PROSPECTUS

For Admission of Notes for Trading on the Riga Stock Exchange

OJSC "TECHNIKABANK"

Security:	Unsecured notes
Number of securities:	100,000
Nominal:	USD 100.00
Size of the issue:	USD 10,000,000
Nominal coupon rate:	13.5%
Maturity:	15 August 2011
Put option:	15 February 2010

15 December 2008

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1. Terms and Abbreviations Used

Arranger	:	AS “Parex banka” (legal address: Smilsu iela 3, Riga, LV – 1522, Latvia)
ATM	:	Automatic teller machine
AZN	:	Azerbaijani Manat, the official currency of the Republic of Azerbaijan
Business day	:	A day (except Saturday and Sunday) when the NBA is open for business
Coupon	:	Interest payment for the Notes
Custodian	:	Credit institution or investment brokerage company that has obtained the license from its local regulatory authority
EUR	:	Euro (single currency of the member states of the European Monetary System)
FCMC	:	Financial and Capital Market Commission of the Republic of Latvia (legal address: Kungu iela 1, Riga, LV-1050, Latvia)
Financial statements	:	Issuer’s audited 2006 and 2007 annual financial reports, and unaudited interim financial reports for the first half of 2007 and 2008
IFRS	:	International Financial Reporting Standards
Interest calculation period	:	The period of time between two Coupon payment dates
Issuer, Technikabank, or Bank	:	Open joint stock company “Technikabank” (legal address: 1107 Ataturk Avenue, Baku AZ1069, Azerbaijan)
Legal acts, or Legislation	:	All legal acts including FCMC, RSE and LCD regulations, which were in force in Latvia at the time of the Notes issue and which will be in force until the maturity date of the Notes
LCD	:	Stock company “Latvian Central Depository” (legal address Valnu iela 1, Riga, LV – 1050, Latvia)
LIBOR	:	Annual London inter-bank offer rate for the respective currency and respective period
Nominal or Principal	:	Face value of a Note
Note	:	Debt security issued by the Issuer with ISIN LV0000800746 that is being admitted for trading on the RSE according to this Prospectus
Note holder	:	Private person or legal entity that is an owner of one or more Notes and has a claim against the Issuer as stipulated by the Legislation
NBA	:	National Bank of Azerbaijan (legal address: 32, R. Behbudov Str., Baku AZ 1014; e-mail address: www.nba.az)
Potential Investor	:	A private person or legal entity that has expressed interest or is planning to purchase for its own account one or more Notes
RSE	:	The Riga Stock Exchange (legal address: Valnu iela 1, Riga, LV-1050, Latvia)
SME	:	Small and medium sized enterprise
Prospectus	:	This document, which after the registration with the FCMC, entitles the Issuer to list the Notes on the RSE
USD	:	US Dollar (the official currency of the United States of America)

2. Responsible Persons

We, Samir Huseynov, chairman of the Executive Board of OJSC “Technikabank”, Khagani Guluzadeh, first deputy chairman of the board, Zulfugar Zulfugarli, deputy chairman of the board, Nijat Abdullayev, deputy chairman of the board, Samir Bakhsaliyev, deputy chairman of the board, Bahruz Nadirov, deputy chairman of the board, and Musannif Salaxov, deputy chairman of the board, on behalf of Technikabank represent and warrant the following to Potential Investors and Note holders:

- to our best knowledge the information that is given in the Prospectus is true, complete and correct in all material respects and there are no unmentioned facts that could influence the accuracy of information included in it;
- Technikabank is a legal person duly incorporated and validly existing under the laws of the Republic of Azerbaijan;
- Technikabank is entitled to conduct its business pursuant to the articles of association and Azerbaijani law;
- the obligations assumed by Technikabank in connection with the Notes are lawful, valid and legally binding;
- the compliance with the obligations arising from the Notes by Technikabank is not and will not result in infringement upon:
    - any legislation,
    - the articles of association of Technikabank, or
    - any contract or agreement, by which Technikabank or its assets are bound;
- Technikabank has the power and authority to comply with the obligations arising from the Notes;
- no circumstance exists which, under the Prospectus, might be considered as an event of default;
- no judicial or arbitration procedure concerning Technikabank is pending or, so far as Technikabank is aware, threatened against Technikabank, which, if adversely determined, would reasonably result in a material adverse effect on the financial status of Technikabank.

Samir Huseynov

Khagani Guluzadeh

Samir Bakhshaliyev

Nijat Abdullayev

Bahruz Nadirov

Zulfugar Zulfugarli

Musannif Salahov

3. Summary

This section of the Prospectus is a summary and it should be read as an introduction to the Prospectus. Any decision to invest in the securities should be based on consideration of all information in the Prospectus by the Potential Investor.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff Note holder might, under the national legislation of the European Union Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated;

and civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.

3.1. Summary of the Securities to be Admitted for Trading

Issuer	OJSC "Technikabank"
Security	Notes
Size of the Issue	USD 10,000,000 (ten million)
Number of Notes	100,000 (one hundred thousand)
Notes nominal value	USD 100.00 (one hundred)
Nominal Coupon annual interest rate	13.5%
Coupon payment dates	Quarterly on 15 November, 15 February, 15 May and 15 August
Notes maturity date	15 August 2011
Notes maturity value	USD 100.00 (one hundred) per 1 (one) Note
Early redemption of Notes (call option)	The Issuer does not have the right to redeem the Notes before the maturity date except when it purchases the Notes on the secondary market.
Put option	Note holders have a right to demand early redemption of the Notes according to the provisions set out in the Prospectus.
Regulated market	Baltic bond list of the RSE

3.2. Risks

The risk factors that influence Technikabank are macroeconomic and increasing competition risks, borrowers' credit risk, market risks (interest rate risk, foreign exchange risk, price risk), liquidity risk, operational risks and reputation risks. Risks related to the Notes are liquidity and price risks. Detailed information on the impact of different risks on Technikabank and its Notes can be found in Section 4 "Risk Factors" of the Prospectus. Potential Investors and Note holders should independently analyse risks because risks can substantially influence Technikabank's ability to pay interest on the Notes and repay the Notes face value.

3.3. Issuer

The Issuer is a universal commercial bank founded in 1994 in the Republic of Azerbaijan. It provides a full range of standard banking services, such as money transfers, foreign exchange operations, current accounts, terms deposits, mortgage lending, payment cards, storage of valuables, and others, to both individual and corporate customers. The Issuer also offers brokerage, leasing and insurance solutions through its wholly owned subsidiaries – Technika Capital Management Limited LLC (TCML), Technika Leasing LLC and Alfa Insurance LLC.

According to the data of the NBA, as of 30 September 2008 Technikabank was the fourth largest bank and the third largest privately-owned bank in the Republic of Azerbaijan in terms of assets with a market share of 4.5%; the 4th - by loans granted to customers; the 5th – by volume of customer deposits; and the 6th - by capital and reserves. Technikabank had a 3.8% market share of attracted customer deposits and 5.4% market share of granted loans.

According to the unaudited half year results, as of 30 June 2008 Technikabank's assets stood at AZN 407 million (USD 510.9 million), capital and reserves were AZN 47.2 million (USD 58.2 million), the size of loans and advances to customers was AZN 290 million (USD 357.3 million) and the volume of the deposit portfolio amounted to AZN 198.9 million (USD 245 million).

Being one of the largest commercial banks in Azerbaijan, Technikabank has a strong client base and serves more than 80,000 clients through its wide branch and ATM network, comprising 35 branches, 2 service outlets, 3 exchange points and 46 ATMs. Technikabank employs more than 530 employees.

Technikabank is one of the few banks in Azerbaijan that undergoes rating graduation from international rating agencies Fitch Ratings and Moody’s Investors Service. Technikabank is rated with a long-term issuer default rating of "B-", a short term rating of "B", an individual rating of “D/E”, and a support rating “5” with a “stable” outlook from Fitch Ratings. The rating agency Moody’s Investors Service has assigned the following ratings to Technikabank: bank financial strength rating “E+”; long-term deposit rating of “B2” and a short term deposit rating “Not-Prime”. The rating outlook from Moody’s is “negative”.

Technikabank’s members of the Supervisory Council are Etibar Aliyev (chairman), Natiq Aghazada (member), Mirfalakh Jabbarov (member), Frank Mosier (member) and Majid Asadov (member).

Technikabank’s members of the Executive Board are Samir Huseynov (chairman), Khagani Guluzadeh (first deputy chairman), Nijat Abdullayev (deputy chairman), Samir Bakhsaliyev (deputy chairman), Bahruz Nadirov (deputy chairman), Zulfugar Zulfugarli (member), and Musannif Salahov (member).

Technikabank’s shareholders are a privately-owned company World Wines (Azerbaijan) - 75%, chairman of the Supervisory Council Etibar Aliyev - 15%, and Kazimir Caspian Fund Ltd. (registered in the Cayman Islands and domiciled in the Russian Federation) – 10%. World Wines is in its turn 100%-owned by the resident of Azerbaijan Adil Mammedov.

3.4. Auditors

OJSC “Technikabank” financial statements for 2006, 2007 were audited by PricewaterhouseCoopers Eastern Europe B.V. Azerbaijan branch (legal address: The Landmark Office Plaza, 5th floor, 96 Nizami Street, Baku, AZ1010, Azerbaijan). Technikabank has not changed the auditor since 2002.

Auditors have not verified the information included in the Prospectus.

3.5. Selected Financial Information

Technikabank's consolidated profit or loss calculations were taken from the annual audited financial statements for 2006 and 2007, and unaudited interim financial statements for the first six months of 2007 and 2008. The mentioned financial statements were prepared in line with IFRS.

AZN '000	**01.01.2008 – 30.06.2008**	**01.01.2007 – 30.06.2007**	**2007**	**2006**
Interest income	25,044	9,000	28,355	8,147
Interest expense	(12,420)	(4,349)	(13,962)	(3,174)
Net interest income	**12,624**	**4,651**	**14,393**	**4,973**
Provision for loan impairment	(1,708)	(2,639)	(4,624)	(1,755)
Net interest income after provision for loan impairment	**10,916**	**2,012**	**9,769**	**3,218**
Fee and commission income	6,370	4,702	12,166	6,105
Fee and commission expense	(759)	(637)	(1,763)	(699)
Gains less losses from trading in foreign currencies	1,180	827	2,100	1,124
Gains on revaluation of investment properties	-	-	140	-
Loss on revaluation of premises	-	-	(70)	-
Foreign exchange translation gains less losses/ (losses less gains)	1,996	99	189	(59)
Negative goodwill	-	-	-	216
Insurance premiums written	406	694	1,535	-
Reinsurance premiums ceded	(32)	(25)	(166)	-
Increase in provision for unearned premiums	181*	(493)*	(864)	-
Increase of reinsurer's share of provision for unearned premiums	-	-	112	-
Claims incurred	(158)	(66)	(235)	-
Other operating income	136	84	262	29
Administrative and other operating expenses	(6,617)	(3,717)	(8,008)	(4,362)
Profit before tax	**13,619**	**3,480**	**15,167**	**5,572**
Income tax expense	(3,068)	(1,708)	(3,415)	(1,291)
Profit for the year	**10,551**	**1,772**	**11,752**	**4,281**

** net of reinsurance*

Technikabank's consolidated balance sheet was taken from the annual audited financial statements for 2006 and 2007, and unaudited interim financial statements for the first six months of 2008. The mentioned financial statements were prepared in line with IFRS accounting standards.

AZN '000	30/06/2008	31/12/2007	31/12/2006
Cash and cash equivalents	58,317	53,227	42,664
Mandatory cash balances with NBA	9,097	8,413	6,178
Due from other banks	20,659	25,494	2,540
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	-	4,088
Loans and advances to customers	289,978	237,776	68,091
Investment securities available for sale	460	460	548
Investment properties	145	145	282
Premises and equipment	24,154	20,310	7,965
Intangible assets	114	95	108
Other assets	4,090	3,486	1,683
Total assets	**407,014**	**349,406**	**134,147**
Due to other banks	67,664	55,748	4,780
Liabilities to customers under brokerage agreements	13,888	10,793	43
Customer accounts	198,865	196,212	80,332
Debt securities in issue	25,837	4,679	1,768
Term borrowings from other banks and financial institutions	44,351	38,917	21,377
Current income tax liabilities	1,966	1,852	450
Deferred income tax liabilities	1,341	1,343	919
Other liabilities	5,886	3,197	2,633
Total liabilities	**359,798**	**312,741**	**112,302**
Share capital	26,912	26,912	11,912
Share premium	3,464	3,464	3,808
Retained income	14,211	3,620	4,913
Revaluation reserve for premises	2,629	2,669	1,212
Total equity	**47,216**	**36,665**	**21,845**
Total liabilities and equity	**407,014**	**349,406**	**134,147**

4. Risk Factors

4.1. Important Notice

The risks described in this section may potentially undermine Technikabank's ability to service its obligations and, at the extreme, may cause the Bank's insolvency and default of the Notes. Note holders should bear in mind that the repayment of Notes and the relevant Coupon payments are not guaranteed by third parties. This section may not cover all potential risks that may affect Technikabank.

4.2. Risks Related to Azerbaijan

General. Since independence in 1991, Azerbaijan has undergone a substantial political transformation from a constituent republic of the former Soviet Union to an independent sovereign state. Concurrently with this transformation, Azerbaijan has been progressively changing to a market economy. Although some progress has been made since independence to reform Azerbaijan's economy and its political and judicial systems, Azerbaijan might lack the necessary legal infrastructure and regulatory framework that is essential to support market institutions, the effective transition to a market economy and broad-based social and economic reforms. Set forth below is a brief description of some of the risks incurred by investing in Azerbaijan, although the list is not an exhaustive one.

Risks Associated with Emerging Markets including Azerbaijan. Investors in emerging markets such as Azerbaijan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant political, economic and legal risks. Azerbaijani economy is characterised by existence of non-convertible currency, high inflation and strong growth. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in economic conditions and may occasionally experience lack of liquidity. Investors should also note that emerging economies such as Azerbaijan's are subject to rapid change and that the information set out in the Prospectus may become outdated relatively quickly. Accordingly, Potential investors and Note holders should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate.

Enforcement of foreign judgements. Technikabank and substantially all of its assets are located in the Republic of Azerbaijan. In addition, all directors and officers of Technikabank are residents of the Republic of Azerbaijan and substantially all of their personal assets are located in the Republic of Azerbaijan. As a result, it may be difficult for foreign investors of various jurisdictions to effect litigation process in the same manner as in their own jurisdiction on Technikabank or its directors or officers in connection with any lawsuits against Technikabank or such persons related to the Notes. Furthermore, foreign investors may have difficulties enforcing judgments of foreign courts against Technikabank or its directors or officers in the Republic of Azerbaijan.

