“KREDAQRO” CLOSED JOINT STOCK NON-BANKING CREDIT ORGANIZATION

The International Financial Reporting Standards Financial Statements and Independent Auditors’ Report
For the Year Ended December 31, 2010

“KREDAQRO” CLOSED JOINT STOCK NON-BANKING CREDIT ORGANIZATION

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2010

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements "Kredaqro" Closed Joint Stock Non-Banking Credit Organization (the "Organization").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Organization as at December 31, 2010, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2010 were authorized for issue on March 31, 2011 by the Management Board of the Organization.

On behalf of the Management Board:

Eldar Jafarov	**Roxana Afandiyeva**
Director	**Head of Finance Department**
April 25, 2011	April 25, 2011
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITORS' REPORT

To the Founder and the Board of Directors of "Kredaqro" Closed Joint Stock Non-Banking Credit Organization:

We have audited the accompanying financial statements of "Kredaqro" Closed Joint Stock Non-Banking Credit Organization (the "Organization"), which comprise the statement of financial position as at December 31, 2010, 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.

Auditors' Responsibility

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

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

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

Opinion

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

Emphasis of Matter

During the year ended December 31, 2010 the Organization's management has decided to fully write off the loans in the amount of AZN 811 thousand (2009: AZN 2,929 thousand), based on their judgment and specific analysis. These loans have been written off from the statement of financial position after full provision.

In regard to the write-off of the loans to customers during the accounting period ended as at December 31, 2010, we draw your attention to the fact that the amount of write-off during the year is approximately 2.9% (2009: 7.9%) of the gross loans to customers. Although these loans can not be classified as fully impaired, since they have collateral coverage, it should be considered that these loans have been defaulted during the year and expected cash flows from collateral realization is estimated to be very low. Deterioration of a significant percentage of the loans to customers portfolio during short time period can lead to quality issues of the Organization's loan portfolio in the future. The financial statements were not qualified in regard of this matter.

Additionally, without qualifying our opinion, we draw your attention to Note 2 in the financial statements which indicates that the Organization failed to comply with certain financial covenants stipulated in loan agreements with borrowers as at December 31, 2010. Breach of these covenants may result in early withdrawal of funds by the borrowers. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Organization's ability to continue as a going concern.

Baker Tilly Azerbaijan

April 25, 2011
Baku, the Republic of Azerbaijan

"KREDAQRO" CLOSED JOINT STOCK NON-BANKING CREDIT ORGANIZATION

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010
(In Azerbaijani Manats)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
Interest income	5	10,455,890	12,676,243
Interest expense	5	(2,671,845)	(3,693,034)
Net interest income before provision for impairment losses on interest bearing assets		**7,784,045**	**8,983,209**
Provision for impairment losses on interest bearing assets	6	(203,893)	(2,860,794)
Net interest income		**7,580,152**	**6,122,415**
Salaries and benefits		(4,100,167)	(3,614,873)
Net (loss)/gain on foreign exchange operations	7	(11,823)	5,693
Fee and commission expense	8	(160,042)	(179,148)
Administrative and operating expenses	9	(1,911,850)	(1,449,418)
Depreciation and amortization	13,14	(462,241)	(314,623)
Impairment loss on other assets	15	(396,508)	-
Other income		26,803	60
Net non-interest expense		**(7,015,828)**	**(5,552,309)**
Profit before income tax		**564,324**	**570,106**
Income tax expense	10	(125,290)	(146,330)
Net profit for the year		**439,034**	**423,776**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**439,034**	**423,776**

On behalf of the Management Board:

Eldar Jafarov
Director

April 25, 2011
Baku, the Republic of Azerbaijan

Roxana Afandiyeva
Head of Finance Department

April 25, 2011
Baku, the Republic of Azerbaijan

The notes on pages 9-45 form an integral part of these financial statements.

"KREDAQRO" CLOSED JOINT STOCK NON-BANKING CREDIT ORGANIZATION

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2010
(In Azerbaijani Manats)

	Notes	December 31, 2010	December 31, 2009
ASSETS			
Cash and cash equivalents	11	736,280	1,098,784
Loans to customers, net	12	26,647,850	34,665,664
Property and equipment	13	2,806,278	2,720,947
Intangible assets	14	273,210	311,554
Deferred tax asset	10	77,532	-
Other assets	15	1,623,470	1,545,181
TOTAL ASSETS		**32,164,620**	**40,342,130**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	16	22,808,810	31,530,245
Deferred tax liability	10	-	29,412
Other liabilities	17	402,214	220,911
Total liabilities		**23,211,024**	**31,780,568**
EQUITY:			
Charter capital	18	4,523	4,523
Capital reserves	19	1,634,963	1,681,963
Retained earnings		7,314,110	6,875,076
Total equity		**8,953,596**	**8,561,562**
TOTAL LIABILITIES AND EQUITY		**32,164,620**	**40,342,130**

On behalf of the Management Board:

Eldar Jafarov
Director

April 25, 2011
Baku, the Republic of Azerbaijan

Roxana Afandiyeva
Head of Finance Department

April 25, 2011
Baku, the Republic of Azerbaijan

The notes on pages 9-45 form an integral part of these financial statements.

"KREDAQRO" CLOSED JOINT STOCK NON-BANKING CREDIT ORGANIZATION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

(In Azerbaijani Manats)

	Note	Charter capital	Capital reserves	Retained earnings	Total
December 31, 2008		**4,523**	**2,593,968**	**6,451,300**	**9,049,791**
Distribution of capital reserves		-	(912,005)	-	(912,005)
Total comprehensive income for the year		-	-	423,776	423,776
December 31, 2009		**4,523**	**1,681,963**	**6,875,076**	**8,561,562**
Distribution of capital reserves	19	-	(47,000)	-	(47,000)
Total comprehensive income for the year		-	-	439,034	439,034
December 31, 2010		**4,523**	**1,634,963**	**7,314,110**	**8,953,596**

On behalf of the Management Board:

Eldar Jafarov
Director

April 25, 2011
Baku, the Republic of Azerbaijan

Roxana Afandiyeva
Head of Finance Department

April 25, 2011
Baku, the Republic of Azerbaijan

The notes on pages 9-45 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(In Azerbaijani Manats)

