BANK BTB

ANNUAL REPORT

2012

Contents

Land of fire

There are several theories why Azerbaijan is called Land of Fire. Yet, since olden times Aturpatakan, which was one of the early primary names of oil-rich Azerbaijan mentioned in Persian sources, meant "a place where sacred fire is preserved". Oil extraction in Absheron peninsula which is one of the ancient oil regions of the world, dates back to the 7th-6th centuries BC. Information about is found in the works of ancient and medieval historians. For instance, ancient Roman historian Ammianus Marcellinus, (4th century AD) in his "History" noted that in the ancient states of Azerbaijan they used "Midian oil" which was called nafta in the local language.

Besides, fire-worshipping was strong in Azerbaijan, a region where Zoroastrianism first spread. This was engraved in the architectural monuments and superstitions where fire was sacred. Yet since ancient times the existence of a few burning mountains and gasesin the Southern Caucasus showed that the region was one of the first places where fire was used. Additionally, ancient Greek mythology says that, by the order of Zeus, Prometeus was bound with a chain on the Caucasus Mountains because he had stolen fire from the Gods and brought it to mankind.

Chairman's Speech

Dear partners, customers and colleagues!

As the chairman of the Board of the OJSC "Bank BTB", I am in haste to inform you on the successful completion of the process of establishment of our Bank and to thank for your support to us in this process.

Owing to the support, which we feel every day, the Bank BTB has considerably expanded by size and conduct of business, and it has taken an important place in the country's banking system.

The process of the Bank rebranding became the apotheosis of the process of establishment. Owing to that, the Bank has found more recognised identity and started to position itself in the market. The year 2013 was determined as a year of qualitative changes in accordance with our initial 5-year strategy, because the business development should have occurred for the previous three years of activity. Today we are ready to make the next step in our development.

Currently, our plans include not mere expansion and development of the Bank, but its qualitative change. Your contribution there will have invaluable significance, since you are our partners, customers and correspondents.

In connection with the change of external conditions of conducting bank business, the Bank BTB has adopted the Strategic Development Plan for the years 2013-2015 before the completion of the 5-year strategic period. It is expected that the transition to a shorter planning period will make us more flexible, both in the face of new challenges and requests of the growing number of our partners.

Nevertheless, we as the Bank BTB shall prefer internal resources, as in the previous years. It applies both to increase in assets and liabilities and increase in the capital for bringing it up to the new level requested by the Central Bank of Azerbaijan.

In 2013, the main objective of the Bank BTB is development of such specific functions, as risk management, creation of image of the Bank, bringing up of corporate management to the recognised world standards and norms, updating of software for risk management at a higher level and development of human resources.

The bank will continue transfer of all its branches and departments to a uniform model of business, which is more focused on work with the population, as well as with small and medium-sized businesses. Under conditions, when the growth of small and medium-sized businesses, where the major part of the population could be engaged, is supported in the country, we see opportunities of our activity just there. The Azerbaijan state also supports this direction of development. With development of small medium-sized businesses, well-being of the population will improve, which is essentially important for such socially responsible credit institution as the Bank BTB. We heartily believe that accomplishment of our strategic objectives and targets will increase also well-being of our partners and customers.

Sincerely yours,

Emil Rzayev
Chairman of the Management Board

The fire

Fire is the rapid oxidation of a material in the exothermic chemical process of combustion, releasing heat, light, and various reaction products.

The flame is the visible portion of the fire.
If hot enough, the gases may become ionized to produce plasma.
Depending on the substances alight, and any impurities outside, the color of the flame and the fire's intensity will be different.

Fire in its most common form can result in conflagration, which has the potential to cause physical damage through burning.
Fire is an important process that affects ecological systems across the globe. The positive effects of fire include stimulating growth and maintaining various ecological systems.
Fire has been used by humans for cooking, generating heat, signaling, and propulsion purposes.

The Economy of Azerbaijan in 2012

The macroeconomic situation in 2012 allowed the government of Azerbaijan to make the formal announcement of the beginning of a new business cycle of the national economy. The development concept "Azerbaijan 2020: Looking in the Future" adopted at the end of the year has declared the new economic targets - two-fold increase in GDP due to non-petroleum sector within effectively 7 years.

The upward phase of the new cycle looking as a "new industrialisation" (re-industrialisation) also started last year, which was expressed in restoration of interest to economic activities. Net growth of businesses reached 6.3% of the total number of the commercial legal entities (78,966 enterprises). Last year, one new enterprise per 938 persons of employable population on the average opened in the country, and there were one bankruptcy per almost 13 new businesses. Possible correction in connection with discontinuation of activities without formal closure of enterprises was compensated by increase in the number of individual entrepreneurs to 432,141 (9.2% of the employable population).

Recovery of business activity has instantly ensured return of considerable economic growth, privatisation of investments and home market reorganisation. At the same time, orientation to non-petroleum economy and export has increased urgency of the principal problem of the global economy - the end consumption issue for the country. Unresolving of this issue has already affected a number of key industries and parameters.

Real GDP increased by 2.2% in 2012 against +0.1% a year before - to 53.995 billion manats ($68.783 billion). Nominal GDP was declared at the level of 77.9 billion manats ($99.236 billion). The non-petroleum sector made the GDP of 26.2 billion manats (+9.6%) or 48.5% of total GDP.

The recovery of activity ensured economic growth against the background of decrease of GDP deflator index from 17.8% to 1.5% and consumer inflation from 7.9% to 1.1% "year by year". Industrial prices have increased by 4.5%, which is normal for the upward stage of the cycle. It is indicative that, for the home consumption goods, the most active growth (4%) was observed in "investment" raw commodities.

The investment phase of the cycle affected the home market where reorganisation of the consumption structure and character begun. Traditionally for Azerbaijan, the internal reorganisation of economy will start from the trade sector, as internal sales, by government estimations, will remain decisive within 3-5 years for confirmation of correctness of the strategies that are chosen by industrial enterprises - just during this period the investments made earlier for replacement of import will show up. In 2012, the Azerbaijan commodity import ($9.7 billion) dropped by 1.1% to 43.2% of the retail turnover (17.6 billion manats).

Reorganisation of the trade sector and unresolving of the end consumption issue brought to decrease in share of internal trade turnover (retail trade and services to the population) to 43.3% of GDP or 23.4 billion manats. In the trade sector, there were the most dramatic changes after street-trading and door-to-door sales were prohibited.

In 2012, independent sellers and service providers began losing the market seriously to network traders. By estimations of Euromonitor International, supermarkets are now the leading distribution channel due to growth of quantity of shops in this segment throughout Azerbaijan, which in itself is based on growth of popularity of advantages that are provided by purchases in one place, competitive prices and wider choice of the products offered by supermarkets. This organisation forecasts strengthening of such tendency and doubling of the packed foodstuff market in the country till 2017.

Similar tendencies are typical also for the market of manufactured goods - clothes, home appliances and even cars. The mall concept became a real market phenomenon in 2012, and even car dealers actively developed their "multi-branding", trying to offer customers wide range of cars of various brands from economy to premium classes in the limited space. The transition to conducting large trading business (trade industrialisation) has demonstrated a probable vector of development in the started cycle of the national economy - "new industrialisation", and both network manufacturers and suppliers will come to all its sectors.

Although looking paradoxical, the country government was first to respond to the new trends. In 2012, it estimated negative consequences of general industrialisation of economic activities for small business. It became obvious that small companies will lose more and more to large competitors, which can have negative effect, in particular, on the population employment. For suppression of a wave of bankruptcies the procedure of applying the simplified taxation system was modified in the Tax Code. The turnover subject to the simplified taxation was increased for individual entrepreneurs to the similar turnover of corporate businesses (120 thousand manats for a year). It is supposed that such measure will stimulate corporate businesses to return to the usual tax regime with full payment of VAT and profit tax. Theoretically, it should increase tax revenues of the state, which is extremely important, as the task of financing the new industrialisation is imposed on it.

However the obvious intention to increase quantity of VAT payers (which do not make even 20% of tax payers) will result in growth of tax costs of business, which will be expressed not only in notorious growth of price level, but also in deficiency of both capital resources and working capital. Even before introduction of tax amendments this tendency already took place in the market.

Though the real sector of economy demonstrated unprecedented flexibility and keenness to change of business conditions last year, the financial sector has appeared unreceptive and not ready to them.

On the one hand, the Azerbaijan banks, the recent motor of economic transformations, continued to orient towards extensive development and "traditional customer" that became more and more a legendary figure. For this reason only the interference of a regulator and engagement of de facto external management rescued one of the largest private banks of the country, which was orienting to traditional small and medium-sized businesses, from bankruptcy. There were no reasons for the rescue of a smaller bank with foreign shares in a similar situation, and for the first time in the history the Azerbaijan Deposit Insurance Fund (ADIF) had to compensate deposits to the customers of this bank. On the other hand, the role of a credit institution has actually changed. Today the bank is not so much a financial intermediary as a stimulator of domestic demand and, in the end, development of the non-petroleum sector. However the new status was not marked or formally fixed ("institutionalised") in any way.

Against such situation, corporate investments into the economy only on mere chance did not concede lead to budgetary investments in 2012. Corporate investments (6.836 billion manats) provided 44.6% of capital investments into the economy, while budgetary investments (6.716 billion manats) - 43.8%. The share of the bank sector which reduced its investments by 8% to 0.756 billion manats against 0.897 billion manats a year before, made only 4.9% of capital investments into economy. Annual bank investments into the economy dropped again below $1 billion.

The tendency of decreasing bank investments was observed throughout last year, but the real steps connected with it were started only in the second half of last year.

The Central Bank of Azerbaijan (CBA), as a market regulator, totally shut eyes to the stimulating role of the banking system and was focused on an attempt of decreasing the level of risks in the sector. CBA introduced the "stimulating compulsion" of the banking system to increase its adequacy to the economy requirements, which had been postponed since 2011.

Last year the Bank of Azerbaijan introduced the concept of leverage for calculation of the bank capital and its adequacy and also specified corresponding rules twice (in summer and in December). In July, the decision on five-fold increase of capital requirements to banks, from 10 million to 50 million manats, was adopted. The capital requirement came into force instantly for the newly created banks, while the existing banks were granted time till 01 January,

2014. De facto CBA has set the task of the banking system industrialisation by the type occurring in the trade sector. However the wave of mergers and absorptions of commercial banks, with appearance of 15-20 "bank corporations" instead of 43 credit institutions, which was expected by CBA, has not taken place, and there are no signs that this will occur in 2013. By the end of last year, at least 85% of banks had met the new capital requirement and the average cumulative capital of a bank considerably exceeded 50 million manats.

By the end of the year, CBA representatives acknowledged that it is easier to find up to 0.5 billion manats for increase of bank capitalisation in the country than 1 billion manats for crediting the economy. Adequacy of the banking system of the economy structure, which could appear in the framework of "Azerbaijan 2020", does not grow and even decreases. In 2012, commercial banks refused to reduce price of money for the economy.

Only after hard talks in the parliament about unfairly high interest rates of credit institutions and the risk of default of the population due to excessive lending, the market regulator decided that it is necessary to react somehow to demand for cheap money. Only in December of 2012, it reduced the discount rate, which had kept at 5.25% since May of 2011. The market did not react, and the discount rate was lowered to 4.75% already in the beginning of 2013. In December of 2012, CBA increased crediting of the banking sector by over 1 billion manats. As a result, refinancing volumes grew up by 1.3 billion manats to 3.288 manats for a year.

It yielded only technical results and practically rescued the banking system from the next year of bankruptcy. Due to the injection of liquidity, the total income of the banking system grew from 163.52 million to 195.51 million manats, and the loss reduced from 322.51 million manats to 65.50 million manats. Owing to that, last year the profit exceeded losses in the banking system by 130.01 million manats, though a year before it conceded them by 158.99 million manats. That has not caused fall in price of money and credit rates continue to exceed inflation rates as much as 15-20 times. The instrument of "the real interest rate", which can reach 200% and even 300%, depending on credit type and borrower, is not used in the country.

Adequacy of credit rates in the country cannot be ensured without solution of the key issue of the end user. This issue arose in Azerbaijan long before the last world crisis. From the moment the country started to receive considerable petroleum incomes, it has arisen in the form of the "transmission" issue - the form of bringing (conversion) of a part of these incomes to the typical citizen.

Formally it was solved for the account of increase in transfer from the State Oil Fund (SOFAZ) to the state budget. For the account of the transfer, which forms up to 3/4 of budget incomes, pensions are paid and the state investments are made, but no essential transmission occurs. The country's official consumption level did not exceed 2,516 manats (on the average 210 manats per month) per capita in 2012. It is catastrophically less than required for stimulation of non-petroleum development - there is no sense in non-petroleum production at such consumption level, and many kinds of activity, in general, become unprofitable. Without a strong home consumption there will be no conditions for growth of the non-petroleum export - the goods or services will be obviously non-competitive by prices.

When transmission of the state petroleum incomes did not work, CBA solved the problem of stimulating the consumption by the only method available to it - money issue, which was increased by 13.6% to 2.119 billion manats (3.9% of GDP). Commercial banks also were solving this problem, actually fabricating consumers for itself for the account of risky consumer crediting. Consumer crediting just about to reach 50% of an advances portfolio, and individual banks have already started to credit unemployed citizens.

Under these conditions, the Bank BTB has taken the only possible position - it has postponed recapitalisation to 2013, but clearly defined the end user of its services and financial products.

However, banks withdrew large funds (2.626 billion manats) from the economy for repayment of credits that were issued earlier. At the same time, the banks issued new credits to the economy only to the amount of 2.023 billion manats.

The titanic efforts of the regulator in fact have allowed to solve (or postpone) only one problem - the problem of bankruptcy of the banking system.

Zoroastrianism: An ancient religion founded by Zarathushtra

The religion was founded by Zarathushtra in Persia - modern-day Iran.
It may have been the world's first monotheistic faith.
It was once the religion of the Persian empire,
but has since been reduced in numbers to fewer than 200,000 today.
With the exception of religious conservatives, most religious
historians believe the the Jewish, Christian and Muslim beliefs
concerning God and Satan, the soul, heaven and hell,
the virgin birth of the savior, the slaughter of the innocents,
resurrection, the final judgment, etc. were all derived from Zoroastrianism.

The Bank's Profile

The OJSC "Bank BTB" was established in 2010 (licence No. 254) and is a full-service bank providing high-quality financial services to a wide range of customers. In 2012, it showed enviable flexibility for a young credit institution and, having refused from the implementation of the Strategic Plan for the years 2011-2015, adopted the "truncated" Strategic Development Plan for the years 2013-2015. As expected, it will increase efficiency of response to varying conditions of the external and internal business environment.

Today the Bank is oriented to work with the socio-economic group "middle class" and keen to help with formation and development of small and medium-sized businesses in the Republic of Azerbaijan.

Henceforth the bank provides high-quality professional banking services, helping customers to enhance personal well-being and increase savings, promoting economic growth of Azerbaijan and transformation of savings into investments. The Bank BTB positions itself as a bank that is reliable, attentive to needs of customers and responsible, which assumes:

- Refusal of operations with a high level of risk;
- A reasonable and transparent system of decision-making;
- High-quality services and products;
- A competent staff;
- Friendliness to the customers;
- Attentive studying of needs of existing and future customers;
- Provision of consultation services to customers;
- Social responsibility;
- Respect for the employees and customers.

The OJSC "Bank BTB" sees itself as a bank of the first choice for the following services: consumer crediting, automobile credits, mortgage lending, money remittances, plastic cards and salary projects, business crediting, collection activity and delivery of especially valuable consignments. It also claims the status of a bank of the second choice for such products as operations with foreign currency in cash, leasing of bank cells (safes), remote bank service (Internet banking) and interbank crediting.

Basic advantages

Following the flexible strategy focused on the end consumer of financial services has led to rationalisation of the Bank's activity under the conditions of stiffening competition. Today it is not merely ready to realise its potential, but also to create conditions for realisation of a new generation of professionals grown up in the Bank or engaged from outside on a competitive basis.

