OPEN JOINT STOCK COMPANY
BANK OF BAKU

Financial Statements
For the Year Ended 31 December 2007

OPEN JOINT STOCK COMPANY
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 2007

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, 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 Company "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 2007, 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 2007 were authorized for issue on 10 July 2008 by the Management Board.

On behalf of the Management Board

Jalal Qasimov	**Marina Tedeyeva**
Chairman	**Chief Accountant**
10 July 2008	*10 July 2008*

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management Board of the Open Joint Stock Company "Bank of Baku"

Report on the Financial Statements

We have audited the accompanying financial statements of Open Joint Stock Company "Bank of Baku", which comprise the balance sheet as at 31 December 2007, and the income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of Open Joint Stock Company "Bank of Baku" as at 31 December 2007, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche.

10 July 2008
Baku

OPEN JOINT STOCK COMPANY
BANK OF BAKU

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Azerbaijan Manats and in thousands, except for earnings per share which is in Manats)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
Interest income	4, 25	17,842	8,630
Interest expense	4, 25	(7,925)	(2,756)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		9,917	5,874
Provision for impairment losses on interest bearing assets	5, 25	(2,537)	(862)
NET INTEREST INCOME		7,380	5,012
Net gain on foreign exchange operations	6	462	521
Fee and commission income	7, 25	3,616	2,535
Fee and commission expense	7	(1,353)	(699)
Dividends received		29	14
Other income	8	227	128
NET NON-INTEREST INCOME		2,981	2,499
OPERATING INCOME		10,361	7,511
OPERATING EXPENSES	9, 25	(6,686)	(3,944)
Provision for impairment losses on other transactions	5	(15)	(17)
PROFIT BEFORE INCOME TAX		3,660	3,550
Income tax expense	10	(852)	(758)
NET PROFIT		2,808	2,792
EARNINGS PER SHARE *Basic and diluted (AZN)*	11	0.83	0.82

On behalf of the Management Board

Jalal Qasimov
Chairman

Marina Tedeyeva
Chief Accountant

10 July 2008
Baku

10 July 2008
Baku

The notes on pages 9 to 51 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY
BANK OF BAKU

BALANCE SHEET
AS AT 31 DECEMBER 2007
(in Azerbaijan Manats and in thousands)

	Notes	31 December 2007	31 December 2006
ASSETS:			
Cash and balances with the National Bank of the Republic of Azerbaijan	12	12,721	9,827
Due from banks	13	5,125	4,430
Loans to customers	14, 25	118,992	46,574
Investments available-for-sale	15	2,160	5,179
Property and equipment	16	12,079	4,206
Non-current assets held for sale		-	541
Other assets	17	920	436
TOTAL ASSETS		**151,997**	**71,193**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other credit institutions	18	57,881	12,234
Customer accounts	19, 25	64,452	41,781
Debt securities issued	20	6,153	3,103
Current income tax liabilities		263	270
Deferred income tax liabilities	10	1,945	404
Other liabilities	21, 25	884	429
Total liabilities		131,578	58,221
EQUITY:			
Share capital	22	6,800	6,800
Revaluation reserve		7,097	1,658
Retained earnings		6,522	4,514
Total equity		20,419	12,972
TOTAL LIABILITIES AND EQUITY		**151,997**	**71,193**

On behalf of the Management Board

Jalal Qasimov
Chairman

10 July 2008
Baku

Marina Tedeyeva
Chief Accountant

10 July 2008
Baku

The notes on pages 9 to 51 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

(in Azerbaijan Manats and in thousands)

	Share capital	**Revaluation reserve**	**Retained earnings**	**Total equity**
31 December 2005	6,800	1,732	3,104	11,636
Amortization of revaluation gain, net of deferred tax of AZN 23 thousand		(74)	97	23
Dividends declared	-	-	(1,479)	(1,479)
Net profit	-	-	2,792	2,792
31 December 2006	6,800	1,658	4,514	12,972
Amortization of revaluation gain, net of deferred tax	-	(117)	117	-
Revaluation of property and equipment, net of deferred tax of AZN 1,567 thousand	-	5,556	-	5,556
Dividends declared	-	-	(917)	(917)
Net profit	-	-	2,808	2,808
31 December 2007	**6,800**	**7,097**	**6,522**	**20,419**

On behalf of the Management Board

Jalal Qasimov
Chairman

10 July 2008
Baku

Marina Tedeyeva
Chief Accountant

10 July 2008
Baku

The notes on pages 9 to 51 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY
BANK OF BAKU

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Azerbaijan Manats and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes		3,660	3,550
Adjustments for:			
Provision for impairment losses on interest bearing assets		2,537	862
Recovery of provision for impairment losses on other transactions		15	17
Unrealized loss and amortization of discounts on securities		-	(21)
Translation loss on foreign exchange operations		42	92
Amortization of discount on issued securities		625	103
Dividend income		(29)	(14)
Depreciation and amortization expense		663	486
Loss on fixed assets disposal		3	30
Net change in interest accruals		1,363	233
Cash flows from operating activities before changes in operating assets and liabilities		8,879	5,338
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Azerbaijan		(1,927)	(2,261)
Due from banks		(1,751)	1,914
Loans to customers		(73,992)	(22,264)
Other assets		(502)	(171)
Increase/(decrease) in operating liabilities:			
Due to banks and other credit institutions		44,548	5,602
Customer accounts		21,366	9,478
Other liabilities		323	(765)
Cash outflows from operating activities before income taxes		(3,056)	(3,129)
Income tax paid		(885)	(1,277)
Net cash outflows from operating activities		(3,941)	(4,406)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(860)	(956)
Proceeds on sale of securities available-for-sale		97,389	70,478
Proceeds on sale of property and equipment		3	25
Purchase of securities available-for-sale		(94,368)	(72,010)
Dividends received		29	14
Net cash inflow/(outflow) from investing activities		2,193	(2,449)

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2007
(in Azerbaijan Manats and in thousands)

	Notes	Year ended 31 December 2007	Year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of debt securities		2,376	3,000
Dividends paid		(648)	(1,313)
Net cash inflows from financing activities		1,728	1,687
Effect of changes in foreign exchange rate on cash and cash equivalents		(42)	(166)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(62)	(5,334)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	12	6,607	11,941
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	**12**	**6,545**	**6,607**

Interest paid and received in cash by the Bank during the year ended 31 December 2007 amounted to AZN 5,581 thousand and AZN 16,902 thousand, respectively.

Interest paid and received in cash by the Bank during the year ended 31 December 2006 amounted to AZN 2,553 thousand and AZN 8,248 thousand, respectively.

On behalf of the Management Board

Jalal Qasimov
Chairman

10 July 2008
Baku

Marina Tedeyeva
Chief Accountant

10 July 2008
Baku

The notes on pages 9 to 51 form an integral part of these financial statements.