	Notes	Year ended December 31, 2010	Year ended December 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		564,324	570,106
Adjustments for non-cash items:			
Depreciation and amortization		462,241	314,623
Provision for impairment losses on interest bearing assets		203,893	2,860,794
Impairment loss on other than interest bearing assets		396,508	-
Gain on sale of property and equipment		(26,803)	-
Foreign exchange translation loss/(gain)		11,823	(5,693)
Net change in accruals		468,443	200,234
Operating profit before changes in operating assets		2,080,429	3,940,064
Changes in operating assets and liabilities:			
Loans to customers		6,755,180	2,383,407
Loans and advances to banks		-	4,085,100
Other assets		171,382	(93,901)
Other liabilities		188,369	112,226
Other non-current liabilities		-	(111,090)
Net cash flow from operating activities before income tax and interest		9,195,360	10,315,806
Income taxes paid		-	(892,735)
Net cash inflow from operating activities		**9,195,360**	**9,423,071**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(766,372)	(1,251,929)
Proceeds from the sale of property and equipment		91,186	-
Purchase of intangible assets		(7,550)	(77,099)
Net cash outflow from investing activities		**(682,736)**	**(1,329,028)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term borrowings		(8,819,410)	(6,790,853)
Distribution of capital reserves	19	(47,000)	(912,005)
Net cash outflow from financing activities		**(8,866,410)**	**(7,702,858)**
Effect of changes in foreign exchange rate on cash and cash equivalents		(8,718)	5,693

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010 (Continued)
(In Azerbaijani Manats)

NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(362,504)	396,878
CASH AND CASH EQUIVALENTS, *beginning of the year*	11	1,098,784	701,906
CASH AND CASH EQUIVALENTS, *end of the year*	11	736,280	1,098,784

Interest paid and received by the Organization during the year ended December 31, 2010 amounted to AZN 2,445,973 and AZN 10,698,461, respectively (2009: amounted to AZN 3,435,666 and AZN 12,580,670, respectively).

On behalf of the Management Board:

Eldar Jafarov
Director

April 25, 2011
Baku, the Republic of Azerbaijan

Roxana Afandiyeva
Head of Finance Department

April 25, 2011
Baku, the Republic of Azerbaijan

The notes on pages 9-45 form an integral part of these financial statements.

1. INTRODUCTION

“Kredaqro” Closed Joint Stock Non-Banking Credit Organization (the “Organization”) is engaged in provision of loans to different sectors of the economy in the Republic of Azerbaijan. The Organization was established in accordance with the laws and regulations of the Republic of Azerbaijan on August 28, 2000.

The founder of the Organization is ACDI/VOCA, a company registered and existing under the laws of the United States of America, owning 100% of the Organization’s charter capital. The original purpose of the Organization was to provide small and micro loans to the individuals dealing with rural sector.

The registered office of the Organization is 63, Hasan Aliyev Street, Baku, Republic of Azerbaijan.

The Organization was established as a result of granting to ACDI/VOCA of 5,314,205 US Dollars (AZN 4,739,208) by the United States Agency for International Development (“USAID”) to provide support for a program in Azerbaijani Rural Credit Project. The Organization is regulated by the Central Bank of the Republic of Azerbaijan (the “CBRA”) and conducts its business under a limited license number 06/06-1891 dated August 28, 2006. The Organization’s business consists of lending activities.

The legal organizational structure and the name of the Organization were changed from “Credagro” LLC to “Kredaqro” Closed Joint Stock Non-Banking Credit Organization according to the decision of ACDI/VOCA made on April 15, 2010. On September 28, 2010 the updated charter of the Organization was registered.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Going concern

These financial statements have been prepared on the assumption that the Organization is a going concern and will continue in operation for the foreseeable future.

As described in Note 16, Organization failed to comply with some financial covenants stipulated in loan agreements with borrowers. The breach of these covenants may result in early withdrawal of funds by the borrowers and may affect the going concern assumption used in preparation of the financial statements of the Organization. Management believes that although there are some breaches in covenants, this will not lead to early withdrawal of these borrowings.

Other basis of presentation criteria

These financial statements are presented in Azerbaijani Manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at a fair value of certain financial instruments.

The Organization maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The principal accounting policies are set out below:

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

Interest earned on assets at fair value is classified within interest income.

Recognition of fee and commission income and expense

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

Financial instruments

The Organization recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss accounts) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit and loss accounts.

Financial assets

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” investments, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in profit and loss accounts when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

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. All short-term interbank placements, beyond overnight placements are included in due from banks. Amounts, which relate to funds that are of a restricted nature, are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Loans and advances to banks

Loans and advances to banks are recorded when the Organization advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Loans and advances to banks are carried at amortized costs.

Loans to customers

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

Loans granted by the Organization are initially recognized at a fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

Reclassification of financial assets

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

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

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

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

Impairment of financial assets

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

Assets carried at amortized cost

The Organization accounts for impairment losses of financial assets when there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset’s original effective interest rate.

Such impairment losses are not reversed, unless 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 recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

For financial assets carried at cost, impairment losses are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Write off of loans and advances

Loans and advances are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Organization. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in profit and loss accounts in the period of recovery.

Derecognition of financial assets

The Organization derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Organization neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Organization recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Organization retains substantially all the risks and rewards of ownership of a transferred financial asset, the Organization continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit and loss accounts.

On derecognition of a financial asset other than in its entirety (for example when the Organization retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Organization retains control), the Organization allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit and loss accounts. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Financial liabilities

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Due to banks and other financial institutions

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

Subordinated debt

Subordinated debt includes long-term non-derivative liabilities and is carried at amortised cost. Debt is classified as subordinated debt when its repayment ranks after all other creditors in case of liquidation.

Derecognition of financial liabilities

The Organization derecognizes financial liabilities when, and only when, the Organization’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

Offset of financial assets and liabilities

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

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and any recognized impairment loss, if any. Depreciation is charged on the carrying value of property and equipment and intangible assets and is designed to write off assets over their useful economic lives. It is calculated on a straight line basis at the following annual prescribed rates:

Buildings	7%
Furniture and fixtures	20%
Computers and communication equipments	25%
Vehicles	25%
Intangible assets	10%

Freehold land is not depreciated.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

At the end of each reporting period, the Organization reviews the carrying amounts of its property, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Organization estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss accounts, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An item of property, equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit and loss accounts.

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Organization's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

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

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

Provisions

Provisions are recognized when the Organization has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees.

The Organization does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Organization has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingencies

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

Charter capital

Charter capital is the amount of capital contributed by all participants. The total number of shares will be proportionate division between participants in charter capital of the Organization. The Organization may increase or decrease its charter capital with approval of the General Meeting of Participants granted in accordance with law.