The major factors of the Bank competitiveness are:

- Professional management;
- High-quality advances portfolio and sound liquidity;
- Ability for fast decision-making;
- Low sensitivity to risks;
- Steadily growing resource base; and
- Rather low level of dependence on the international financial markets, as well as the diversified resource base.

Strategic vision

The cardinally new Strategic Development Plan for the years 2013-2015 is based on understanding on the beginning of a new industrialisation of the country. The Bank expects a new investment boom, expansion of number of small and medium-sized enterprises, and increase of competition in the bank industry against the background of actual closing of securitisation for it abroad.

In this connection, the Bank has revised a number of strategic targets. Now it claims the market share of 5% and plans moderate growth at the level of 20-30% a year, depending on an indicator.

The OJSC "Bank BTB" has updated approaches to its corporate management system. It is relating not so much to modification of the organizational structure with increase in number of the members of the board to 5 persons, as to introduction of regular monitoring for overall performance of the Bank at all levels. The practice of at least a quarterly directors' report about performance of the Strategic Development Plan to the Supervisory Board and also at least monthly review of reports of chiefs of departments and bank branches by the Board becomes a norm. Practically it is for the first time, when a task of working out and implementation of an annual tactical and calendar plan is set in the banking sector.

Activity rationalisation is not connected with crisis condition of the credit institution (in 2012, the Bank has actually doubled its business volumes), and with the problem of increasing competitiveness and innovativeness of business, for which the Bank will increase, on the one hand, professional level of its employees and, on the other hand, - actively engage staff on a competitive basis.

The new economy of Azerbaijan, which will appear in the course of new industrialisation, need a commercial bank of a new type. The Bank BTB is not confused by the fact, that for this purpose it is required to invent its own "know-how" and unique approaches to conducting the business and management of risks and assets.

In 2012, the Bank achieved implementation of the first stage of its primary goal - change of structure of the customer base. For the first time the retail business exceeded 50% of its active operations. Within the limits of the truncated strategic plan, the share of the retail segment will increase, and though this segment will not suppress operations in the corporate sector, it will dominate over them.

Atashgah

The Temple of Eternal Fire - Atashgah - is an authentic Azerbaijani exotic.
It is well-known practically all over the world.
It is located 30 km from the center of Baku in the suburb of Surakhany.
This territory is known for such unique natural phenomenon as burning natural gas outlets (underground gas coming onto surface contacts oxygen and lights up).
The temple in its present state was constructed in the 17th-18th centuries.
It was built by the Baku-based Hindu community related to Sikhs.

However, the history of the Temple is even longer.
From times immemorial this was the holy place of Zoroastrians- fire worshippers (approximately beginning of our era). They attributed mystical significance to the inextinguishable fire and came there to worship the relic.

After the introduction of Islam Zoroastrian temple was destroyed.
Many Zoroastrians left to India and there continued their worship.
But in the 15th -17th centuries the Hindus-fire worshippers who came to Absheron with trading caravans began to make pilgrimages to Surakhany.
The Indian merchants started erection of the temple.
The earliest temple part is dated 1713. The latest - the central temple-altar was built with the support of merchant Kanchangar in 1810.
During the 18th century chapels, cells, a caravanserai were added to the central part of the temple.
On X can find carved inscriptions in Indian lettering there.

In the mid-19th century due to the movement of the surface the natural gas yield ceased. Pilgrims interpreted it as the punishment from the gods and left.
Atashgah as a place of worship existed until 1880.
Today this ancient Zoroastrian temple has been opened for tourists attracting them with artificial fires.

The Bank's Strategy

The Strategic Development Plan for the period of 2013-2015 is focused on giving a new quality of activity to the OJSC "Bank BTB" in the period of the bank sector industrialisation, which is critical for the financial and credit system of the country. The expected transition from numerical superiority of the banks, which are small under the international standards, to credit institutions of medium sizes and bank corporations leaves traces on each market participant. The situation requires to choose one of the following three ways: leaving the market of banking services; expansion to the sizes of an average European bank; and joining a bank corporation by some means or other.

The Strategic Development Plan for the years 2013-2015 unequivocally determines prospects of the OJSC "Bank BTB" as expansion to the sizes of an average European bank. It declares the new philosophy of bank - maintaining of development through overcoming of own weaknesses, and in this context it is the successor of the ideology "support on own forces", on which the bank's strategy for the years 2010-2015 was based.

As a result of additional focusing of own approaches, the Bank BTB becomes a conductor of the idea of the development concept "Azerbaijan 2020: Looking into the future" in the private banking sector. As is known, the national concept has the ultimate goal of expanding scale of the Azerbaijan economy (a new "GDP doubling" by 2020), first of all, using internal factors of growth. And the new strategy aims the Bank BTB, on the one hand, at development without a pursuit of external securitisation and investments, and on the other hand - at expansion (development) of active and potential consumers, creating a credit institutions of a new type, in which the average Azerbaijan family of 4-5 persons with the annual income of 20-100 thousand manats can satisfy its demands for all financial services - from municipal payments to financing of family (own) business. Such problem will unconditionally require creation of a service system along the lines of private banking and, due to development of modern IT technologies, it will be, perhaps, "a bank with home delivery".

Whatever are the epithets and philosophy, a bank is, first of all, a credit establishment, and, in its new strategy, the Bank BTB has determined the following credit priorities for itself:

- Consumer loans;
- Car loans;
- Express crediting (micro-crediting);
- Credit cards;
- Crediting of legal bodies;
- Mortgage lending.

The products of each priority will be formed conservatively, based on careful analysis, account of individual requirements and market condition. The reservation at the level of 4% for losses and a flexible percentage policy are implemented in this case.

The Bank refuses crediting of the projects that can damage health of people, morals of public and environment.

The Strategy directly requires to make bank recognisable and be focused on sale of products of the first choice (see "Bank's Profile") with simultaneous informing on all product assortment.

De facto "demobilisation" of credit resources and outward investments - their conversion into increase of customers' well-being standard becomes a new word for the banking strategy in Azerbaijan.

With that end in view, the Bank BTB plans:

- To establish relations for operative gaining of short-term credits from the interbank credit market, where it sees itself in the role of a borrower;
- To co-operate with state funds;
- To participate in programs for stimulation of economic growth in the regions of Azerbaijan; and
- To establish contacts with international funds (first of all, with Middle East ones) for crediting of customers and diversification of sources of liabilities.

For the purpose of reducing the liquidity risk, the Bank will maintain at least 10% of its liabilities in a high-liquidity form. In other words, these means will be on correspondent accounts, in cash and in high-liquidity securities (state securities of Azerbaijan and corporate bonds of the industrial and financial sector of the country's economy).

The philosophy "a bank with home delivery" of OJSC "Bank BTB" plans faster growth of the IT infrastructure that should meet requirements for at least 3 years. The following becomes the priorities in use of IT technologies:

- Maintenance of information safety;
- Continuous operation of information and communication systems for support of sale of the Bank's services and products; and
- Introduction of modern technologies - Internet, SMS banking and other innovations.

Yanar dag

Yanar Dag, translated as "Fire Mountain", is an ancient and visually stunning 10-meter (30 feet) wide wall of fire which blazes continuously on a hillside near Baku. Only a handful of fire mountains exist today and most are located in Azerbaijan. Due to the large concentration of natural gas under the Abseron Peninsula, natural flames have burned there throughout antiquity and been reported by historical writers such as Marco Polo. The naturally occurring fire burns most impressively at dusk, when both tourists and locals sit at a nearby teashop in an attempt to derive inspiration from the spectacular sight. Azerbaijan's frequent link with fire in its folklore and icons is credited with a connection to the ancient religion of Zoroastrianism, which first appeared in the region over 2,000 years ago.

Corporate Management

Updating of approaches to conducting the banking business has also required updating of the organisational structure of the OJSC "Bank BTB". The declared transformation of the Bank into a credit institution of the new type requires adequate management and supervision. Classical schemes of the corporate management accepted throughout the world have proved to be strong enough for the foundation of "a new bank".

In 2013, the organisational structure of the Bank BTB will be reconstructed, based on purposes and objectives of its new Strategic Development Plan. So, responsibility for fulfilment of the plan will be imposed on the persons determined by decisions of the Supervisory Board and the Board. Joint decision-making on strategic and tactical questions, which increases involvement of chiefs of departments and even the Bank's departments into the process, is introduced.

The bank transfers to "zone" responsibility of senior management. For this purpose, the Board membership will increase to 5 members in 2013. Each of them will supervise an expanded zone of responsibility, that is:

- Retail business
- Corporate business
- Asset and liability management (Exchequer)
- Information technologies
- Human resources.

The new structure of the Board allows the Bank to optimise staff development for the account of better forecasting of mid-term and long-term demands for human resources (including casual workers) and carrying out of diagnostics of staff. Henceforth the HR department will make short-term (up to 6 months), mid-term (6-12 months) and long-term (more than a year) forecast of demand for human resources by the parameters of quantity and quality, as well as their financial cost, including costs of training / additional training.

The Bank also introduces a new multilevel internal control system. It includes:

- The control of the authorised bodies over current performance of departments and bank services;

- Estimation of every possible risk, their level and influence on Bank;

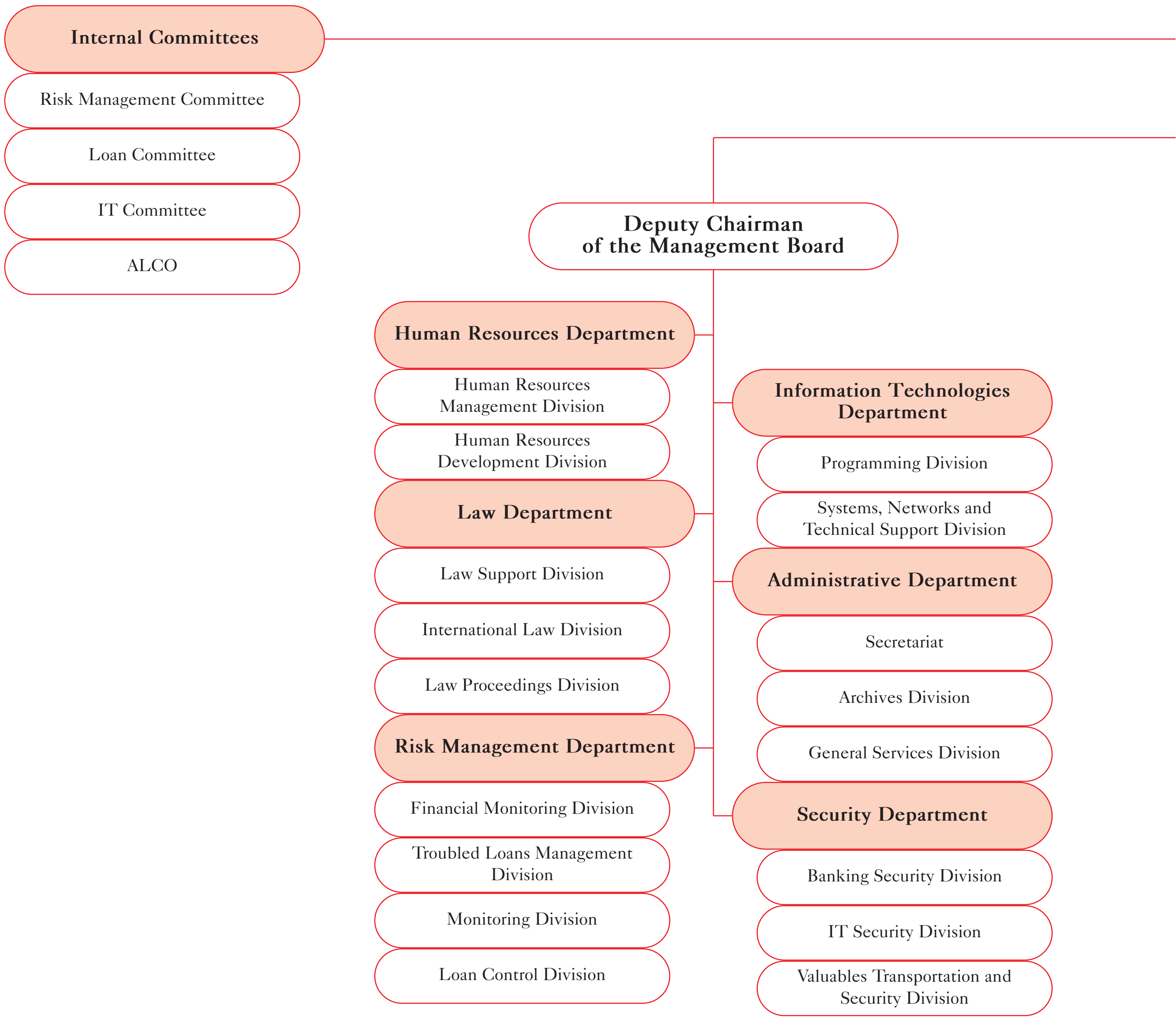
- Establishment of limits for conducting of financial, market and other operations, control over performance and avoidance of conflict of interests; and

- Timely modification of existing procedures in accordance with requests of the state regulating authorities and business practicability.

Besides this internal administrative supervision, there is also established an internal audit with direct subordination to the general meeting of shareholders.

The Supervisory Board can only preliminarily get acquainted with reports and internal audit recommendations. External auditors will be also engaged for estimating activity of the internal audit department and internal control procedures.

Structure


Internal Committees
Risk Management Committee
Loan Committee
IT Committee
ALCO
Deputy Chairman of the Management Board
Human Resources Department
Human Resources Management Division
Human Resources Development Division
Law Department
Law Support Division
International Law Division
Law Proceedings Division
Risk Management Department
Financial Monitoring Division
Troubled Loans Management Division
Monitoring Division
Loan Control Division
Information Technologies Department
Programming Division
Systems, Networks and Technical Support Division
Administrative Department
Secretariat
Archives Division
General Services Division
Security Department
Banking Security Division
IT Security Division
Valuables Transportation and Security Division

BANKBTB

- **General Meeting of Shareholders**
  - **Audit Committee**
    - Internal Audit Department
  - **Supervisory Board**
    - **Chairman of the Management Board**
      - **First Deputy Chairman of the Management Board**
        - **Loan Department**
          - Portfolio Management Division
          - Corporate Customers Division
          - Special Projects Financing Division
        - **Finance Department**
          - Accounting, Bookkeeping and Reporting Division
          - Clearance Division
          - Budget Planning and Financial Control Division
          - Treasury Division
        - **Bank Cards Department**
          - Bank Cards Operations Division
          - Acquiring and Technical Support Division
        - **Small and Medium-Sized Business Development Department**
          - Small and Medium-Sized Business Management Division
          - Small and Medium-Sized Business Standart Product Loans Management Division
          - Small and Medium-Sized Business Financial Product Loans Management Division
          - Small and Medium-Sized Business Loans Control, Administration and Support Division
        - **Operational Department**
          - Corporate Banking Division
          - Retail Banking Division
          - Treasury and Cash Division
      - **Deputy Chairman of the Management Board**
        - **Retail Product Development and Process Management Department**
          - Product Development Division
          - Process Management Division
        - **Retail Sales Management Department**
          - Consumer Loans Division
          - Micro-Loans Division
          - Partner Relations Division
          - NPL
        - **Retail Business Administration Department**
          - Legal Processes Management Division
          - Human Resource Management Division
          - Front Office
        - **Marketing, Public Relations and Advertising Department**
          - Public Relations Division
          - Advertising Division

The Supervisory Board

Salamov Asim
Chairman of the Supervisory Board

Born on 06 August 1961 in the Baku city. He has two higher educations. Asim Salamov graduated from the Azerbaijan Oil and Chemistry Institute in 1983 and the Azerbaijan State Economic University in 2002. He worked in responsible positions at various organisations, including as Chairman of the Supervisory Board at the Trading and Industrial CB, Deputy Chairman of the Board and a member of the Supervisory Board at the OJSC “Amrahbank”, Deputy Director at the Licensing Department and Bank Activity Regulation Department of the National Bank of Azerbaijan, and a member of the Board at the ADA Trading CJSC.