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 National Bank of the Republic of Azerbaijan (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 changed its name from Open Joint Stock Commercial Bank "Bank of Baku" to Open Joint Stock Company "Bank of Baku" on 15 May 2006. The Bank is regulated by the NBA. The Bank's principal business activities are commercial and retail banking operations.

The Head Office of the Bank is providing a full range of commercial and retail banking operations. As at 31 December 2007 the Bank had 14 branches and 3 service divisions in Azerbaijan (2006: 9 branches and 3 service divisions).

As at 31 December 2007 and 2006 the shareholding structure of the Bank was as follows:

	Ownership interest, %
NAB Holding	40.00
Azpetrol Neft Shirketi LLC	28.89
Mr. R. Aliyev	11.22
Mr. E. Isayev	10.00
Azinvest LLC	9.89
	100.000

The ultimate shareholders of NAB Holding are Nader Mohaghegh Oromi, Bahram Mohaghegh Oromi, Shahram Mohaghegh Oromi; of Azpetrol Neft Shirketi LLC is Mammadov Ibrahim; of Azinvest LLC is Rafig Aliyev.

On 19 October 2005, Mr. Rafig Aliyev, one of the shareholders of the Bank, had been detained by the Government authorities and a legal case was launched against him subsequently. Mr. Aliyev's detention does not relate to his ownership in or dealings with the Bank. Consequently, the Ministry of Taxes of the Republic of Azerbaijan and the National Bank of the Republic of Azerbaijan had conducted independent audits of the Bank's operations. These audits completed 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, had maintained its normal course of business.

Mr. R Aliyev owns 21.11% (11.22% of direct ownership and 9.89% through Azinvest LLC) of the share capital of the Bank.

These financial statements were authorized for issue by the Management Board on 10 July 2008.

2. BASIS OF PRESENTATION

Accounting basis

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements are presented in thousands of Azerbaijan Manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost conversion, except for the measurement at fair value of certain financial instruments and measurement of buildings at revalued amounts according to International Accounting Standard (“IAS”) No. 16 “Property, Plant and Equipment”.

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 with IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Key assumptions and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Bank’s management as of the date of the financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2007	**31 December 2006**
Due from banks	5,125	4,430
Loans to customers	118,992	46,574
Investments available-for-sale	2,160	5,179
Land and buildings	10,710	3,212

Due from banks and loans to customers are measured at amortised cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Bank estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank’s loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Bank considers accounting estimates related to provisions for loans key sources of estimation uncertainty because: (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses (as reflected in the provisions) and actual losses will require the Bank to take provisions which, if significantly different, could have a material impact on its future income statement and its balance sheet. The Bank's assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

Investments available-for-sale are measured at fair value less impairment losses. The estimation of impairment losses involves the exercise of significant management judgment. The accounting policy for the impairment of financial instruments is discussed in Note 3 below.

Certain property (buildings and land) is measured at revalued amounts. The date of the latest valuation was as at 31 December 2007.

Functional currency

The functional currency of these financial statements is the Azerbaijan Manat ("AZN").

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 the Republic 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, and government securities denominated in AZN carried at fair value through profit or loss, which may be converted to cash within a short period of time. For the purposes of determining cash flows, the minimum reserve deposit required by the National Bank of the Republic of Azerbaijan is not included as a cash equivalent due to restrictions on its availability (Note 12).

Due from banks

In the normal course of business, the Bank maintains advances or deposits for various periods of time with other banks. Due from banks are measured at amortized cost using the effective interest method.

Loans to customers

Loans to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those classified in other categories of financial assets.

Loans granted by the Bank 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 according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses in the case of the uncollectibility of loans and advances, including the 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.

Allowance for impairment losses

The Bank accounts for impairment losses of financial assets when there is an objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts 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. For financial assets carried at cost, the impairment losses are 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 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. Provisions 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.

The change in impairment losses is charged to profit, and the total of 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.

The Bank accounts for impairment losses on financial assets at amortized cost using allowance account.

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.

Finance leases

Financial leases are leases that transfer substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The lease classified as finance lease if:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of a specialized nature such that only the lessee can use them without major modifications being made.

The Bank as a lessor presents finance leases as loans and initially measures them in the amount equal to net investment in the lease. Subsequently, the recognition of finance income is based on a pattern reflecting a constant periodic rate of return on the Bank's net investment in the finance lease.

Before commencement of the lease property and equipment purchased for future transfer to financial lease is recognized in the financial statements as property and equipment purchased to transfer to finance lease at cost.

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale.

If the market for investments is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and other applicable methods. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique. Dividends received are included in dividend income in the income statement.

Non-marketable debt and equity securities are stated at amortized cost and cost, respectively, less impairment losses, if any, unless fair value can be reliably measured.

When there is objective evidence that such securities have been impaired, the cumulative loss previously recognized in equity is removed from equity and recognized in the income statement for the period. Reversals of such impairment losses on debt instruments, which are objectively related to events occurring after the impairment, are recognized in the income statement for the period. Reversals of such impairment losses on equity instruments are not recognized in the income statement.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that the asset's carrying amount will be recovered through a sale transaction rather than through continuing use. Such sale transaction shall be principally completed within one year from the date of classification of an asset as held for sale.

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell an asset held for sale is lower than its carrying amount, an impairment loss is recognized in the income statement as loss from non-current assets held for sale. Any subsequent increase in an asset's fair value less costs to sell is recognized to the extent of the cumulative impairment loss that was previously recognized in relation to that specific asset.

Property and equipment

Property and equipment are carried at historical cost (except for buildings, which are stated at revalued amounts) less accumulated depreciation and amortization. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation is charged on the carrying value of property and equipment 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 equipment	20%
Computers and communication equipment	25%
Vehicles	20%
Other fixed assets	20%

The carrying amounts of property, equipment 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.

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the property and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

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 year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years 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 during the reporting period.

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 the initial recognition 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 realized. 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.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the balance sheet if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Azerbaijan where the Bank operates 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.

Due to banks and other credit institutions, customer accounts

Due to banks and other credit institutions and customer accounts are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Debt securities issued

Debt securities issued represent bonds issued by the Bank. They are accounted for using the same principles used for customer accounts.

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.

Financial guarantee contracts issued and letters of credit

Financial guarantee contracts and letters of credit issued by the Bank are credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. Such financial guarantee contracts and letters of credit issued are initially recognized at fair value. Subsequently they are measured at the higher of (a) the amount recognized as a provision and (b) the amount initially recognized less, where appropriate, cumulative amortization of initial premium revenue received over the financial guarantee contracts or letter of credit issued.

Share capital

Share capital is recognized at cost. 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 Azerbaijan legislation, state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

Interest income and expense are recognized on an accrual basis using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down (partly 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.

Interests earned on assets at fair value are classified within interest income.