Foreign currency translation

The functional currency of the Organization is the currency of the primary economic environment, in which the entity operates. The Organization's functional currency is AZN.

Monetary assets and liabilities denominated in foreign currencies are translated into AZN at the appropriate spot rates of exchange of the CBRA ruling at the end of reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain/(loss) on foreign exchange operations.

Rates of exchange

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

	December 31, 2010	December 31, 2009
USD/AZN	0.7979	0.8031

Critical accounting judgments and key sources of estimation uncertainty

The preparation of the Organization’s financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Organization’s financial condition.

Allowance for impairment of loans

The Organization regularly reviews its loans to assess for impairment. The Organization’s loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Organization considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Organization’s estimated losses and actual losses would require the Organization to record provisions which could have a material impact on its financial statements in future periods.

The Organization uses management’s judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Organization estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Organization uses management’s judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Organization is not in a position to predict what changes in conditions will take place in the country and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Valuation of Financial Instruments

Financial instruments that are classified at a fair value through profit or loss or available-for-sale, and all derivatives, are stated at a fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty.

Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of comprehensive income on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Organization considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because: (i) it is highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported on its statement of financial position as well as its profit and loss accounts could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Organization's reported net income.

Reclassifications to the financial statements

Certain reclassifications have been made to the financial statements as at December 31, 2009 and for the year then ended to conform to the presentation as at December 31,2010 and for the year then ended as current year presentation provides better view of the financial position of the Organization:

	As previously reported December 31, 2009	Reclassification amount December 31, 2010	As reclassified December 31, 2010
Other income	464,800	(464,740)	60
Grant	60	(60)	-
Provision for impairment losses on interest bearing assets	(3,325,594)	464,800	(2,860,794)

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Organization has adopted all of the new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2010. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Organization's accounting policies that have affected the amounts reported for the current or prior years.

IFRS 3 "Business Combinations" (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009) - The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquirers identifiable net assets) or at a fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at a fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition related costs will be accounted for separately from the business combination and, therefore, recognized as expenses rather than included in goodwill. An acquirer will have to recognize at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognized in accordance with the other applicable IFRS, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Organization is currently assessing the impact of the amended standard on its financial statements.

The IAS 27 "Consolidated and Separate Financial Statements" (revised January 2008; effective for annual periods beginning on or after July 1, 2009) - The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases).

The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Organization is currently assessing the impact of the amended standard on its financial statements.

Amendment to IAS 1 "Presentation of Financial Statements" (as part of Improvements to IFRS issued in 2009) - The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent.

Amendments to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" (as part of Improvements to IFRS issued in 2009) - The amendments to IFRS 5 clarify that the disclosure requirements in IFRS other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRS require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the consolidated financial statements. Moreover, another amendment clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Organization is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Organization will retain a non-controlling interest in the subsidiary after the sale.

Amendments to IAS 7 “Statement of Cash Flows” (as part of Improvements to IFRS issued in 2009) - The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalization as part of an internally generated intangible asset.

Amendment to IAS 36 “Impairment of Assets” (as part of Improvements to IFRS issued in 2009) - This amendment specifies allocation of goodwill to cash-generating units. The largest unit to which goodwill should be allocated is the operating segment as defined in IFRS 8 before applying the aggregation criteria of IFRS 8.

Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” - Additional Exemptions for First-time Adopters - The amendments provide two exemptions when adopting IFRS for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.

Amendments to IFRS 2 “Share-based Payment” - Bank Cash-settled Share-based Payment Transactions (as part of Improvements to IFRS issued in 2009) - The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.

Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” - Eligible Hedged Items - The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

IAS 28 (as revised in 2008) “Investments in Associates” - The principle adopted under IAS 27 (as revised 2008) that a loss of control is recognized as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognized in profit and loss accounts.

As part of improvements to IFRS issued in 2010, IAS 28 (as revised in 2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively. The Organization is considering the application the amendments to IAS 28 as part of Improvements to IFRS issued in 2010 in advance of their effective dates (annual periods beginning on or after July 1, 2010).

Other new Standards or Interpretations:

The Organization has adopted the following other new Standards or Interpretations:

- IFRIC 9 *“Reassessment of Embedded Derivatives”* (Effective from July 1, 2009);
- IFRIC 16 *“Hedges of a net investment in a foreign operation”* (Effective from July 1, 2009);
- IFRIC 17 *“Distributions of Non-cash Assets to Owners”* (Effective from July 1, 2009);
- IFRIC 18 *“Transfers of Assets from Customers”* (Effective from July 1, 2009).

Unless otherwise described above, the new Standards and Interpretations are not expected to significantly affect the Organization’s financial statements.

4. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Organization in advance of their effective dates, the following Interpretations were in issue but not yet effective.

Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" (as part of Improvements to IFRS issued in 2010) - A first-time adopter that changes its accounting policies or its use of IFRS 1 exemptions after publishing a set of IAS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual IFRS reporting. The exemption to use a "deemed cost" arising from a revaluation triggered by an event such as a privatization that occurred at or before the date of transition to IFRS is extended to revaluations that occur during the period covered by the first IFRS financial statements. Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under IAS 36 at the date of transition.

Amendments to IFRS 3 "Business Combinations" (as part of Improvements to IFRS issued in 2010) - Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of IFRS 3 (as revised in 2008) are to be accounted for in accordance with the guidance in the previous version of IFRS 3 (as issued in 2004).

Amendments to IFRS 7 "Financial Instruments: Disclosures" (**as part of Improvements to IFRS issued in 2010)** - The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The effective date for the application of this amendment is annual periods beginning on or after January 1, 2011.

Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

Amendments to IAS 1 "Presentation of Financial Statements" (**as part of Improvements to IFRS issued in 2010)** - The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The effective date for the application of the amendment is annual periods beginning on or after January 1, 2011.

IFRS 9 "Financial Instruments" issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized 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 amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values 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 recognized 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 and loss accounts. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit and loss accounts. Previously, 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 was recognized in profit and loss accounts. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IAS 24 “Related party disclosures” (Revised) - The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after January 1, 2011, with earlier application permitted.

The amendments to IAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. If the Organization enters into any rights issues within the scope of the amendments in future accounting periods, the amendments to IAS 32 will have an impact on the classification of those rights issues. The revised IAS 24 is effective for annual periods beginning on or after February 1, 2010, with earlier application permitted.

IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. To date, the Organization has not entered into transactions of this nature. However, if the Organization enters into any such transactions in the future, IFRIC 19 will affect the required accounting. In particular, under IFRIC 19, equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognized in profit and loss accounts.

5. NET INTEREST INCOME

	Year ended December 31, 2010	Year ended December 31, 2009
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on unimpaired assets	10,334,022	12,608,544
Interest income on impaired assets	121,868	67,699
Total interest income	**10,455,890**	**12,676,243**
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	10,335,063	12,465,685
Interest income on cash and cash equivalents	120,827	210,558
Total interest income on financial assets recorded at amortized cost	10,455,890	12,676,243
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost	(2,671,845)	(3,693,034)
Total interest expense on liabilities recorded at amortized cost	(2,671,845)	(3,693,034)
Interest expense on liabilities recorded at amortized cost comprises:		
Interest expense on due to banks and other financial institutions	(2,671,845)	(3,693,034)
Total interest expense	**(2,671,845)**	**(3,693,034)**
Net interest income before provision for impairment losses on interest bearing assets	**7,784,045**	**8,983,209**

6. PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS

	Loans to customers	Other assets	Total
December 31, 2008	**(768,264)**	**-**	**(768,264)**
Provision for impairment	(2,860,794)	-	(2,860,794)
Write-off of assets	2,929,386	-	2,929,386
Recoveries of provision previously written off	(464,800)		(464,800)
December 31, 2009	**(1,164,472)**	**-**	**(1,164,472)**
Provision for impairment	(203,893)	(396,508)	(600,401)
Write-off of assets	811,621	-	811,621
Recoveries of provision previously written off	(704,272)	-	(704,272)
December 31, 2010	**(1,261,016)**	**(396,508)**	**(1,657,524)**

7. NET (LOSS)/GAIN ON FOREIGN EXCHANGE OPERATIONS

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

	Year ended December 31, 2010	Year ended December 31, 2009
Translation differences, net	(11,823)	5,693
Total net (loss)/gain on foreign exchange operations	**(11,823)**	**5,693**

8. FEE AND COMMISSION EXPENSE

Fee and commission expense comprises:

	Year ended December 31, 2010	Year ended December 31, 2009
Fee and commission expense:		
Settlement transactions	142,547	144,318
Foreign exchange operations	13,346	30,930
Cash transactions	4,149	3,900
Total fee and commission expense	**160,042**	**179,148**

9. ADMINISTRATIVE AND OPERATING EXPENSES

Administrative and operating expenses comprise the following items:

	Year ended December 31, 2010	Year ended December 31, 2009
Rent expenses	460,578	323,064
Communication expenses	383,179	358,092
Professional services	381,386	220,811
Maintenance expenses	133,961	62,108
Office supplies	111,166	98,824
Business trip expenses	94,979	127,135
Software expenses	69,393	6,643
Security expenses	62,765	24,457
Vehicle running costs	51,047	45,370
Utilities expenses	38,597	21,725
Representation expenses	35,098	40,849
Insurance expenses	20,334	20,520
Advertising and marketing costs	14,505	25,565
Other expenses	54,862	74,255
Total administrative and operating expenses	**1,911,850**	**1,449,418**

10. INCOME TAXES

The Organization measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan where the Organization operates, which differ from IFRS.

The Organization is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2010 and 2009 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases' differences for certain assets.

In 2009, an amendment to the Tax Code of the Republic of Azerbaijan was enacted to reduce the corporate income tax rate from 22% to 20% effective from January 1, 2010. Starting from December 31, 2009 deferred taxes were measured applying 20%.

Tax legislation of the Republic of Azerbaijan in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Organization may be assessed additional taxes, penalties and interest which could be material for these financial statements.

	December 31, 2010	December 31, 2009
Taxable temporary differences:		
Other assets	-	(464,800)
Property, equipment and intangible assets	(66,752)	(261,991)
Other liabilities	(345,385)	-
Total taxable temporary differences	**(412,137)**	**(726,791)**
Deductible temporary differences:		
Other assets	203,277	-
Other liabilities	-	95,400
Loans to customers	596,520	484,330
Total deductible temporary differences	**799,797**	**579,730**
Net deferred deductible/(taxable) temporary differences	387,660	(147,061)
Net deferred tax asset/(liability) at the statutory tax rate (20%/22%)	77,532	(29,412)
Net deferred tax asset	**77,532**	**(29,412)**

Relationships between tax expenses and accounting profit for the years ended December 31, 2010 and 2009 are explained as follows:

	December 31, 2010	**December 31, 2009**
Profit before income tax	**564,323**	**570,106**
Statutory tax rate	20%	22%
Theoretical tax at the statutory tax rate	(112,865)	(125,423)
Tax effect of permanent differences	(12,425)	(32,310)
Effect of changes in tax rates	-	11,403
Income tax expense	**(125,290)**	**(146,330)**
Current income tax expense	(232,234)	(70,655)
Change in the deferred income tax	106,944	(75,675)
Income tax expense	**(125,290)**	**(146,330)**

	December 31, 2010	**December 31, 2009**
Deferred income tax asset/(liability)		
Beginning of the period	**(29,412)**	**46,263**
Change in the deferred income tax for the period charged to profit	106,944	(75,675)
End of the period	**77,532**	**(29,412)**

11. CASH AND CASH EQUIVALENTS

	December 31, 2010	**December 31, 2009**
Cash in hand in national currency	91,255	47,328
Correspondent bank accounts in national currency	257,750	221,223
Correspondent bank accounts in foreign currency	387,275	830,233
Total cash and cash equivalents	**736,280**	**1,098,784**

12. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2010	December 31, 2009
Corporate loans	50,416	140,267
Loans to individuals - trading	11,170,595	16,758,059
Loans to individuals - consumer loans	9,609,406	9,421,511
Loans to individuals - agriculture	2,565,175	2,459,438
Loans to individuals - car loans	426,490	698,307
Loans to individuals - leasing	364,733	1,161,871
Loans to individuals - manufacturing	200,600	554,345
Loans to individuals - others	3,521,451	4,636,338
Less: Provision for loan impairment	(1,261,016)	(1,164,472)
Total loans to customers	**26,647,850**	**34,665,664**

As at December 31, 2010 and 2009, accrued interest income included in loans to customers amounted to AZN 426,850 and AZN 669,421, respectively.