Mammadov Hafiz
Member of the Supervisory Board

Born on 02 December 1964 in the Nakhchivan Autonomous Republic. In 1985, he graduated from the Azerbaijan Institute of National Economy. Hafiz Mammadov started his working career in the position of economist at the Ministry of Local Industry of the Nakhchivan AR.
From 1988, he has been carrying on business.
For this period, he accomplished many objectives, gained wide authority and closely take part in implementation of important projects.

Pashali Jeyhun
Member of the Supervisory Board

Born on 8 June 1961 in the city Baku. In 1984, he graduated from the Moscow State University named after M. V. Lomonosov. In 1997, Jeyhun Pashali graduated from the Baku State University. He is a lawyer by his speciality. He has great experience of work in the banking sector and worked as a chief counsel at some banks, Deputy Chairman of the Board at the Nikoil Azerbaijan Investment Company, Deputy Chairman of the Board at the Most Bank Azerbaijan Joint Stock Bank and Director at the firm “Bazis”.
From 2010, he has worked as a public notary.

Management Board

Rzayev Emil
The chairman of the Management Board

Born on 02 August 1977 in Baku. In 2000, he graduated from the Azerbaijan State Economic University with the Master's degree. In 2001, he graduated from the Higher Political College with the diploma of a lawyer. 16 years of a successful work experience in the banking sector, of which 9 years in executive positions.

Gojayev Samir
Deputy Chairman of the Management Board

Born on 07 November 1977 in Baku. In 2000, he graduated from the Azerbaijan State Economic University with the Master's degree. 12 years of a successful work experience in the banking sector, of which 6 years in executive positions.

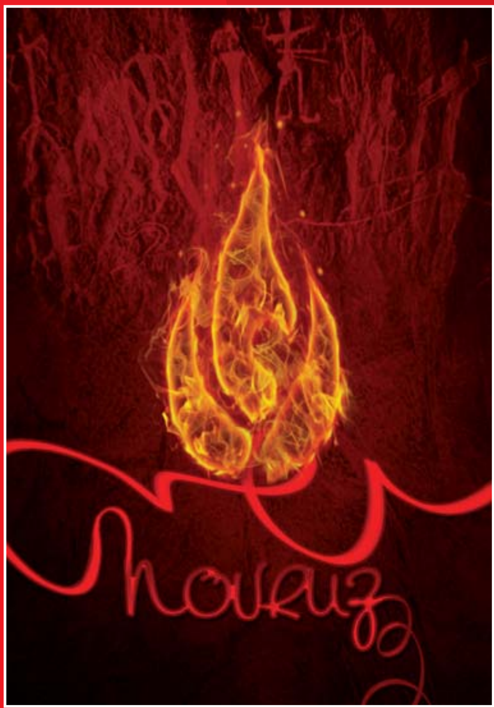
Abbasov Rufat
Deputy Chairman of the Management Board

Born on 15 April 1979 in Baku. In 1999, he graduated from the Azerbaijan State Oil Academy. 12 years of work experience in the banking sector, of which 8 years in the executive positions.

Rafiyev Vugar
Member of the Management Board

Born on 06 July 1978 in Baku. In 2001, he graduated from the Baku State University with the Master's degree in the speciality of International Economic Relations. 12 years of successful work experience in the banking sector.

Novruz



This Azerbaijani tradition is one of the most interesting. Novruz is a feast of spring, coming of New Year. Before Novruz Azerbaijanis celebrate a number of previous days saying good bye to the Old year and welcoming the New year. These days are the four pre-holiday Wednesdays: Su Chershenbe (Water Wednesday),Odlu Chershenbe (Fire Wednesday), Torpag Chershenbe (Earth Wednesday) and Akhyr Chershenbe (Last Wednesday). According to the traditional beliefs the water is reborn on the first Wednesday: still waters come to motion; The fire does on the second one, the earth - on the third. On the fourth Wednesday the wind opens tree buds and spring begins.

Many ceremonies and devotions are dedicated to this day. For example in the evening each family should light the number of torches on their house's roof corresponding to the number of the family members. Everyone should jump over the burning fire saying a kind of a spell. After the fire dies out girls and young men collect the remaining ash and pour it somewhere in the outskirts of the village or a road.

Among holiday ceremonies the most important one is the cooking of samani (millet porridge) which is a symbol of nature and human fertility and has a cult value. The ceremony of the cooking of samani is accompanied by ceremonial songs and dances.

The last day of the old year is considered a special feast by Azerbaijanis. On the holiday eve entire family gather at home. For the head of the family a special mat is laid. He says prayers; no one is allowed to eat without his permission. As soon as the gun shot sounds signaling the beginning of the meal, the mistress brings in milk pilau. If the gate is open on this day it means that the host is at home. If visitors come to the house they are welcomed by the eldest son or the nephew of the host. The guest is then offered rose water for hand washing and invited into the house. The head of the family gives a sign and the tea is immediately served for the guest. Such visits are paid for three days. Then there comes the women's turn to celebrate Novruz for a week.

The Review of the Bank's Activity

The planned rebranding carried out by the OJSC "Bank BTB" turned out to be deeper than a formal change of the logo. The intention to make all perfectly required total reorganisation of approaches to the organisation of business, which is connected with dynamical "reformatting" of world and national economies. For this reason the Strategic Development Plan for the period of 2013-2015 is de facto the apotheosis of rebranding the Bank BTB, as it lays foundation for its future rapid development, for which the Bank management managed to ensure higher start last year.

Transition to a higher "weight" category became the main result of the last year for the Bank. It has affected not only fixing of the OJSC "Bank BTB" at the beginning of the third ten of credit institutions by activity indicators, but also the actual joining the club of economically significant credit organisations, to which the pass in the country are assets at the level of approximately 100 million manats. Thus the Bank managed to strengthen its position in the middle of the second ten of the country's banks by parameters of business efficiency, that is to save its general trend for advancing growth of efficiency and profitableness.

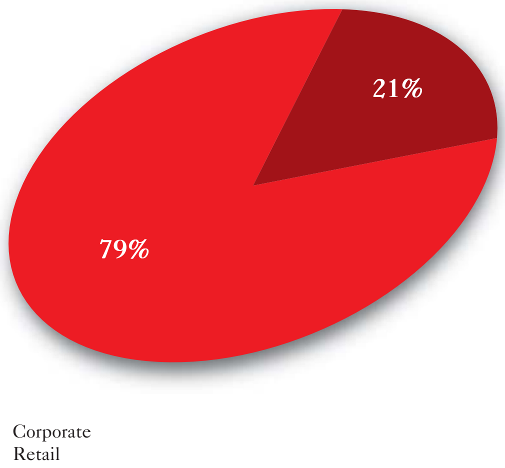
The above-mentioned makes more interesting to compare the last year's indicators of the Bank with its new strategic targets.

So, by the beginning of 2013, the Bank BTB had increased assets to 91.8 million manats against 44.085 million manats a year before. On the one hand, there is the growth of 2.1 times and overfulfilment of the forecast by at least 14.8%, and, on the other hand, the 27th position among 43 banks of the country and the actual market share of 0.5%. In 2013, the bank should ensure growth of assets to 150 million manats (+63.4%).

The advances portfolio at the level of 83 million manats, which increased in 2.3 times and exceeded forecast by 38%, has ensured the 23rd position in the sector, but only 0.7% of the market share for the Bank. It is planned to increase cautiously the advances portfolio by 120 million manats (+44.6%).

The deposit portfolio was evaluated following the results of the last year at the level of 42.9 million manats (33.7 million manats from individuals and 9.2 million manats from legal entities). It turned out to be 2.4 times higher than the indicators of 2011, exceeded the preliminary plan only by 7.3%. The Bank ensured only 0.4% of the total deposit base of local banks. However, approximately 0.7% of all bank deposits of the population against absence of its advertising can be considered as a really great achievement of the Bank BTB.

Chart 1. Deposit Portfolio



The Bank managed to keep high profitability of the business against rapid expansion of active operations and growth of liabilities for deposits. The Bank BTB was among the banks which had net profit (195.5 million manats) following the results of the last year. Its net profit reached 1.446 million manats and put the Bank on the 22nd position in the sector. The Bank BTB ensured 1.1% of net profit of the bank community (130 million manats), having managed without injections from the regulator for this purpose. The total profit of 13.477 million manats brought the 25th position among the country banks.

Ability to generate profit against expansion of the active portfolio should simplify fulfilment by the OJSC "Bank BTB" of the main task of the banking system in 2013 - fulfilment of the new capital requirement of the Central bank of Azerbaijan. In the current year, the regulator expects active recapitalisation from credit institutions.

Last year the Bank BTB kept the charter capital at the level of 13.6 million manats, which ensured the cumulative capital of 16.1 million manats. At the same time the majority of banks, after increase of capital requirements of CBA, carried out recapitalisation, which pulled the Bank BTB back to the 31st position by size of charter capital and to 29th position by cumulative capital, but this has not reduced confidence that, by 2014, the capital at the level of 50 million manats will be provided for the account of capitalisation of profit for the years 2012 and 2013 and capital injections of shareholders. At the same time the Bank refused sharing in the process of consolidation of the banking sector and laid down tight "qualitative" conditions of attracting new shareholders.

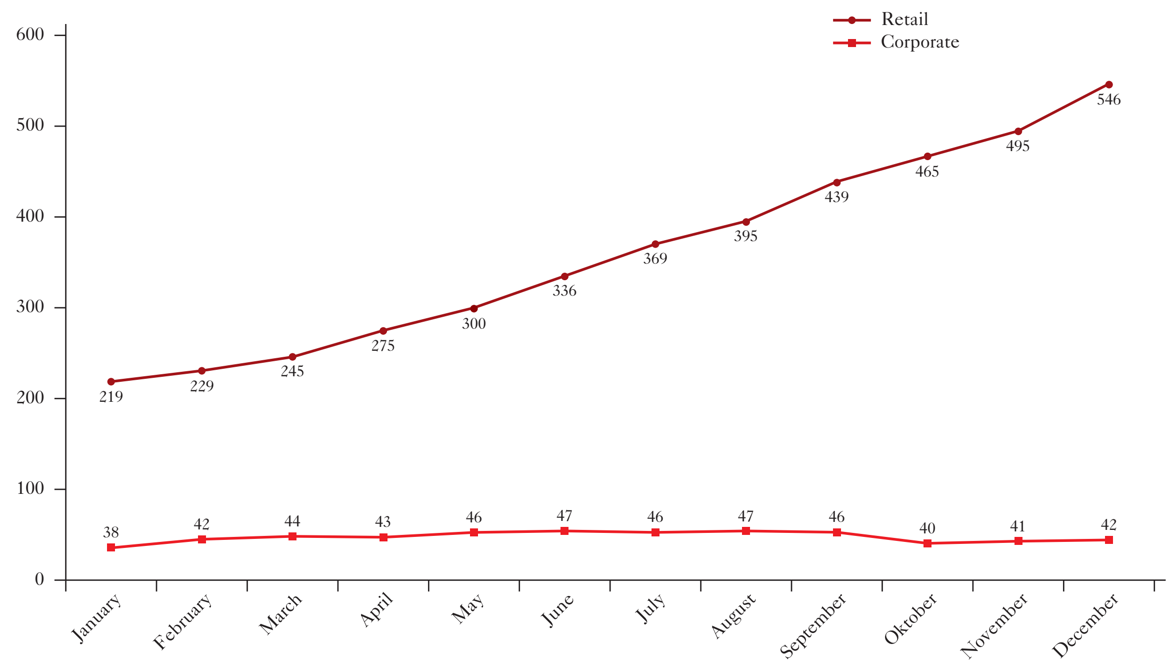
Shareholders of bank refused to enter such painful and difficult process, as merges and absorption against two-fold expansion of its business in 2012. Shareholders set the task to prefer more internal resources.

As to new shareholders, it was decided that potential offers will be considered, but no strong injections from the local market are not envisaged. The Bank BTB would like that each new shareholder bring something new - technology, bank innovation, any qualitative changes, except for capital resources. The Bank BTB would be interested, if, in case of potential attraction, a new shareholder (actually a partner) is any international institute or banking organisation that has sufficiently powerful software, personnel resources, and business technologies, i.e. those "real values", which are formed with experience and "cannot be received easily by injections into the charter capital".

For 2013, the Bank sets the task of increasing adequacy of the capital to 38% from 17.6% following the results of 2012. The recapitalisation expected in 2013 should worsen performance estimates of the Bank, if there is not two to three-fold increase in the business profitability. So, in 2012, return on equity (ROE) made 10.64% - the 14th position in the sector and the forecast overfulfilment (6.7%). The return on assets (ROA) suffered because of the accelerated growth of assets - 1.58% against the planned 3.6%, but ensured the Bank the 15th position at the market. At the same time ROC (net profit to the cumulative capital) reached 9.01% - 12th position of the banking system. At the same time, it is necessary to consider that the new strategic plan required to keep profitability of the shareholders' equity at the level of 10%.

In 2012, the main achievement of the Bank BTB became diversification of active operations - the advances portfolio was distributed approximately in equal parts between corporate and retail customers.

Chart 2. Number of Customers



Corporate business

With the general growth of the advances portfolio in 2.3 times, crediting in the corporate sector grew up in 2.2 times to 32.5 million manats. Thus corporate credits formed only 39.2% of its advances portfolio.

Last year the bank created reserves for credits at the level of 3.193 million manats or 3.8%, which as a whole corresponds to its strategic targets under the new plan where the norms of reservation are determined at the level of 4%.

In 2013, the bank inevitably will start to diversify the operations in the corporate sector, as its new strategic plan directly names the following customers:

- Small and medium-sized business;
- Enterprises with a state capital;
- Enterprises with a foreign capital share;
- Enterprises that are active in the sphere of power industry, chemistry and natural resources;
- Enterprises involved in agriculture;
- Industrial enterprises;
- Construction sector enterprises; and
- Transport and communication enterprises.

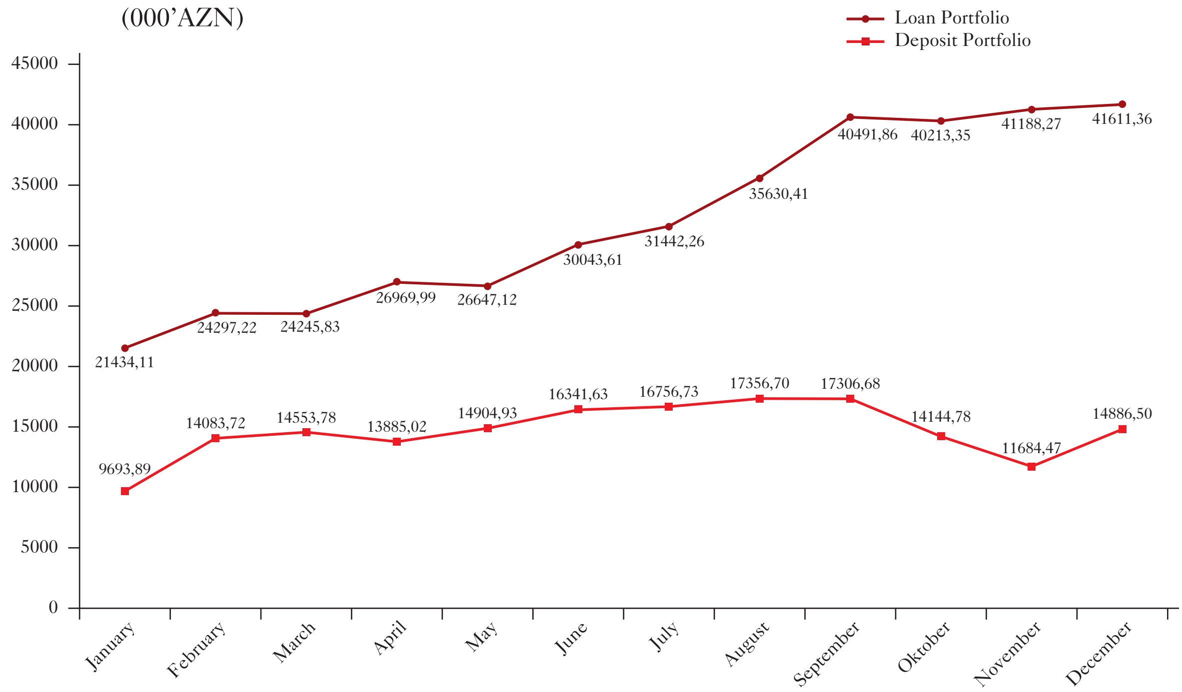
When reviewing crediting requests submitted by businessmen, projects in the following spheres of economy will be preferred:

- Communications and information-communication technologies;
- Trade and trading intermediary;
- Real estate;
- Production of construction materials and items;
- Food industry; and
- Other enterprises.