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

Rates of exchange

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

	31 December 2007	**31 December 2006**
AZN/1 US Dollar	0.8453	0.8714
AZN/1 Euro	1.2450	1.1471
AZN/1 GBP	1.6876	1.7113
AZN/1 RUR	0.0346	0.0331

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 de-recognition, the Bank does not offset the transferred asset and the associated liability.

Adoption of new standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for reporting periods beginning on 1 January 2007. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank’s accounting policies that have affected the amounts reported for the current or prior years except for the effect of application of IFRS 7 “Financial Instruments: Disclosure” (“IFRS 7”).

IFRS 7 is effective for the annual period beginning on or after 1 January 2007. IFRS 7 establishes new requirements and recommendations on financial instrument disclosure. Adoption of IFRS 7 did not affect the classification and measurement of Bank’s financial instruments in the financial statements. Additional information was disclosed in the financials statements for the current and comparative reporting periods as required by IFRS 7.

At the date of performing of these financial statements the following Standards and Interpretations applicable to the Bank were issued but not yet effective for these financial statements: Effective 1 January 2009, the new IFRS 8 “Operating Segments” will replace IAS 14 “Operating Segments”. The management is currently assessing the impact of the adoption of these new and revised Standards in future period. The Bank anticipates that other new Standards and Interpretations will have no material financial impact on the financial statements of the Bank.

4. NET INTEREST INCOME

	Year ended 31 December 2007	Year ended 31 December 2006
Interest income comprises:		
Interest income on assets recorded at amortized cost:		
- interest income on assets that has been impaired	10,729	5,132
- interest income on unimpaired assets	6,477	3,098
Total interest income on financial assets recorded at amortized	**17,206**	**8,230**
Interest income on investments available-for-sale	623	396
Interest income on guarantees	13	4
Total interest income	**17,842**	**8,630**
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	16,831	7,819
Interest on finance lease	146	-
Interest on loans and advances to banks	229	411
Total interest income on financial assets recorded at amortized cost	17,206	8,230
Interest income on investments available-for-sale	623	396
Interest income on guarantees	13	4
Total interest income	**17,842**	**8,630**
Interest expense on liabilities recorded at amortized cost comprise:		
Interest on customer accounts	(5,782)	(2,099)
Interest on deposits from banks	(1,518)	(550)
Interest on debt securities issued	(625)	(107)
Total interest expense on financial assets recorded at amortized cost	(7,925)	(2,756)
Net interest income before provision for impairment losses on interest bearing assets	**9,917**	**5,874**

5. ALLOWANCE FOR IMPAIRMENT LOSSES, OTHER PROVISIONS

The movements in allowance for impairment losses on interest earning assets were as follows:

	Loans to customers	Due from banks	Investments available-for-sale	Total
31 December 2005	525	-	-	525
Provision	848	9	5	862
Write-off of assets	(46)	-	-	(46)
31 December 2006	**1,327**	**9**	**5**	**1,341**
Provision/(recovery of provision)	2,547	(8)	(2)	2,537
Write-off of assets	(27)	-	-	(27)
31 December 2007	**3,847**	**1**	**3**	**3,851**

The movements in allowances for impairment losses on other transactions were as follows:

	Guarantees and other commitments	Other assets	Total
31 December 2005	**-**	**-**	**-**
Provision	-	17	17
31 December 2006	**-**	**17**	**17**
Provision/(recovery of provision)	32	(17)	15
31 December 2007	**32**	**-**	**32**

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Dealing, net	504	612
Translation differences, net	(42)	(91)
Total net gain on foreign exchange operations	**462**	**521**

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2007	Year ended 31 December 2006
Fee and commission income:		
Settlements	1,258	759
Cash operations	955	607
Plastic cards operations	941	420
Foreign exchange operations	391	715
Documentary operations	55	33
Other	16	1
Total fee and commission income	**3,616**	**2,535**
Fee and commission expense:		
Plastic cards operations	(480)	(188)
Cash operations	(386)	(137)
Settlements	(308)	(239)
Securities operations	(48)	(29)
Documentary operations	(19)	(29)
Foreign exchange operations	(3)	(15)
Other	(109)	(62)
Total fee and commission expense	**(1,353)**	**(699)**

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2007	Year ended 31 December 2006
Fines and penalties received	225	128
Income from sale of property	2	-
Total other income	**227**	**128**

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2007	**Year ended 31 December 2006**
Staff costs (including bonuses)	3,948	2,108
Depreciation and amortization	663	486
Operating lease	526	264
Advertising	325	472
Property and equipment maintenance	302	53
Stationery	204	125
Payments to Deposit Insurance Fund	126	-
Security expenses	95	46
Professional service fees	91	48
Communications	86	59
Legal fees	69	21
Taxes, other than income tax	48	55
Occupancy costs	48	36
Business trip expenses	30	19
Vehicle running costs	24	13
Membership fees	22	7
Insurance cost	6	9
Losses from fixed assets disposal	5	30
Representative expenses	3	26
Other expenses	65	67
Total operating expenses	**6,686**	**3,944**

10. 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 differ from International Financial Reporting Standards.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

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 2007 and 2006 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2007 and 31 December 2006 comprise:

	31 December 2007	31 December 2006
Deductible temporary differences:		
Loans to customers	435	258
Property and equipment	368	199
Other assets	-	17
Other liabilities	-	33
Total deductible temporary differences	**803**	**507**
Taxable temporary differences:		
Property and equipment	(9,095)	(1,597)
Provisions for credit lines and guarantees	(505)	(132)
Finance lease receivable	(51)	-
Non-current assets available-for-sale	-	(517)
Investments available-for-sale	-	(98)
Total taxable temporary differences	**(9,651)**	**(2,344)**
Net taxable temporary differences	**(8,848)**	**(1,837)**
Net deferred tax liability at the statutory tax rate (22%)	**(1,945)**	**(404)**

Relationships between tax expenses and accounting profit for the year ended 31 December 2007 and 2006 are explained as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
Profit before income taxes	**3,660**	**3,550**
Tax at the statutory tax rate (22%)	805	781
Tax effect of permanent differences	47	(23)
Income tax expense	**852**	**758**
Current income tax expense	878	885
Change in the deferred tax liabilities	(26)	(127)
Income tax expense	**852**	**758**

Deferred income tax liabilities	31 December 2007	31 December 2006
Beginning of the period	404	554
Change in the income tax liability for the period charged to profit	(26)	(127)
Tax effect of changes in property and equipment revaluation reserve	1,567	(23)
End of the period	**1,945**	**404**

11. EARNINGS PER SHARE

	Year ended 31 December 2007	Year ended 31 December 2006
Profit:		
Net profit for the year	2,808	2,792
Weighted average number of ordinary shares for basic and diluted earnings per share	3,400,000	3,400,000
Earnings per share – basic and diluted (AZN)	**0.83**	**0.82**

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

	31 December 2007	31 December 2006
Cash	3,845	4,832
Balances with the NBA	8,876	4,995
Total cash and balances with the NBA	**12,721**	**9,827**

The balances with the National Bank of the Republic of Azerbaijan as at 31 December 2007 and 2006 include AZN 6,488 thousand and AZN 4,561 thousand, respectively, which represents the minimum reserve deposits required by the NBA. The Bank is entitled to use all funds on its correspondent account with the NBA provided that average daily balance for 15 days period will be eventually higher than required reserve mandatory balance.