Information about collateral at December 31, 2010 is as follows:

	Corporate loans	Loans to individuals-trading	Loans to individuals-consumer loans	Loans to individuals-agriculture	Loans to individuals-car loans	Loans to individuals-leasing	Loans to individuals-manufacturing	Loans to individuals-others	Total
Unsecured loans	-	7,260,155	9,511,281	1,731,285		97,567	48,019	2,725,224	21,373,531
Loans collateralized by:									
- real estate	50,416	3,773,063	80,605	708,501	-		143,852	667,441	5,423,878
- moveable property	-	137,377	17,520	125,389	426,490	267,166	8,729	128,786	1,111,457
Total loans to customers	**50,416**	**11,170,595**	**9,609,406**	**2,565,175**	**426,490**	**364,733**	**200,600**	**3,521,451**	**27,908,866**

Information about collateral at December 31, 2009 is as follows:

	Corporate loans	Loans to individuals-trading	Loans to individuals-consumer loans	Loans to individuals-agriculture	Loans to individuals-car loans	Loans to individuals-leasing	Loans to individuals-manufacturing	Loans to individuals-others	Total
Unsecured loans	3,825	6,909,910	9,173,935	798,385	-	520	62,903	2,741,111	19,690,589
Loans collateralized by:									
- real estate	136,442	9,321,663	221,036	1,428,634	4,364	8,661	449,324	1,629,119	13,199,243
- moveable property	-	526,486	26,540	232,419	693,943	1,152,690	42,118	266,108	2,940,304
Total loans to customers	**140,267**	**16,758,059**	**9,421,511**	**2,459,438**	**698,307**	**1,161,871**	**554,345**	**4,636,338**	**35,830,136**

The analysis by credit quality of loans outstanding at December 31, 2010 is as follows:

	Corporate loans	Loans to individuals-trading	Loans to individuals-consumer loans	Loans to individuals-agriculture	Loans to individuals-car loans	Loans to individuals-leasing	Loans to individuals-manufac-turing	Loans to individuals-others	Total
Current and not impaired loans loans									
Unsecured loans	-	6,467,636	9,126,917	1,699,999	-	88,048	46,538	2,609,601	20,038,739
Loans collateralized by:									
- real estate	38,233	2,975,232	78,392	502,491	-	-	35,734	493,995	4,124,077
- moveable property	-	108,154	17,520	117,778	418,016	230,896	7,306	114,023	1,013,693
Total current and not impaired loans	**38,233**	**9,551,022**	**9,222,829**	**2,320,268**	**418,016**	**318,944**	**89,578**	**3,217,619**	**25,176,509**
Past due but not impaired									
- less than 30 days overdue	-	554,080	128,492	61,384	5,462	28,505	704	67,890	846,517
- 30 to 90 days overdue	2,951	256,077	57,426	9,804	-	15,563	5,075	29,490	376,386
- 90 to 180 days overdue	9,232	624,930	168,744	130,413	2,241	1,721	65,363	166,734	1,169,378
- 180 to 360 days overdue	-	184,486	31,915	43,306	771	-	39,880	39,718	340,076
Total past due but not impaired loans	**12,183**	**1,619,573**	**386,577**	**244,907**	**8,474**	**45,789**	**111,022**	**303,832**	**2,732,357**
Gross carrying value of loans	**50,416**	**11,170,595**	**9,609,406**	**2,565,175**	**426,490**	**364,733**	**200,600**	**3,521,451**	**27,908,866**
Less provision for loan impairment	**(2,365)**	**(358,473)**	**(547,585)**	**(198,371)**	**(3,921)**	**(1,095)**	**(6,828)**	**(142,378)**	**(1,261,016)**
Total loans to customers	**48,051**	**10,812,122**	**9,061,821**	**2,366,804**	**422,569**	**363,638**	**193,772**	**3,379,073**	**26,647,850**

The Organization applied the portfolio provisioning methodology prescribed by the 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 reporting date.

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

	Corporate loans	Loans to individuals-trading	Loans to individuals-consumer loans	Loans to individuals-agriculture	Loans to individuals-car loans	Loans to individuals-leasing	Loans to individuals-manufacturing	Loans to individuals-others	Total
Current and not impaired									
Unsecured loans	3,825	6,613,349	8,749,035	763,558	-	520	59,871	2,581,614	18,771,772
Loans collateralized by:									
- real estate	125,036	7,540,191	213,564	1,140,645	4,364	-	304,565	1,257,626	10,585,991
- moveable property	-	439,399	19,312	217,748	630,132	702,854	38,780	259,819	2,308,044
Total current and not impaired	**128,861**	**14,592,939**	**8,981,911**	**2,121,951**	**634,496**	**703,374**	**403,216**	**4,099,059**	**31,665,807**
Past due but not impaired									
- less than 30 days overdue	11,406	1,067,260	184,750	140,885	35,551	360,566	85,165	300,316	2,185,899
- 30 to 90 days overdue	-	489,741	143,102	88,159	12,414	54,306	22,298	117,704	927,724
- 90 to 180 days overdue	-	608,119	111,748	108,443	15,846	43,625	43,666	119,259	1,050,706
Total past due but not impaired	**11,406**	**2,165,120**	**439,600**	**337,487**	**63,811**	**458,497**	**151,129**	**537,279**	**4,164,329**
Gross carrying value of loans	**140,267**	**16,758,059**	**9,421,511**	**2,459,438**	**698,307**	**1,161,871**	**554,345**	**4,636,338**	**35,830,136**
Less provision for loan impairment	**(1,403)**	**(629,972)**	**(190,359)**	**(105,563)**	**(19,584)**	**(42,245)**	**(37,773)**	**(137,573)**	**(1,164,472)**
Total loans to customers	**138,864**	**16,128,087**	**9,231,152**	**2,353,875**	**678,723**	**1,119,626**	**516,572**	**4,498,765**	**34,665,664**

The primary factors that the Organization considers whether a loan is impaired is its overdue status and realisability of related collateral, if any. As a result, the Organization presents above an ageing analysis of loans that are individually determined to be impaired.

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 instalments that are past due.