The following is declared as the Bank's priorities in the work with legal entities:

- Primary legal and financial advices;
- Operative decisions on issue or motivated refusal of issue of credit resources;
- Help in improvement of corporate management or in increasing the level of financial literacy of responsible persons;
- Provision of a package of financial services, considering costs of its products at the same time;
- Attentive studying of business of its customers and providing help in increase of income within the limits of customer base;
- Granting of essential discounts for bank products, if business partners are already the Bank's customers.

Chart 3. Corporate Business (000'AZN)



Retail business

Services to individuals in 2012 have become the most dynamical and successful area of the Bank's activity, leaving corporate business essentially behind by growth rates. At the same time, the Bank has managed not to be got involved in the heavy form of retail operations, which could affect stability of the whole business. Orientation to reliability and transparency of operations has yielded the result. The Bank BTB has found its niche in "retailing".

In 2012, the retail market provided 78.5% of mobilisation of financial resources in home market of the country and 48.6%.

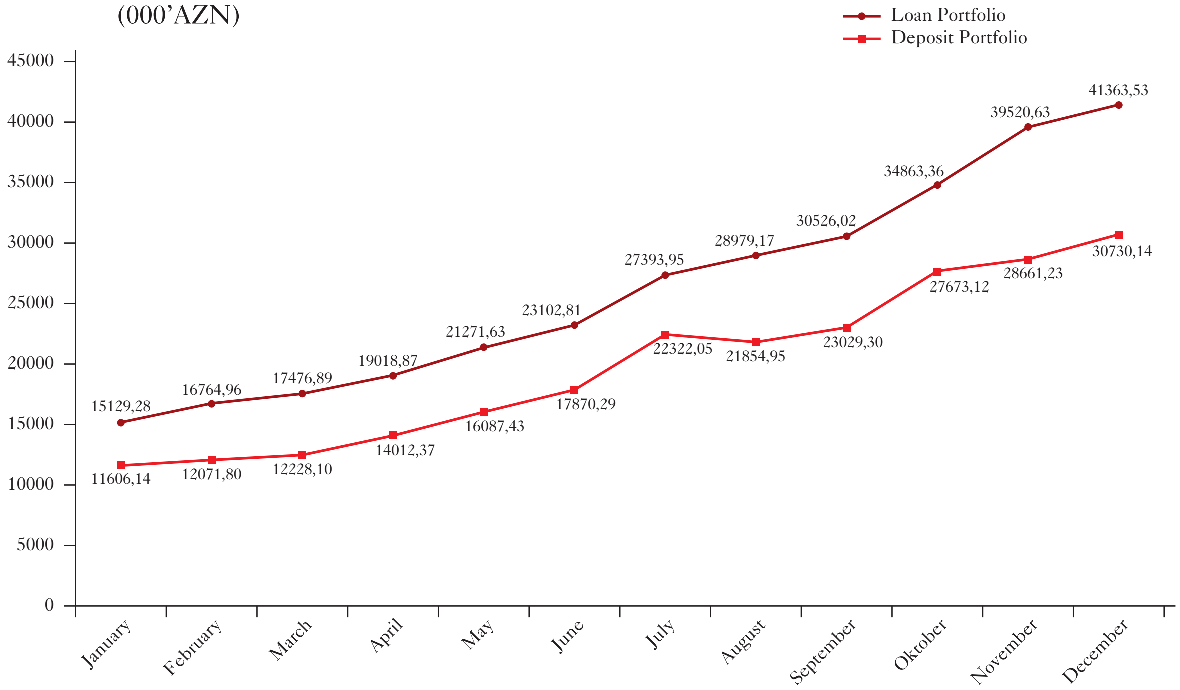
In 2012, the volume of deposits of individuals in the Bank BTB grew up in 2.5 times - from 13.67 million manats to 33.694 million manats. At the same time, 94.4% of deposits of the population were provided by fixed-term deposits (almost 32 million manats) and only the rest (1.897 million manats) by current accounts. This facilitates fulfilment of the new "budgetary rule", which introduces its new strategic plan, by the Bank: the Bank is not intending to place more than 90% of the means attracted to deposits in the advances portfolio. Following the results of 2012, this limit was equivalent to 30.3 million manats and ensured 36.5% of the advances portfolio.

On this background, crediting of individual customers by the Bank BTB was increased in 2.84 times to 41.338 million manats with consideration of mortgage lending and in 2.77 times (40.293 million manats) without consideration of mortgage. None of the other indicators of the Bank grew up so promptly.

The ratio between the means borrowed from individual customers and the means issued to them made 0.82, following the results of last year - the volume of credits granted to the population by the Bank exceeded the total amount borrowed from individual customers by 18%. A year before this index was only 0.94 - crediting of the population exceeded the total borrowing of means from individual customers by 6%. If only contributions (term deposits) are considered, the indicator was the same as a year ago and made 0.77.

The bank continues market surveillance of retail banking services, pursuing the main purpose - to save itself from those risks which are expected in the near future in this sphere due to excessive lending to the population. The objective of the Bank BTB is to avoid

Chart 4. Retail Business (000'AZN)



transformation of the risk of default of the population into system risk for itself.

Under the new strategic plan, the individual (retail) customers of the Bank BTB are:

- Persons carrying on business without establishment of a legal entity (individual entrepreneur);

- Public service employees;

- Persons presenting demand for consumer bank products; and

- Owners and also directors of the enterprises.

By the Bank estimations, "its customers" make approximately 5% of the total number of consumers of retail banking services in the country.

The Bank's priorities in work with individuals are:

- A set of daily financial services;

- Minimisation of waiting time in making decisions about granting or refusal of granting of consumer credits;

- Consideration of seasonal and other factors, which allows to satisfy volatile demand with high probability;

- Focusing of attention on owners and directors of the enterprises; and

- Paving the way for development of private banking services in the future.

Branch network

In 2012, the Bank expanded its branch network twice. By May 1, 2013, it had 9 branches and 4 departments.

At the same time, the Bank BTB de facto refused implementation of the projects of opening specialised (flagman) branches "small and medium-sized businesses" and "retail operations", best practice and experience of which was planned to be exported afterwards throughout the network.

Such "specialised" branches began to open only by the end of last year. At the same time, they do not differ from the rest of the branch network neither legally, nor by other signs, though they are "more sized" for needs of retail bank business. In the "specialised" branches, the retail customer will receive just what it needs, though it can be served by the same products and conditions in the other branches too. It is planned that afterwards all branches of the Bank BTB will transfer to the uniform model of business, which is more accented for work with the population, small crediting and SME. For the present, the Bank's branches work by the classical banking system - certain customers, corporate and private customers, including car loans and customer credits, and a wide spectrum of classical banking services.

However the new strategic plan cardinally changes the situation. It declares for the first time about expansion of the branch network of the Bank BTB out of bounds of Baku.

According to the plan for the years 2013-2015, which considers small number of branches in Baku and their absence outside the capital as weaknesses of the Bank BTB, it is planned to open 10-15 branches, of which 3 non-capital branches will be situated in large towns of the country. It is planned to open at least 2-3 branches in 2013. This will be conducted in parallel with development of the ATM network, the park of which is planned to bring up to 50 ATM.

In the new strategic period, just these branches will be charged with the main task of creating more attractive business model, which would allow to draw customers from other banks.

The Olympic flame

The tradition of lighting an Olympic Flame comes from the ancient Greeks.
During the Ancient Olympic Games, a sacred flame was lit from the
sunks rays at Olympia, and stayed lit until the Games were completed.
This flame represented the "endeavor for protection and struggle for victory."
It was first introduced into our Modern Olympics
at the 1928 Amsterdam Games.
Since then, the flame has come to symbolize
"the light of spirit, knowledge, and life."

The Torch Relay also began in the Ancient Olympics and was
revived at the 1936 Berlin Games.
Originally, the torch was lit at Olympia in Greece and then carried
by relay to the host-city of the games.
The last runner carries the torch into the Olympic Stadium
during the Opening Ceremony.
The flame is then lit from the torch and will remain lit until it is
extinguished during the Closing Ceremony.
The Torch Relay symbolizes the passing
of Olympic traditions from one generation to the next!

Independent AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Bank "BTB" OJSC:

We have audited the accompanying financial statements of Bank "BTB" OJSC (hereinafter referred to as "the Bank") which comprise the statement of financial position as of 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Kapital Karden
member firm of RSM International

Baku, Republic of Azerbaijan

27 March 2013

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in New Azerbaijani Manats)

	Note	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	6	6,606,801	6,751,879
Due from banks	7	2,550	2,560
Loans and advances to customers	8	80,571,476	35,450,422
Intangible assets	9	184,536	44,137
Premises and equipment	9	1,390,423	1,060,917
Other financial assets	10	90,366	7,965
Other assets	11	12,581	78,016
TOTAL ASSETS		**88,858,733**	**43,395,896**
LIABILITIES			
Due to banks	12	4,079,816	
Customer accounts	12	57,652,579	27,746,831
Other borrowed funds	14	11,732,179	1,635,502
Deferred income tax liability	22	14,888	117,602
Other financial liabilities	15	79,487	11,882
Other liabilities	16	10,230	26,816
TOTAL LIABILITIES		**73,569,179**	**29,538,633**
EQUITY			
Share capital	17	13,600,000	12,000,000
Retained earnings		1,689,554	1,857,263
TOTAL EQUITY		**15,289,554**	**13,857,263**
TOTAL LIABILITIES AND EQUITY		**88,858,733**	**43,395,896**

On behalf of the Management Board:

Chairman of the Management Board

27 March 2013

Baku, Azerbaijan

Chief Accountant

27 March 2013

Baku, Azerbaijan

AZƏRBAYCAN RESPUBLİKASI BANK «BTB» AÇIQ SƏHMDAR CƏMİYYƏTİ • AZERBAIJAN REPUBLIC BANK «BTB» OPEN JOINT STOCK COMPANY • BANK BTB

The notes on pages 32-72 form an integral part of these financial statements. The Independent Auditors' Report is on page 27

STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2012
(in New Azerbaijani Manats)

	Note	2012	2011
Interest income	18	9,454,830	4,219,803
Interest expense	18	(3,760,569)	(1,372,359)
Net interest income		**5,694,261**	**2,847,444**
Provision for loan impairment	8	(1,675,048)	(244,115)
Net interest income after provision for loan impairment		**4,019,213**	**2,603,329**
Fee and commission income	19	2,430,854	1,613,412
Fee and commission expense	19	(164,340)	(205,522)
Net gain on foreign exchange operations	20	401,857	271,515
Administrative and other operating expenses	21	(4,951,742)	(2,763,331)
Other income		3,222	-
Profit before tax		**1,739,064**	**1,519,403**
Income tax expense	22	(306,773)	(14,608)
PROFIT FOR THE YEAR		**1,432,291**	**1,504,795**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,432,291**	**1,504,795**
Earnings per share for profit during the year - basic and diluted (expressed in AZN per share):		**1,432,291**	**1,504,795**
Ordinary Shares	23	105.32	125.40

On behalf of the Management Board:

Chairman of the Management Board

27 March 2013

Baku, Azerbaijan

Chief Accountant

27 March 2013

Baku, Azerbaijan

The notes on pages 32-72 form an integral part of these financial statements. The Independent Auditors' Report is on page 27

STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2012
(in New Azerbaijani Manats)

	Note	Share capital	Retained earnings	Total equity
Balance at 1 January 2011		**12,000,000**	**352,468**	**12,352,468**
Increase of share capital	17	-	-	-
Total comprehensive income for 2011		**-**	**1,504,795**	**1,504,795**
Balance at 1 January 2012		**12,000,000**	**1,857,263**	**13,857,263**
Increase of share capital	17	1,600,000	(1,600,000)	-
Total comprehensive income for 2012		**-**	**1,432,291**	**1,432,291**
Balance at 31 December 2012		**13,600,000**	**1,689,554**	**15,289,554**

On behalf of the Management Board:

Chairman of the Management Board

27 March 2013

Baku, Azerbaijan

Chief Accountant

27 March 2013

Baku, Azerbaijan

AZƏRBAYCAN RESPUBLİKASI BANK «BTB» AÇIQ SƏHMDAR CƏMİYYƏTİ • AZERBAIJAN REPUBLIC BANK «BTB» OPEN JOINT STOCK COMPANY • BANK BTB

The notes on pages 32-72 form an integral part of these financial statements. The Independent Auditors' Report is on page 27

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2012
(in New Azerbaijani Manats)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		1,739,064	1,519,403
Adjustments for:			
Provision for impairment losses on interest bearing assets	8	1,675,048	244,116
Depreciation and amortization expense	9	361,570	296,629
Translation (gain)/loss on foreign exchange operations		-	(271,514)
Change in interest accruals, net		915,439	(78,017)
Cash flows from operating activities before changes in operating assets and liabilities		**4,691,121**	**1,710,615**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with NBAR	6	(701,923)	(313,287)
Due from banks	7	10	2,903,283
Loans to customers	8	(47,144,942)	(21,917,554)
Other financial assets	10	(82,401)	396
Other assets	11	65,435	36,431
Increase/(decrease) in operating liabilities:			
Customer accounts	12	29,379,236	15,394,239
Due to banks	12	4,040,602	-
Borrowings	14	10,095,804	1,631,802
Other financial liabilities	15	67,605	(4,624)
Other liabilities	16	(16,586)	220,918
Cash inflow/(outflow) from operating activities before taxation		**393,961**	**(337,781)**
Income tax paid		(409,487)	-
Net cash inflow/(outflow) from operating activities		**(15,526)**	**(337,781)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of premises and equipment	9	(678,005)	(954,391)
Purchases of intangible assets	9	(153,470)	(13,338)
Net cash inflow/(outflow) from investing activities		**(831,475)**	**(967,729)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of ordinary share capital	17	-	-
Net cash inflow/(outflow) from financing activities		-	-
Effect of changes in foreign exchange rate on cash and cash eq.		-	5,311
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(847,001)	(1,300,199)
CASH AND CASH EQUIVALENTS, beginning of year		**6,391,642**	**7,691,841**
CASH AND CASH EQUIVALENTS, end of year	6	**5,544,641**	**6,391,642**

On behalf of the Management Board:

Chairman of the Management Board

27 March 2013

Baku, Azerbaijan

Chief Accountant

27 March 2013

Baku, Azerbaijan

The notes on pages 32-72 form an integral part of these financial statements. The Independent Auditors' Report is on page 27

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

(in New Azerbaijani Manats)

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for Bank "BTB" OJSC (the "Bank").

The Bank incorporated and is domiciled in the Republic of Azerbaijan. The Bank is a joint stock company with limited liabilities of shareholders and was set up in accordance with Azerbaijani regulations.

Principal activity. The Bank's principal business activity is commercial banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking license #254 issued by the Central Bank of the Republic of Azerbaijan (CBA) since 19 March 2010.

As at 31 December 2012, the Bank had 6 branches and 6 service points within the Republic of Azerbaijan.

Registered address and place of business. The Bank's registered address is: 13A Nobel Avenue, Khatai district, Baku, Azerbaijan Republic.

Presentation currency. These financial statements are presented in Azerbaijani Manats ("AZN"). The Azerbaijani Manat ("AZN") is the official currency of Republic of Azerbaijan.

At 31 December 2012, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = AZN 0.7850 and EUR= AZN 1.0377.