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

	31 December 2007	31 December 2006
Cash and balances with the NBA	12,721	9,827
Due from banks in OECD countries, excluding restricted deposits	312	1,341
	13,033	**11,168**
Less minimum reserve deposit with the NBA	(6,488)	(4,561)
Total cash and cash equivalents	**6,545**	**6,607**

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2007	31 December 2006
Correspondent accounts with other banks	2,910	1,491
Loans and deposits with other banks	2,216	2,948
	5,126	4,439
Less allowance for impairment losses	(1)	(9)
Total due from banks	**5,125**	**4,430**

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

As at 31 December 2007 and 2006 accrued interest income included in due from banks amounted to AZN 3 thousand and AZN 38 thousand, respectively.

As at 31 December 2007 and 2006 included in above is cash collateral with Dresdner Bank AG, Germany totalling AZN 2,121 thousand and AZN 2,442 thousand respectively, which the Bank is obliged to maintain for the whole lifetime of the credit facility provided by the counterparty.

As at 31 December 2007 and 2006 the Bank had loans and advances to 2 banks which individually exceeded 10% of the Bank’s equity.

As at 31 December 2007 and 2006 maximum credit risk exposure of due from banks amounted to AZN 5,125 thousand and AZN 4,430 thousand, respectively.

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2007	31 December 2006
Loans to customers	120,285	47,901
Net investment in finance lease	2,554	-
	122,839	47,901
Less allowance for impairment losses	(3,847)	(1,327)
Total loans to customers	**118,992**	**46,574**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself:

	31 December 2007	31 December 2006
Loans collateralized by real estate	34,918	15,464
Loans collateralized by vehicles	34,634	12,852
Loans collateralized by equipment	26,617	8,040
Loans collateralized by third party guarantees	14,074	5,659
Loans collateralized by corporate guarantees	4,207	143
Loans collateralized by deposits and precious metals	2,999	1,968
Loans collateralized by other collateral	2,694	253
Loans collateralized by inventories	1,492	612
Loans collateralized by insurance policies	1,168	2,893
Unsecured loans	36	17
	122,839	47,901
Less allowance for impairment losses	(3,847)	(1,327)
Total loans to customers	**118,992**	**46,574**

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	84,105	31,829
Trade and services	21,382	11,296
Manufacturing	9,280	1,309
Construction	3,192	16
Agriculture	2,065	905
Energy	2,014	-
Other	801	2546
	122,839	47,901
Less allowance for impairment losses	(3,847)	(1,327)
Total loans to customers	**118,992**	**46,574**

Loans to individuals comprise the following products:

	31 December 2007	31 December 2006
Consumer loans	49,733	18,091
Car loans	31,794	12,760
Mortgage loans	2,063	-
Other	515	978
	84,105	31,829
Less allowance for impairment losses	(2,634)	(882)
Total loans to individuals	**81,471**	**30,947**

As at 31 December 2007 and 2006 maximum credit risk exposure of loans to customers amounted to AZN 118,992 thousand and AZN 46,574 thousand, respectively. As at 31 December 2007 and 2006 a maximum credit risk exposure on loan commitments and overdrafts extended by the Bank to its customers amounted to AZN 10,955 thousand and AZN 3,184 thousand, respectively.

As at 31 December 2007 and 2006 accrued interest income included in loans to customers amounted to AZN 1,494 thousand and AZN 521 thousand, respectively.

As at 31 December 2007 and 2006 loans to customers included loans in amount of AZN 4,856 thousand and AZN 115 thousand, respectively, that were individually impaired. As at 31 December 2007 such loans were collaterized by property with a fair value of AZN 12,627 thousand (2006: nil).

The components of net investment in finance lease as at 31 December 2007 and 2006 are as follows:

	31 December 2007
Less than one year	1,321
Later than one year not later than five years	2,001
Total minimum lease payments	3,322
Less: deferred finance charges	(768)
Finance lease receivable	**2,554**
Current portion	1,016
Long-term portion	1,538
Finance lease receivable	**2,554**

15. INVESTMENTS AVAILABLE–FOR-SALE

Investments available-for-sale comprise:

	31 December 2007	**31 December 2006**
Debt securities	2,001	5,037
Equity securities	162	147
	2,163	5,184
Less allowance for impairment losses	(3)	(5)
Total investments available-for-sale	**2,160**	**5,179**

	Interest to nominal %	31 December 2007	Interest to nominal %	31 December 2006
Debt securities				
The National Bank of the Republic of Azerbaijan	7.67%	2,001	13.96%	4,775
Ministry of Finance of the Republic of Azerbaijan	-	-	11.99%	153
OJSC Bank Standard	-	-	10.32%	109
		2,001		**5,037**

	Ownership interest	31 December 2007	Ownership interest	31 December 2006
Equity securities				
Bob Broker LTD	100%	75	-	-
International Bank of Azerbaijan JSCB	0.04%	47	0.04%	47
Milli Kart Ltd	1%	40	1%	40
CJSC Baku Stock Exchange	-	-	5.56%	60
		162		147
Less allowance for impairment losses		(3)		(5)
Total investments available-for-sale		**159**		**142**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

Bob Broker LTD is not consolidated in these financial statements, because effect of such consolidation would be immaterial for financial statements as a whole.

As at 31 December 2007 and 2006 accrued interest income included in debt securities amounted to AZN 7 thousand and AZN 31 thousand, respectively.