Currency regulation. Although some restriction on foreign currency transfers from Azerbaijan exists, Technikabank should be able to make all the appropriate Coupon and Principal transfers. Under current regulations Technikabank does not need to receive any permission on currency transfer for Coupon or Principal payments.

4.3. Risks Related to Technikabank

Activities of Technikabank are related to taking borrowers and business partners' credit risk. Technikabank's ability to fulfil obligations to Note holders depends on whether borrowers and business partners will fulfil their obligations towards Technikabank. A relatively small number of borrowers have a considerable share in Technikabank's loan portfolio (the share of the 10 largest borrowers in the loan portfolio as of 31 December 2007 was 9.69%). In some cases, Technikabank may be unable to assess the borrowers' credit risk correctly. Also, the share of unsecured lending was high as of 30 June 2008, accounting for 24% of the total loans and advances to customers. Thus, Technikabank is exposed to significant borrowers' credit risk.

The activities of Technikabank are related to taking market risk, particularly interest rate risk, foreign currency risk and market price risk.

Technikabank in its operations is also affected by:

1) liquidity risk, as a relatively small number of clients account for a considerable portion of the total amount of the attracted funding (5 largest customers constitute 32.9% of all attracted deposits);

2) operational risks;
3) competition in the banking industry;
4) reputation risks.

Also, successful operations of Technikabank depend on the ability to motivate and retain both top and middle management personnel and on opportunities to attract new employees.

4.3.1. Competition Risk

There were 45 commercial banks operating in Azerbaijan as of 30 September 2008. The banking sector is dominated by the state-controlled International Bank of Azerbaijan (42.8% of total banking sector assets as at the end of the 3rd quarter 2008) that enjoys relatively high credit ratings. Technikabank is the 4th largest privately-owned bank in Azerbaijan with a 4.5% market share. Its major competitors are Bank Standard (6.7% market share), Unibank (4.7% market share), Kapital Bank (4.3% market share) and Bank Respublika (4.1% market share). The market share of other main competitors serving retail clients and SMEs through a branch network does not exceed 3.9%: Xalq Bank – 3.9%, Nikoil Bank (3.4%) and Azerdemiryolbank (2.3%). As of 30 September 2008, 14 banks in Azerbaijan had foreign ownership. Also, since regain of sovereign independence there has been significant consolidation in the banking sector: from 253 banks in 1993 to 45 banks in 2008. In case of further consolidation in the industry or if other banks attract foreign interest Technikabank’s positions in its main client segment might deteriorate leading to financial distress. However, it is likely that the overall rapid growth of the banking industry in terms of loan portfolio and deposits will offer opportunities to all the banks regardless of size and ownership structure.

4.3.2. Capital Adequacy

The Basle Committee on Banking Regulation and Supervisory Practises (the ‘‘Basle Committee’’) has set international standards for capital adequacy for banks. The minimum capital adequacy ratio recommended by the 1988 Basle Committee guidelines is 8%.

Under the current capital requirements set by the NBA banks have to maintain a total capital ratio and a ratio of Tier I capital to risk weighted assets above the prescribed minimum level. As at 31 December 2007, these minimum levels were 12% and 6% respectively (2006: 10% and 6%).

The total capital adequacy level maintained by Technikabank exceeds the minimum requirements set out by the Basle Committee and the NBA. As at the end of 2007 the total capital ratio was 15% and Tier I capital to risk weighted assets ratio was 12%, while in 2006 the ratios were 19% and 16%, respectively.

However, if the level of Technikabank’s loan portfolio continues to grow significantly and the Bank fails to generate sufficient level of profits to ensure consistent growth in equity through retained earnings, Technikabank may need to raise new capital to maintain the capital adequacy ratios. Any failure by Technikabank to maintain certain capital adequacy ratios could lead to the imposition of sanctions by the regulator, which could have an adverse effect on Technikabank’s results of operations and financial condition.

4.3.3. Dependence on Key Employees

Technikabank’s success in growing its business will depend, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. Technikabank relies on its senior management for the implementation of its strategy and operation of its day-to-day activities. Competition in Azerbaijan for personnel with relevant expertise is intense due to a disproportionately low number of available qualified and/or experienced individuals compared to demand. If Technikabank is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business and results of operations could be adversely affected.

4.3.4. Ownership Concentration/ Change of Control

Technikabank’s principal beneficial shareholder is Adil Mammadov, controlling 75% of the share capital. By virtue of such shareholding, the principal shareholder has the ability to influence the Bank’s business significantly through his ability to control actions which require shareholders approval. If circumstances were to arise where the interests of the principal shareholder conflict with the interests of the Note holders, Note holders could be disadvantaged by any such conflict, as the principal shareholder could take actions contrary to the Note holders’ interests.

4.4. Risk Management

Technikabank in its activities pays large attention to risk identification and management. The risk management is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal or reputation risks. The primary objective of the financial risk management function is to correctly evaluate the financial risks and ensure that the Issuer’s exposure to risks stays within the established limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

4.4.1. Financial Risks

The main financial risks that Technikabank takes are credit risk, market risk (interest rate risk, foreign exchange rate risk, market price risk) and liquidity risk. The goal of financial risks management is to ensure that these risks do not exceed a level acceptable to the Issuer that is achieved by setting risk limits and ensuring that the limits are observed.

Credit Risk

Credit risk includes the risk of untimely or incomplete settlement of debtor balances. The credit risk management covers all stages of the credit process, from loan origination and approval to collection. The credit risk is managed by the Asset Liability Committee (ALCO), the Risk Management and Credit Committees reporting directly to the Supervisory Council on a monthly basis. The committees have developed the guidelines for maximum risk levels in accordance with the NBA’s Risk Management Standards and Procedures, approved by the management board of the NBA as of 29 December 2004, classification of assets and Technikabank’s internal asset management policy.

Technikabank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are daily monitored by the relevant responsible bodies of the Bank such as the Credit Committee. The risks are also monitored on a monthly basis by the Risk Management Committee and are subject to an annual or more frequent review of risk management procedures by the Risk Management Committee. Limits on the level of credit risk by product, borrower and industry sector are reviewed regularly by the Executive Board.

The exposure to one borrower, including banks and brokers, is further restricted by the NBA regulatory sub-limits. Actual exposures against limits are monitored on a daily basis. The following sub-limits are applied by Technikabank:

1) the maximum loan amount for one borrower or related borrowers' group is, as follows:

- 20% of the Bank's total equity if the market value of the collateral is at least equal to 100% of the value of the loan; and
- 7% of the Bank's total equity if the market value of the collateral is less than 100% of the loan value;

2) for large loans without collateral exceeding 10% of the Bank's total equity, such loans in aggregate must not exceed 800% in total of Technikabank's total equity;

3) the total maximum amount of Technikabank's loans to related parties must not exceed

- 20% of the Bank's total equity; and
- 10% of the Bank's equity per legal person; or
- 3% of the Bank's equity per physical person.

Exposure to credit risk is managed through the regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations. This analysis is undertaken on a monthly basis by the Credit Committee. The analysis is based on information including overdue payments, any changes in the financial condition of customers, substantial changes in any segment of the market or country's economic sector, or any negative information regarding the customers’ reputation.

Under Technikabank’s credit approval structure, branches are authorised to issue loans up to AZN 5,000 (approximately USD 6,000). The Credit Committee, comprising members of the Executive Board, is authorised to approve loans between AZN 5,000 and AZN 100,000 (~USD 120,000). Loans in the excess of AZN 100,000 and up to AZN 300,000 (~USD 360,000) are considered by the full Executive Board in addition to the Credit Committee, while loans exceeding AZN 300,000 are subject to approval be the Supervisory Council. The Risk Management Department supervises the approval of all loans and their collateral and monitors asset quality. The value of collateral cannot be less than 70% of the loan value. Such forms of collateral as real estate, cars, machinery, equipment and others have a mandatory requirement to be insured.

Technikabank’s loans and advances to customers have grown at sustainable pace, most recently growing by 249% in 2007. Continuing growth in the loan portfolio size has increased Technikabank’s credit exposure. In addition, Technikabank’s strategy of further diversifying its customer base, through increased lending to medium and small corporate clients and retail customers, may also increase the credit risk exposure in Technikabank’s loan portfolio. Failure to manage growth and development successfully and to maintain the quality of its assets could have an adverse effect on Technikabank’s financial condition and results of operations.

Interest Rate Risk

Technikabank in its activities is subject to interest rate risk that relates to the possibility of experiencing losses as a result of unfavourable fluctuations in market interest rates.

The Executive Board monitors on a daily basis and sets limits on the level of mismatch of interest rate reprising that may be undertaken. In the absence of any available hedging instruments, Technikabank normally seeks to match its interest rate positions.

Technikabank mainly controls interest rate risk by maintaining a substantial positive spread between interest income rate and interest expense rate. As at 30 June 2008, interest income of the Bank reached AZN 25 million while interest expense was AZN 12 million. Technikabank also controls duration of its securities portfolio, diminishing duration if necessary. Interest rate risk of the Bank is limited as interest-bearing liabilities and interest-earning assets are predominantly fixed-rated and short-term. However, any significant and unanticipated interest rate movements may have a material adverse effect on the business, financial condition, results of operations and prospects of Technikabank.

Foreign Currency Risk

Technikabank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

The Executive Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Technikabank does not deal in any derivative instruments for speculative or hedging purposes. Such instruments are not commonly used in Azerbaijan.

In accordance with the guidelines of the management board of the NBA on Determining and Regulating the Open Foreign Currency Position, the open foreign currency position of Technikabank in any single currency should not exceed 10%, and in all foreign currencies, 15% of the Bank’s total equity.

Technikabank has exposure to the USD. As at 31 December 2007, 6.2% of total loans were in USD. Technikabank expects the AZN to appreciate against the USD in the future, therefore Technikabank's policy has been to make loans mostly in AZN. The management of Technikabank believes that Technikabank will be able to obtain the resources necessary in order to cover any losses resulting from open currency positions without a material impact on Technikabank, and is actively taking measures to reduce such risks, including active forecasting the appreciation of the AZN against the USD, as well as monitoring studies by the International Monetary Fund (IMF) and entering into swap agreements in order to reduce exposure to USD amounts in the future. However, there is no significant swap market in Azerbaijan at present.

Although Technikabank is subject to limits on its open currency positions pursuant to regulations and its internal policies, future changes in currency exchange rates and the volatility of the AZN may adversely affect Technikabank’s foreign currency positions.

The principal rate of exchange used for translating foreign currency balances set by the NBA was USD 1 = AZN 0.8714 as at 31 December 2006; USD 1 = AZN 0.8453 as at 31 December 2007; and USD 1 = AZN 0.8116 as at 30 June 2008.

Liquidity Risk

Technikabank in its activities is subject to liquidity risk which is caused by the mismatch of the assets and liabilities term structure. In case Technikabank’s liquid assets are insufficient to meet current obligations, the Bank may be forced to sell its assets and attract funding at unfavourable cost in order to meet its obligations.

Technikabank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. Liquidity risk is managed by ALCO, seeking to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly to unforeseen liquidity requirements.

ALCO calculates liquidity ratios on a monthly basis in accordance with the requirement of the NBA. According to instructions set by the NBA, Technikabank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. As at 30 June 2008 the liquidity ratio was 43%, as compared with 42% at the end of 2007 and 88% at the end of 2006.

The Treasury Department of the Bank receives information about the liquidity profile of the consolidated financial assets and liabilities, and provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure the maintenance of sufficient liquidity.

Although Technikabank believes that its level of access to domestic inter-bank markets and its liquidity risk management policy allow and will continue to allow the Bank to meet its short-term and long-term liquidity needs, any maturity mismatches between Technikabank’s assets and liabilities (including by reason of the withdrawal of large deposits) may have an adverse effect on its financial condition and results of operations.

4.4.2. Operational Risks

Operational risk presents the possibility to incur losses due to the impact of inadequate or unsuccessful internal processes, activities by personnel, systems, or external circumstances. Technikabank’s organisational structure, precise job specifications, clear division of responsibilities, as well as control procedures allow the Bank to lower operational risks. Technikabank’s Internal Audit is constantly working to ensure that the Bank’s activities comply with applicable legal acts, approved plans, policies and other internal documents.

4.4.3. Reputation Risk

Technikabank recognizes the importance of preventing of laundering of proceeds derived from criminal activities and terrorism financing. The Bank implemented an internal control system, which ensures timely control of clients and their business partners. The system is constantly updated in accordance with best banking practice and international requirements. Technikabank’s personnel are regularly trained in order to ensure execution of the preventive measures.

4.5. Risks Connected to the Public Circulation of the Notes

4.5.1. Liquidity Risk

Although the Notes will be listed on the Riga Stock Exchange (List of Debt securities), neither Technikabank nor any other party guarantees minimum liquidity for the Notes. Potential Investors and Note holders should be aware that it might be difficult to sell the Notes in the secondary market.

4.5.2. Price Risk

The Notes will be redeemed at par but while they are listed on the RSE the price may fluctuate significantly. Neither Technikabank nor any other party undertakes to provide any price support.

5. Information on the Securities to Be Admitted for Trading

5.1. Use of the Proceeds

Funds raised as a result of the Notes issue will be used in the ordinary course of business of Technikabank. One of the fundamental strategic goals of the management is to continue the development of retail and SME financing. Therefore, the funds received from the issue of the Notes will be used to increase the loan portfolio as well as to maintain assets and liabilities term structure.

5.2. Information on the Notes to Be Admitted for Trading

5.2.1. General Information

The issued Notes are bearer and any person or entity that holds the Notes in his securities account has the right to receive accrued interest and the Principal payment.

The issue size is 100,000 Notes with nominal value of USD 100.00 for one Note and total nominal value of USD 10,000,000. Notes issue ISIN (International Security Identification Number) assigned by the LCD is LV0000800746.

5.2.2. Legislation

The Notes were issued according to the legal acts of the Republic of Latvia and the Republic of Azerbaijan. The Notes accounting in depository is arranged in compliance with the legal acts of the Republic of Latvia (Financial Instrument Market Law) and the LCD regulations.

All disputes arising in relation to the Notes will be settled in the courts of the Republic of Latvia according to the Latvian legislation in force.

5.2.3. Form and Calculation of the Notes

The Notes are in dematerialised form and appear as a book entry in the Latvian Central Depository, which provides the accounting function for the Notes.

5.2.4. Currency of the Notes

The Notes are denominated in USD.

5.2.5. Subordination of the Notes

The Notes rank *pari passu* with other unsecured obligations of Technikabank. In case of its insolvency, the Note holders will be entitled to recover their investment on the same terms as other creditors in the respective claims’ group according to the Azerbaijani legal acts. There are no contracts or other transaction documents that would subordinate the claims of the Note holders to other unsecured liabilities of Technikabank.