2 Operating Environment of the Bank

The Republic of Azerbaijan The Republic of Azerbaijan displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan, relatively low inflation and slow economic growth. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions. The Azerbaijani economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. For management it is difficult to predict economic trends and developments in the banking sector and consequently what effect, if any, a deterioration in the liquidity of or confidence in the Azerbaijani banking system could have on the financial position of the Bank. However, management notes that the Bank has strong relations with refinancing partners and has not experienced any liquidity difficulties to date.

The tax, currency and customs legislations within the Republic of Azerbaijan are subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Republic of Azerbaijan. The future operating direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

It is impossible for Management to reliably estimate the effects on the Bank's financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Bank's business in the current circumstances.

Going Concern

According to the Board decision of Central Bank of Azerbaijan Republic dated July 25, 2012, the total Share Capital of the Banks should be increased to AZN 50,000,000. The new minimum of Share Capital comes to force on January 01, 2014.

As at December 31, 2012, the Bank's Share Capital amounts to AZN 16,053,916 which constitutes only 32.1% of the new minimum level.In order to meet the Central Bank's criteria on the Share Capital the Bank should increase its Share Capital by 67.9% until January 01, 2014.

The Bank's management states, that the General Meeting of Shareholders of Bank "BTB" OJSC has been convened on December 22, 2012. During the meeting the Bank's Strategic Plan for the year 2013 was approved. In accordance to Strategic Plan it was decided not to pay dividends to Shareholders and capitalise all the profit earned in 2013, in order to increase the total share capital of Bank to AZN 50,000,000 by January 01, 2014 for the purposes of meeting the Central Bank's requirements. In addition, new shares will be issued durign the year 2013 to increase the total share capital to meet the Central Bank's criteria of AZN 50,000,000.

If the Bank fails to meet the criteria of increasing the shareholders' capital it will face an issue of going concern. The Financial Statements stated above have not been adjusted for uncertainities rised as a result of these issues.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, available-for-sale financial assets and financial instruments categorized as at fair value through profit or loss. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Bank may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis. Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

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

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

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Bank commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012
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3 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

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

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

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

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

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

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

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

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

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

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3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

The costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

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

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

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized as profit or loss from disposal of fixed assets.

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

Premises	50 years;
Computers and communication equipment	4 to 5 years;
Furniture, fixtures and other	4 to 5 years; and
Vehicles	4 to 5 years.

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

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalized computer software.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2012

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3 Summary of Significant Accounting Policies (Continued)

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives of 5 to 10 years.

Operating leases. Where the Bank is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease. All the operating lease agreements concluded by the Bank are for the next twelve month period, and operating lease contracts are renewed at the end of the contract period.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in the statement of comprehensive income except if it is recognized directly in the statement of other comprehensive income because it relates to transactions that are also recognized, in the same or a different period, directly in the statement of other comprehensive income.

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

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

Uncertain tax positions. The Bank's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Dividends. Dividends are recorded in equity in the period in which they are declared. Dividends declared after the balance sheet date and before the financial statements are authorized for issue are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Azerbaijani legislation identifies the basis of distribution as the current year net profit.

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned on execution of the underlying transaction, are recorded on its completion. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Share capital. Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Foreign currency translation. The Bank's functional and presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

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

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7850 and EUR 1 = AZN 1.0377.

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

Earnings per share. Preference shares are not redeemable and are considered to be participating shares. Earnings per share is determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

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

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4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

Impairment losses on loans and advances. The Bank regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the statement of comprehensive income the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The management considers the impact of financial crisis on Bank's customers conservatively during estimation and calculation of loan loss provision.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 29.

5. Adoption of New or Revised Standards and Interpretations

The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2012, and have not been applied in preparing these interim condensed consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Bank's transactions. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of these new standards on its financial statements.

- **Amendments to IAS 12 titled Deferred Tax: Recovery of Underlying Assets (issued in December 2010)** - The amendments introduce a presumption (that may be rebutted under certain conditions) that the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will be recovered through sale. The amendments also incorporate into IAS 12 the guidance in respect of revalued non-depreciable property, plant and equipment, previously contained in SIC-21 which is accordingly withdrawn. The amendments are applicable, retrospectively, to annual periods beginning on or after 1 January 2012.
- **Amendments to IFRS 7 titled Disclosures - Transfers of Financial Assets (issued in October 2010)** - The amendments improve the disclosure requirements in relation to transferred financial assets, whether they are derecognised in their entirety or not. The amendments are applicable to annual periods beginning on or after 1 July 2011, but not to comparatives.

The following new standards, amendments and interpretations have been issued by the IASB but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted by IFRS Statements Limited (the list does not include information about new pronouncements that affect interim financial reporting or first-time adopters of IFRS since they are not relevant to IFRS Statements Limited).

The Directors anticipate that the new standards, amendments and interpretations will be adopted in the Group's consolidated financial statements when they become effective. The Group has assessed, where practicable, the potential impact of all these new standards, amendments and interpretations that will be effective in future periods.1

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

- **Amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income (issued in June 2011)** - These amendments improve the presentation of the components of other comprehensive income, mainly the Group will be required to group items presented in OCI based on whether or not they will be reclassified to profit or loss subsequently. They are effective for annual periods beginning on or after 1 July 2012
- **Revised IAS 27 Separate Financial Statements (issued in May 2011)** - The revised and re-titled Standard now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27 Consolidated and Separate Financial Statements. The Standard mainly requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments / IAS 39 Financial Instruments: Recognition and Measurement. It also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. It is effective for annual periods beginning on or after 1 January 2013.
- **Revised IAS 28 Investments in Associates and Joint Ventures (issued in May 2011)** - The revised and re-titled Standard prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. It defines 'significant influence', provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases) and prescribes how investments in associates and joint ventures should be tested for impairment. It is effective for annual periods beginning on or after 1 January 2013.
- **Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011)** - The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of ıcurrently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014.
- **Amendment to IAS 32 Financial instruments: Presentation (Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012)** - The amendment clarifies that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12. It is effective for annual periods beginning on or after 1 January 2013.
- **Amendments to IFRS 7 titled Disclosures - Offsetting Financial Assets and Financial Liabilities (issued in December 2011)** - The amendments allow investors to bridge differences in the offsetting reporting requirements of IFRS and US GAAP and introduce new disclosures that provide better information on how companies mitigate credit risk, including on related collateral pledged or received. They are effective for annual periods beginning on or after 1 January 2013.
- **IFRS 9 Financial Instruments (issued in November 2009 and amended in October 2010)** - This standard introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.
  - IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.
  - The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is recognised in profit or loss.

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

- The derecognition provisions are carried over almost unchanged from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015. The Directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements when it becomes mandatory and that the application of the new Standard might have a significant impact on amounts reported in respect of the Groups' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- **IFRS 10 Consolidated Financial Statements (issued in May 2011)** - The new Standard replaces all of the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. IFRS 10 introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns. The new standard also includes guidance on participating and protective rights and on agent/principal relationships. It is effective for annual periods beginning on or after 1 January 2013.
- **IFRS 11 Joint Arrangements (issued in May 2011)** - The new Standard (that replaces IAS 31 Interests in Joint Ventures) requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations, and then account for those rights and obligations in accordance with that type of joint arrangement. Joint arrangements are either joint operations or joint ventures:
- In a joint operation, parties have rights to the assets and obligations for the liabilities relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in the joint operation.

In a joint venture, parties have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures (2011). Unlike IAS 31, the use of 'proportionate consolidation' is not permitted.

IFRS 11 is effective for annual periods beginning on or after 1 January 2013. When applied, IFRS 11 is expected to have significant impact on the Group's consolidated financial statements as the proportionate consolidation method (currently applied by IFRS Statements Limited) will be eliminated. The effect of this change is yet to be quantified.

- **IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011)** - The new Standard combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the Group's financial position, financial performance and cash flows. IFRS 12 is effective for annual periods beginning on or after 1 January 2013.
- **IFRS 13 Fair Value Measurement (issued in May 2011)** - The new Standard defines fair value, sets out a single framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after 1 January 2013.
- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011)** - The interpretation provides guidance on the accounting for waste removal (stripping) costs in the production phase of a mine. Such stripping costs should be recognised as an asset if they generate a benefit of improved access to an identifiable component of the ore body, it is probable that the benefits will flow to the entity and the costs can be measured reliably. Capitalised stripping costs are amortised over the useful life of the identified component. On transition, existing production stripping costs must be written off to retained earnings, unless they can be attributed to an identifiable component of an ore body. IFRIC 20 is effective for annual periods beginning on or after 1 January 2013.

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

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6 Cash and Cash Equivalents

	2012	2011
Cash on hand	2,396,185	1,920,370
Cash balances with the CBAR (other than mandatory reserve deposits)	18,785	3,527,132
Mandatory cash balances with CBAR	1,062,160	360,237
Correspondent accounts and overnight placements with other banks		
- Republic of Azerbaijan (interest rate 1% per annum)	78,218	63,552
- Other countries (interest rate 1% to 3% per annum)	3,051,453	880,588
Total cash and cash equivalents	**6,606,801**	**6,751,879**

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

The analysis by credit quality of cash and cash equivalents at 31 December 2012 is as follows:

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	2,396,185	-	-	**2,396,185**
- Government of the Republic of Azerbaijan	-	1,080,945	-	**1,080,945**
- Top 15 Azerbaijani banks	-	-	38,107	**38,107**
- Other Azerbaijani banks	-	-	40,111	**40,111**
- OECD banks	-	-	25,057	**25,057**
- Non-OECD banks	-	-	3,026,396	**3,026,396**
Total current and not impaired	**2,396,185**	**1,080,945**	**3,129,671**	**6,606,801**
Total cash and cash equivalents	**2,396,185**	**1,080,945**	**3,129,671**	**6,606,801**

The analysis by credit quality of cash and cash equivalents at 31 December 2011 is as follows:

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	1,920,370	-	-	**1,920,370**
- Government of the Republic of Azerbaijan	-	3,887,368	-	**3,887,368**
- Top 15 Azerbaijani banks	-	-	55,687	**55,687**
- Other Azerbaijani banks	-	-	7,865	**7,865**
- OECD banks	-	-	869,161	**869,161**
- Non-OECD banks	-	-	11,428	**11,428**
Total current and not impaired	**1,920,370**	**3,887,368**	**944,141**	**6,751,879**
Total cash and cash equivalents	**1,920,370**	**3,887,368**	**944,141**	**6,751,879**

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6 Cash and Cash Equivalents (Continued)

The analysis by credit quality of cash and cash equivalents at 31 December 2012 is as follows:

	Cash balances with the CBAR, including mandatory reserves	Correspondent Accounts and overnight placements	Total
Current and not impaired			
- Central Bank of the Republic of Azerbaijan	1,080,945	-	**1,080,945**
- A- to A+ rated	-	3,051,453	**3,051,453**
- Lower than A- rated	-	78,218	**78,218**
Total cash and cash equivalents, excluding cash on hand	**1,080,945**	**3,129,671**	**4,210,616**

The analysis by credit quality of cash and cash equivalents at 31 December 2011 is as follows:

	Cash balances with the CBAR, including mandatory reserves	Correspondent Accounts and overnight placements	Total
Current and not impaired			
- Central Bank of the Republic of Azerbaijan	3,887,368	-	**3,887,368**
- A- to A+ rated	-	880,589	**880,589**
- Lower than A- rated	-	63,552	**63,552**
Total cash and cash equivalents, excluding cash on hand	**3,887,368**	**944,141**	**4,831,509**

7 Due from Other Banks

	31 December 2012	31 December 2011
Long-term placements with other banks	2,500	2,500
Short-term loans to banks	-	-
Accrued interest receivable	50	60
Total due from other banks	**2,550**	**2,560**

On 21 October 2010 the Bank signed a loan agreement with Bank Standard OJSC in the amount of AZN 2,500 with maturity date of 21 October 2015. The deposit bears market interest rate. The outstanding amount of this deposit as at 31 December 2012 is AZN 2,550.

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2012 is as follows:

	Long-term placements with other banks
Neither past due nor impaired	
- Rated Azerbaijani banks:	
Moody's Caa1 with a stable outlook	-
Moody's B1 with a stable outlook	2,550
Fitch/B- with a negative outlook	-
Other unrated Azerbaijani banks	-
Total due from other banks	**2,550**

7 Due from Other Banks (Continued)

An analysis by credit quality of amounts due from other banks outstanding at 31 December 2011 is as follows:

	Long-term placements with other banks
Neither past due nor impaired	
- Rated Azerbaijani banks:	
Moody's Caa1 with a stable outlook	-
Moody's B1 with a stable outlook	2,560
Fitch/B- with a negative outlook	-
Other unrated Azerbaijani banks	-
Total due from other banks	**2,560**

Management of the Bank did not determine any objective evidence of impairment of the balances due from other banks and therefore, no provision for impairment was recorded at 31 December 2012.

Amounts due from other banks are not collateralized.

8 Loans and Advances to Customers

	2012	2011
Corporate loans	41,408,319	20,659,220
Loans to individuals - car purchase	18,823,410	6,848,016
Loans to individuals - consumer loans	16,591,345	3,813,773
Loans to individuals - real estate	3,961,902	3,696,770
Loans to individuals - mortgage	1,031,792	130,358
Loans to individuals - plastic cards	603,609	2,675
Loans to individuals - loans to employees	172,790	169,640
Loans to individuals - working capital	21,906	498,519
Less: Provision for loan impairment	(2,043,597)	(368,549)
Total loans and advances to customers	**80,571,476**	**35,450,422**

	2012		2011	
	Amount	%	Amount	%
Individuals				
Car purchase	18,823,410	22.78%	6,848,016	19.12%
Consumer loans	16,591,345	20.08%	3,813,773	10.65%
Real estate	3,961,902	4.80%	3,696,770	10.32%
Mortgage	1,031,792	1.25%	130,358	0.36%
Plastic card	603,609	0.73%	2,675	0.01%
Loans to employees	172,790	0.21%	169,640	0.47%
Working capital	21,906	0.03%	498,519	1.39%
Total individuals	**41,206,754**	**49.88%**	**15,159,751**	**42.32%**
Manufacturing	15,933,331	19.29%	5,922,961	16.54%
Other non-manufacturing	11,821,849	14.31%	1,798,746	5.02%
Trade and services	9,972,075	12.07%	12,526,797	34.97%
Construction	3,681,064	4.46%	410,716	1.15%
Total corporate loans	**41,408,319**	**50.12%**	**20,659,220**	**57.68%**
Total loans and advances to customers (before impairment)	**82,615,073**	**100%**	**35,818,971**	**100%**

At 31 December 2012, the Bank's top 30 borrowers had an aggregated loan amount of AZN 51,204,296 or 62% (2011: AZN 25,004,378 or 69%) of the gross loan portfolio. There are 16 (2011: 8) local borrowers, with the outstanding loan balance over 10% of total equity of the Bank as at 31 December 2012. Bank's total exposure to these borrowers as at 31 December 2012 amounted to AZN 44,356,593 (2011: AZN 17,236,298).

