-	-	-	617,491
Other liabilities	133,115	231,825	10,204	-	375,144
<b>TOTAL LIABILITIES</b>	<b>7,448,346</b>	<b>60,362,042</b>	<b>14,616,593</b>	<b>5,360</b>	<b>82,432,341</b>
<b>OPEN POSITION</b>	<b>3,086,411</b>	<b>14,276,526</b>	<b>125,763</b>	<b>21,780</b>	

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	<b>AZM</b>	<b>USD</b> 1 USD= AZM 4,903	<b>EUR</b> 1 EUR= AZM 6,682	<b>Other currencies</b>	<b>Ilkbank 31 December 2004 Total</b>
<b>ASSETS</b>					
Cash and balances with the NBA	16,547,661	2,185,414	87,264	-	18,820,339
Loans and advances to banks, net	7,221,898	31,035,650	507,920	72,041	38,837,509
Loans and advances to customers, net	8,671,427	6,207,547	-	-	14,878,974
Available for sale securities, net	2,555,552	155,556	-	-	2,711,108
Fixed assets, net	4,500,923	-	-	-	4,500,923
Intangible assets, net	258,360	-	-	-	258,360
Prepaid income tax	82,241	-	-	-	82,241
Deferred income tax assets	37,810	-	-	-	37,810
Other assets	15,046	20,617	6,739	-	42,402
<b>TOTAL ASSETS</b>	<b>39,890,918</b>	<b>39,604,784</b>	<b>601,923</b>	<b>72,041</b>	<b>80,169,666</b>
<b>LIABILITIES</b>					
Deposits and loans from banks and other institutions	4,668,029	593	34	-	4,668,656
Customer accounts	17,732,500	39,425,189	373,190	10	57,530,889
Other liabilities	149,599	63,430	5,094	-	218,123
<b>TOTAL LIABILITIES</b>	<b>22,550,128</b>	<b>39,489,212</b>	<b>378,318</b>	<b>10</b>	<b>62,417,668</b>
<b>OPEN POSITION</b>	<b>17,340,790</b>	<b>115,572</b>	<b>223,605</b>	<b>72,031</b>	

**Price Risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products which are subject to general and specific market fluctuations.

The Bank manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Bank is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

**Fair value interest rate risk**

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Bank manage fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions.

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### **Credit risk**

The Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Credit Committee and the Bank's Management perform risk management and monitoring within set limits of authority. Before the Credit Committee makes any approvals, it analyses all cases on credit appraisal (borrower's financial statements, loan amount and maturity, proposed collateral, etc.). The Head of Credit Department and Branch Credit Divisions perform daily risk management.

The Bank structures the level of credit risk and undertakes it by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry (and geographical) segments. The Executive Board approves limits on the level of credit risk by a borrower and a product (by industry sector, by region) regularly. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures, which are set by the Credit Committee. Actual exposures against limits are monitored daily.

In the case of most loans, the Bank obtains collateral, as well as corporate and personal guarantees but a significant portion is real estate. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank applies the same credit policy to the contingent liabilities as it does to the balance sheet financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, sufficiency of collateral and current monitoring. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than short-term commitments.

### **Geographical concentration**

The ALCO exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The ALCO sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.



**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)  
(in Azerbaijan Manats and in thousands, unless otherwise indicated)**

The geographical concentration of assets and liabilities is set out below:

	Azerbaijan	Other CIS countries	OECD countries	31 December 2005 Total
<b>ASSETS</b>				
Cash and balances with the NBA	25,100,402	-	-	25,100,402
Loans and advances to banks, net	10,758,280	94,787	61,484,185	72,337,252
Loans and advances to customers, net	131,885,782	-	-	131,885,782
Investment securities available for sale	417,226	-	-	417,226
Investment securities held to maturity	17,737,345	-	-	17,737,345
Fixed assets, net	21,622,866	-	-	21,622,866
Intangible assets, net	658,935	-	-	658,935
Deferred tax liability	-	-	-	-
Other assets	823,121	-	-	823,121
<b>TOTAL ASSETS</b>	<b><u>209,003,957</u></b>	<b><u>94,787</u></b>	<b><u>61,484,185</u></b>	<b><u>270,582,929</u></b>
<b>LIABILITIES</b>				
Deposits from banks and other credit institutions	23,653,341	-	9,186,000	32,839,341
Customer accounts	167,679,542	-	-	167,679,542
Income tax liability	3,346,702	-	-	3,346,702
Deferred income tax liability	293,427	-	-	293,427
Other liabilities	5,807,320	-	-	5,807,320
<b>TOTAL LIABILITIES</b>	<b><u>200,780,332</u></b>	<b><u>-</u></b>	<b><u>9,186,000</u></b>	<b><u>209,966,332</u></b>
<b>NET POSITION</b>	<b><u>8,223,625</u></b>	<b><u>94,787</u></b>	<b><u>52,298,185</u></b>	

**OPEN JOINT STOCK COMMERCIAL BANK  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)  
(in Azerbaijan Manats and in thousands, unless otherwise indicated)**

	Azerbaijan	Other non- OECD countries	OECD Countries	Bank of Baku 31 December 2004 Total
<b>ASSETS</b>				
Cash and balances with the NBA	6,027,404	-	-	6,027,404
Loans and advances to banks, net	1,524,053	18,483	15,576,62	17,119,157
Loans and advances to customers, net	75,015,210	-	-	73,029,095
Available for sale debt securities	102,905	-	-	102,905
Fixed assets, net	2,896,434	-	-	2,896,434
Intangible assets, net	456,855	-	-	456,855
Deferred tax assets	14,777	-	-	14,777
Other assets	296,194	-	-	296,194
<b>TOTAL ASSETS</b>	<b><u>84,347,717</u></b>	<b><u>18,483</u></b>	<b><u>15,576,62</u></b>	<b><u>99,942,821</u></b>
<b>LIABILITIES</b>				
Deposits from banks and other credit institutions	24,524,801	-	15,269,74	39,794,541
Customer accounts	41,645,165	-	-	41,645,165
Income tax liability	617,491	-	-	617,491
Other liabilities	375,144	-	-	375,144
<b>TOTAL LIABILITIES</b>	<b><u>67,162,601</u></b>	<b><u>-</u></b>	<b><u>15,269,74</u></b>	<b><u>82,432,341</u></b>
<b>NET POSITION</b>	<b><u>17,185,116</u></b>	<b><u>18,483</u></b>	<b><u>306,881</u></b>	

**OPEN JOINT STOCK COMMERCIAL BANK  
BANK OF BAKU**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)  
(in Azerbaijan Manats and in thousands, unless otherwise indicated)**

	Azerbaijan	Other non- OECD countries	OECD countries	Ilkbank 31 December 2004 Total
<b>ASSETS</b>				
Cash and balances with the NBA	18,820,339	-	-	18,820,339
Loans and advances to banks, net	10,149,979	68,404	28,619,12	38,837,509
Loans and advances to customers, net	14,878,974	-	-	14,878,974
Available for sale securities, net	2,711,108	-	-	2,711,108
Fixed assets, net	4,500,923	-	-	4,500,923
Intangible assets, net	258,360	-	-	258,360
Prepaid income tax	82,241	-	-	82,241
Deferred income tax assets	37,810	-	-	37,810
Other assets	15,046	-	27,356	42,402
<b>TOTAL ASSETS</b>	<b><u>51,454,780</u></b>	<b><u>68,404</u></b>	<b><u>28,646,48</u></b>	<b><u>80,169,666</u></b>
<b>LIABILITIES</b>				
Deposits and loans from banks and other institutions	4,668,656	-	-	4,668,656
Customer accounts	57,530,889	-	-	57,530,889
Other liabilities	218,123	-	-	218,123
<b>TOTAL LIABILITIES</b>	<b><u>62,417,668</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>62,417,668</u></b>
<b>NET POSITION</b>	<b><u>(10,962,888)</u></b>	<b><u>68,404</u></b>	<b><u>28,646,48</u></b>	