16. PROPERTY AND EQUIPMENT

Property and equipment comprise:

	Land and buildings	Furniture and equipment	Computers and communication equipment	Vehicles	Other fixed assets	Construction in progress	Total
At initial/revalued cost							
31 December 2005	3,989	790	517	103	9	105	5,513
Additions	72	316	208	1	-	317	914
Transfers to non-current assets held for sale	(383)	(34)	-	-	-	-	(417)
Disposals	-	-	(1)	(15)	(1)	(422)	(439)
31 December 2006	3,678	1,072	724	89	8	-	5,571
Additions	83	369	386	1	4	-	843
Revaluation	9,064	-	-	-	-	-	9,064
Transfers	-	-	(2)	-	2	-	-
Transfer from non-current assets held for sale	804	34	-	-	-	-	838
Disposals	-	(55)	(23)	-	-	-	(78)
31 December 2007	13,629	1,420	1,085	90	14	-	16,238
Accumulated depreciation							
31 December 2005	567	299	263	55	4	-	1,188
Charge for the year	162	164	121	19	1	-	467
Transfers to non-current assets held for sale	(263)	(6)	-	-	-	-	(269)
Eliminated on disposals	-	(9)	-	(11)	(1)	-	(21)
31 December 2006	466	448	384	63	4	-	1,365
Charge for the year	249	223	160	11	3	-	646
Revaluation	1,941	-	-	-	-	-	1,941
Transfers	-	8	(8)	-	-	-	-
Transfer from non-current assets held for sale	263	16	-	-	-	-	279
Eliminated on disposals	-	(49)	(23)	-	-	-	(72)
31 December 2007	2,919	646	513	74	7	-	4,159
Net book value							
31 December 2007	**10,710**	**774**	**572**	**16**	**7**	**-**	**12,079**
31 December 2006	**3,212**	**624**	**340**	**26**	**4**	**-**	**4,206**

As at 31 December 2007 and 2006 included in property and equipment were fully depreciated assets of AZN 356 thousands and AZN 235 thousands, respectively.

As at 31 December 2007 the land and buildings owned by the Bank were revalued to market value according to the report of an independent appraiser. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach), integrated cost estimation method (cost based method), method of sales comparison (comparative approach). For the estimation of the final value, certain weights were assigned to the results obtained using different approaches, depending on the degree to which the estimates met the following characteristics: reliability and completeness of the information, specifications of the estimated property and other.

As a result, the carrying value of the land and buildings amounted to AZN 10,710 thousand and AZN 3,212 thousand as at 31 December 2007 and 2006, respectively. If the land and buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying value would be AZN 4,533 thousand and AZN 1,556 thousand as at 31 December 2007 and 2006, respectively.

17. OTHER ASSETS

Other assets comprise:

	31 December 2007	31 December 2006
Prepayments and receivables	572	45
Unsettled payments on plastic cards operations and money transfers	220	265
Intangible assets	106	125
Other	22	18
	920	**453**
Less allowance for impairment losses	-	(17)
Total other assets	**920**	**436**

Movements in allowances for impairment losses for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

	Intangible assets
At cost	
31 December 2005	185
Additions	42
Disposals	(35)
31 December 2006	192
Disposals	(4)
31 December 2007	188
Accumulated amortization	
31 December 2005	53
Charge for the year	19
Eliminated on disposals	(5)
31 December 2006	67
Charge for the year	17
Disposals	(2)
31 December 2007	82
Net book value	
31 December 2007	**106**
31 December 2006	**125**

Intangible assets include software and licenses.

18. DUE TO BANKS AND OTHER CREDIT INSTITUTIONS

Due to banks and other credit institutions comprise:

	31 December 2007	31 December 2006
Deposits of non-banking financial institutions	14,111	-
Loans from banks	12,181	2,280
Loans from European Bank for Reconstruction and Development	11,254	4,521
Loans from the National Entrepreneurs Support Fund	6,160	3,071
Loans from the Asian Development Bank	5,107	-
Demand deposits of banks	4,232	37
Loans from KfW	2,329	2,294
Loans from the National Mortgage Fund	1,943	31
Demand deposits of other financial institutions	564	-
Total due to banks and other credit institutions	**57,881**	**12,234**

As at 31 December 2007 and 2006 accrued interest expenses included in due to banks amounted to AZN 1,058 thousand and AZN 112 thousand, respectively.

As at 31 December 2007 and 2006 the Bank received loans and advances from 8 and 3 banks and financial institutions respectively which individually exceeded 10% of the Bank's equity.

As at 31 December 2007 subordinated debt included in due to banks amounted to AZN 2,113 thousand. The loan bears LIBOR plus 10% per annum and to be repaid in November 2017. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank's liabilities to all other creditors.

19. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2007	31 December 2006
Time deposits	45,309	26,017
Repayable on demand	19,017	13,362
Blocked accounts	126	2,402
Total customer accounts	**64,452**	**41,781**

As at 31 December 2007 and 2006 accrued interest expenses included in customers accounts amounted to AZN 1,558 thousand and AZN 254 thousand, respectively.

As at 31 December 2007 and 2006 customer accounts amounted to AZN 527 thousand and AZN 218 thousand, respectively, were held as security against loans and advances to customers.

	31 December 2007	31 December 2006
Analysis by sector:		
Individuals	49,061	26,798
Trade and services	7,232	1,671
Energy	5,965	6,903
Manufacturing	511	2,455
Transport and communication	320	330
Construction	271	161
Public organizations	47	121
Agriculture	15	2
Other	1,030	3,340
Total customer accounts	**64,452**	**41,781**

20. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date month/year	Annual coupon rate %	31 December 2007	31 December 2006
Manat-denominated bonds-AZ200100536	13/08/2008	14%	2,035	2,095
Manat-denominated bonds-AZ200300536	18/08/2008	14%	2,100	-
Manat-denominated bonds-AZ200400536	18/02/2009	13.5%	1,013	-
Manat-denominated bonds-AZ200500539	18/03/2009	14%	1,005	-
Manat-denominated bonds-AZ200200536	06/12/2007	14%	-	1,008
Total debt securities issued			**6,153**	**3,103**

As at 31 December 2007 and 2006 accrued interest expense included in debt securities issued amounted to AZN 153 thousand and AZN 103 thousand, respectively.

21. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2007	31 December 2006
Accrued expenses	419	34
Dividends payable	269	166
Payments on the course of settlement	115	149
Taxes payable other than income tax	48	79
Provisions for guarantees and other commitments	32	-
Other	1	1
Total other liabilities	**884**	**429**

Movements in provision for guarantees and other commitments for the years ended 31 December 2007 and 2006 are disclosed in Note 5.

22. SHARE CAPITAL

As of 31 December 2007 and 2006 authorized, issued and fully paid share capital amounted to AZN 6,800 thousand and consisted of 3,400,000 ordinary shares with par value of AZN 2 each. Each share entitles to the shareholder one vote.

In 2007 and 2006 the Bank declared dividends of AZN 917 thousand and AZN 1,479 thousand for 2006 and 2005 financial years, respectively, on ordinary shares.

23. 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 Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank's uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

Provision for losses on contingent liabilities amounted to AZN 32 thousand as at 31 December 2007.

As at 31 December 2007 and 2006, the nominal or contract amounts and risk-weighted amounts were:

	31 December 2007	31 December 2006
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	8,036	3,184
Guarantees issued and similar commitments	3,545	3,441
Letters of credit and other transaction related contingent obligations	-	2,396
Total contingent liabilities and credit commitments	**11,581**	**9,021**

As at 31 December 2007 and 2006 included in commitments on loans and unused credit lines are AZN 10,955 thousand and AZN 3,184 thousand respectively, representing the Bank's commitments to extend loans within unused credit lined limits that are conditioned on the following: a borrower has to apply to the Bank each time it wants to extend its borrowings within preliminary unused; and the Bank may approve the extension of finance based on a borrower's financial performance, debt service and other credit risk characteristics.