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8 Loans and Advances to Customers (Continued)

The movement in the provision for loan impairment during 2012 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Provision for loan impairment at 1 January 2012	**(362,409)**	**(5,010)**	**(750)**	**(380)**	-	-	-	-	**(368,549)**
Provision for loan impairment during the year	(1,519,834)	(39,960)	(91,301)	(8,372)	-	(15,581)	-	-	(1,675,048)
Provision for loan impairment at 31 December 2012	**(1,882,243)**	**(44,970)**	**(92,051)**	**(8,752)**	-	**(15,581)**	-	-	**(2,043,597)**

The movement in the provision for loan impairment during 2011 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Provision for loan impairment at 1 January 2011	**(124,434)**	-	-	-	-	-	-	-	**(124,434)**
Provision for loan impairment during the year	(237,975)	(5,010)	(750)	(380)	-	-	-	-	**(244,115)**
Provision for loan impairment at 31 December 2011	**(362,409)**	**(5,010)**	**(750)**	**(380)**	-	-	-	-	**(368,549)**

Information about collateral at 31 December 2012 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Unsecured loans	27,437,828	1,953	3,139,333	2,539,617	-	579,709	8,453	21,906	**33,728,799**
Loans collateralized by:									
-residential real estate	3,700,598	24,641	12,013,703	793,377	1,031,792	-	164,337	-	**17,728,448**
-deposit	-	7,698	1,088,275	541,656	-	14,801	-	-	**1,652,430**
-movable property	10,269,893	18,789,118	350,034	87,252	-	9,099	-	-	**29,505,396**
-other assets	-	-	-	-	-	-	-	-	-
Total loans and advances to customers	**41,408,319**	**18,823,410**	**16,591,345**	**3,961,902**	**1,031,792**	**603,609**	**172,790**	**21,906**	**82,615,073**

Information about collateral at 31 December 2011 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Unsecured loans	10,227,209	88,890	978,821	164,327	-	2,675	5,558	211,724	**11,679,204**
Loans collateralized by:									
-residential real estate	936,339	-	2,486,693	2,795,130	130,358	-	106,076	281,164	**6,735,760**
-deposit	-	4,010	234,361	737,313	-	-	53,601	-	**1,029,285**
-movable property	7,995,184	6,755,116	113,898	-	-	-	4,405	5,631	**14,874,234**
-other assets	1,500,488	-	-	-	-	-	-	-	**1,500,488**
Total loans and advances to customers	**20,659,220**	**6,848,016**	**3,813,773**	**3,696,770**	**130,358**	**2,675**	**169,640**	**498,519**	**35,818,971**

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8 Loans and Advances to Customers (Continued)

The analysis by credit quality of loans at 31 December 2012 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Current and not impaired									
Large new borrowers	32,190,923	-	-	-	-	-	-	-	**32,190,923**
Loans to medium size entities	3,439,568	162,877	-	-	-	-	-	-	**3,602,445**
Loans to small entities	33,478	-	-	-	-	-	-	-	**33,478**
Loans to individuals - new customers	-	16,140,848	14,432,601	1,209,686	915,478	519,997	172,790	-	**33,391,400**
Loans to individuals- customers with credit history of more than one year	-	2,485,747	2,087,271	118,681	116,314	-	-	21,906	**4,829,919**
Loans renegotiated in 2012	5,673,634	-	-	93,919	-	33,217	-	-	**5,800,770**
Total current and not impaired	**41,337,603**	**18,789,472**	**16,519,872**	**1,422,286**	**1,031,792**	**553,214**	**172,790**	**21,906**	**79,848,935**
Past due but not impaired									
Less than 30 days overdue	-	-	3,467	2,539,616	-	33,234	-	-	**2,576,317**
30 to 90 days overdue	70,716	-	19,995	-	-	1,301	-	-	**92,012**
90 to 180 days overdue	-	-	2,560	-	-	9,077	-	-	**11,637**
180 to 360 days overdue	-	-	6,684	-	-	6,783	-	-	**13,467**
Total past due but not impaired	**70,716**	**-**	**32,706**	**2,539,616**	**-**	**50,395**	**-**	**-**	**2,693,433**
Loans individually determined to be impaired (gross)	-	33,938	38,767	-	-	-	-	-	72,705
Total individually impaired loans (gross)	**-**	**33,938**	**38,767**	**-**	**-**	**-**	**-**	**-**	**72,705**
Gross carrying values of loans	**41,408,319**	**18,823,410**	**16,591,345**	**3,961,902**	**1,031,792**	**603,609**	**172,790**	**21,906**	**82,615,073**
Less impairment provisions	(1,882,243)	(44,970)	(92,051)	(8,752)	-	(15,581)	-	-	(2,043,597)
Total loans and advances to customers	**39,526,076**	**18,778,440**	**16,499,294**	**3,953,150**	**1,031,792**	**588,028**	**172,790**	**21,906**	**80,571,476**

The analysis by credit quality of loans at 31 December 2011 is as follows:

	Corporate loans	Car purchase	Consumer loans	Real estate	Mortgage loans	Plastic card	Loans to employees	Working capital	Total
Current and not impaired									
Large new borrowers	13,573,272	-	-	-	-	-	-	-	**13,573,272**
Loans to medium size entities	774,983	-	-	-	-	-	-	-	**774,983**
Loans to small entities	5,931	-	-	-	-	-	-	-	**5,931**
Loans to individuals - new customers	-	5,730,429	3,533,403	3,445,094	130,358	2,675	165,234	437,516	**13,444,709**
Loans to individuals- customers with credit history of more than one year	-	768,425	147,097	137,310	-	-	4,406	21,866	**1,079,104**
Loans renegotiated in 2011	6,305,034	-	-	-	-	-	-	-	**6,305,034**
Total current and not impaired	**20,659,220**	**6,498,854**	**3,680,500**	**3,582,404**	**130,358**	**2,675**	**169,640**	**459,382**	**35,183,033**
Past due but not impaired									
Less than 30 days overdue	-	205,371	106,465	95,349	-	-	-	39,137	**446,322**
30 to 90 days overdue	-	77,041	22,600	19,017	-	-	-	-	**118,658**
90 to 180 days overdue	-	66,750	4,208	-	-	-	-	-	**70,958**
180 to 360 days overdue	-	-	-	-	-	-	-	-	-
Total past due but not impaired	**-**	**349,162**	**133,273**	**114,366**	**-**	**-**	**-**	**39,137**	**635,938**
Loans individually determined to be impaired (gross)	-	-	-	-	-	-	-	-	-
Total individually impaired loans (gross)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Gross carrying values of loans	**20,659,220**	**6,848,016**	**3,813,773**	**3,696,770**	**130,358**	**2,675**	**169,640**	**498,519**	**35,818,971**
Less impairment provisions	(362,409)	(5,010)	(750)	(380)	-	-	-	-	(368,549)
Total loans and advances to customers	**20,296,811**	**6,843,006**	**3,813,023**	**3,696,390**	**130,358**	**2,675**	**169,640**	**498,519**	**35,450,422**

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8 Loans and Advances to Customers (Continued)

The Bank applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the balance sheet date. The Bank's policy is to classify each loan as "current and not impaired" until a specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Bank considers whether a loan is impaired is its overdue status and realizability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired. Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralized loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual installments that are past due.

9 Premises, Equipment and Intangible Assets

	Furniture and Fixtures	Computers and Communication Equipment	Motor Vehicles	Total premises and equipment	Computer software licenses	Total
Cost at 1 January 2011	**160,282**	**131,058**	**-**	**291,340**	**35,400**	**326,740**
Accumulated depreciation/amortization	**(4,721)**	**(5,787)**	**-**	**(10,508)**	**(79)**	**(10,587)**
Additions	473,839	267,952	212,600	954,391	13,339	967,730
Disposals/Sales	-	-	-	-	-	-
Depreciation/amortization charge	(79,761)	(72,187)	(22,358)	(174,306)	(4,523)	(178,829)
Net Book amount at 31 December 2011	**549,639**	**321,036**	**190,242**	**1,060,917**	**44,137**	**1,105,054**
Cost at 31 December 2011	**634,121**	**399,010**	**212,600**	**1,245,731**	**48,739**	**1,294,470**
Accumulated depreciation/amortization	**(84,482)**	**(77,974)**	**(22,358)**	**(184,814)**	**(4,602)**	**(189,416)**
Net Book amount at 1 January 2011	**549,639**	**321,036**	**190,242**	**1,060,917**	**44,137**	**1,105,054**
Additions	269,057	114,648	294,300	678,005	153,470	831,475
Disposals/Sales	-	-	-	-	-	-
Depreciation/amortization charge	(182,616)	(107,193)	(58,690)	(348,499)	(13,071)	(361,570)
Cost at 31 December 2012	**903,178**	**513,658**	**506,900**	**1,923,736**	**202,209**	**2,125,945**
Accumulated depreciation/amortization	**(267,098)**	**(185,167)**	**(81,048)**	**(533,313)**	**(17,673)**	**(550,986)**
Net Book amount at 31 December 2012	**636,080**	**328,491**	**425,852**	**1,390,423**	**184,536**	**1,574,959**

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10 Other Financial Assets

	2012	2011
Credit and debit cards receivables	48,641	6,792
Settlements with payment system operators	393	-
Other financial assets	41,332	1,173
Total other financial assets	**90,366**	**7,965**

The analysis by credit quality of other financial receivables outstanding at 31 December 2012 is as follows:

	Settlements with payment system operators	Amounts in the course of settlement	Guarantee deposits placed	Other	Total
Current and not impaired					
- Top 5 money transfer entities	393	-	-	-	393
- Top 5 card issuing companies	-	48,641	-	-	48,641
- Other companies	-	-	-	41,332	41,332
Total other financial assets	**393**	**48,641**	**-**	**41,332**	**90,366**

The analysis by credit quality of other financial receivables outstanding at 31 December 2011 is as follows:

	Settlements with payment system operators	Amounts in the course of settlement	Guarantee deposits placed	Other	Total
Current and not impaired					
- Top 5 money transfer entities	-	-	-	-	-
- Top 5 card issuing companies	-	6,792	-	-	6,792
- Other companies	-	-	-	1,173	1,173
Total other financial assets		**6,792**	**-**	**1,173**	**7,965**

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

Refer to Note 28 for the disclosure of the fair value of each class of other financial assets.

11 Other Assets

	2012	2011
Prepayments for purchase of intangible assets and equipment	12,581	78,016
Total other assets	**78,016**	**78,016**

As at 31 December 2012, prepayments of AZN 12,581 (2011: AZN 78,016) represent prepayments for purchase of accounting software, furniture and computer and equipments.

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12 Due To Other Banks

	2012	2011
Correspondent accounts and overnight placements of other banks	4,079,816	-
Total due to other banks	**4,079,816**	-

13 Customer Accounts

	2012	2011
State and public organizations		
- Current/settlement accounts	9,769	66,694
- Term deposits	1,369,386	300,000
Other legal entities		
- Current/settlement accounts	4,992,377	5,749,714
- Term deposits	14,608,585	7,797,092
Individuals		
- Current/demand accounts	4,225,365	2,431,293
- Term deposits	32,447,097	11,402,038
Total customer accounts	**57,652,579**	**27,746,831**

Economic sector concentrations within customer accounts are as follows:

	31 December 2012		31 December 2011	
	Amount	%	Amount	%
Individuals	36,672,462	63.61%	15,645,581	56.36%
Insurance	14,911,527	25.86%	8,159,853	29.41%
Trade and services	5,133,885	8.90%	1,914,036	6.90%
Industry	438,793	0.77%	1,563,327	5.63%
Construction	312,076	0.54%	352,361	1.27%
Transportation	170,877	0.30%	51,177	0.18%
Agriculture	6,316	0.01%	3,106	0.01%
Other	6,643	0.01%	57,390	0.21%
Total customer accounts	**57,652,579**	**100%**	**27,746,831**	**100%**

Customer accounts comprise the amount of AZN 23,334,572 which is the amount of accounts of 25customers covering 40% of total customer accounts as of 31 December 2012 (31 December 2011: customer accounts comprised the amount of AZN 18,383,435 which is the amount of accounts of 25 customers covering 66% of total customer accounts).In this amounts to AZN 18,683,936 (2011: AZN 13,922,044), included term deposits, are a significant portion of total customer accounts.

The balance amount of customer accounts is their fair values as of 31 December 2012 and 31 December 2011. The fair value of customer accounts is AZN 57,652,579 as of 31 December 2012 (2011: AZN 27,746,831).

Refer to Note 28 for the disclosure of the fair value of each class of customer accounts. The interest rate analysis of customer accounts is disclosed in Note 25. The information on related party balances is disclosed in Note 29.

14 Other Borrowed funds

	2012	2011
Resident Funds borrowed from banks and other: :organizations:		
-Central Bank of Azerbaijan Republic ("CBAR")	11,000,000	-
-Azerbaijan Mortgage Fund	727,606	131,802
-Pashabank OJSC	-	1,500,000
Accrued interest payable	4,573	3,700
Total other borrowed funds	**11,732,179**	**1,635,502**

As at December 31, 2012, the loans from banks and financial institutions include the loans received from "CBAR" in the amount equivalent to AZN 11,000,000 at an average interest rate of 6% per annum and with maturity date in June 2022 and Azerbaijan Mortgage Fund under the CBAR in the amount equivalent to AZN 727,606 at an interest rate of 4% per annum and with maturity date in November 2037. There are no financial covenants with regard to the borrowing.

15 Other Financial Liabilities

Other financial liabilities comprise the following:

	2012	2011
Debit or credit cards payables	26,583	628
Settlements on money transfer	10,209	-
Amounts payable for the received services	-	11,254
Other financial liabilities	42,695	-
Total other financial liabilities	**79,487**	**11,882**

Refer to Note 28 for disclosure of the fair value of each class of other financial liabilities.

16 Other Liabilities

Other liabilities comprise the following:

	2012	2011
Deferred income from sale of plastic cards	8,317	25,692
Other liabilities	1,913	1,124
Total other liabilities	**10,230**	**26,816**

All of the above liabilities are expected to be settled less than twelve months after the year-end.

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17 Share Capital

At 31 December 2012 and 31 December 2011 the number of registered and paid ordinary shares amounted to 13,600 and 12,000 with a nominal value of AZN 1000 per share. At 31 December 2012 and 31 December 2011 the Bank's share capital respectively comprised the following number of shares with a value of AZN 1000 per share:

	Number of outstanding shares	Ordinary shares	Share premium	Preference shares	Total
At 31 December 2010	-	**12,000,000**	-	-	**12,000,000**
New shares issued	-	-	-	-	12,000,000
At 31 December 2011	-	**12,000,000**	-	-	**12,000,000**
New shares issued	-	1,600,000	-	-	1,600,000
At 31 December 2012	-	**13,600,000**	-	-	**13,600,000**

At 31 December 2012 all shares of the Bank were announced, issued and paid.

In consistency with the requirements of the CBAR the minimum total capital of commercial banks operating in the country from the date of January 1, 2014 is AZN 50 million. In 25 June 2012, the Bank increase the share capital AZN 1,600,000 (1,600 with a nominal value of AZN 1000 per share).

18 Interest Income and Expense

	2012	2011
Interest income		
Loans and advances to customers	9,228,012	3,913,722
Correspondent accounts and placement with other banks	55,416	220,524
Other	171,402	85,557
Total interest income	**9,454,830**	**4,219,803**
Interest expense		
Interest expense on banks and other financial institutions	(1,549,498)	(572,233)
Interest expense on customer accounts	(2,211,071)	(800,126)
Total interest expense	**(3,760,569)**	**(1,372,359)**
Net interest income	**5,694,261**	**2,847,444**

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19 Fee and Commission Income and Expense

	2012	2011
Fee and commission income		
- Cash collection	1,458,109	960,657
- Settlement transactions	433,303	280,356
- Foreign exchange operations	271,363	181,276
- Plastic cards operations	201,177	105,130
- Letters of credit and guarantee letters	66,902	85,993
Total fee and commission income	**2,430,854**	**1,613,412**
Fee and commission expense		
- Settlement transactions	(103,968)	(86,613)
- Cash collection	(7,870)	(65,433)
- Plastic cards operations	(3,032)	(29,675)
- Other	(49,470)	(23,801)
Total fee and commission expense	**(164,340)**	**(205,522)**
Net fee and commission income	**2,266,514**	**1,407,890**

20 Income from Foreign Currency Operations

Gain on foreign exchange operations - less losses was as follows:

	2012	2011
Dealing operations, net	394,590	248,546
Revaluation of foreign currency balances, net	7,267	22,969
Total gain on foreign exchange operations - less losses	**401,857**	**271,515**

21 Administrative and Other Expenses

	Note	2012	2011
Staff costs		(2,581,368)	(1,451,376)
Payroll taxes and social security cost		(575,967)	(316,459)
Rent expenses		(681,689)	(299,198)
Depreciation of premises and equipment	9	(371,786)	(178,829)
Security services		(186,178)	(136,444)
Communication expense		(164,118)	(124,834)
Repair and maintenance expenses		(99,731)	(27,163)
Professional services		(82,535)	(38,420)
Cheques and Other Valuables		(80,298)	(60,855)
Stationery and other office supplies		(34,835)	(26,024)
Advertising and marketing		(17,179)	(21,947)
Utilities		(16,791)	(10,547)
Membership fees		(14,357)	(41,887)
Entertainment Expenses		(13,512)	(2,279)
Taxes, other than income tax		(11,584)	(1,140)
Business trip		(3,330)	(3,742)
Other		(16,484)	(22,187)
Total administrative and other operating expenses		**(4,951,742)**	**(2,763,331)**

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22 Income Taxes

Income tax expense comprises the following:

	2012	2011
Current tax	(409,487)	-
Deferred tax	102,714	(14,608)
Income tax expense for the year	**(306,773)**	**(14,608)**

The income tax rate applicable to the majority of the Bank's income is 20%.
Temporary differences as at 31 December 2012 comprise:

	2012	2011
Deductible temporary differences:		
Property Plant and Equipment	(144,177)	-
Total deductible temporary differences	**(144,177)**	**-**
Taxable temporary differences:		
Due from Banks	50	208
Intangible asset	1,742	-
Loans and advances to Customers	45,334	587,800
Other liabilities	171,490	-
Total taxable temporary differences	**218,616**	**588,008**
Net deferred taxable temporary differences	**74,439**	**588,008**
Net deferred tax liability at the statutory tax rate (20%)	14,888	117,602
Net deferred tax liabilities	**14,888**	**117,602**

The Management of the Bank prepares financial statements based on the instructions of the Central Bank of the Republic of Azerbaijan. Further adjustments are made to meet the requirements of IFRS. Such financial information differs from International Financial Reporting Standards by loan impairment provision, fixed asset depreciation and other liabilities. Such a conversion adjustment net amounted to AZN 74,439 for the year ended 31 December 2012 (AZN 588,008 for the year ended 31 December 2011).