Funds received from the State Mortgage fund of Azerbaijan and the State Fund for support of entrepreneurship have a priority claim on the specific loans granted to Technikabank’s clients.

5.2.6. Rights and Restrictions Connected with the Notes

Any Note holder has the right to receive accrued interest and the Principal payment in accordance with Sections 5.2.7. “Coupon Payments” and 5.2.8. “Procedure of the Notes Repayment” of the Prospectus, as well as exercise other rights fixed in the Prospectus and Latvian legislation.

5.2.7. Coupon Payments

The Coupon rate for the Notes is 13.5% per annum and it is fixed till the maturity of the Notes. According to the Azerbaijani tax code a 10% withholding tax shalll apply to the Coupon payments therefore the actual Coupon rate is 12.15%. All other taxes which are or become due and payable in accordance with any law or regulation in force at that time on the territory of the Republic of Latvia are to be paid by Note holders and not to be reimbursed by Technikabank.

Coupon payments are made on a quarterly basis – on the 15th of November, the 15th of February, the 15th of May and the 15th of August. The first payment is done on 15 November 2008, the last – on 15 August 2011. Coupon payments are done through the LCD in accordance with the LCD regulations

No 8 "On the dividend, interest rate, principal and other income payment" that regulate the terms of repayment of income for debt securities.

Technikabank undertakes to transfer the sum 1 (one) Business day prior to the Coupon payment date to the LCD.

If the date of a Coupon payment is a holiday Technikabank makes the relevant Coupon payment on the first Business day after the holiday. However if the closest Business day after the holiday occurs in the next month, the Coupon payment is made on the Business day preceding the holiday.

The Coupon payment is determined according to the following formula:

CPN = F * C / 4, where

CPN – value of a Coupon in USD;
F – Nominal;
C – Coupon annual interest rate.

If the Issuer has not made Coupon or Principal payments on the dates stated in the Prospectus the Note holders have the right to submit claims for Coupon and Principal repayments no earlier than 5 (five) Business days after the relevant Coupon or Principal payment date.

5.2.8. Procedure of the Notes Repayment

The Principal of the Notes will be repaid as a lump sum at the date of maturity of the Notes. Note holders will receive USD 100.00 for each Note. The Notes mature on 15 August 2011.

Technikabank will make payment of Principal of the Notes on the Notes maturity date through the LCD in accordance with the LCD regulations No 8 " On the dividend, interest rate, principal and other income payment" that are in force. Technikabank will transfer the Principal of the Notes in one payment 1 (one) Business day prior to the date of maturity of the Notes.

If the Notes repayment date is a holiday, Technikabank will repay Principal of the Notes on the first Business day after the holiday observing the terms stated in this section. However, if the nearest Business day after the holiday falls in the next month, Principal of the Notes is to be repaid on the Business day preceding the holiday.

Technikabank does not have the right to repay Principal prior to maturity (*call option*), except cases when the Notes are purchased on the secondary market. If Technikabank purchases the Notes on the secondary market and takes the decision on repayment of the Notes, the Bank at the latest of 5 days prior to the date of redemption of the Notes puts the corresponding announcement in the information system of the RSE, indicating the date of redemption and the amount of the Notes.

Technikabank undertakes to immediately repay Principal and the accrued interest of the Notes in case its license issued by the National Bank of Azerbaijan (see Section 11.6. "Licenses") is cancelled or suspended.

5.2.9. Put Option

Note holders have the right to demand repayment of Principal on 15 February 2010. In order to exercise the put option Note holders must submit an appropriate request indicating a number of the Notes to be put to the Arranger from 2 January 2010 to 31 January 2010. The Arranger will account all requests and inform Technikabank not later than on 1 February 2010 at 18:00 (Riga time zone) by sending a fax message to Technikabank with a total number of the Notes that Note holders wish to put. Technikabank then shall transfer an amount in US dollars to the Arranger to fully satisfy all the requests. The Arranger shall inform the LCD about the number of the Notes redeemed.

5.2.10. Yield and Accrued Interest Calculation

The yield of the Notes or yield rate is an interest rate (using bond equivalent yield (BEY) method), which equals the discounted cash flow of the Notes (discounting the cash flow with this yield rate) to the price of the Notes.

The yield rate is calculated with the aid of iteration process by changing the value of the yield rate until the discounted cash flow of the Notes equals the price of the Notes.

$$P = \sum_{i=1}^{i} 100 * C / 4 / (1 + YTM / 4)^{d / 90} + 100 / (1 + YTM / 4)^{d / 90}, \text{ where}$$

P – Price per Note including accrued Coupon;

C – Coupon annual interest rate;

YTM – yield rate;

i - the number of Coupon payments till maturity date;

d – the number of days till the corresponding date of Coupon payment or Principal payment using 360 days in one year / 30 days in one month day count method.

The accrued Coupon is calculated assuming that there are 360 days in one year and 30 days each month (according to the convention – „European 30/360”). Accrued interest between Coupon payment dates shall be calculated as follows:

AI = F x C / 360 x D, where
AI – accrued interest;
F – nominal value;
C – Coupon annual interest rate;

D – days from the beginning of the Coupon accrual period using 30/360 day count method.

5.2.11. Representation of the Note Holders

It is not envisaged to create any organization or trustee that would represent the Note holders jointly. In case of the insolvency of Technikabank, every Note holder has the right to represent his own interests in creditors’ meetings. The Note holders will have equal rights for satisfaction of their claims with other creditors in the same group of claims.

5.2.12. Decisions on the Notes Issue

On 25 June 2008, Technikabank’s Supervisory Council passed the decision (Minutes No. 25) to issue debt securities (Notes), to conduct offering of the Notes and to include the Notes in the regulated market, as well as to authorise the Executive Board with the right of signing agreements or any other documents. On 15 December 2008 the Supervisory Council accepted this Prospectus (Minutes No. 52).

5.2.13. Restrictions on Free Circulation of the Notes

There are no restrictions regarding transfer (sale and purchase) of the Notes in the secondary market.

6. Special Conditions

6.1. Event of Default

Technikabank is in default if at least one of the following occurs:

- the Bank has not paid the Coupon in full amount for more than 5 Business days including a case when changes in tax legislation may limit the Bank’s ability to make the full Coupon payment;
- the Bank has not paid the Principal in full amount for more than 5 Business days including a case when changes in tax legislation may limit the Bank’s ability to make the full Principal payment;
- the Bank has not fulfilled other liabilities according to terms of respective liability;
- there has been submitted insolvency claim by the Bank or by the third party in the appropriate state authorities of Azerbaijan;
- the Bank has filed for liquidation in the appropriate state authorities of Azerbaijan;
- state authorities of Azerbaijan have cancelled, revoked or suspended license(s) necessary to conduct current business operations;
- the Bank fails to comply with the liquidity and capital adequacy requirements of the National Bank of Azerbaijan;
- the Bank collaterises or otherwise encumbers more than 25% of its total assets which is determined according to the date available in the last audited report.

In the case of non-compliance or inadequate compliance with a payment obligation arising from the Notes, the Note holder in question shall be entitled to require and Technikabank shall be obliged to pay late payment interest which shall accrue on the outstanding amount as of the day following the due date for payment until the day of discharge of the payment obligation at the rate of 0.05% (zero point zero five percent) per day.

6.2. Actions

In the event of default a Note holder has the right to demand repayment of the Principal and the accrued interest from Technikabank. The Bank undertakes within 5 (five) Business days to offer the Note holder to redeem the Notes at the Principal value plus all accrued interest.

6.3. Procedure for Applying for the Waiver

Technikabank may apply for the consent of Note holders to alter the terms stated in the Prospectus (waiver).

The changes in the Prospectus can attribute to such specifications of the Notes as the currency and the Coupon rate, the Coupon calculation method, the procedure of Coupon payments and of the Notes repayment, the admission of the Notes for trading on other regulated markets, and other terms if only they do not interfere with either Latvian or Azerbaijani legislation in force.

Technikabank can apply for the waiver by itself or through the agency of an authorised person (“Agent”). To apply for the waiver, Technikabank or its Agent shall submit an application for the waiver to Note holders via the RSE web page and the Central Storage of Regulated Information ORICGS, setting out at least the following information:

- a description of the changes applied for;
- a justification of the necessity of the changes applied for;
- the date when the list of Note holders eligible to grant the waiver will be fixed;
- the term within which a Note holder can grant the waiver to the Bank or refuse to waive;
- instructions concerning notification about the granting of the waiver to the Bank or refusal to grant the waiver, and the questionnaire to be filled in by a Note holder;
- a statement that a Note holder willing to grant the waiver to the Bank shall notify the Bank or its Agent about it within the term specified in the application, and if a Note holder does not notify

about the approval to grant the waiver to the Bank or the Agent within the term specified in the application, a Note holder shall be deemed as not having granted the waiver;

- contact details of the Bank and/ or the Agent to be used for notification (telephone number for queries, address for sending filled in and signed questionnaires, and list of representative offices and/ or branches of Technikabank and/ or its Agent where Note holders can submit the questionnaires in person);
- the procedure of buying back the Notes from those Note holders who had refused to waive the Prospectus if the waiver was granted;
- other information including a fee to Note holders for approving the waiver needed by Note holders for deciding upon granting the consent or refusal to grant the waiver to the Bank.

The list of Note holders shall be inquired from the LCD as of the date falling to the 5th (fifth) Business day after the placement of the application on the RSE web page. The term allowed to Note holders for deciding upon refusal to grant the waiver to Technikabank may not be shorter than 14 (fourteen) calendar days after the placement of the application on the RSE web page.

Note holders shall submit signed questionnaires with their decision to Technikabank or its Agent by a deadline set in the application. The waiver is deemed to be approved if Note holders owning at least 75% (seventy five per cent) of the issue have voted for granting the waiver. The Notes owned by Technikabank and / or its affiliated persons (subsidiaries, shareholders, management or employees) are not eligible to participate in the voting.

Technikabank or its Agent shall sum up the received votes and notify the results of the voting within 1 (one) Business day after the deadline for submitting the questionnaires by placing a relevant advertisement on the RSE web page and ORICGS. If the waiver is granted, Technikabank shall, within a month’s time after the placement of the advertisement with the voting results on the RSE, register the changes in the Prospectus with the FCMC. The changes in the Prospectus become effective as of the date of their registration with the FCMC.

If the accepted changes refer to specifications of the Notes and/ or Coupon calculation method, as well as procedure of Coupon payments and/ or repayment of the Principal, Technikabank shall at short notice inform the LCD on the mentioned changes.

If Technikabank offers Note holders a fee for approving the waiver and the waiver is granted, the Bank transfers the fee amount to the account stated by a Note holder in the questionnaire not later than 10 (ten) Business days after the waiver comes into force.

If the waiver is granted, in order to be without prejudice to rights of all Note holders, Technikabank shall offer to buy back the Notes from those Note holders, who have refused to grant the waiver. Note holders shall communicate their decision on whether to sell or to hold the Notes to Technikabank within 10 (ten) Business days after the waiver comes into force. The Notes can be bought back for their Principal plus accrued Coupon on the buy back day.

6.4. Subordination of the Notes

The Notes rank pari passu with other unsecured obligations of Technikabank. In case of insolvency of Technikabank, the Note holders will be entitled to recover their investment on the same terms as other creditors in the respective claims’ group according to the relevant legal acts of Azerbaijan. There are no contracts or other transaction documents that would subordinate the claims of the Note holders to other unsecured liabilities of Technikabank.

7. Admission of the Notes for Trading

The market organiser for the Notes is the Riga Stock Exchange with legal and visiting address at Valnu iela 1, Riga, LV-1050, Latvia. The RSE may be contacted by phone (+371 7212431), by fax (+371 7229411) or by e-mail (riga@nasdaqomx.com). The official web site for general information is www.lv.omxgroup.com.

Technikabank will submit all the required documents for inclusion of the Notes in the Baltic Bond list of the RSE after the Prospectus’s registration with the FCMC. Trading of the Notes will not commence prior to the day of the decision of the RSE management board on the inclusion of the Notes in the regulated market. All the Notes sold in the initial placement will be listed on the Baltic Bond list of the RSE.

Technikabank has not signed any agreement with any legal person for Note liquidity maintenance on the secondary market.

8. Taxes

8.1. Notice

This summary is of general nature and should not be considered a legal or tax advice. This section does not contain full and complete information on all the taxes that relate to investment in the Notes. Tax rates and conditions for paying taxes may change during the life of the Notes. Prospective Note holders should consult with their own tax advisors with respect to their particular circumstances and the effects of tax laws to which they may be subject to.

8.2. Taxation in Azerbaijan

According to the Azerbaijani tax code the Coupon rate shall include the withholding tax which as of the date of signing the Prospectus is 10%. Therefore investors should be aware that the Technikabank will deduct the applicable withholding tax from all the Coupon payments. If there is a change in the rate or other conditions for withholding taxes and as a result of which Technikabank would reduce payments under the Notes in the amount of such additional withholding taxes, Technikabank is obliged to pay such additional amounts as may be necessary so that the net payments received by Note holders will not be less than the amount it would have received in the absence of such changes.

It should be noted, however, that gross-up provisions in contracts might not be enforceable under Azerbaijani law. In the event that Technikabank fails to pay such additional amounts where it is obliged to do so, such failure would constitute an event of default under the Prospectus.

In addition Technikabank is obliged to provide a statement from the appropriate state institutions in Azerbaijan that shows the payment of the withholding tax within 30 days after the Coupon payment to all Note holders that have requested such statement. The purpose of such statement shall be decrease in an amount of payable taxes in a Note holder’s residence country. Technikabank shall translate the statement to English or Russian language, apostatize it and send by registered mail to the Arranger.

8.3. Taxation in Latvia

8.3.1. Definition of Residents and Non-residents

An individual is considered resident of Latvia for tax purposes if his or her permanent place of residence is Latvia; or he or she stays in Latvia for more than 183 days within any 12-month period; or he or she is a citizen of Latvia and is employed abroad by the government of Latvia. If an individual does not meet any of the above mentioned criteria he or she is considered a non-resident for tax purposes.

Any legal entity is considered resident of Latvia for tax purposes if it is or should be established and registered in Latvia according to the Latvian legislation. Other legal entities are considered non-residents for tax purposes. Latvian residents are responsible for paying their personal income tax in accordance with Latvian legislation.

Table 1 – Taxation of Notes in Latvia

Legal status	Coupon tax rate	Capital gains tax rate	Conditions
Individual resident	25%	0%	Individual bears responsibility to pay the tax.
Company resident	15%	0%	Income is added to taxable income of a company.

Source: legal acts of the Republic of Latvia

9. Additional Information

9.1. Advisors Involved in the Issue

Technikabank has not used any outside advisory services related to the Notes issue except for the services of the Arranger rendered according to the Mandate Agreement No P.B.-2.3.-2.3.9.-2008/12 concluded between Technikabank and the Arranger on 5 June 2008: assistance in organisation of debt securities issue and preparation of all the necessary documents, such as the Terms of the Notes Issue and the Prospectus, registration of the issue, finding Potential Investors and allocation of the Notes during the initial placement.