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at December 31, 2010 is as follows*:*

	Corporate loans	Loans to individuals-trading	Loans to individuals-consumer loans	Loans to individuals-agriculture	Loans to individuals-car loans	Loans to individuals-leasing	Loans to individuals-manufacturing	Loans to individuals-others	Total
Fair value of collateral - loan past due but not impaired									
- real estate	85,450	5,092,845	28,214	874,732	-	-	266,650	818,464	7,166,355
- moveable property	-	180,658	-	36,935	85,812	457,250	12,000	78,015	850,670
Total	**85,450**	**5,273,503**	**28,214**	**911,667**	**85,812**	**457,250**	**278,650**	**896,479**	**8,017,025**

The fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at December 31, 2009 is as follows:

	Corporate loans	Loans to individuals-trading	Loans to individuals-consumer loans	Loans to individuals-agriculture	Loans to individuals-car loans	Loans to individuals-leasing	Loans to individuals-manufacturing	Loans to individuals-others	Total
Fair value of collateral - loan past due but not impaired									
- real estate	51,000	6,358,747	62,750	976,934	-	54,600	476,700	1,354,261	9,334,992
- moveable property	-	346,349	44,829	43,756	367,423	1,094,750	12,000	53,693	1,962,800
Total	**51,000**	**6,705,096**	**107,579**	**1,020,690**	**367,423**	**1,149,350**	**488,700**	**1,407,954**	**11,297,792**

The fair value of residential real estate at the reporting date was estimated by indexing the values determined by the Organization’s credit department staff at the time of loan inception for the average increases in residential real estate prices by city and region. The fair value of other real estate and other assets was determined by the Organization’s credit department, using the Organization’s and external service organization’s guidelines.

As at December 31, 2010 and 2009, a maximum credit risk exposure on loans to customers amounted to AZN 26,647,850 and AZN 34,665,664, respectively.

13. PROPERTY AND EQUIPMENT

Property and equipment comprise the following:

	Land	Buildings	Furniture and fixtures	Computers and communi-cation equipment	Vehicles	Construction in progress	Total
At initial cost							
January 1, 2009	**214,072**	**1,200,951**	**135,785**	**280,632**	**216,256**	**-**	**2,047,696**
Additions	1,132	144,535	227,417	417,038	116,745	273,980	1,180,847
December 31, 2009	**215,204**	**1,345,486**	**363,202**	**697,670**	**333,001**	**273,980**	**3,228,543**
Additions	-	27,312	49,753	280,370	118,701	89,925	566,061
Transfers	-	363,905	-	-	-	(363,905)	-
Disposals	-	-	-	-	(140,997)	-	(140,997)
December 31, 2010	**215,204**	**1,736,703**	**412,955**	**978,040**	**310,705**	**-**	**3,653,607**
Accumulated depreciation							
December 31, 2008	**-**	**(34,338)**	**(24,318)**	**(64,705)**	**(96,168)**	**-**	**(219,529)**
Charge for the year	-	(89,403)	(44,785)	(93,759)	(60,120)	-	(288,067)
December 31, 2009	**-**	**(123,741)**	**(69,103)**	**(158,464)**	**(156,288)**	**-**	**(507,596)**
Charge for the year	-	(85,160)	(77,296)	(183,981)	(69,910)	-	(416,347)
Eliminated on disposals	-	-	-	-	76,614	-	76,614
December 31, 2010	**-**	**(208,901)**	**(146,399)**	**(342,445)**	**(149,584)**	**-**	**(847,329)**
Net book value:							
December 31, 2010	**215,204**	**1,527,802**	**266,556**	**635,595**	**161,121**	**-**	**2,806,278**
December 31, 2009	**215,204**	**1,221,745**	**294,099**	**539,206**	**176,713**	**273,980**	**2,720,947**

As of 31 December 2010, included in property and equipment assets in the amount of AZN 77,169 (2009: AZN 83,045 thousand) were fully depreciated.

During the year ended December 31, 2010, transfer from CIP in the amount of AZN 363,905, include expenses related to the construction of the building of Guba branch. This branch has been available for use since December 26, 2010.

14. INTANGIBLE ASSETS

Intangible assets comprise the following:

At cost:	
January 1, 2009	**286,761**
Additions	77,099
December 31, 2009	**363,860**
Additions	7,550
December 31, 2010	**371,410**
Accumulated amortization:	
January 1, 2009	**(25,750)**
Charge for the year	(26,556)
December 31, 2009	**(52,306)**
Charge for the year	(45,894)
December 31, 2010	**(98,200)**
Net book value:	
December 31, 2010	**273,210**
December 31, 2009	**311,554**

15. OTHER ASSETS

Other assets comprise:

	December 31, 2010	**December 31, 2009**
Other non-financial assets:		
Repossessed assets	1,149,967	464,800
Prepaid expenses	346,496	361,126
Prepayments for purchase of property	271,392	71,081
Prepaid taxes,	206,277	613,185
Receivables from budget	45,250	5,256
Other advance payments	596	29,733
Less: Impairment loss for other assets	(396,508)	-
Total other assets	**1,623,470**	**1,545,181**

As at December 31, 2010, repossessed assets consist of the moveable properties and real estates which have been received in satisfaction of non-performing loans in the amount of AZN 1,149,967 (2009: 464,800). These assets are not actually marketed and there is no active program to locate a buyer, therefore, the assets are not classified as held for sale. Management believes that this moveable property will be sold within a year after reporting date.

16. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions are comprised of the followings:

	December 31, 2010	December 31, 2009
Term borrowings from commercial banks	130,500	-
Term borrowings from other financial institutions	22,678,310	31,530,245
Total due to banks and other financial institutions	**22,808,810**	**31,530,245**

Term borrowings from commercial banks

As at December 31, 2010 term borrowings from commercial banks include short-term borrowings of AZN 130,500 from the commercial banks located in the Republic of Azerbaijan (2009: nil).

Term borrowings from other financial institutions

Included in term borrowings from other financial institutions are funds attracted from seven foreign financial institutions (2009: thirteen). The amounts drawn down under borrowing agreements signed with these financial institutions amounted to AZN 2,526,784 and USD 23,700,000 or total AZN 18,910,230 equivalent (2009: AZN 2,526,784 and USD 34,850,000 or AZN 27,988,035 equivalent).

The Organization is obliged to comply with certain financial covenants, breach of which may indicate the sign of early withdrawal risk. The Organization failed to comply with some financial covenants stipulated in these loan agreements as at December 31, 2010. Management continuously discusses covenants with investors and receives verbal waivers regarding temporarly breach of covenants stated in loan agreements. Management believes temporarly breach of covenants would not be lead to early withdrawal of these borrowings and therefore these borrowins are classified according to their original payment schedules in the liquidity analyses.

Weighted average effective interest rate for the borrowings is 9.66% per annum for the year ended December 31, 2010 (2009: 9.29%). All borrowings that belong to due to banks and other financial institutions category bear market interest rates.