Capital commitments – The Bank had no material commitments for capital expenditures outstanding at 31 December 2007.

Legal proceedings – From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. As of the date of approval of these financial statements no legal cases were pending against the Bank.

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.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Republic of Azerbaijan. As at 31 December 2007 and 2006, 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.

24. SUBSEQUENT EVENTS

As per the decision of the General Meeting of shareholders held on 17 March 2008, no dividends will be distributed for the results of the financial year 2007.

25. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;

(b) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;

(c) Joint ventures in which the Bank is a venturer;

(d) Members of key management personnel of the Bank or its parent;

(e) Close members of the family of any individuals referred to in (a) or (d);

(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of 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 as at 31 December 2007 and 2006 with related parties:

	31 December 2007		31 December 2006	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers		122,839		47,901
- the parent and parent's subsidiaries	3,071		-	
- key management personnel of the entity	64		31	
Allowance for impairment losses		3,847		1,327
- key management personnel of the entity	4		1	
Customer accounts		64,452		41,781
- the parent and parent's subsidiaries	1,967		382	
- key management personnel of the entity	1		9	
- other related parties	1		-	
Other liabilities		884		429
- the parent and parent's subsidiaries	269		166	
- key management personnel of the entity	-		1	
Guarantees issued		3,545		3,441
- key management personnel of the entity	5		30	

	Year ended 31 December 2007		Year ended 31 December 2006	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
short-term employee benefits	549	3,948	322	2,108

Included in the profit and loss account for the years ended 31 December 2007 and 2006 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2007		Year ended 31 December 2006	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		17,842		8,630
- *the parent and parent's subsidiaries*	200		-	
- *key management personnel of the entity*	3		2	
Interest expense		7,881		2,756
- *the parent and parent's subsidiaries*	2		1	
- *key management personnel of the entity*	9		8	
- *other related parties*	31		-	
Provision for impairment losses		2,537		862
- *key management personnel of the entity*	4		1	
Fee and commission income		3,616		2,535
- *the parent and parent's subsidiaries*	92		3	
Operating expense		6,686		3,944
- *the parent and parent's subsidiaries*	258		164	
- *key management personnel of the entity*	549		322	

26. SEGMENT REPORTING

The Bank's activity is sufficiently integrated and primarily relates to the banking sector. Accordingly, for purposes of IAS 14 "Segment reporting" the Bank is accounted for as a single segment. The Bank's assets are located in the Republic of Azerbaijan and major parts of its revenue and net profit arrives from operations in the Republic of Azerbaijan. The Bank's operations include transactions with other banks, legal entities and individuals. Data on other transaction balances and their results are provided in the respective notes to the financial statements.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are 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. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular 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 2007 and 2006 is presented below:

	31 December 2007		31 December 2006	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the National Bank of the Republic of Azerbaijan	12,721	12,721	9,827	9,827
Due from banks	5,125	5,125	4,430	4,430
Investments available-for-sale (debt instruments)	2,001	2,001	5,037	5,037
Due to banks and other credit institutions	57,881	57,881	12,234	12,234
Customer accounts	64,452	64,452	41,781	41,781
Debt securities issued	6,153	6,153	3,103	3,103

The fair value of loans to customers can not be measured reliably as there is no active market for such instruments in Azerbaijan.

The fair value of equity investments available-for-sale can not be measured reliably as they do not have a quoted market price in an active market.

28. REGULATORY MATTERS

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total (12%) and tier 1 capital (6%) to risk weighted assets.

The ratio was calculated according to the principles employed by the Basle Committee by applying the following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses.

As at 31 December 2007 the Bank’s total capital amount for Capital Adequacy purposes was AZN 22,369 thousand and tier 1 capital amount was AZN 13,321 thousand with ratios of 15.44 % and 9.19 %, respectively.

As at 31 December 2006 the Bank’s total capital amount for Capital Adequacy purposes was AZN 12,972 thousand and tier 1 capital amount was AZN 11,314 thousand with ratios of 23.08 % and 20.13 %, respectively.

As at 31 December 2007 the Bank included in the computation of total capital for Capital adequacy purposes the subordinated debt of AZN 2,113 thousands, limited up to 50% of Tier 1 capital. In the event of bankruptcy or liquidation of the Bank, repayment of this debt is subordinate to the repayments of the Bank’s liabilities to all other creditors.

29. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that entities in the Bank will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Bank consists of debt, which includes subordinated debt disclosed in Note 18, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in consolidated statement of changes in equity.

The Management Board reviews the capital structure on a monthly basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Bank balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Bank's overall capital risk management policy remains unchanged from 2006.

30. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Bank's 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 risk
- Liquidity risk
- Market risk.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

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 Risk Management Committee perform risk management and monitoring within set limits of authority. Before the Credit Committee makes any approvals, it analyzes all cases and recommendations on credit appraisals (borrower's financial statements, terms of the credit, adequacy of the proposed collateral, credit history of the applicant, limits approved, amendments to the loan agreements, etc.). The Head of Credit Department, Branch Credit Divisions, Risk Management Department and loan officers 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 related borrowers to industry and geographical segments. The Risk Management Committee approves limits on the level of credit risk by borrower and the product (by industry sector, by region). Allocation of limits per borrower or the group of related borrowers is conducted in accordance with the regulations of the National Bank of the Republic of Azerbaijan. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures, which are set by Credit Committee within the parameters prescribed by the Risk Management Committee and the Assets and Liabilities Management Committee (the "ALCO"). Loans above certain limits are approved by the Supervisory Board. Actual exposures against limits are monitored daily.

In the case of most loans, the Bank obtains collateral, as well as personal and corporate guarantees, which, in significant portion, is real estate. Such risks are monitored on a continuous basis and subject to 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 loans, using limits to mitigate the risk, and current monitoring. The Bank monitors the term to maturity of off balance sheet contingencies because longer term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum Exposure

The Banks maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

					31 December 2007
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Due from banks	5,125	-	5,125	-	5,125
Loans to customers	118,992	527	118,465	104,783	13,682
Investments available-for-sale	2,160	-	2,160	-	2,160
Guarantees issued and similar commitments	3,545	-	3,545	3,545	-
Commitments on loans and unused credit lines	8,036	-	8,036	-	8,036

Loans to customers in the amount of AZN 13,682 thousand are pledged third party guarantees.