9.2. The External Audit of the Information Included in the Securities Description

The auditors have not verified the information included in the securities description.

9.3. Statements or Reports Included in the Securities Description

The securities description does not contain any expert statements or reports.

9.4. Credit Ratings

Technikabank has the following ratings from international rating agencies Fitch Ratings (www.fitchratings.com) and Moody’s Investors Service (www.moodys.com):

Fitch Ratings		**Moody’s Investors Service**	
Long Term Issuer Default Rating	B-	*Long Term Deposit Rating*	B2
Short Term Rating	B	*Short Term Deposit Rating*	Not Prime
Outlook	Stable	*Outlook*	Negative
Individual Rating	D/E	*Bank Financial Strength Rating*	E+
Support Rating	5		

9.4.1. Description of the Assigned Ratings

Long Term Rating - long-term foreign currency rating. Ability of timely payment of long-term exchange liabilities.

Short Term Rating – short-term foreign currency rating. Ability of timely payment of short-term exchange liabilities.

Outlook – development forecast. Rating forecast – opportunity of rating upgrade (positive), downgrade (negative) or affirmation (stable).

Individual rating – assessment of the bank, taking into account its independence and lack of external support.

Support rating – bank’s ability to obtain external financial support in case of need.

Bank Financial Strength Rating – assessment of internal stability and security of the bank.

10. The Issuer

10.1. General Information about the Issuer

10.1.1. Name

The Issuer’s firm is open joint stock company “Technikabank”.

10.1.2. Registration Number, Place and Term

The Issuer is registered with the Ministry of Justice of Azerbaijan Republic on 24 February 1994 as "Rashadbank" Commercial Bank LTD. On 18 June 1998, the Issuer registered its new name "Technikabank" Commercial Bank LTD. On 26 November 2004, the legal form was changed to the open joint stock company. The term of Technikabank’s activities is indefinite.

10.1.3. Legal Information

The Issuer’s legal and registered address is 1107 Ataturk Avenue, Baku AZ1069, Azerbaijan. The Issuer’s phone numbers are (+99412) 441 22 06, 4402961, 447 77 44; fax numbers - (+99412) 493 87 11, 447 4422 and e-mail address - info@texnikabank.az.

Legal form – open joint stock company, legal status – legal person. The place of foundation is the Republic of Azerbaijan.

Technikabank carries out its activities in accordance with the Banking License No. 198 issued by the National Bank of Azerbaijan on 29 February 1994. Technikabank acts in accordance with legal acts of Azerbaijan. The regulatory requirements refer to capital adequacy, minimum value of equity, liquidity, foreign currency positions, concentration of risk transaction per client, as well as observation of other applicable requirements.

10.1.4. Recent Significant Developments

Below are described the most significant developments of Technikabank since 2002:

2008	▪ In August, Technikabank completed a notes issue in the amount of USD 10 million to Baltic investors; ▪ A debut loan participation note is issued in the amount of USD 26 million with one year tenor and listing on London Stock Exchange; ▪ In January the decision was made by the General Meeting of Shareholders to increase the share capital from AZN 26.9 million to AZN 50.9 million by issue of ordinary shares. The shares will be acquired by new or existing shareholders during the year of 2008.
2007	▪ Share capital increased from AZN 11.9 million to AZN 26.9 million through a private placement at the Baku Stock Exchange; ▪ Technikabank becomes the first bank in Azerbaijan to receive acquiring rights from Visa International; ▪ Bank of Georgia issues USD 3 million loan to Technikabank; ▪ Technikabank becomes a Principal Member of MasterCard International; ▪ Technikabank becomes an absolute leader in mortgage market of Azerbaijan; ▪ World Wines Ltd. takes stake of 75% of Technikabank; ▪ Technikabank strikes major deals with Citigroup and Morgan Stanley.
2006	▪ Share capital increased from AZN 6 million to AZN 11.9 million by issue of ordinary shares; ▪ A general purpose credit line worth USD 2 million is issued by the Black Sea Trade Development Bank; ▪ Technikabank invests AZN 400,000 to acquire 10% stake in MilliKart - a card processing company; ▪ Technikabank’s membership at Visa International is upgraded from Associate to Principal;

	▪ Kazimir Partners Ltd takes equity stake of 10% of Techhnikabank;
	▪ Technikabank acquires “Alfa Insurance”.
2005	▪ Technika Leasing LLC is established.
2004	▪ Technikabank becomes an associate member of VISA International;
	▪ Acquisition of brokerage company Capital Management entitles Technikabank to 5.55% of the shares of Baku Stock Exchange;
	▪ The first bond issue in the amount of USD 2 million successfully completed.
2003	▪ A strategic decision made by the Supervisory Council to launch the expansion of Technikabank’s branch network;
	▪ Technikabank is selected an agent bank of the National Fund for Development of Entrepreneurship.
2002	▪ The first international audit of Technikabank financials performed by PricewaterhouseCoopers.

10.1.5. Investments

The last published financial report of Technikabank is dated 30 June 2008. Since then the Bank has neither made any principal investments, nor has the management of the Bank made any firm commitments concerning principal future investments.

11. Business Overview

As of 30 September 2008, according to the NBA data, Technikabank is ranked fourth among 45 banks operating in Azerbaijan, including the branches of foreign banks, measured by total assets. With the exclusion of the state owned International Bank of Azerbaijan (IBA), Technikabank ranks third among its competitors.

Technikabank provides banking services through its network of 35 branches, 2 service outlets and 3 currency exchange points. Technikabank has more branches in the regions of Azerbaijan than any of its competitors, excluding the IBA. In addition, as at 30 September 2008, Technikabank had alternative distribution channels including 46 ATMs, 327 point-of-sale (POS) terminals and an internet banking service. Technikabank has three wholly-owned subsidiaries operating in the brokerage, leasing and insurance sectors.

In 2006, Technikabank was elected ‘‘Bank of the Year’’ in the Caspian Sea and Black Sea region by the Caspian Integration Business Club and was named the fastest growing bank in Azerbaijan in 2006 in terms of asset size in a survey conducted by Kommersant, a leading Russian business newspaper. Technikabank was chosen as ‘‘Bank of the Year’’ again in 2007 by the Caspian Integration Business Club.

Technikabank is one of the few banks in Azerbaijan that undergoes rating graduation from international rating agencies Fitch Rating and Moody’s Investors Service. Technikabank is rated with a long-term issuer default rating of "B-", a short term rating of "B", an individual rating of “D/E”, and a support rating “5” from Fitch Rating. The rating agency Moody’s Investors Service has assigned the following ratings to the Issuer: bank financial strength rating “E+”; long-term deposit rating of “B2” and a short term deposit rating “Not-Prime”.

Technikabank offers its retail customers a wide range of products including loans, debit and credit cards, deposits, current accounts, and others. According to the NBA data, Technikabank has the largest number of payment cards among private banks, excluding social security cards issued by the state, and is the largest provider of money transfer systems in Azerbaijan measured by the value of transfers as at 30 September 2008. As at 30 September 2008, Technikabank had issued 40,662 cards, of which 35,166 were debit cards and 5,496 were credit cards.

Technikabank also has a number of principal products and services which it offers to corporate clients including short-term, medium-term and project finance and credit facilities denominated in AZN and foreign currencies, predominantly in USD, as well as transactional services including trade finance, foreign exchange and payment service loans.

As at 30 June 2008, Technikabank’s assets stood at AZN 407 million (USD 510.9 million), capital and reserves were AZN 47.2 million (USD 58.2 million), the size of loans and advances to customers was AZN 290 million (USD 357.3 million) and the volume of the deposit portfolio amounted to AZN 198.9 million (USD 245 million).

11.1. Competition

11.1.1. Competitive environment

Azerbaijan’s banking industry was principally established following the independence of Azerbaijan in 1991. According to the NBA, as at 30 September 2008, 45 banking licenses had been issued to commercial banks in Azerbaijan, including local branches of foreign banks. The International Bank of Azerbaijan was owned by the state, and 14 banks, including Technikabank, had some degree of capital from outside Azerbaijan in its ownership structure. Banks in Azerbaijan can be divided into three principal groups: large banks (including Technikabank, Bank Respublika, Unibank and Bank Standard); the state owned International Bank of Azerbaijan; and smaller banks, many of which have less than AZN 30 million in assets based on information from the Banks and Business Journal which is published by the Association of Azerbaijani Banks based on statutory accounting standards. Technikabank believes that its main competitors are Unibank, Kapital Bank, Bank Respublika and Bank Standard.

The following table sets out the top six banks (by assets) in Azerbaijan as at 30 September 2008:

Table 2 – Technikabank’s Competitors

Azerbaijani Banks	Assets as at 30/09/2008 (AZN ‘000)
International Bank of Azerbaijan	4,208,654
Bank Standard	660,815
Unibank	467,235
Technikabank	439,645
Kapital Bank	422,448
Bank Respublika	405,084
Top 6 banks (combined)	6,603,881
Other 39 banks (combined)	3,238,508

Source: NBA, based on financial statements of the banks prepared under the statutory accounting standards. These are not necessarily equivalent to IFRS figures.

Based on statutory accounting standards, as at 30 September 2008, Technikabank had a return on assets (ROA) ratio of 6% and a return on equity (ROE) ratio of 53% compared to the respective ratios from its competitors, derived from the informative banking portal www.ratings.az based on information submitted by the banks to the NBA, of 2% and 17%, respectively, for Bank Standard; 3% and 37%, respectively, for Bank Respublika; 2% and 15%, respectively, for Kapital Bank; and 1% and 14%, respectively, for Unibank.

Technikabank believes that it is well positioned to compete in the Azerbaijani banking sector on the basis of its size, clearly defined strategy, strong management team, strong balance sheet, profitability, cost efficiency, sophisticated information technology system and growth opportunities.

11.1.2. Competitive Strenghts

Technikabank’s management believes that Technikabank enjoys a strong position in the Azerbaijani banking market, and has the following competitive strengths that enable it to compete effectively in the market.

Strong market position

Currently Technikabank is the fourth largest bank in Azerbaijan in terms of total assets. Technikabank has a history of market presence in retail banking in Azerbaijan focused on meeting customer needs through the continuous improvement of the quality of its services, including new credit and debit card services, pre-paid cards, cards to pay for utility and household bills, as well as microfinancing loans to individual entrepreneurs. The management of Technikabank believes that its strong market position allows Technikabank to benefit from the potential of the Azerbaijani market, and provides a robust platform to pursue its domestic and international expansion strategies.

Wide territorial coverage in Azerbaijan

Technikabank has the largest branch network among privately-held banks operating in Azerbaijan, covering most regions of the country, with an aggregate of 35 branches, 2 service outlets and 3 currency exchange points. Technikabank’s network of 46 ATMs and 327 POS terminals was the largest in the country as at 30 September 2008. Its significant regional presence provides Technikabank with strong brand recognition in Azerbaijan, and allows Technikabank to establish new relationships with regional retail and corporate clients. Often Technikabank becomes the only local bank in the regions able to offer customers a full range of banking products. Technikabank’s wide territorial coverage also provides it with a competitive advantage over other large Azerbaijani banks, including the foreign-owned ones, due to the time and capital its competitors would need to invest to build a comparable distribution network.

Extensive and growing client base

For the year ended 31 December 2007, Technikabank derived 67.9% and 32.1% of its external revenues from operations in its corporate banking segment and retail banking segment, respectively. Technikabank’s extensive client base, combined with a wide range of products offered to retail customers and SMEs, allows it to diversify its credit risk and maintain a high-quality loan portfolio. Technikabank’s client base continues to grow. As at 31 December 2005, Technikabank had over 22,000 current and deposit accounts; as at 31 December 2006, number of current and deposit accounts reached 35,000; and as at 31 December 2007, Technikabank already had over 73,000 current and deposit accounts. Currently the Bank serves more than 80,000 customers. In addition, Technikabank’s corporate clients provide it with access to the corporate clients’ employees, which form an important part of Technikabank’s client base. For example, Technikabank uses its branch network to provide payroll card services to such corporate clients’ employees. The depth of Technikabank’s retail customer base allows it to maintain and continuously expand its significant database of customer information, which is currently the second largest in Azerbaijan, and which allows Technikabank to perform more precise credit checks and risk assessment procedures than most other Azerbaijani banks.

Experienced management

Technikabank’s senior management team, headed by chairman of the Executive Board Samir Huseynov, has significant banking and financial experience. Members of Technikabank’s senior management team have an average of nine years of banking and financial expertise.

Effective and swift credit approval and loan management procedures

Technikabank’s management believes that its twice-weekly Credit Committee meetings to apply a “single-level” credit approval procedure in respect of microfinancing loans gives it a significant competitive advantage in this segment of the market, allowing it to process and respond to credit applications swiftly. In addition, Technikabank has established automated loan monitoring procedures allowing to immediately react to problem loans and to efficiently manage its loan portfolio.

Strong relationships with correspondent banks and money transfer institutions

Throughout its operating history, Technikabank has established strong relationships with many international financial institutions, especially its correspondent banks, and is able to benefit from the expertise of its foreign partners in international transactions. Technikabank has attracted significant deposits from international banks and private investment funds.

Scalable IT systems and technologies

Technikabank believes that its IT systems and technologies for retail and corporate banking are superior to those of most Azerbaijani banks, and will support the rapid expansion of its operations, reduce costs and streamline decision-making processes. Technikabank expects to establish a wholly-owned subsidiary to develop a suite of proprietary banking software for its own use. Throughout its history, Technikabank has striven to develop and provide a wide range of innovative banking services to its customers. Technikabank was one of the first banks in Azerbaijan to offer its clients internet banking services.

11.2. Strategy

Technikabank’s strategic objectives are to maintain its position in corporate banking, and strengthen its positions in SME lending and retail banking. The key elements of Technikabank’s strategy are as follows:

1) ***Continue domestic expansion by further developing the branch and ATMs network, and by investing in technology***

According to the State Statistical Committee of Azerbaijan, annual GDP growth in Azerbaijan was 26.4% in 2005, 34.5% in 2006 and 25.0% in 2007, making Azerbaijan one of the fastest-growing economies in the world. Technikabank’s management expects that the Azerbaijani economy will continue to grow significantly in the medium term, and that Technikabank will continue to experience strong organic growth.

Technikabank currently delivers its retail and corporate banking services through a number of distribution channels, primarily through its network of branches, sub-branches, POS terminals and ATMs. A key aspect of Technikabank’s strategy is the application of a single design concept to its expanding branch network, and the creation of new distribution channels to provide existing customers with easier access to Technikabank’s products and services. Technikabank opened two new branches in April and May 2008, expects to expand its branch network to a total of 45 branches by the end of 2010.