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

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22 Income Taxes (Continued)

Relationships between tax expenses and accounting profit for the year ended 31 December 2012 are explained as follows:

	Year ended 31-Dec-12	Year ended 31-Dec-11
Profit before income tax	1,739,064	1,519,401
Tax rate	20%	20%
Tax at the statutory tax rate	(347,813)	(303,880)
Tax effect of permanent differences	41,040	(23,683)
Unrecognized tax loss carry forwards	-	312,955
Income tax expense	**(306,773)**	**(14,608)**
Current income tax expense	(409,487)	-
Change in the deferred tax liabilities	102,714	(14,608)
Income tax expense	**(306,773)**	**(14,608)**

On 14 November 2008, a new law on "Stimulation of Increasing the Capitalization of Banks, Insurance and Reinsurance Companies" was enacted. According to the law the profit tax rate for banks, insurance and reinsurance companies is reduced to 0% for three fiscal years from 1 January 2009, where all profits are retained within the business. As at 31 December 2011, Management decided to capitalize the retained earnings.

23 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year. The Bank has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

	31 December 2012	31 December 2011
Profit for the year attributable to ordinary shareholders	1,432,291	1,504,795
Profit for the year	**1,432,291**	**1,504,795**
Weighted average number of ordinary shares in issue	13,600	12,000
Basic and diluted earnings per ordinary share (expressed in AZN per share)	**105.32**	**125.40**

As at 31 December 2011, Management decided to capitalize the retained earnings in accordance with law on "Stimulation of Increasing the Capitalization of Banks, Insurance and Reinsurance Companies" issued in 14 November 2008. According to the Law, part of the profit of bank directed to increase of their share capital in 2011 was not subject to income tax. The term of validity of above mentioned law has expired in 2012 and this caused decline in profit after taxes and earnings per share.

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24 Segment Analysis

Starting from 1 April 2010, the Bank prepares its segment analysis in accordance with IFRS 8, *Operating segments*, which replaced IAS 14, *Segment reporting*. Comparatives were adjusted to conform to the presentation of current period amounts.

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

The Bank is organised on a basis of following operating segments:

- Retail banking - representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking - representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

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

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

(i) the fair value changes in available for sale securities are reported within the other comprehensive income;

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

(iii) income taxes are not allocated to segments;

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

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24 Segment Analysis (Continued)

Segment information for the reportable operating segments of the Bank for the years ended 31 December 2012 is set out below:

	Note	"Corporate Banking"	"Retail Banking"	"Shared Services"	Total
External Revenue					
Net Interest Income		1,002,841	3,016,372	-	4,019,213
Net Fee and Commission Income		1,228,656	1,037,858	405,079	2,671,593
Total Segment Revenue		**2,231,497**	**4,054,230**	**405,079**	**6,690,806**
Administrative expenses		(1,134,472)	(2,745,177)	(1,072,093)	(4,951,742)
Segment Results		**1,097,025**	**1,309,053**	**(667,014)**	**1,739,064**
Income Tax Expense		-	-	(306,773)	(306,773)
Profit for the Period		**1,097,025**	**1,309,053**	**(973,787)**	**1,432,291**
Segment Assets		43,739,242	41,045,400	4,074,091	88,858,733
Unallocated Assets		-	-	-	-
Total Assets		**43,739,242**	**41,045,400**	**4,074,091**	**88,858,733**
Segment Liabilities		52,499,345	20,980,117	89,717	73,569,179
Unallocated Liabilities		-	-	-	-
Total Liabilities		**52,499,345**	**20,980,117**	**89,717**	**73,569,179**
Impairment losses on financial assets		-	-	(1,675,048)	(1,675,048)
Depreciation and amortization		-	-	(361,570)	(361,570)

Segment information for the reportable operating segments of the Bank for the years ended 31 December 2011 is set out below:

	Note	"Corporate Banking"	"Retail Banking"	"Shared Services"	Total
External Revenue					
Net Interest Income		1,989,262	614,066	-	2,603,328
Net Fee and Commission Income		912,310	495,580	271,516	1,679,406
Total Segment Revenue		**2,901,572**	**1,109,646**	**271,516**	**4,282,734**
Administrative expenses		(265,804)	(1,767,835)	(729,692)	(2,763,331)
Segment Results		**2,635,768**	**(658,189)**	**(458,176)**	**1,519,403**
Income Tax Expense		-	-	(14,608)	(14,608)
Profit for the Period		**2,635,768**	**(658,189)**	**(472,784)**	**1,504,795**
Segment Assets		20,407,761	15,053,186	7,934,949	43,395,896
Unallocated Assets		-	-	-	-
Total Assets		**20,407,761**	**15,053,186**	**7,934,949**	**43,395,896**
Segment Liabilities		14,270,582	14,073,523	1,194,528	29,538,633
Unallocated Liabilities		-	-	-	-
Total Liabilities		**14,270,582**	**14,073,523**	**1,194,528**	**29,538,633**
Impairment losses on financial assets		-	-	(492,983)	(492,983)
Depreciation and amortization		-	-	(184,814)	(184,814)

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24 Segment Analysis (Continued)

Allocation of segment assets and liabilities into operating segments for the year ended 31 December 2012:

	Corporate	Retail	Shared	Total:
ASSETS:				
Cash and Balances with CBAR	3,148,456	-	2,396,185	5,544,641
Mandatory cash balances with CBAR	-	-	1,062,160	1,062,160
Due from Banks	2,550	-	-	2,550
Loans to Customers	39,526,076	41,045,400	-	80,571,476
PPE	-	-	1,390,423	1,390,423
Intangible Assets	-	-	184,536	184,536
Other financial assets	-	-	90,366	90,366
Other Assets	-	-	12,581	12,581
Total Assets	**42,677,082**	**41,045,400**	**5,136,251**	**88,858,733**
LIABILITIES:				
Due to banks	4,079,816	-	-	4,079,816
Customers Accounts	36,672,462	20,980,117	-	57,652,579
Borrowings	11,732,179	-	-	11,732,179
Deferred Tax Liability	-	-	14,888	14,888
Other financial liabilities	-	-	79,487	79,487
Other Liabilities	-	-	10,230	10,230
Total liabilities	**52,484,457**	**20,980,117**	**104,605**	**73,569,179**
Net Balance Sheet Position	**(9,807,375)**	**20,065,283**	**5,031,646**	**15,289,554**

Allocation of segment assets and liabilities into operating segments for the year ended 31 December 2011:

	Corporate	Retail	Shared	Total:
ASSETS:				
Cash and Balances with CBAR	-	-	6,391,642	6,391,642
Mandatory cash balances with CBAR	-	-	360,237	360,237
Due from Banks	2,560	-	-	2,560
Loans to Customers	20,405,201	15,045,221	-	35,450,422
PPE	-	-	1,060,917	1,060,917
Intangible Assets	-	-	44,137	44,137
Other financial assets	-	7,965	-	7,965
Other Assets	-	-	78,016	78,016
Total Assets	**20,407,761**	**15,053,186**	**7,934,949**	**43,395,896**
LIABILITIES:				
Customers Accounts	13,685,191	14,061,640	-	27,746,831
Borrowings	1,635,502	-	-	1,635,502
Deferred Tax Liability	-	-	117,602	117,602
Other financial liabilities	-	-	11,882	11,882
Other Liabilities	-	-	26,816	26,816
Total liabilities	**15,320,693**	**14,061,640**	**156,300**	**29,538,633**
Net Balance Sheet Position	**5,087,068**	**991,546**	**7,778,649**	**13,857,263**

Geographical information

Revenues are attributed to the Republic of Azerbaijan and, allocated on the basis of the customer's location. All non-current assets of the Bank other than financial instruments are located in the territory of the Republic of Azerbaijan.

25 Financial Risk Management

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

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

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for approval of credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral and corporate and personal guarantees.

In order to monitor credit risk exposures, regular reports are produced by the credit department's officers based on a structured analysis focusing on the customer's business and financial performance. Any significant exposures against customers with deteriorating creditworthiness are reported to and reviewed by the Board of Directors. The Bank does not use formalised internal credit ratings to monitor exposures to credit risk. Management monitors and follows up on past due balances.

The Bank's credit department reviews ageing analysis of outstanding loans and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in assuming conditional obligations as it does for on-balance sheet financial instruments, through established credit approvals, risk control limits and monitoring procedures.

Credit risk exposures relating to on-balance sheet assets are as follows:

	2012	2011
Loans and advances to customers:		
Loans to individuals:		
- Car purchase	18,778,440	6,843,006
- Consumer loans	16,499,294	3,813,023
- Real estate	3,953,150	3,696,390
- Mortgage	1,031,792	130,358
- Plastic card	588,028	2,675
- Loans to employees	172,790	169,640
- Working capital	21,906	498,519
Loans to corporate entities:		
- Large new borrowers	30,871,505	13,436,787
- Loans to medium size entities	3,421,858	774,983
- Loans to small entities	33,478	5,931
- Others	5,199,235	6,079,110
Due from Banks		
Deposits to banks	2,550	2,560
TOTAL	**80,574,026**	**35,452,982**

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25 Financial Risk Management (Continued)

Credit risk exposures relating to off-balance sheet items are as follows:

	Maximum exposure 2012	Maximum exposure 2011
Financial guarantees	6,362,694	1,049,807
Loan commitments and other credit related obligations	4,475,611	3,056,791
Total	**10,838,305**	**4,106,598**

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

The appraisal of the collateral value provided to secure a loan is conducted by independent qualified companies and by the Bank's professional staff depending on type of collateral and amount of credit granted.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

The main element in the Bank's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Bank uses every effort to match its assets and liabilities by currency.

Exposure to foreign exchange risk faced by the Bank is also limited by the CBA normative requirements, which place a 10% of capital limit on open positions in any single foreign currency and a 20% open limit on all foreign currencies.

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2012		
	Monetary financial assets	Monetary financial liabilities	Position
Azerbaijani Manats	77,726,875	64,862,180	12,864,695
US Dollars	9,009,854	8,542,754	467,100
Euros	505,029	138,103	366,926
GBP	9,145	925	8,220
Other	20,290	99	20,191
Total	**87,271,193**	**73,544,061**	**13,727,132**

25 Financial Risk Management (Continued)

	At 31 December 2011		
	Monetary financial assets	Monetary financial liabilities	Position
Azerbaijani Manats	37,053,946	25,158,635	11,895,311
US Dollars	5,146,731	4,227,038	919,693
Euros	1,361	1,915	(554)
GBP	8,119	6,600	1,519
Other	5,229	27	5,202
Total	**42,215,386**	**29,394,215**	**12,821,171**

The above analysis includes only monetary assets and liabilities. Investments in equities and nonmonetary assets are not considered to give rise to any material currency risk.

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

	31 December 2012	31 December 2011
	impact on profit or loss	impact on profit or loss
US Dollars strengthening by 2%	9,342	18,394
US Dollars weakening by 2%	(9,342)	(18,394)
Euro strengthening by 10%	36,693	(55.4)
Euro weakening by 10%	(36,693)	55.4
	-	-

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

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

Interest rate risk. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Management Board monitors on a daily basis and sets limits on the level of mismatch of interest rate reprising that may be undertaken. In the absence of any available hedging instruments, the Bank normally seeks to match its interest rate positions.

The Bank monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

	2012			2011		
In % p.a.	AZN	USD	EUR	AZN	USD	EUR
Assets						
Loans and advances to customers	7%-36%	12%-35%	15%-25%	8%-35%	12%-35%	15%-20%
Liabilities						
Due to other banks	6%	-	-	-	-	-
Term deposits of customers	5.5%-14%	4%-14%	-	7%-10%	7%-10%	7%-10%
Other borrowed funds	4%-6%	-	-	4%-6%	-	-

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25 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2012 is set out below:

	Azerbaijan Republic	Other CIS countries	OECD countries	Non-OECD countries	Total
ASSETS					
Cash and cash equivalents	2,493,189	3,026,396	25,056	-	5,544,641
Mandatory cash balances with CBAR	1,062,160	-	-	-	1,062,160
Due from banks	2,550	-	-	-	2,550
Loans to customers	80,134,875	426,183	10,418	-	80,571,476
Premises and equipment	1,390,423	-	-	-	1,390,423
Intangible assets	184,536	-	-	-	184,536
Other financial assets	89,973	393	-	-	90,366
Other assets	12,581	-	-	-	12,581
TOTAL ASSETS	**85,370,287**	**3,452,972**	**35,474**	**-**	**88,858,733**
LIABILITIES					
Due to Banks	4,079,816	-	-	-	4,079,816
Customer accounts	56,014,199	435,213	1,130,106	73,061	57,652,579
Other borrowed funds	11,732,179	-	-	-	11,732,179
Deferred income tax liabilities	14,888	-	-	-	14,888
Other financial liabilities	79,455	32	-	-	79,487
Other liabilities	10,230	-	-	-	10,230
TOTAL LIABILITIES	**71,930,767**	**435,245**	**1,130,106**	**73,061**	**73,569,179**
NET POSITION	**13,439,520**	**3,017,727**	**(1,094,632)**	**(73,061)**	**15,289,554**

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25 Financial Risk Management (Continued)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at 31 December 2011 is set out below:

	Azerbaijan Republic	Other CIS countries	OECD countries	Non-OECD countries	Total
ASSETS					
Cash and cash equivalents	5,511,054	-	869,160	11,428	6,391,642
Mandatory cash balances with CBAR	360,237	-	-	-	360,237
Due from banks	2,560	-	-	-	2,560
Loans to customers	35,450,422	-	-	-	35,450,422
Premises and equipment	1,060,917	-	-	-	1,060,917
Intangible assets	44,137	-	-	-	44,137
Other financial assets	7,965	-	-	-	7,965
Other assets	78,016	-	-	-	78,016
TOTAL ASSETS	**42,515,308**	**-**	**869,160**	**11,428**	**43,395,896**
LIABILITIES					
Due to Banks	-	-	-	-	-
Customer accounts	27,746,831	-	-	-	27,746,831
Other borrowed funds	1,635,502	-	-	-	1,635,502
Deferred income tax liabilities	117,602	-	-	-	117,602
Other financial liabilities	11,882	-	-	-	11,882
Other liabilities	26,816	-	-	-	26,816
TOTAL LIABILITIES	**29,538,633**	**-**	**-**	**-**	**29,538,633**
NET POSITION	**12,976,675**	**-**	**869,160**	**11,428**	**13,857,263**

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25 Financial Risk Management (Continued)

Other risk concentrations. Management monitors and discloses concentrations of credit risk by obtaining reports listing the exposures to borrowers with aggregated loan balances in excess of 10% of net assets. The Bank discloses any such concentrations within the respective notes in its financial statements..