					31 December 2006
	Maximum exposure	**Offset**	**Net exposure after offset**	**Collateral Pledged**	**Net exposure after offset and collateral**
Due from banks	4,430	-	4,430	-	4,430
Loans to customers	46,574	218	46,356	41,013	5,343
Investments available-for-sale	5,179	-	5,179	-	5,179
Guarantees issued and similar commitments	3,441	-	3,441	3,441	-
Commitments on loans and unused credit lines	3,184	-	3,184	669	2,515

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The following table details the credit ratings of financial assets held by the Bank:

						31 December 2007
	AA	**A**	**BBB**	**<BBB**	**Not rated**	**Total**
Due from banks	3	2,428	2,548	67	79	5,125
Loans to customers	-	-	-	-	118,992	118,992
Investments available-for-sale	-	-	-	-	2,160	2,160

						31 December 2006
	AA	**A**	**BBB**	**<BBB**	**Not Rated**	**Total**
Due from banks	3	3,819	-	362	246	4,430
Loans to customers	-	-	-	-	46,574	46,574
Investments available-for-sale	-	-	-	-	5,179	5,179

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Bank is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

		Financial assets past due but not impaired				31 December 2007	
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been impaired**	**Total**
Due from banks	5,125	-	-	-	-	-	5,125
Loans to customers	20,612	-	-	-	-	98,380	118,992
Investments available-for-sale	2,123	-	-	-	-	37	2,160

		Financial assets past due but not impaired				31 December 2006	
	Neither past due nor impaired	**0-3 months**	**3-6 months**	**6 months to 1 year**	**Greater than one year**	**Financial assets that have been Impaired**	**Total**
Due from banks	4,430	-	-	-	-	-	4,430
Loans to customers	6,785	-	-	-	-	39,789	46,574
Investments available-for-sale	5,144	-	-	-	-	35	5,179

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 Azerbaijan. The Bank's Risk Management Committee sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

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

	Azerbaijan	Other non-OECD countries	OECD countries	31 December 2007 Total
ASSETS				
Cash and balances with the NBA	12,661	-	60	12,721
Due from banks	86	2,606	2,433	5,125
Investments available-for-sale	2,160	-	-	2,160
Loans to customers	118,992	-	-	118,992
Property and equipment	12,079	-	-	12,079
Other assets	748	166	6	920
TOTAL ASSETS	**146,726**	**2,772**	**2,499**	**151,997**
LIABILITIES				
Due to banks	34,390	8,089	15,402	57,881
Customer accounts	49,759	9,610	5,083	64,452
Debt securities issued	-	6,153	-	6,153
Current income tax payable	263	-	-	263
Deferred income tax liability	1,945	-	-	1,945
Other liabilities	818	5	61	884
TOTAL LIABILITIES	**87,175**	**23,857**	**20,546**	**131,578**
NET POSITION	**59,551**	**(21,085)**	**(18,047)**	

	Azerbaijan	Other non-OECD countries	OECD countries	31 December 2006 Total
ASSETS				
Cash and balances with the NBA	9,749	-	78	9,827
Due from banks	531	78	3,821	4,430
Investments available-for-sale	5,179	-	-	5,179
Loans to customers	46,574	-	-	46,574
Property and equipment	4,206	-	-	4,206
Non-current assets held for sale	541	-	-	541
Other assets	170	266	-	436
TOTAL ASSETS	**66,950**	**344**	**3,899**	**71,193**
LIABILITIES				
Due to banks	4,537	871	6,826	12,234
Customer accounts	33,511	2,715	5,555	41,781
Debt securities issued	-	3,103	-	3,103
Current income tax payable	270	-	-	270
Deferred income tax liability	404	-	-	404
Other liabilities	429	-	-	429
TOTAL LIABILITIES	**39,151**	**6,689**	**12,381**	**58,221**
NET POSITION	**27,799**	**(6,345)**	**(8,482)**	

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 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 on a daily basis, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The ALCO, with the approval of the Supervisory 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.

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail:

(i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay, and

(ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
ASSETS								
Due from banks	3.59%	2,555	-	-	-	-	-	2,555
Loans to customers	21.51%	11,169	21,219	63,322	50,843	3,202	-	149,755
Investments available-for-sale	7.67%	2,007	-	-	-	-	-	2,007
Total interest bearing assets at fixed rates		15,731	21,219	63,322	50,843	3,202	-	154,317
Due from banks	2.86%	2,236	-	-	-	-	-	2,236
Total interest bearing assets at variable rates		2,236	-	-	-	-	-	2,236
Total interest bearing assets		17,967	21,219	63,322	50,843	3,202	-	156,553
Cash and balances with the NBA		6,233	-	-	-	-	6,488	12,721
Due from banks		346	-	-	-	-	-	346
Other assets		220	22	-	-	-	-	242
		24,766	**21,241**	**63,322**	**50,843**	**3,202**	**6,488**	**169,862**
LIABILITIES								
Loans from bank and other financial institutions		5,455	8,355	6,863	14,918	2,552	-	38,143
Customer accounts	13.22%	5,604	6,106	27,014	18,279	27	-	57,030
Debt securities issued	13.92%	-	279	4,486	2,069	-	-	6,834
Total interest bearing liabilities at fixed rates		11,059	14,740	38,363	35,266	2,579	-	102,007
Loans from bank and other financial institutions		379	1,201	3,863	17,525	4,145	-	27,113
Total interest bearing liabilities at variable rates		379	1,201	3,863	17,525	4,145	-	27,113
Total interest bearing liabilities		11,438	15,941	42,226	52,791	6,724	-	129,120
Loans from bank and other financial institutions		1,800	-	-	-	-	-	1,800
Customer accounts		19,017	-	-	-	-	-	19,017
Current income tax payable		-	263	-	-	-	-	263
Other liabilities		115	467	-	-	-	269	851
Financial guarantee contracts		330	100	2,737	5	-	373	3,545
Commitments on loans and unused credit lines		5,963	-	1,497	576	-	-	8,036
		38,663	**16,771**	**46,460**	**53,372**	**6,724**	**642**	**162,632**
Liquidity gap		(13,897)	4,470	16,862	(2,529)	(3,522)		
Interest sensitivity gap for fixed rate instruments		4,672	6,479	24,959	15,577	623		
Interest sensitivity gap for floating rate instruments		1,857	(1,201)	(3,863)	(17,525)	(4,145)		
Interest sensitivity gap		6,529	5,278	21,096	(1,948)	(3,522)		
Cumulative interest sensitivity gap		**6,529**	**11,807**	**32,903**	**30,955**	**27,433**		