Technikabank has invested AZN 150,000 in its own fibre optic network, which currently links all but one of its branches and is expected to link all new branches. Furthermore, Technikabank intends to leverage its expanding geographical presence in Azerbaijan to offer its products and services to new customers. Finally, to the extent that the Azerbaijani banking market experiences consolidation, Technikabank may seek to acquire one or more of the smaller banks in Azerbaijan.

2) Expand its retail banking business

Technikabank believes that the steady increase in Azerbaijan’s nominal GDP is a strong indication that Azerbaijan’s retail market will continue to grow and that such market growth could provide opportunities for Technikabank to increase its retail banking presence in Azerbaijan. As a result, Technikabank intends to grow and strengthen its retail banking division by capitalising on this economic development and the increase in disposable income of Azerbaijani citizens, especially among the growing middle class. Technikabank believes that its large branch network places it in a good position to capitalise on this anticipated growth in the retail banking sector in Azerbaijan.

3) Expand and diversify the range of corporate and retail banking products and services, with an emphasis on documentary operations and bank card-related technologies

Technikabank has been a market leader in Azerbaijan in providing innovative products and services in its retail and corporate banking businesses, with an emphasis on documentary operations and bank card-related technologies. Technikabank has been continuously developing the range of services offered to its cardholders, including the recent expansion of the services offered by Technikabank’s ATMs (such as the ability to withdraw currencies other than the Azerbaijani Manat, including USD). Technikabank believes that this strategy will enable it to increase both its non-interest and its interest income for retail and corporate banking services. In corporate banking, Technikabank is developing innovative fee-based services such as trade finance and corporate finance services to supplement its corporate lending activities. In retail banking, Technikabank plans to expand its interest-bearing product offerings such as consumer, mortgage and car loan programmes, as well as bonus programmes such as issuing fee-free debit cards to existing clients, and fee-based services such as settlement and cash services. Technikabank also plans to introduce Islamic banking products.

4) Evaluate opportunities for international growth

Technikabank continues to evaluate opportunities for international growth. In particular, Technikabank is leveraging its strong relationships with money transfer institutions to cross-sell its products, and is considering the opportunity to establish branches or representative offices in Moscow, Istanbul and Dubai. Technikabank expects to open a branch in Moscow to serve the Azerbaijani Diaspora in Russia. According to the Azerbaijani State Committee Dealing with Expatriate Azerbaijani Citizens, Azerbaijani companies and individuals account for approximately 5% of property investment in Dubai, which provides Technikabank with an attractive new market opportunity.

5) Establish new relationships with key strategic partners

Technikabank is currently in the process of establishing strategic alliances with several international financial institutions such as the Asian Development Bank (ADB). Technikabank believes that such strategic partnerships will allow Technikabank to learn about information technology, corporate governance and risk management best practices, and to enhance operational efficiencies, as well as strengthen management skills.

6) Extend the maturity profile of its funding base by attracting long-term deposits and accessing the international capital markets

Taking into account the growing needs of Technikabank's customers for longer-term financing, the Technikabank intends to continue to improve its funding base by augmenting its market share in longer-term deposits from corporate and retail clients, mainly concentrating on retail deposits. Technikabank believes that by improving existing products and services and offering new ones it will be able to increase the average terms of customer deposits, thus increasing Technikabank's revenues. In addition, to diversify its funding sources and extend the maturity profile of its funding base, Technikabank is continuing to access the domestic capital markets, and is considering various financing options including the drawing of syndicated loans, participation in "club deals", the securitisation of its mortgage portfolio, and the issuance of subordinated bonds.

7) Cross-sell its range of products to its growing customer base

The improved economic environment in Azerbaijan has created a growing demand from Technikabank's customers for a broader range of products. To capitalise on this economic growth, Technikabank intends to leverage its extensive branch network and bank card business to cross-sell to existing and new customers a broader range of products and services, such as its insurance and leasing products. Technikabank expects to use its technology to identify specific customer needs and use such techniques as specialised advertising campaigns to target new product sales to its customer base. Part of Technikabank's cross-selling strategy is to build on its relationships with large corporate banking customers to attract their customers and employees as retail banking customers. For example, the payroll card services Technikabank offers its corporate banking customers and the credit cards that Technikabank offers to senior managers of certain corporate customers enable Technikabank to establish relationships with it's corporate customers' employees. To this end, Technikabank is increasing its focus on the resurgent manufacturing sector, which employs many such prospective customers.

8) Use technology to reduce costs and fraud and to leverage Technikabank's key strengths

Technikabank has invested, and continues to invest significantly, in technology to lower production costs and to exploit alternative distribution channels that are more cost efficient in the delivery of banking services. In 2007, Technikabank began issuing chip-and-pin enhanced security credit cards. Technikabank intends to continue to invest in its ATMs network and POS terminals to increase market penetration and enhance convenience of banking for its customers. One of the key drivers for improvement of efficiency at the current stage of Technikabank's development, given its expanding branch network, is Technikabank's centralised management, control and operations capacities in its head office. Management expects this initiative to improve cost/income ratios, supervision over Technikabank's branch network and quality of Technikabank's services.

11.3. Principal Activities

Technikabank is a universal bank, providing a wide range of financial services to corporate clients and private individuals. All the time since its foundation Technikabank has sought to constantly develop and provide services, which meet the growing needs of its customers, and to maintain operations at a level necessary to follow the best practices of the banking industry. Technikabank's core business activity is retail sector and small and medium-sized enterprises.

11.3.1. Corporate Banking

As a leading lender to the corporate sector in Azerbaijan, Technikabank estimates that it had a 3.7% market share in 2006 and a 5.3% market share in 2007, calculated by Technikabank on the basis of NBA data, placing Technikabank fourth among its competitors. Technikabank has been servicing corporate clients for over 15 years and believes that its focus on quality service has made it the bank of choice for many leading corporates in Azerbaijan, where it has relationships with a large number of local businesses. As at 31 December 2006 and 31 December 2007 corporate loans (which are loans granted to legal entities) accounted for 64.5% and 71.8%, respectively, of Technikabank's gross loan portfolio. According to half year results of 2008, corporate loans constituted 70.3% of the total gross loan portfolio. Technikabank’s corporate loan portfolio includes loans granted by Technikabank to smaller Azerbaijani banks to assist their liquidity needs.

The principal products and services offered to corporate clients include short-term, medium-term and project finance and credit facilities denominated in AZN and foreign currencies, predominantly USD, as well as transactional services including trade finance, foreign exchange and payment service loans. Trade finance products include letters of credit, guarantees and advance payment facilities. Project finance loans are typically provided in the construction sector which principally consists of the construction of residential projects as opposed to office buildings. Corporate loans generally have a maturity of up to 12 months.

As at 31 December 2007, Technikabank’s gross corporate loan portfolio amounted to AZN 178.0 million and its corporate customer accounts amounted to AZN 103.4 million up 275.8% and 139.3%, respectively, from 31 December 2006. In 2007, Technikabank had AZN 103.4 million in corporate customer accounts ranking it fourth in Azerbaijan based on data from Fineco, an independent Azerbaijan data collection company. As at 30 June 2008, Technikabank’s gross corporate loan portfolio stood at AZN 212,2 million, and its corporate customer accounts grew up till AZN 118,8 million.

The main sectors served by Technikabank’s corporate banking division are trade and services, manufacturing and construction sectors constituting 30.1%, 19.6%, and 16.3%, respectively, of its total gross loan portfolio as at 30 June 2008. The trade sector principally relates to import and export businesses. Manufacturing is expected to be another key growth segment in the future. Technikabank has begun to see interest rate margin compression on its corporate loans due to increased competition. As a result, the ability of a customer to generate fee income for Technikabank is considered before credit decisions are made. Technikabank is also a leading provider of fund transfer services and is expanding the products it can make available to corporate customers, including in the leasing area, where it has a significant presence in equipment leasing, and in property and casualty insurance.

11.3.2. Servicing of SMEs

Technikabank’s management believes that the small and medium-sized enterprises sector offers an opportunity for the growth of its business. Loans made to small and medium-sized enterprises are loans ranging in amounts between AZN 10,000 and AZN 90,000. Technikabank is active in the National Fund of Financial Aid to Entrepreneurs programme (Entrepreneurs Programme) of the Ministry of Economic Development of the Republic of Azerbaijan, which provides funds for loans to smaller corporate enterprises.

The focus on small and medium sized enterprises is a niche area for Technikabank, where it can become a leader due to its geographic presence all over Azerbaijan. The cost of funding under the Entrepreneurs Programme allows Technikabank to secure an attractive margin while providing competitively priced products for smaller businesses and trades. These loans granted by Technikabank currently bear interest at a rate of 7% per annum, whereas the cost of funding for such loans is approximately 1% of the principal amount of the loan. Included in the gross amount of loans are loans provided to local small and medium sized enterprises operating in agricultural and manufacturing sectors in the amount of AZN 55.5 million as at 31 December 2007, AZN 12.2 million as at 31 December 2006 and AZN 7.9 million as at 31 December 2005, and were issued by Technikabank using funds available under the Entrepreneurs Programme.

11.3.3. Retail Banking

Technikabank has one of the largest retail banking franchises in Azerbaijan. According to the NBA based on statutory accounting standards, Technikabank had a 6.3% share of the retail deposit market giving Technikabank the fourth largest retail base in Azerbaijan and 8.2% of the retail loans market (placing Technikabank fifth amongst its competitors) as of 31 December 2007. The retail loan portfolio accounted for 28.2% of Technikabank’s total gross loans and advances to customers and retail customer accounts accounted for 47.3% of the value of Technikabank’s total customer accounts as of 31 December 2007.

Technikabank offers its retail customers a comprehensive range of retail products in AZN and USD, including residential mortgages, debit and credit cards and demand and term deposit accounts. As incentives to depositors, customers are offered deposit programmes with favourable interest rates and other privileges such as interest capitalisation, auto-extension of terms, interest rate increases and bonus programmes, such as giving out fee-free debit cards to customers. The management of Technikabank believes that it enjoys strong brand recognition in Azerbaijan and a good reputation for quality of service, reliability and professionalism. As at 31 December 2006, Technikabank had approximately 36,000 retail customers which increased to approximately 63,673 retail customers as at 31 December 2007.

11.3.4. Retail Lending and Mortgages

Retail loans are loans equal to or below AZN 10,000. Retail lending portfolio consists primarily of automobile loans and express loans. Customers tend to use express loans for various small business ventures. Express loans are loans subject to an expedited loan approval process available to Technikabank’s existing customers. The typical interest rate for these loans is between 18% and 26% per annum. Retail loans, including mortgages, accounted for 28.2% and 35.6% of Technikabank’s total gross loan portfolio as at 31 December 2007 and 31 December 2006, respectively. Retail loans, excluding mortgages, accounted for 20.3% and 28.7% of Technikabank’s total gross loan portfolio as at 31 December 2007 and 31 December 2006, respectively.

Technikabank has been a leader in the Azerbaijani mortgage market since the launch of the Azerbaijani Mortgage Fund (AMF) by the state in 2005. The AMF was established pursuant to Presidential Decree No. 299 of 16 September 2005. Under the AMF’s Regulations, its primary objectives are (1) to create avenues for the provision of residential housing to the Azerbaijani public through long-term mortgages; and (2) to assist in the attraction of local and foreign financial resources for the financing of mortgages. On 17 February 2006, Technikabank signed a credit agreement with the AMF, pursuant to a programme under the NBA’s purview for granting long-term mortgage loans to individuals. Under this programme, funds are made available to Technikabank at an interest rate of 2% per annum and Technikabank lends funds to eligible borrowers at rates not exceeding 8% per annum, and Technikabank subsequently applies to the AMF for reimbursement of the funds expended. Technikabank’s policy has been to provide mortgages under the AMF programme at an interest rate of 6% in order to remain competitive against Technikabank’s competitors who charge rates ranging from 6% to 8%. These borrowings mature between June 2011 and April 2037.

Technikabank did not issue any mortgage loans in 2005. In 2006 and 2007, Technikabank issued a total of 319 mortgage loans worth AZN 9.2 million out of a total of 1,790 mortgages issued under the AMF programme in Azerbaijan worth AZN 67.8 million. The average size of such mortgages was AZN 34,310, the smallest mortgage loan was AZN 5,600 and the largest mortgage loan was AZN 50,000. However, as of mid-2007, pending the implementation of new rules under which the AMF-financed mortgages would be provided to the Azerbaijani public, the AMF ceased accepting new applications under its mortgage funding programme for an indefinite period. Technikabank believes that the cessation of operations in relation to new applicants is also due to liquidity constraints within the AMF, which the AMF is trying to address. As at 31 December 2007, approximately 44.9% of Technikabank’s mortgage loan portfolio had been funded by the AMF.

Technikabank received a USD 8 million 6-year loan for mortgages from the Black Sea Trade and Development Bank pursuant to a credit agreement dated 6 December 2007 signed between Technikabank and Black Sea Trade. The loan from Black Sea Trade bears interest at a rate of LIBOR plus 3.7% and matures in December 2013. In addition, Technikabank has engaged the International Finance Corporation (IFC) to monitor Technikabank’s mortgage portfolio and loan processes whereby the IFC regularly visits Technikabank in order to review its mortgage portfolio and provide advice to Technikabank on how to improve its existing mortgage procedures.

Technikabank does not grant loans to non-residents.

Table 3 – Breakdown of loan portfolio by economic sectors

	30.06.2008.		31.12.2007		31.12.2006		31.12.2005	
	AZN'000	**%**	**AZN'000**	**%**	**AZN'000**	**%**	**AZN'000**	**%**
Individuals	89,484	29.7%	69,798	28.2%	26,152	35.6%	16,441	34.9%
Trade and services	90,782	30.1%	82,912	33.5%	25,003	34.0%	15,060	32.0%
Manufacturing	59,069	19.6%	47,748	19.3%	6,750	9.2%	4,250	9.0%
Construction	49,164	16.3%	33,334	13.5%	8,819	12.0%	5,282	11.2%
Agriculture	7,035	2.3%	7,775	3.1%	5,409	7.4%	3,653	7.8%
Transport and communication	6,070	2.0%	6,001	2.4%	1,320	1.8%	-	-
Other	90	0.03%	216	0.1%	14	0.0%	2,358	5.0%
Total*	**301,694**	**100%**	**247,784**	**100%**	**73,467**	**100%**	**47,044**	**100%**

** gross loans, prior to provision for loan impairment*

Source: Issuer's financial reports

Apart from private individuals (29.7%), Technikabank mostly lends to enterprises operating in the field of trade and services (30.1%), as well as manufacturers (19.6%) and construction companies (16.3%). Other economic industries in total make up 4.3% of Technikabank's loan portfolio.