Liquidity risk. Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions. In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process.

The Management Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base. The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements. The Bank calculates its instant liquidity ratio at a required minimum of thirty percent on a monthly basis in accordance with the requirement of the Central Bank of Azerbaijan. As at 31 December 2012, the actual ratio was 66% (2011: 120%). The day-to-day liquidity management is performed by the Treasury Department within a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Board Management. The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the CBA.

The CBA has in place minimum levels of liquidity required. As of 31 December, 2012, Management considers that the Bank was in compliance with all these covenants.

The Bank's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Bank's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Bank's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

The treasury function within the Bank is charged with the following responsibilities:

- Compliance with the liquidity requirements of the CBA as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (AZN, USD, EUR), cash positions, balance sheet changes;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

The Asset Liability Management Committee is responsible for ensuring that Treasury properly manages the Bank's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Management Board. Funding plans are approved by the Supervisory Board.

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25 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2012 is as follows:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2012 Total
ASSETS							
Due from banks	2%	4	8	38	2,750	-	2,800
Loans to customers	14.8%	10,859,411	13,753,397	38,623,543	28,062,664	1,942,891	93,241,906
Total interest bearing assets		**10,859,415**	**13,753,405**	**38,623,581**	**28,065,414**	**1,942,891**	**93,244,706**
Cash and balances with CBA		5,544,641	-	-	-	1,062,160	6,606,801
Property, Plant and Equipment		-	-	-	-	1,390,423	1,390,423
Intangible assets		-	-	-	-	184,536	184,536
Other Financial Assets		-	-	-	-	90,366	90,366
Other assets		-	-	-	-	12,581	12,581
Total Assets		**16,404,056**	**13,753,405**	**38,623,581**	**28,065,414**	**4,682,957**	**101,529,413**
LIABILITIES							
Due to banks	6%	20,399	40,798	183,592	5,303,761	-	5,548,550
Customer accounts	10.6%	2,189,779	7,248,590	36,943,125	6,114,923	-	52,496,417
Other borrowed funds	5.9%	62,309	115,472	519,624	14,498,935	-	15,196,340
Total interest bearing liabilities		**2,272,487**	**7,404,860**	**37,646,341**	**25,917,619**	**-**	**73,241,307**
Customer Accounts		10,070,082	-	-	-	-	10,070,082
Deferred tax liabilities		-	-	-	-	14,888	14,888
Other Financial Liabilities		-	-	-	-	79,487	79,487
Other liabilities		-	-	-	-	10,230	10,230
Total Liabilities		**12,342,569**	**7,404,860**	**37,646,341**	**25,917,619**	**104,605**	**83,415,994**
Liquidity gap		4,061,487	6,348,545	977,240	2,147,795	4,578,352	18,113,419
Interest sensitivity gap		8,586,928	6,348,545	977,240	2,147,795	1,942,891	
Cumulative interest		8,586,928	14,935,473	15,912,713	18,060,508	20,003,399	

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25 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2011 is as follows:

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2011 Total
ASSETS							
Due from banks	2%	4	8	38	2,700	-	2,750
Loans to customers	25.9%	12,258,848	5,667,984	16,365,345	10,046,965	(135,057)	44,204,085
Total interest bearing assets		**12,258,852**	**5,667,992**	**16,365,383**	**10,049,665**	**(135,057)**	**44,206,835**
Cash and balances with CBA		6,391,642	-	-	-	360,237	6,751,879
Property, Plant and Equipment		-	-	-	-	1,060,917	1,060,917
Intangible assets		-	-	-	-	44,137	44,137
Other Financial Assets		-	-	-	-	7,965	7,965
Other assets		-	-	-	-	78,016	78,016
Total Assets		**18,650,494**	**5,667,992**	**16,365,383**	**10,049,665**	**1,416,215**	**52,149,749**
LIABILITIES							
Customer accounts	15.2%	1,793,996	889,317	8,167,431	3,467,831	-	14,318,575
Other borrowed funds	8.8%	18,329	29,257	1,631,658	42,177	-	1,721,421
Total interest bearing liabilities		**1,812,325**	**918,574**	**9,799,089**	**3,510,008**	**-**	**16,039,996**
Customer Accounts		15,000,974	-	-	-	-	15,000,974
Deferred tax liabilities		-	-	-	-	117,602	117,602
Other Financial Liabilities		-	-	-	-	11,882	11,882
Other liabilities		-	-	-	-	26,816	26,816
Total Liabilities		**16,813,299**	**918,574**	**9,799,089**	**3,510,008**	**156,300**	**31,197,270**
Liquidity gap		1,837,195	4,749,418	6,566,294	6,539,657	1,259,915	20,952,479
Interest sensitivity gap		10,446,527	4,749,418	6,566,294	6,539,657	(135,057)	
Cumulative interest		10,446,527	15,195,945	21,762,239	28,301,896	28,166,839	

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25 Financial Risk Management (Continued)

The Bank does not use the undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors maturities, which may be summarized as follows at 31 December 2012:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2012 Total
ASSETS						
Due from banks	50	-	-	2,500	-	2,550
Loans to customers	10,207,059	12,573,667	34,243,962	22,623,938	922,850	80,571,476
Total interest bearing assets	**10,207,109**	**12,573,667**	**34,243,962**	**22,626,438**	**922,850**	**80,574,026**
Cash and balances with CBA	5,544,641	-	-	-	1,062,160	6,606,801
Property, Plant and Equipment	-	-	-	-	1,390,423	1,390,423
Intangible assets	-	-	-	-	184,536	184,536
Other Financial Assets	-	-	-	-	90,366	90,366
Other assets	-	-	-	-	12,581	12,581
Total Assets	**15,751,750**	**12,573,667**	**34,243,962**	**22,626,438**	**3,662,916**	**88,858,733**
LIABILITIES						
Due to Banks	-	-	-	4,079,816	-	4,079,816
Customer accounts	1,775,850	6,212,430	34,246,658	5,347,559	-	47,582,497
Other borrowed funds	4,573	-	-	11,727,606	-	11,732,179
Total interest bearing liabilities	**1,780,423**	**6,212,430**	**34,246,658**	**21,154,981**	**-**	**63,394,492**
Customer accounts	10,070,082	-	-	-	-	10,070,082
Deferred tax liability	-	-	-	-	14,888	14,888
Other Financial Liabilities	-	-	-	-	79,487	79,487
Other liability	-	-	-	-	10,230	10,230
Total Liabilities	**11,850,505**	**6,212,430**	**34,246,658**	**21,154,981**	**104,605**	**73,569,179**
Liquidity gap	**3,901,245**	**6,361,237**	**(2,696)**	**1,471,457**	**3,558,311**	**15,289,554**

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25 Financial Risk Management (Continued)

The Bank does not use the undiscounted maturity analysis to manage liquidity. Instead, the Bank monitors maturities, which may be summarized as follows at 31 December 2011:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2011 Total
ASSETS						
Due from banks	60	-	-	2,500	-	2,560
Loans to customers	12,474,910	3,930,369	12,316,990	6,994,812	(266,659)	35,450,422
Total interest bearing assets	**12,474,970**	**3,930,369**	**12,316,990**	**6,997,312**	**(266,659)**	**35,452,982**
Cash and balances with CBA	6,391,642	-	-	-	360,237	6,751,879
Property, Plant and Equipment	-	-	-	-	1,060,917	1,060,917
Intangible assets	-	-	-	-	44,137	44,137
Other Financial Assets	-	-	-	-	7,965	7,965
Other assets	-	-	-	-	78,016	78,016
Total Assets	**18,866,612**	**3,930,369**	**12,316,990**	**6,997,312**	**1,284,613**	**43,395,896**
LIABILITIES						
Customer accounts	1,686,461	674,248	7,199,615	3,185,533	-	12,745,857
Other borrowed funds	3700	-	1,500,000	131,802	-	1,635,502
Total interest bearing liabilities	**1,690,161**	**674,248**	**8,699,615**	**3,317,335**	**-**	**14,381,359**
Customer accounts	15,000,974	-	-	-	-	15,000,974
Deferred tax liability	-	-	-	-	117,602	117,602
Other Financial Liabilities	-	-	-	-	11,882	11,882
Other liability	-	-	-	-	26,816	26,816
Total Liabilities	**16,691,135**	**647,248**	**8,699,615**	**3,317,335**	**156,300**	**29,538,633**
Liquidity gap	**2,175,477**	**3,256,121**	**3,617,375**	**3,679,977**	**1,128,313**	**13,857,263**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management considers that the current favorable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

Diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijani Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

26 Management of Capital

The Bank's objectives when managing capital are to comply with the capital requirements set by the CBA, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 12%. Compliance with capital adequacy ratios set by the Central Bank of Azerbaijan is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer, Chief Accountant, Chief of Audit Department, Head of Audit Committee and the Head of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBA banks have to: (a) hold the minimum level of share capital of AZN 10,000,000; (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the ıTier-1 capital ratio') at or above the prescribed minimum of 6%.

Management believes that the Bank was in compliance with the statutory capital ratio throughout 2012. The calculated positions at 31 December 2012 are set out below.

For the CBA statutory capital adequacy purposes the amount of the cumulative capital that the Bank manages as at 31 December 2012 is AZN 16,053,916.

The Bank calculates its capital adequacy ratio in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I.

The composition of the Bank's capital calculated in accordance with CBAR's "Regulation for Calculation of Bank capital and its adequacy" is as follows:

In Azerbaijani Manats	2012	2011
Tier 1 capital	**13,641,030**	**12,006,282**
Share capital	13,600,000	12,000,000
Retained earnings	41,030	6,282
Deductions from Tier 1 capital		
Deductions	(184,536)	(44,137)
Total tier 1 capital	**13,456,494**	**11,962,145**
Tier 2 capital	**2,597,422**	**2,139,629**
Current year profit	1,446,910	1,634,750
Capital reserves	1,150,512	504,879
Total tier 2 capital	**2,597,422**	**2,139,629**
Total regulatory capital	**16,053,916**	**14,101,774**
Risk-weighted assets	92,040,990	40,390,305
Total risk-weighted assets	**92,040,990**	**40,390,305**
Total capital expressed as a percentage of risk-weighted assets ("total capital ratio")	**17,44%**	**34,91%**

The Central Bank of the Republic of Azerbaijan has constantly increased qualitative and quantitative capital requirements within the framework of the strategy aimed at further strengthening of financial stability and sustainability of the banking sector, development of the corporative governance system and protection of interests of depositors and investors built upon best practices. Currently, banks are capitalized up to a new qualitative level which led to eventual high effectiveness of the banking sector and improved financial sustainability indicators.

According to the Board decision of Central Bank of Azerbaijan Republic dated July 25, 2012, the total Share Capital of the Banks should be increased to AZN 50,000,000.

The new minimum of Share Capital comes to force on January 01, 2014.

Application of new capital requirements shall result in strengthened capital position of Azerbaijani banks along with high capital quality and effectiveness of financial intermediation, the sustainable banking system and further enhanced and further enhanced financial stability.

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27 Contingencies and Commitments

Capital expenditure commitments. At 31 December 2012, the Bank had no significant contractual capital expenditure commitments in respect of premises and equipment, or in any other areas.

Operating lease commitments. At 31 December 2012, the Bank had no significant operating lease commitments.

Legal proceedings. From time to time and in the normal course of business, claims against the Bank can be received. On the basis of its own estimates and both internal and external professional advice the Bank's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management used its best interpretation of such legislation as applied to the transactions and activity of the Bank.

The Bank has the following outstanding credit related commitments:

	2012	2011
Guarantees issued	6,362,694	1,049,807
Undrawn credit lines	4,475,611	3,056,791
Total credit related commitments	**10,838,305**	**4,106,598**

The total outstanding contractual amount of un-drawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

	2012	2011
Azerbaijani Manats	10,838,305	4,106,598
Total	**10,838,305**	**4,106,598**

28§ Fair Value of Financial Instruments

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

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

Fair values of financial instruments carried at amortized cost. At 31 December 2012, fair values of financial instruments carried at amortized cost are as follows:

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	6,606,801	6,606,801	6,751,879	6,751,879
Due from other banks and financial institutions	2,550	2,550	2,560	2,560
Loans to customers	80,571,476	80,571,476	35,450,422	35,450,422
Other financial assets	90,366	90,366	7,965	7,965
TOTAL FINANCIAL ASSETS CARRIED AT AMORTISED COST	**87,271,193**	**87,271,193**	**42,212,826**	**42,212,826**

	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL LIABILITIES				
Due to other banks	4,079,816	4,079,816	-	-
Customer accounts	57,652,579	57,652,579	27,746,831	27,746,831
Other borrowed funds	11,732,179	11,732,179	1,635,502	1,635,502
Other financial liabilities	79,487	79,487	11,882	11,882
TOTAL FINANCIAL LIABILITIES CARRIED AT AMORTISED COST	**73,544,061**	**73,544,061**	**29,394,215**	**29,394,215**

Management applies judgment in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

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28 Fair Value of Financial Instruments (Continued)

The methods and assumptions applied in determining fair values.

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

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

	31 December 2012	31 December 2011
Due from other banks		
Short-term placements with other banks	2% to 14% p.a.	2% to 14% p.a.
Loans and advances to customers		
Corporate loans	8% to 22% p.a.	10% to 24% p.a.
Loans to individuals	7% to36% p.a.	8% to35% p.a.
Customer accounts		
- Term deposits of individuals	5.5% to 14% p.a.	2% to 14% p.a.
Other borrowed funds		
- Term borrowings from companies/government agencies	6% to 14% p.a.	2% to 14% p.a.

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29 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At 31 December 2012 and 31 December 2011, the outstanding balances with related parties were as follows:

	31-Dec-12		31-Dec-11	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers		**80,571,476**		**36,073,177**
- *entities with joint control or significant influence over the entity*	3,751		-	
- *key management personnel of the entity or its parent*	227,647		170,759	
Allowance for impairment losses		**(2,043,597)**		**(368,549)**
- *entities with joint control or significant influence over the entity*	(71)		-	
- *key management personnel of the entity or its parent*	(4,589)		-	
Customer accounts		**57,652,579**		**27,746,831**
- *entities with joint control or significant influence over the entity*	1,155,504		-	
- *key management personnel of the entity or its parent*	4,815,421		835,295	
Interest income		**9,454,830**		**4,219,803**
- *entities with joint control or significant influence over the entity*	709		-	
- *key management personnel of the entity or its parent*	11,171		-	
Interest expense		**(3,760,569)**		**(1,372,359)**
- *entities with joint control or significant influence over the entity*	(80,645)		-	
- *key management personnel of the entity or its parent*	(192,089)		(3,642)	
Provision for impairment losses		**(1,675,048)**		**(368,549)**
- *entities with joint control or significant influence over the entity*	-		-	
- *key management personnel of the entity or its parent*	(4,429)		-	
Fee and commission income		**2,430,854**		**1,613,412**
- *entities with joint control or significant influence over the entity*	303		-	
- *key management personnel of the entity or its parent*	3,005		-	
Operating expenses		**(4,951,742)**		**(2,763,331)**
- *entities with joint control or significant influence over the entity*	-		-	
- *key management personnel of the entity or its parent*	(850,403)		(430,200)	

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29 Related Party Transactions (Continued)

Key management compensation is presented below:

	2012	2011
Short-term benefits - salaries and bonuses	697,052	430,200
Total	**697,052**	**430,200**

During the year ended 31 December 2012, the remuneration of members of the key management, being the members of the Board of Directors, comprised salaries and performance related short-term bonuses amounting to AZN 697,052 (2011: AZN 430,200).

The Bank was ultimately controlled by Ms N. Mehdiyeva 75% of bank shares as of 31 December 2012.

30 Events after the Reporting Period

No significant transactions have been identified for disclosure after the balance sheet date.