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2006 Total
ASSETS								
Due from banks	14.40%	259	177	-	-	-	-	436
Loans to customers	19.89%	5,361	9,595	28,723	10,673	217	-	54,569
Investments available-for-sale	13.82%	4,901	-	164	-	-	-	5,065
Total interest bearing assets at fixed rates		10,521	9,772	28,887	10,673	217	-	60,070
Due from banks	2.95%	-	-	2,514	-	-	-	2,514
Total interest bearing assets at variable rates		-	-	2,514	-	-	-	2514
Total interest bearing assets		10,521	9,772	31,401	10,673	217	-	62,584
Cash and balances with the NBA		5,266	-	-	-	-	4,561	9,827
Due from banks		1,491	-	-	-	-	-	1,491
Other assets		265	17	-	-	-	-	282
		17,543	**9,789**	**31,401**	**10,673**	**217**	**4,561**	**74,184**
LIABILITIES								
Loans from bank and other financial institutions		899	331	1,155	3,171	33	-	5,589
Customer accounts	13.27%	855	4,797	15,942	9,674	28	26	31,322
Debt securities issued	14.00%	-	-	1,140	2,280	-	-	3,420
Total interest bearing liabilities at fixed rates		1,754	5,128	18,237	15,125	61	26	40,331
Loans from bank and other financial institutions		11	97	435	5,924	2,372	-	8,839
Total interest bearing liabilities at variable rates		11	97	435	5,924	2,372	-	8,839
Total interest bearing liabilities		1,765	5,225	18,672	21,049	2,433	26	49,170
Loans from bank and other financial institutions		37	-	-	-	-	-	37
Customer accounts		13,362	-	-	-	-	-	13,362
Current income tax payable		-	270	-	-	-	-	270
Other liabilities		149	113	-	-	-	166	428
Financial guarantee contracts		175	1,039	2,227	-	-	-	3,441
Letters of credit		-	-	2,396	-	-	-	2,396
Commitments on loans and unused credit lines		3,184	-	-	-	-	-	3,184
		18,672	**6,647**	**23,295**	**21,049**	**2,433**	**192**	**72,288**
Liquidity gap		(1,129)	3,142	8,106	(10,376)	(2,216)		
Interest sensitivity gap for fixed rate instruments		8,767	4,644	10,650	(4,452)	156		
Interest sensitivity gap for floating rate instruments		(11)	(97)	2,079	(5,924)	(2,372)		
Interest sensitivity gap		8,756	4,547	12,729	(10,376)	(2,216)		
Cumulative interest sensitivity gap		**8,756**	**13,303**	**26,032**	**15,656**	**13,440**		

Market Risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed in 2007.

The Bank is exposed to interest rate risks as funds are borrowed at both fixed and floating rates. The risk is managed by the Bank maintaining an appropriate mix between fixed and floating rate borrowings.

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 Assets – Liabilities 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 majority of the Bank's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Assets – Liabilities Management Department conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	As at 31 December 2007		**As at 31 December 2006**	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	51	(51)	44	(44)
Loans to customers	1,222	(1,222)	479	(479)
Investments available-for-sale	22	(22)	52	(52)
Liabilities:				
Due to banks and other credit institutions	(568)	568	(121)	121
Customer accounts	(629)	629	(415)	415
Debt securities issued	(62)	62	(31)	31
Net impact on profit before tax	36	(36)	8	(8)

Impact on shareholders equity:

	As at 31 December 2007		As at 31 December 2006	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Due from banks	40	(40)	34	(34)
Loans to customers	953	(953)	374	(374)
Investments available-for-sale	17	(17)	41	(41)
Liabilities:				
Due to banks and other credit institutions	(443)	443	(94)	94
Customer accounts	(491)	491	(324)	324
Debt securities issued	(48)	48	(24)	24
Net impact on profit before tax	28	(28)	6	(6)

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 ALCO controls currency risk by management of the open currency position taking into consideration current and forecasted macroeconomic indicators. The Treasury Department performs daily monitoring of the Bank’s open currency position within the guidelines and regulations of the National Bank of the Republic of Azerbaijan.

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

	AZN	**USD** 1 USD= AZN 0.8453	**EUR** 1 EUR= AZN 1.2450	**Other currencies**	**31 December 2007 Total**
ASSETS					
Cash and balances with the NBA	8,657	3,669	378	17	12,721
Due from banks	-	2,861	2,221	43	5,125
Loans to customers	69,473	48,667	852	-	118,992
Investments available-for-sale	2,160	-	-	-	2,160
Property and equipment	12,079	-	-	-	12,079
Other assets	496	229	179	16	920
TOTAL ASSETS	**92,865**	**55,426**	**3,630**	**76**	**151,997**
LIABILITIES					
Due to banks	29,282	25,513	3,086	-	57,881
Customer accounts	36,306	25,883	2,229	34	64,452
Debt securities issued	6,153	-	-	-	6,153
Current income tax liabilities	263	-	-	-	263
Deferred income tax liabilities	1,945	-	-	-	1,945
Other liabilities	771	87	21	5	884
TOTAL LIABILITIES	**74,720**	**51,483**	**5,336**	**39**	**131,578**
OPEN BALANCE SHEET POSITION	**18,145**	**3,943**	**(1,706)**	**37**	

	AZN	**USD** 1 USD= AZN 0.8714	**EUR** 1 EUR= AZN 1.1471	**Other currencies**	**31 December 2006 Total**
ASSETS					
Cash and balances with the NBA	5,067	4,678	59	23	9,827
Due from banks	-	1,893	2,500	37	4,430
Loans to customers	25,048	21,526	-	-	46,574
Investments available-for-sale	5,179	-	-	-	5,179
Property, equipment and intangible	4,332	-	-	-	4,332
Non-current assets held for sale	541	-	-	-	541
Other assets	35	261	14	-	310
TOTAL ASSETS	**40,202**	**28,358**	**2,573**	**60**	**71,193**
LIABILITIES					
Due to banks	3,626	6,313	2,295	-	12,234
Customer accounts	16,068	25,108	588	17	41,781
Debt securities issued	3,103	-	-	-	3,103
Current income tax liabilities	270	-	-	-	270
Deferred income tax liabilities	404	-	-	-	404
Other liabilities	341	64	24	-	429
TOTAL LIABILITIES	**23,812**	**31,485**	**2,907**	**17**	**58,221**
OPEN BALANCE SHEET POSITION	**16,390**	**(3,127)**	**(334)**	**43**	

Currency risk sensitivity

The following table details the Bank's Sensitivity to a 10% increase and decrease in the USD and EURO against the AZN. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2007		**As at 31 December 2006**	
	AZN/USD +10%	**AZN/USD -10%**	**AZN/USD +10%**	**AZN/USD -10%**
Impact on profit or loss	395	(395)	(313)	313

	As at 31 December 2007		**As at 31 December 2006**	
	AZN/EURO +10%	**AZN/ EURO -10%**	**AZN/ EURO +10%**	**AZN/ EURO -10%**
Impact on profit or loss	(171)	171	(34)	34

Limitations of sensitivity analysis
The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion

Other price risks

The Bank is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Bank does not actively trade these investments and does not have significant positions in such investments.