Table 4 – Breakdown of loan portfolio by outstanding maturity

	30.06.2008.		31.12.2007		31.12.2006		31.12.2005	
	AZN'000	**%**	**AZN'000**	**%**	**AZN'000**	**%**	**AZN'000**	**%**
Up to one month	34,602	11.9%	11,555	4.9%	9,360	13.7%	11,275	26.6%
From 1 to 3 months	56,575	19.5%	17,862	7.5%	14,861	21.8%	6,277	14.9%
From 3 to 12 months	149,780	51.7%	163,696	68.8%	29,144	42.8%	18,475	43.6%
From 1 to 5 years	36,814	12.7%	32,861	13.8%	12,484	18.3%	6,271	14.9%
Over 5 years	12,207	4.2%	11,802	5.0%	2,242	3.3%	-	-
Total*	**289,978**	**100%**	**237,776**	**100%**	**68,091**	**100%**	**42,298**	**100%**

** net loans, after provision for loan impairment*

Source: Issuer's financial reports

As of 30 June 2008, the major part (51.7%) of Technikabank's loan portfolio was comprised of loans with maturity from 3 to 12 months. The loan book remains predominantly short-term: the amount of loans maturing within 12 months time constitutes 83.1% of the total loan portfolio.

Table 5 - Breakdown of loan portfolio by collateral structure**

	30.06.2008.		31.12.2007		31.12.2006		31.12.2005	
	AZN'000	**%**	**AZN'000**	**%**	**AZN'000**	**%**	**AZN'000**	**%**
Real estate	181,740	61.7%	158,422	63.9%	39,549	53.8%	23,345	51.05%
Unsecured loans	71,750	24.4%	53,004	21.4%	26,198	35.7%	17,423	38.1%
Movable property	15,580	5.3%	22,964	9.3%	4,772	6.5%	3,297	7.2%
Tradable securities	13,753	4.7%	7,996	3.2%	2,277	3.1%	1,052	2.3%
Cash deposits	8,522	2.9%	3,481	1.4%	618	0.8%	434	0.95%
Other assets	3,300	1.1%	1,917	0.8%	53	0.1%	178	0.4%
Total*	**294,645**	**100%**	**247,784**	**100%**	**73,467**	**100%**	**45,729**	**100%**

- *gross loans, prior to provision for loan impairment*
- ***based on the bank's prudential reports*

Source: Issuer's financial reports

Traditionally, the largest loan group in terms of collateral is real estate comprising 61.7% of the total portfolio. Although the share of unsecured loans in the loan portfolio declined from 38.1% in 2005 to 24.4% as of 30 June 2008, it still remains significant, and the amount of issued unsecured loans grew 35% since the end of 2007. The third largest group of collateral is movable property that constitutes 5.3% of all issued loans. Other types of loan collateral (tradable securities, cash deposits and others) are less popular and in total they constitute 4% of the total loan portfolio.

11.3.5. Payment Cards

Technikabank issues both debit and credit cards. In November 2006, Technikabank became a principal member of MasterCard. Technikabank joined Visa International as an associate member in 2004, and in May 2006 Technikabank upgraded its membership to a principal member. Such principal membership provides Technikabank with discounts and assesses lower rates of commission from Technikabank. Also, Technikabank has an agreement in place with Visa International whereby it is able to process payments directly through its systems to Visa International's payment approval platform. Previously Technikabank had to use the services of the International Bank of Azerbaijan and therefore it had to split its revenue from processing payments with the International Bank of Azerbaijan.

As at 31 December 2007, Technikabank had issued over 31,347 cards, which according to the NBA represented approximately 2% of the market share (excluding social security cards issued by the state). Most of these cards were salary cards functioning as debit cards whereby employers deposit salaries in employee accounts held at Technikabank.

To date, there have been no major fraud issues involving cards issued by Technikabank and Technikabank's management does not currently believe that credit card fraud poses a significant risk to its card operations. In 2007, Technikabank became able to issue chip-based payment cards, a feature which increases the security aspects of Technikabank's cards. Such chip-based cards are perceived to be more desirable than cards without such security features due to reduced possibility for fraudulent activity related to such cards.

Technikabank has also introduced a co-branding project whereby it issues store cards for top retailers in Azerbaijan including Nike, Puma, United Colors of Benetton, Hilfiger Denim, Sisley and Tommy Hilfiger. Such cards carry 10% discounts at the respective stores thereby encouraging retail shoppers to apply for the cards. Technikabank also offers a range of other services associated with its cards, including the ability to withdraw cash in currencies other than AZN, such as the USD and to place wire transferred funds directly onto the cards.

The credit limit for the credit cards is typically AZN 1,000 with an interest rate of 18%. Although credit cards are not as heavily used in Azerbaijan as in some other countries, Technikabank believes that this market will continue to grow and that Technikabank is one of the market leaders in terms of volume of card transactions.

11.3.6. Money Transfer and Payment Processing Services

Technikabank offers its customers 11 money transfer systems, including Western Union and Migom. The total executed volume of these transactions is approximately USD 14 million per month. Technikabank generated AZN 0.6 million in revenues from its money transfer business for the year ended 31 December 2006 and AZN 1 million for the year ended 31 December 2007.

Technikabank's settlement and payment system, both at the branch and the internet level, enables individuals to pay a wide variety of bills. For the year ended 31 December 2007 and the year ended 31 December 2006, Technikabank generated AZN 70,000 and AZN 30,000, respectively, in revenue from its payment processing services.

11.3.7. Other Banking and Financial Services

Technikabank, through its wholly-owned subsidiary Technika Capital Management Limited LLC, is engaged in treasury operations and is a major participant in the securities markets, with a 12% market share (measured by trade value as of 31 December 2007) of securities traded in Azerbaijan (according to the Baku Stock Exchange). It also participates in the foreign currency markets in Azerbaijan.

The main objective of Technikabank's Treasury Department is to achieve efficient management of liquidity, interest rate and market risk by operations in the foreign exchange and money markets, thereby managing foreign currency exposure and funding costs. Technikabank's treasury operations consist largely of spot transactions in AZN and foreign currencies and transactions in government securities. Technikabank is also engaged in investment management and brokerage services on behalf of its customers. These services to date consist mostly of trading in equity and debt securities undertaken on behalf of Technikabank's customers by its subsidiary TCML. Each of Technikabank's securities traders is subject to trading limits which are monitored by Technikabank's senior management.

Under its banking license, Technikabank is authorised to carry out transactions with import precious metals. As of 29 June 2007, the wholesale or retail sale or purchase (to and from the Azerbaijan public) of precious metals must be carried out on the basis of a license issued by the Ministry of Finance and Technikabank has applied to the Ministry of Finance for this license although approval is pending. Technikabank expects to proceed with the sale and purchase of precious metals (including gold and silver) as part of its regular daily activity, once it obtains this license. Technikabank also expects to engage in the safekeeping of precious metals.

11.3.8. Funding

Customer accounts are the most important source of Technikabank’s non-equity funding.

Corporate Customer and Retail Deposits

As of 30 June 2008, Technikabank had corporate customer deposits of AZN 118.8 million. Of these AZN 94.4 million (79.5%) were current/settlement accounts and AZN 24.4 million (20.5%) were term deposits.

According to half year results of 2008, Technikabank had retail customer deposits of AZN 80.1 million. Of these, AZN 8.6 million were current/demand accounts and AZN 71.5 million were term deposits.

Technikabank attracts deposits only from residents of Azerbaijan.

Azerbaijan continues to be a predominantly cash based economy, therefore, retaining a strong position in the market for bank deposits requires a comprehensive network of branches, service points and ATMs. Technikabank expects that the expansion of its branch network will enable it to continue to grow its retail deposit base significantly. Technikabank has also attracted payroll accounts from some of its corporate clients which, in addition to providing Technikabank with substantial cash deposits, also generated AZN 0.3 million in fee income for the year ended 31 December 2006 and AZN 0.6 million for the year ended 31 December 2007. Technikabank expects to continue to focus on attracting more such payroll accounts by leveraging its relationships with its corporate clients.

Table 6 – Breakdown of attracted deposits by type and category

	30.06.2008.		31.12.2007		31.12.2006		31.12.2005	
	AZN’000	**%**	**AZN’000**	**%**	**AZN’000**	**%**	**AZN’000**	**%**
Current/ settlement accounts	102,976	51.7%	59,492	30.3%	42,391	52.8%	19,553	52.7%
Term deposits	95,889	48.3%	136,720	69.7%	37,941	47.2%	17,568	47.3%
Total	**198,865**	**100%**	**196,212**	**100%**	**80,332**	**100%**	**37,121**	**100%**
State and public organisations	27,178	13.6%	37,501	19.1%	16,322	20.3%	11,901	32.1%
Other legal entities	91,588	46.1%	65,879	33.6%	26,878	33.5%	7,193	19.4%
Individuals	80,099	40.1%	92,832	47.3%	37,132	46.2%	18,027	48.6%
Total	**198,865**	**100%**	**196,212**	**100%**	**80,332**	**100%**	**37,121**	**100%**

Source: Issuer’s financial reports

Since 2005 Technikabank’s deposits have grown by 436% from AZN 37.1 million in 2005 to AZN 198.9 million as at 30 June 2008. Traditionally, nearly half of all attracted deposits are from individuals.

Table 7 – Breakdown of attracted deposits by economic sectors

	30.06.2008.		31.12.2007		31.12.2006		31.12.2005	
	AZN’000	**%**	**AZN’000**	**%**	**AZN’000**	**%**	**AZN’000**	**%**
Individuals	80,098	40.3%	92,832	47.3%	37,132	46.2%	18,027	48.6%
Transportation and communication	57,225	28.8%	36,799	18.8%	6,262	7.8%	2,038	5.5%
Trade and services	23,552	11.8%	13,716	7.0%	6,893	8.6%	3,597	9.7%
State and public organisations	15,118	7.6%	37,501	19.1%	16,322	20.3%	99	0.3%
Manufacturing	7,748	3.9%	4,396	2.2%	2,751	3.4%	9,367	25.2%
Real estate	6,623	3.3%	5,805	3.0%	6,636	8.3%	2,352	6.3%
Energy	4,528	2.3%	3,566	1.8%	3,515	4.4%	33	0.1%
Agriculture	653	0.3%	840	0.4%	225	0.3%	55	0.1%
Other	3,320	1.7%	757	0.4%	596	0.7%	1,553	4.2%
Total	**198,865**	**100%**	**196,212**	**100%**	**80,332**	**100%**	**37,121**	**100%**

Source: Issuer’s financial reports

Apart from individuals, the largest portion of deposits placed with Technikabank is attracted from transportation and communication sector of economy, as well as from trade and services industry (28.8% and 11.8%, respectively). The volume and share of deposits attracted from state and public organisations has declined from AZN 37.5 million in 2007 (19.1%) to AZN 15.1 million as of 30 June 2008 (7.6%).

Table 8 – Term structure of attracted deposits

	30.06.2008.		31.12.2007		31.12.2006		31.12.2005	
	AZN'000	%	AZN'000	%	AZN'000	%	AZN'000	%
Up to 1 month	134,260	67.5%	82,737	42.2%	47,101	58.6%	20,012	53.9%
From 1 to 3 months	8,450	4.2%	42,186	21.5%	6,448	8.0%	29	0.08%
From 3 to 12 months	45,947	23.1%	60,768	31.0%	21,858	27.2%	338	0.91%
From 12 months to 5 year	10,010	5.0%	10,328	5.3%	4,920	6.1%	16,742	45.1%
Over 5 years	198	0.1%	193	0.1%	5	0.0%	-	-
Total	**198,865**	**100%**	**196,212**	**100%**	**80,332**	**100%**	**37,121**	**100%**

Source: Issuer's financial reports

As seen from the table above, customer funding generally remains short-term - the major part of attracted deposits are with the term up to 12 months (94.9%).

Concentration in customer balances is significant, with top 5 depositors accounting for 32.9% of all attracted deposits.

Deposit Insurance

In August 2007, the NBA instituted a deposit insurance programme, by means of a Deposit Insurance Fund, in Azerbaijan for private and state owned banks, pursuant to the Azerbaijani Law on Deposit Insurance (2006) in an effort to boost public confidence in the banking sector. This law requires that all licensed banks which accept deposits become members of the Deposit Insurance Fund upon implementation of the programme. As of 7 April 2008, 37 banks, including Technikabank, have become members. The 2007 compensation limit on insured deposits was AZN 4,000 per customer. This limit has increased to AZN 6,000 for the period from 2008 until 2010, and to AZN 8,000 after 2010.

Term Borrowings and Amounts Due to Other Banks

Technikabank obtains funding from a variety of domestic entities including the National Fund for Support of Entrepreneurship (NFSE) under the Ministry for Economic Development of the Republic of Azerbaijan; the AMF; and the NBA.

On 5 May 2007, Technikabank entered into a master credit agreement with the NFSE pursuant to which Technikabank may draw up to AZN 4 million at interest rates ranging from 1% to 2% per annum. Technikabank lends these funds to SMEs at 7% per annum. The principal amount outstanding as at 7 April 2008 was AZN 12.2 million.

On 17 February 2006, Technikabank entered into a master credit agreement with the AMF pursuant to which Technikabank may draw amounts as needed at an interest rate of 2% per annum for common mortgages; and 1% for social mortgages. Technikabank lent these funds to borrowers at rates between 6% and 8% per annum. Technikabank expects to repay the loan at its maturity date and is currently repaying the AMF in monthly instalments. The principal amount outstanding as of 7 April 2008 was AZN 8.7 million.

Technikabank entered into a loan agreement on 27 December 2006 with Kazimir Russia Master Fund to borrow AZN 4.4 million. Kazimir Russia Master Fund is an affiliate of Kazimir Caspian Fund Limited, a shareholder of Technikabank. The principal amount outstanding as at 7 April 2008 was AZN 3.4 million. There are no financial covenants set out in this loan agreement.

On 21 May 2007 Technikabank entered into a deposit agreement with Morgan Stanley & Co. International plc for a deposit in the amount of AZN 20 million. There are no financial covenants set out in this loan agreement.

On 16 May 2007 Technikabank entered into an agreement with Citibank Global Capital Markets Ltd for a deposit of funds with Technikabank in the amount of USD 20 million. There are no financial covenants set out in this loan agreement.

As at 30 June 2008, the estimated fair value of term borrowings from other banks and financial institutions was AZN 44.4 million (31 December 2007: AZN 38.9 million).

11.3.9. Subsidiaries

Technikabank offers its customers insurance, capital management and leasing services through its wholly owned subsidiaries Alfa Insurance LLC, Technika Capital Management Limited LLC and Technika Leasing LLC.