The carrying value of each class of due to banks and other financial institutions approximates to their fair value as at December 31, 2010 and 2009. At December 31, 2010, the estimated fair value of due to banks and other financial institutions was AZN 22,808,810 (2009: AZN 31,530,245).

17. OTHER LIABILITIES

Other liabilities comprise financial and non-financial liabilities and are presented below:

	December 31, 2010	December 31, 2009
Other financial liabilities:		
Salary and other payables to employees	175,138	66,970
Insurance payables per collected premiums	108,289	126,269
Accrued expenses	62,567	-
	345,994	**193,239**
Other non-financial liabilities:		
Taxes payable	37,015	7,067
Other	19,205	20,605
Total other liabilities	**402,214**	**220,911**

18. CHARTER CAPITAL

Announced charter capital of the Organization as at December 31, 2010 and 2009 was AZN 4,523. ACDI/VOCA is the founder and the sole owner of the Organization.

	Authorized charter capital	Total charter capital
ACDI/VOCA	4,523	4,523

19. CAPITAL RESERVES

Capital Reserve amount was received as a grant from USAID in the amount of USD 3,000,000 in 2000.

The Cabinet of Ministers of the Republic of Azerbaijan has approved a "Regulation of the Legal Status of Non-Banking Credit Organizations with humanitarian status by international and local humanitarian organizations". This provides a mechanism for institutions such as the Organization to transform to commercial activities completely.

The Organization supported "Social Responsibility Project" in 2009 and has agreed to transfer grant in the amount of 1,000,000 AZN (USD 1,250,000) to 5 micro credit institutions in Azerbaijan AZN (900 000 for improving micro loans) and to Azerbaijan Micro-Finance Association (100 000 for monitoring their activities). Payment in the amount of AZN 47,000 was made in January, April and August 2010, remaining of commitment will be paid during 2011.

20. COMMITMENTS AND CONTINGENCIES

Legal proceedings

From time to time and in the normal course of business, claims against the Organization might be received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Taxation

Provisions of tax legislation of the Republic of Azerbaijan are sometimes inconsistent and may have more than one interpretation, which allows the tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, the tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of "unjustified tax benefit", "primary commercial goal of transaction" and the criteria of "commercial purpose (substance) of transaction".

Such uncertainty could, in particular, be attributed to tax treatment of financial instruments/derivatives and determination of market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Organization is confident that applicable taxes have all been accrued and, consequently, creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also according to the clarification of the Constitutional Court of the Republic of Azerbaijan, the statute of limitation for tax liabilities may be extended beyond the three year term set forth in the tax legislation, if a court determines that the taxpayers have obstructed or hindered a tax inspection.

21. TRANSACTIONS WITH RELATED PARTIES

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

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Organization (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Organization that gives then significant influence over the Organization; and that have joint control over the Organization;
(b) Associates – enterprises on which the Organization has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(c) Joint ventures in which the Organization is a venture;
(d) Members of key management personnel of the Organization or its parent;
(e) Close members of the family of any individuals referred to in (a) or (d);
(f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) Post-employment benefit plans for the benefit of employees of the Organization, or of any entity that is a related party of the Organization.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Organization had the following transactions outstanding as at December 31, 2009 and 2008 with related parties:

	December 31, 2010		December 31, 2009	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Loans and advances to customers, gross		27,908,866		35,830,136
- *employees*	274,052		619,454	

	December 31, 2010		December 31, 2009	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Key management personnel compensation:		4,100,167		3,614,873
- *short-term employee benefits*	616,680		417,782	

Included in the statement of comprehensive income for the years ended December 31, 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended December 31, 2010		Year ended December 31, 2009	
	Related party transactions	**Total category as per financial statements caption**	**Related party transactions**	**Total category as per financial statements caption**
Interest income		10,455,890		12,676,243
- *employees*	53,662		66,831	

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Organization could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared with the corresponding carrying amount in the statement of financial position of the Organization is presented below:

	December 31, 2010		December 31, 2009	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Cash and cash equivalents	736,280	736,280	1,098,784	1,098,784
Loans to customers	26,647,850	26,647,850	34,665,664	34,665,664
Due to banks and other financial institutions	22,808,810	22,808,810	31,530,245	31,530,245
Other liabilities	345,994	345,994	193,239	193,239

23. RISK MANAGEMENT POLICIES

Management of risk is fundamental to the Organization’s banking business and is an essential element of the Organization’s operations. The main risks inherent to the Organization’s operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

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

Credit risk

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

Maximum exposure

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

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

			December 31, 2010
	Maximum exposure	**Collateralized loans**	**Net exposure after collateral**
Loans to customers	26,647,850	8,017,025	18,630,825

			December 31, 2009
	Maximum exposure	**Collateral pledged**	**Net exposure after collateral**
Loans to customers	34,665,664	15,017,058	19,648,606

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

The following table details credit ratings of financial assets held by the Organization as at December 31, 2010 and 2009:

	AAA	AA	A	B+	BBB	<BBB	Not rated	Total at December 31, 2010
Loans to customers	-	-	-	-	-	-	26,647,850	26,647,850

	AAA	AA	A	B+	BBB	<BBB	Not Rated	Total at December 31, 2009
Loans to customers	-	-	-	-	-	-	34,665,664	34,665,664

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

Geographical concentration

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

	The Republic of Azerbaijan	OECD countries	December 31, 2010 Total
FINANCIAL ASSETS			
Cash and cash equivalents	736,280	-	736,280
Loans to customers	26,647,850	-	26,647,850
TOTAL FINANCIAL ASSETS	**27,384,130**	**-**	**27,384,130**
FINANCIAL LIABILITIES			
Due to banks and other financial institutions	130,500	22,678,310	22,808,810
Other liabilities	345,994	-	345,994
TOTAL FINANCIAL LIABILITIES	**476,494**	**22,678,310**	**23,154,804**
NET POSITION	**26,907,636**	**(22,678,310)**	**4,229,326**

	The Republic of Azerbaijan	OECD countries	December 31, 2009 Total
FINANCIAL ASSETS			
Cash and cash equivalents	1,098,784	-	1,098,784
Loans to customers	34,665,664	-	34,665,664
TOTAL FINANCIAL ASSETS	**35,764,448**	**-**	**35,764,448**
FINANCIAL LIABILITIES			
Due to banks and other financial institutions	-	31,530,245	31,530,245
Other liabilities	193,239	-	193,239
TOTAL FINANCIAL LIABILITIES	**193,239**	**31,530,245**	**31,723,484**
NET POSITION	**35,571,209**	**(31,530,245)**	**4,040,964**