Alfa Insurance

Alfa Insurance was founded on 28 August 1997 under the name of Murad Insurance Company and changed its name to Alfa Insurance on 3 June 2005. Alfa Insurance was acquired by Technikabank on 12 December 2006 from Huseynov Yagub Valeh, who owned 100% of the shares of Alfa Insurance, for consideration of AZN 1.5 million.

Alfa Insurance provides its customers with 25 types of voluntary insurance and 4 types of compulsory insurance products, including auto, health and property insurance. The insurance products offered by Alfa Insurance are often linked to other services provided by Technikabank, thereby providing cross-selling opportunities. For example, cars leased from Technika Leasing are required by law to be insured, and newly-approved lessors are directed to Alfa Insurance. In 2007, Technikabank derived approximately 72% of its total premiums from its auto insurance business. Also, Technikabank’s payment card holders receive discounted insurance from Alfa Insurance.

Alfa Insurance expects to open additional branches in the Mingachevir, Jaliabad, Guba and Ganja regions in Azerbaijan by mid-year 2008. For the year ended 31 December 2007 the total revenues for Alfa Insurance were AZN 1.5 million. In December 2006 Alfa Insurance became a member of the Azerbaijani Insurers Association.

Technika Capital Management Limited

TCML was incorporated on 16 May 2002 and provides capital management services to Technikabank’s customers. TCML has been a shareholder and member of the Supervisory Board of the Baku Stock Exchange since 2003. TCML has been in possession of a brokers license since 2003 and a dealer license since January 2007 from the State Committee on Securities of Azerbaijan. Among the market participants for purchasing and placing state long-term and short-term bonds, TCML is the second in terms of total volumes based on data from the Baku Stock Exchange. Technika Capital Management Ltd has a 12% market share in the Azerbaijani brokerage services market by volume of trades as of 31 December 2007. According to data from the Baku Stock Exchange, 36% of Azerbaijan’s market share of brokerage services in Azerbaijan is supplied through TCML. TCML is also involved in repo operations, the placement of the equity shares and corporate bonds issued by other Azerbaijani banks and private institutions. TCML serves approximately 820 retail customers and 15 corporate customers. For the year ended 31 December 2007 the total revenues for TCML were AZN 0.1 million.

Technika Leasing

Technika Leasing was established on 2 June 2004 and has since grown to become, according to the Azerbaijan Consulting and Business Journal, one of the top 5 leasing companies in Azerbaijan in terms of volume of business, with a portfolio exceeding AZN 1 million. The company operates throughout Azerbaijan and is a member of the Azerbaijani Association of Leasing Companies.

The company leases and provides financial support (through Technikabank) for the leasing of equipment, motor transport, specialised road building and construction equipment and production facilities for which there is currently high demand within Azerbaijan. All leased assets must be insured and customers are directed to Alfa Insurance to satisfy their insurance needs. Lessees receive title to the leased assets at the end of the lease term.

Technika Leasing does not currently lease to individuals, although it expects to do so in the future. Most of its customers are existing clients of Technikabank and such customers’ credit quality is routinely monitored. Technika Leasing obtains its funding from Technikabank and some foreign banks. Construction accounts for approximately 80% of the leasing portfolio while the leasing of vehicles for the transportation of goods and passenger cars accounts for approximately 15% and 5%, respectively, of the leasing portfolio. For the year ended 31 December 2007 the total revenues for Technika Leasing were AZN 0.1 million. Technika Leasing has engaged the IFC to organise workshops for its employees in relation to understanding the leasing business and to generally help Technika Leasing to develop and run its leasing business.

11.4. Technology

Technikabank operates a centralised, integrated banking information system which connects the head office and branches to service its corporate and retail banking operations. It currently has a Moody International Group certified ISO9001 quality management system, the first bank in Azerbaijan to obtain such certification. Its system back-ups are located in its branches in different cities to protect against a shutdown in one city from affecting the entire system.

Technikabank is not reliant on any external network to connect its branches; it has its own fibre optic network which runs between each of its branches and its head office. The benefits provided by the fibre optic network include: relative ease of data transmission between branches, internet access, voice and video conferencing, enabling Technikabank to function virtually as well as physically, which in turn increases Technikabank’s efficiency in the provision of services to its clients. The network is maintained by Technikabank’s IT department and is monitored 24 hours a day, 7 days a week. It also periodically undergoes diagnostic tests by Technikabank’s IT department. Technikabank believes that the know-how of its IT department surpasses that of external providers available in Azerbaijan and therefore relies solely on its IT department.

Moreover, in order to improve its efficiency, Technikabank is currently developing new banking software in-house to increase the versatility and efficiency of its banking operations. In the event that Technikabank’s operational system goes down, Technikabank believes that it would be able to re-establish full operational functions within one hour. Technikabank has back-up facilities in a number of its branches and data is saved to these systems daily. In the event Technikabank’s operational system goes down, it will look to its IT department to restore information from the back-up system. Technikabank’s systems are tested every two weeks.

11.5. Employees

Currently, due to its diverse geographic network, Technikabank is one of the largest employer among private banks in Azerbaijan, according to the NBA, with 567 employees as at 30 September 2008.

The average age of Technikabank’s employees is 28 years and a large portion are university graduates with degrees in economics and finance. To promote operational efficiency, Technikabank emphasises training and experience amongst its employees. Technikabank holds internal and external training sessions on topics designed to improve the skills of its employees.

Technikabank also sponsors education in the United States of America and the United Kingdom for certain identified high-achieving Azerbaijani youth. Upon completion of their studies, such individuals are encouraged to return to Azerbaijan to work at Technikabank. Technikabank has in the past sponsored 4 of such students.

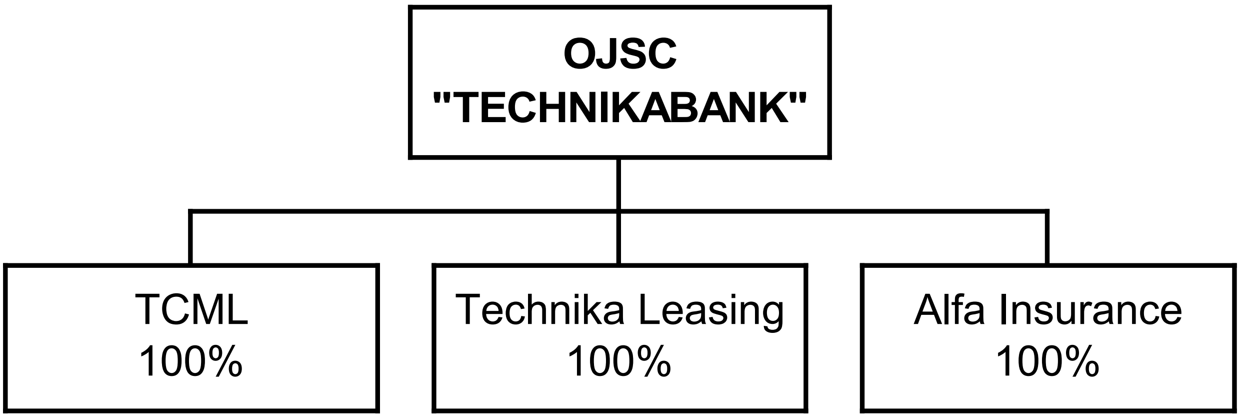
11.6. Licenses

Technikabank is regulated by the National Bank of the Republic of Azerbaijan and conducts its business under the general license for banking activities and foreign currency operations number 198 issued on 24 February 1994.

12. Organisational Structure

The Issuer is a member of the Group comprised of the Issuer itself and its 100% owned subsidiaries ***Technika Capital Management Limited LLC*** (incorporated in 2002), ***Technika Leasing LLC*** (incorporated in 2004) and ***Alfa insurance LLC*** (founded in 1997, acquired by Technikabank in 2006). All subsidiaries are incorporated under Azerbaijani law and operate in Azerbaijan.

Figure 1 – Technikabank’s Organisational Structure



Source: Issuer’s management

Apart from investments in subsidiaries, Technikabank owns 10% stake in ***Milli Kart***, a private electronic payment processing company. A key function of Milli Kart is to assist participating banks and their clients, to provide multiple payment processing points for card payment transactions at such clients’ branches as opposed to having solely one payment processing point as available through Azericard, the other payment processing company currently operating in Azerbaijan. Technikabank’s investment in Milli Kart is AZN 0.4 million.

Table 9 – Technikabank’s investments into and income from its subsidiaries and affiliates

	Year ended 31 December 2007		Year ended 31 December 2006	
Company	**Shareholders’ equity (AZN)**	**Net income (AZN)**	**Shareholders’ equity (AZN)**	**Net income (AZN)**
Alfa Insurance	1,500,000	117,928	1,500,00	6,000
Milli Kart	400,000	-	400,000	-
Technika Capital Management	148,000	96,077	148,000	51,162
Technika Leasing	200,000	73,411	200,000	8,033

Source: Issuer’s management

Technikabank’s subsidiaries are operating in the brokerage, leasing and insurance industries. For more detailed information on the subsidiaries see Section 11.3.9. “Subsidiaries” of the Prospectus.

13. Trend Information

By this we declare that since the publishing date of the last audited financial statement there have not been any substantial changes for the worse in Technikabank’s perspectives. At Technikabank’s disposal there is no information on trends, external factors, claims, obligations or events that can substantially influence its perspectives in the current financial year except for those mentioned in the Prospectus.

14. Profit Forecasts

Technikabank chooses not to include any profit forecasts or estimates in this Prospectus.

15. Management Bodies of the Issuer

Technikabank is governed by the General Assembly of Shareholders, the Supervisory Council and the Executive Board. The legal address of all members of the Supervisory Council and the Executive Board is 1107 Ataturk Avenue, Baku AZ1069, Azerbaijan.

15.1. Supervisory Council

Technikabank's Council consists of 5 members:

Etibar Mahmud Aliyev – Chairman of the Supervisory Council

Positions currently held in other companies: none.
Share in Technikabank's capital: 15%.

Frank Mosier - Member of the Supervisory Council

Positions currently held in other companies: Kazimir Partners Limited - Managing partner.
Share in Technikabank's capital: none.

Natiq Anvar Aghazada – Member of the Supervisory Council

Positions currently held in other companies: Zygon Caspian Consulting Ltd - Director.
Share in Technikabank's capital: none.

Mirfalah J. Jabbarov – Member of the Supervisory Council

Positions currently held in other companies: none.
Share in Technikabank's capital: none.

Majid F. Asadov - Member of the Supervisory Council

Positions currently held in other companies: World Wines – Executive Director.
Share in Technikabank's capital: none.

15.2. Executive Board

Technikabank's Executive Board consists of 7 members:

Samir Nuriddin Huseynov – Chairman of the Board

Other positions with Technikabank: none
Positions currently held in other companies: none.

Education – Mr. Huseynov is a 1999 graduate of Boston University, USA.
Work experience - Before joining Technikabank in August 2004, Mr. Huseynov worked as a joint portfolio manager at Tucker Anthony in Boston, USA and as a financial analyst at Swiss Development and Cooperation Agency in Baku, Azerbaijan. In addition, Mr. Huseynov taught a course in Fundamentals of Corporate Finance at the Azerbaijan State University of Economics from 2001 to 2003.

Khagani Zahid Guluzadeh – First Deputy Chairman of the Board

Other positions with Technikabank: Director of Central administrative department, head of ALCO.
Positions currently held in other companies: none.

Education – Mr. Guluzadeh obtained a Bachelor's degree in Economic Sciences at Azerbaijan State University of Economics in 1997. He obtained a Master's degree in Economics in 1999, and became a candidate of Economic Sciences in 2003 (which is the equivalent of a PhD in Economics) at the Azerbaijan State University of Economics.
Work experience - Prior to joining Technikabank in July 2003, Mr. Guluzadeh worked as a chairman at NBC Bank in Baku, Azerbaijan.

Nijat Nadir Abdullayev – Deputy Chairman of the Board

Other positions with Technikabank: Director of Financial management department.
Positions currently held in other companies: none.

Education – Mr. Abdullayev is a 1992 graduate of Azerbaijan State University of Economics.
Work experience - Mr. Abdullayev joined Technikabank in August 1995, and from 1998 to 2004, he served as a chairman of the Executive Board.

Samir Baris Bakhsaliyev – Deputy Chairman of the Board

Other positions with Technikabank: Director of Credit and Prudential reports department, head of Credit Committee.
Positions currently held in other companies: none.

Education – Mr. Bakhshaliyev is a 1999 graduate of Azerbaijan State University of Economics.
Work experience - Mr. Bakhshaliyev has been working with Technikabank since August 1996.

Bahruz Nadir Nadirov – Deputy Chairman of the Board

Other positions with Technikabank: Director of Treasury and Risk management department.
Positions currently held in other companies: none.

Education – Mr. Nadirov is a 1995 graduate of Azerbaijan State Academy of Oil and Chemistry.
Work experience - Before joining Technikabank in June 1998, he worked as a lead economist at Azerbaijan Industrial Investment Stock Commercial Bank.

Zulfugar Bakhshali Zulfugarli – Deputy Chairman of the Board

Other positions with Technikabank: Director of Absheron branch.
Positions currently held in other companies: none.

Education – Mr. Zulfugarli is a 1981 graduate of State University of Economics in Baku, Azerbaijan.
Work experience - He worked as a deputy chairman at Aziya Commercial Bank in Baku from 1995 to 2004, at Bank Milli Iran (Central Bank of Iran), as a chairman of Executive Board of Bank Milli Iran's Baku Branch from 1994 to 1995, and at the National Bank of Azerbaijan from 1992 to 1993 as a manager of its Azkombank-Azal branch.

Musannif Hilal Salahov – Deputy Chairman of the Board

Other positions with Technikabank: Director of Sumgayit branch.
Positions currently held in other companies: none.

Education – Mr. Salahov is a 1981 graduate of State University of Economics in Baku, Azerbaijan
Work experience - Before joining the Bank in May 2003, Mr. Salahov worked at International Bank of Azerbaijan as the head of its Sumgayit branch.

15.3. Internal Audit

Natig Oruj Allahverdiyev– Head of Audit Committee

Work Responsibilities:

- independent monitor of development, improvement and functioning of internal control system of the Issuer;
- assessment of adequacy and effectiveness of the Internal control system of the Issuer;
- audit of accounting and information systems of the Issuer.

Education – Mr. Allahverdiyev is a 1991 graduate of State University of Economics in Baku, Azerbaijan.

Work experience – Before joining Technikabank in 2005, Mr. Allahverdiyev worked at the Ministry of Finance as an adviser and at Improtex Trading Ltd. as a deputy director.

Positions currently held in other companies: none.

15.4. Conflicts of Interests of Administration, Management and Supervision Bodies

The persons mentioned in this section have no conflict of interests between their obligations against Technikabank and their private benefit or any other obligations. In order to prevent possible conflicts of interests, Technikabank abides by all restrictions stipulated under the regulations of the Republic of Azerbaijan regarding transactions with members of council, board, or employees of internal audit division.