Liquidity risk

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

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL ASSETS							
Cash and cash equivalents	11%	10,244	-	-	-	-	10,244
Loans to customers	33%	822,430	1,047,944	14,778,130	9,999,346	-	26,647,850
Total interest financial bearing assets		**832,674**	**1,047,944**	**14,778,130**	**9,999,346**	**-**	**26,658,094**
Cash and cash equivalents		726,036	-	-	-	-	726,036
Total financial assets		**1,558,710**	**1,047,944**	**14,778,130**	**9,999,346**	**-**	**27,384,130**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	9.66%	130,500	348,373	1,390,422	13,165,350	7,774,165	22,808,810
Total interest bearing financial liabilities		**130,500**	**348,373**	**1,390,422**	**13,165,350**	**7,774,165**	**22,808,810**
Other liabilites		345,994	-	-	-	-	345,994
Total financial liabilities		**476,494**	**348,373**	**1,390,422**	**13,165,350**	**7,774,165**	**23,154,804**
Liquidity gap		1,082,216	699,571	13,387,708	(3,166,004)	(7,774,165)	
Interest sensitivity gap		259,922	312,169	4,742,468	2,028,011	(750,984)	
Cumulative interest sensitivity gap		**259,922**	**572,091**	**5,314,559**	**7,342,570**	**6,591,586**	

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL ASSETS							
Cash and cash equivalents	11%	427,825	-	-	-	-	427,825
Loans to customers	31.02%	350,051	688,472	17,308,180	16,318,961	-	34,665,664
Total interest financial bearing assets		**777,876**	**688,472**	**17,308,180**	**16,318,961**	**-**	**35,093,489**
Cash and cash equivalents		670,959	-	-	-	-	670,959
Total financial assets		**1,448,835**	**688,472**	**17,308,180**	**16,318,961**	**-**	**35,764,448**
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	9.29%	-	401,550	4,673,699	17,617,566	8,837,430	31,530,245
Total interest bearing financial liabilities		**-**	**401,550**	**4,673,699**	**17,617,566**	**8,837,430**	**31,530,245**
Other liabilities		193,239	-	-	-	-	193,239
Total financial liabilities		**193,239**	**401,550**	**4,673,699**	**17,617,566**	**8,837,430**	**31,723,484**
Liquidity gap		1,255,596	286,922	12,634,481	(1,298,605)	(8,837,430)	
Interest sensitivity gap		155,647	176,260	4,934,811	3,425,470	(820,997)	
Cumulative interest sensitivity gap		**155,647**	**331,907**	**5,266,718**	**8,692,188**	**7,871,191**	

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded in the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2010 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	9.66%	304,130	692,211	2,914,187	16,847,048	8,144,552	28,902,128
Total interest bearing financial liabilities		**304,130**	**692,211**	**2,914,187**	**16,847,048**	**8,144,552**	**28,902,128**
Other financial liabilities		345,994	-	-	-	-	345,994
		345,994	**-**	**-**	**-**	**-**	**345,994**
Total potential future payments for financial obligations		**650,124**	**692,211**	**2,914,187**	**16,847,048**	**8,144,552**	**29,248,122**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	December 31, 2009 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	9.29%	-	438,854	5,107,886	19,254,238	9,658,427	34,459,405
Total interest bearing financial liabilities		**-**	**438,854**	**5,107,886**	**19,254,238**	**9,658,427**	**34,459,405**
Other financial liabilities		193,239	-	-	-	-	193,239
		193,239	**-**	**-**	**-**	**-**	**193,239**
Total potential future payments for financial obligations		**193,239**	**438,854**	**5,107,886**	**19,254,238**	**9,658,427**	**34,652,644**

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Organization is exposed. There have been no changes as to the way the Organization measures risk or to the risk it is exposed in 2010.

Interest rate risk

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

Impact on profit before tax:

	As at December 31, 2010		As at December 31, 2009	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Financial assets:				
Cash and cash equivalents	102	(102)	4,278	(4,278)
Loans to customers	266,479	(266,479)	346,657	(346,657)
Financial liabilities:				
Due to banks and other financial institutions	(228,088)	228,088	(315,302)	315,302
Net impact on profit before tax	**38,493**	**(38,493)**	**27,077**	**(27,077)**

Currency risk

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

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

	AZN	**USD**	**December 31, 2010 Total**
FINANCIAL ASSETS			
Cash and cash equivalents	349,005	387,275	736,280
Loans to customers	8,335,892	18,311,958	26,647,850
TOTAL FINANCIAL ASSETS	**8,684,897**	**18,699,233**	**27,384,130**
FINANCIAL LIABILITIES			
Due to banks and other financial institutions	3,516,215	19,292,595	22,808,810
Other liabilities	258,087	87,907	345,994
TOTAL FINANCIAL LIABILITIES	**3,774,302**	**19,380,502**	**23,154,804**
OPEN CURRENCY POSITION	**4,910,595**	**(681,269)**	**4,229,326**

	AZN	**USD**	**December 31, 2009 Total**
FINANCIAL ASSETS			
Cash and cash equivalents	268,551	830,233	1,098,784
Loans to customers	8,289,135	26,376,529	34,665,664
TOTAL FINANCIAL ASSETS	**8,557,686**	**27,206,762**	**35,764,448**
FINANCIAL LIABILITIES			
Due to banks and other financial institutions	3,034,422	28,495,823	31,530,245
Other liabilities	138,704	54,535	193,239
TOTAL FINANCIAL LIABILITIES	**3,173,126**	**28,550,358**	**31,723,484**
OPEN CURRENCY POSITION	**5,384,560**	**(1,343,596)**	**4,040,964**

Currency risk sensitivity

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

	As at December 31, 2010		As at December 31, 2009	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit and loss accounts	(68,127)	68,127	(110,882)	110,882

Price risk

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

Limitations of sensitivity analysis

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

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

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

24. SUBSEQUENT EVENTS

On February 3, 2011 the Organization signed a new borrowing agreement with "Technikabank" OJSC for total amount of AZN 2,000,000.

On March 9, 2011 the Organization received a new tranche from the International Financial Corporation amounted to USD 1,300,000.

On February 3, 2011 the Organization partially repaid its liability to VDK Spaarbank (Belgium) in the amount of USD 1,500,000.