16. Shareholders

Technikabank's shareholders are World Wines Private Company (legal address: Azizbeyov district, Yesenin str. 11, office 4, Baku, Republic of Azerbaijan) holding 75% of Technikabank's share capital; Etibar Aliyev, the chairman of the Supervisory Council, owning 15% of the share capital; and Kazimir Caspian Fund Limited (the Cayman Islands) – 10%.

World Wines is a private company operating in wine production, food processing and agriculture. The company was established on 23 October 2000 and is owned by Azerbaijani citizen Adil Mammadov.

Kazimir Caspian Fund Limited is a legal entity registered in the Cayman Islands and domiciled in the Russian Federation. Kazimir is an affiliated company to Kazimir Russia Master Fund Limited.

Table 11 – Technikabank's shareholders structure

		As at 31 December 2007		As at 31 December 2006	
No	**Shareholders**	**Number of owned shares**	**%**	**Number of owned shares**	**%**
1	**Etibar Aliyev**	4,037	15%	2,680	22.5%
	E. Aliyev's family members:				
2	**Esmira Bayramova**	-		2,680	22.5%
3	**Keramet Aliyev**	-		2,680	22.5%
4	**Reshad Aliyev**	-		2,680	22.5%
	Total shares belonging to E. Aliyev and his family members	*4,037*	*15%*	*10,720*	*90%*
5	**Kazimir Caspian Fund**	2,691	10%	1,192	10%
6	**World Wines**	20,184	75%	-	-
	Total	**26,912**	**100%**	**11,912**	**100%**

Source: Issuer's management

The ultimate controlling party of Technikabank is the majority shareholder World Wines, and its controlling party Adil Mammadov. However, it has been entrusted to Mr. Etibar Aliyev to continue running the business with control over all Technikabank's day-to-day activities together with longer term strategic planning.

The par value of Technikabank's share capital as at 31 December 2007 was AZN 26,912 thousand. At 31 December 2007, all of Technikabank's outstanding shares were authorised, issued and fully paid. All ordinary shares have a nominal value of AZN 1,000 per share and rank equally. Each share carries one vote.

In January 2008, Technikabank has resolved to increase its share capital from AZN 26,912 thousand to AZN 50,912 thousand by the issue of an additional 24,000 shares at AZN 1,000 per share. Initially, the shares were expected to be acquired by new or the existing shareholders until 31 December 2008, but later the issue was postponed to summer 2009. This share issue might lead to significant changes in the shareholders' structure.

Regulations set in the legislation of Azerbaijan, Corporate governance principles adopted by Technikabank, as well as liability of the members of the Supervisory Council and the Executive Board are the factors that effectively ensure that the control of the shareholders over Technikabank is not misused.

According to Technikabank's Charter with all the subsequent amendments the objects and purposes of Technikabank are stated in paragraph 2.1. and are as follows: "The Bank shall be established as a multifaceted credit and financial institution, shall operate in accordance with the respective laws of the Republic of Azerbaijan and shall constitute an integral part of the banking system of the Republic of Azerbaijan."

17. Corporate Governance

Technikabank carries its business in accordance with the best world practices relating to corporate governance. In order to ensure the understanding of its activities by partners and clients, and to increase the confidence in its long-term economic potential, Technikabank pays special attention to ensuring of transparency of its business, personnel training, improvement of the quality of its services and provision of high quality services focused on client needs.

Technikabank operates in accordance with public interests while trying to achieve the best possible results. Technikabank has developed the system of internal control, which ensures that its operations and internal procedures comply with the acting legislation of the Republic of Azerbaijan and the best world practices. Information on the head of Internal audit department can be found in Section 15.3. "Internal Audit" of the Prospectus.

18. Financial Information on Assets, Liabilities, Equity, Profit or Loss, and Financial Position of the Issuer

Information included in this section of the Prospectus was taken from the annual audited financial statements for 2006 and 2007 prepared under IFRS requirements.

18.1. Income Statement

AZN '000	**2007**	**2006**
Interest income	28,355	8,147
Interest expense	(13,962)	(3,174)
Net interest income	**14,393**	**4,973**
Provision for loan impairment	(4,624)	(1,755)
Net interest income after provision for loan impairment	**9,769**	**3,218**
Fee and commission income	12,166	6,105
Fee and commission expense	(1,763)	(699)
Gains less losses from trading in foreign currencies	2,100	1,124
Gains on revaluation of investment properties	140	-
Loss on revaluation of premises	(70)	-
Foreign exchange translation gains less losses/ (losses less gains)	189	(59)
Negative goodwill	-	216
Insurance premiums written	1,535	-
Reinsurance premiums ceded	(166)	-
Increase in provision for unearned premiums	(864)	-
Increase of reinsurer's share of provision for unearned premiums	112	-
Claims incurred	(235)	-
Other operating income	262	29
Administrative and other operating expenses	(8,008)	(4,362)
Profit before tax	**15,167**	**5,572**
Income tax expense	(3,415)	(1,291)
Profit for the year	**11,752**	**4,281**

18.2. Balance Sheet

AZN '000	31/12/2007	31/12/2006
Assets		
Cash and cash equivalents	53,227	42,664
Mandatory cash balances with NBA	8,413	6,178
Due from other banks	25,494	2,540
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	4,088
Loans and advances to customers	237,776	68,091
Investment securities available for sale	460	548
Investment properties	145	282
Premises and equipment	20,310	7,965
Intangible assets	95	108
Other financial assets	2,297	1,339
Other assets	1,189	344
Total assets	**349,406**	**134,147**
Liabilities		
Due to other banks	55,748	4,780
Liabilities to customers under brokerage agreements	10,793	43
Customer accounts	196,212	80,332
Debt securities in issue	4,679	1,768
Term borrowings from other banks and financial institutions	38,917	21,377
Current income tax liabilities	1,852	450
Deferred income tax liabilities	1,343	919
Other financial liabilities	1,160	2,018
Other liabilities	2,037	615
Total liabilities	**312,741**	**112,302**
Equity		
Share capital	26,912	11,912
Share premium	3,464	3,808
Retained income	3,620	4,913
Revaluation reserve for premises	2,669	1,212
Total equity	**36,665**	**21,845**
Total liabilities and equity	**349,406**	**134,147**

18.3. Cash Flow Statement

AZN '000	31/12/2007	31/12/2006
Cash flows from operating activities		
Interest received	25,396	7,868
Interest paid	(13,406)	(3,067)
Fees and commissions received	12,166	6,105
Fees and commissions paid	(1,763)	(699)
Insurance premium received	1,419	-
Reinsurance premium ceded	(132)	-
Insurance claims paid	(72)	-
Income received from trading in foreign currencies	2,100	1,124
Other operating income received	262	29
Staff costs paid	(3,920)	(1,987)
Administrative and other operating expenses	(3,868)	(978)
Income tax paid	(2,013)	(1,515)
Cash flows from operating activities before changes in operating assets and liabilities	***16,169***	***6,880***
Net increase in mandatory cash balances with the NBA	(2,235)	(5,463)
Net increase in due from other banks	(23,032)	(2,540)
Net decrease/ (increase) in Treasury bills of the Ministry of Finance	4,088	(2,682)
Net increase in loans and advances to customers	(169,950)	(28,675)
Net increase in other financial assets	(1,074)	-
Net increase in other assets	(727)	(736)
Net increase in due to other banks	43,617	2,915
Net increase in liabilities to customers under brokerage agreements	10,750	43
Net increase in customer accounts	115,323	43,050
Net increase/(decrease) in other financial liabilities	1,422	(999)
Net increase/(decrease) in other liabilities	377	513
Net cash (used in)/provided from operating activities	***(5,272)***	***12,306***
Cash flows from investing activities		
Acquisition of investment securities available for sale	-	(548)
Proceeds from disposal of investment securities available for sale	88	-
Acquisition of premises and equipment and intangible assets	(12,552)	(2,313)
Acquisition of subsidiaries, net of cash acquired	-	672
Net cash used in investing activities	***(12,464)***	***(2,189)***
Cash flows from financing activities		
Proceeds from term borrowings from other banks and financial institutions	39,122	20,384
Repayment of term borrowings from other banks and financial institutions	(15,377)	(9,654)
Proceeds from debt securities in issue	2,868	1,768
Issue and sale of ordinary share	5,364	5,000
Acquisition of treasury shares	(3,800)	-
Net cash provided from financing activities	***28,177***	***17,498***
Effect of exchange rate changes on cash and cash equivalents	***122***	***(59)***
Net decrease in cash and cash equivalents	**10,563**	**27,556**
Cash and cash equivalents at the beginning of the year	**42,664**	**15,108**
Cash and cash equivalents at the end of the year	**53,227**	**42,664**

18.4. Statement of Changes in Equity

AZN '000	Share capital	Share premium	Revaluation reserve for premises	Retained earnings	Total equity
Balance at 31 December 2005	**6,000**	**-**	**974**	**5,065**	**12,039**
Premises and equipment:					
- Revaluation of premises, net of tax	-	-	525	-	525
- Realised revaluation reserve	-	-	(30)	30	-
- Transfer of fair value gain on investment property from revaluation reserve to retained earnings	-	-	(257)	257	-
Net income recognised directly in equity	-	-	238	287	525
Profit for the year	-	-	-	4,281	4,281
Total recognised income for the year	**-**	**-**	**238**	**4,568**	**4,806**
Share issue	5,912	3,808	-	(4,720)	5,000
Balance at 31 December 2006	**11,912**	**3,808**	**1,212**	**4,913**	**21,845**
Premises and equipment:					
- Revaluation of premises, net of tax	-	-	1,504	-	1,504
- Realised revaluation reserve	-	-	(47)	47	-
Net income recognised directly in equity	-	-	1,457	47	1,504
Profit for the year	-	-	-	11,752	11,752
Total recognised income for the year	**-**	**-**	**1,457**	**11,799**	**13,256**
Share issue	15,000	1,056	-	(10,692)	5,364
Treasury shares					
- Acquisitions	(2,400)	(1,400)	-	-	(3,800)
- Disposals	2,400	-	-	(2,400)	-
Balance at 31 December 2007	**26,912**	**3,464**	**2,669**	**3,620**	**36,665**

18.5. Accounting Policies and Explanatory Notes

18.5.1. Summary of Significant Accounting Policies

Basis of Preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises and investment properties, and the valuation at fair value of investment securities available for sale. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented (refer to Section 18.5.3.). Management, being the Board of Directors, who approved these consolidated financial statements for issue, have the power to amend these consolidated financial statements. Any such change requires the approval of the Board of Directors.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the acquirer's share of the fair value of the net assets of the acquiree at each exchange transaction is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference, if any, between the fair values of the net assets at the dates of exchange and at the date of acquisition is recorded directly in equity.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

<u>Fair value</u> is the amount, for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities, which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arms length transactions or consideration of financial data of the investees are used to fair value certain financial instruments, for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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

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

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

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

All purchases and sales of financial assets that require delivery within the time-frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading securities, derivatives and other financial assets at fair value through profit or loss; and recognised in equity for assets classified as available for sale.

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

Mandatory cash balances with the NBA. Mandatory cash balances with the NBA are carried at amortised cost and represent non interest bearing mandatory reserve deposits, which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated cash flow statement.

Treasury bills. Treasury bills represent debt securities issued by the Ministry of Finance of the Republic of Azerbaijan. Treasury bills are recorded when the Group advances money to the Ministry of Finance in exchange for these debt securities with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Treasury bills are carried at amortised cost.

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

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

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

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

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

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

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

Investment securities available for sale. This classification includes investment securities, which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated, using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established and inflow of economic benefits is probable. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired, at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

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

Investment properties. Investment property is property held by the Group to earn rental income or for capital appreciation and which is not occupied by the Group.

Investment property is initially recognised at cost, including transaction costs, and subsequently re-measured at fair value based on its market value. The fair value of the Group's investment property is obtained from reports of independent appraisers, who hold a recognised and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Earned rental income is recorded in profit or loss within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss and presented separately.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit, to which goodwill has been allocated, include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit, which is retained.

Negative goodwill represents the excess of the fair value of the acquirer's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate over the cost of an acquisition at the date of exchange. In determining that excess the acquirer reassesses the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination. Negative goodwill is recognised immediately in income statement after that reassessment.

Premises and equipment. Premises and equipment are stated at cost, or revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Premises of the Group are subject to revaluation on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the surplus is realised, i.e. either on the retirement or disposal of the asset, or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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

All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity.

An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

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

Premises	3%;
Computers and communication equipment	25%;
Furniture, fixtures and other equipment	20%;
Motor vehicles	25%; and
Leasehold improvements	over the term of the underlying lease.

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

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if inflow of incremental economic benefits exceeding costs is probable. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortised on a straight line basis over expected useful lives of 4 to 5 years.

Operating leases. Where the Group is a lessee in a lease, which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

Finance leases. Where the Group is a lessor in a lease, which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins), using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated income statement.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Non-life insurance operations

- ***Premiums written.*** Upon inception of a contract, insurance premium is recorded as written and a corresponding provision for unearned premium is created.

- ***Provision for unearned premiums.*** Provision for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force as at the balance sheet date. Re-insurers' share of provision for unearned premiums represents the proportion of premiums ceded in the year that relate to unexpired terms of policies in force as at the balance sheet date. The provision for unearned premiums, net of re-insurers' share of provision, is released to income on a time proportion basis, using straight line method.

- ***Claims paid.*** Claims paid including claims handling expenses are charged to the consolidated statement of income as incurred.

- ***Loss provision.*** Loss provision represents the accumulation of estimates for incurred losses and includes outstanding claims provision ("OCP") and provision for losses incurred, but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at the balance sheet date. The estimation is made on the basis of information received by the Group during investigation of insurance cases expected to be settled after the balance sheet date. IBNR is actuarially determined by the Group by line of business, using simplified Bornhuetter-Ferguson method, based on implied expected ultimate loss ratios and implied reported claims development factors, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of income as they arise. The loss reserves are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

- ***Reinsurance.*** The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance receivables include balances due from reinsurance companies for paid claims, including claims handling expenses, and premiums ceded to the Group. Amounts recoverable from re-insurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to re-insurers and of the Group's share in claims in respect of insurance cases reinsured by the Group. Reinsurance contracts that do not transfer insurance risk are accounted for directly through the consolidated balance sheet and are included in other receivables or payables.

- ***Deferred acquisition costs.*** Acquisition costs, representing commissions and certain other underwriting expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortised over the period, in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

- ***Insurance related payables.*** All payables are accounted for on an accruals basis. Reinsurance receivables and payables are offset where the legal right for this offset exists. Claims in the process of settlement include the amounts payable by the Group to its customers under claims that have been processed, evaluated and approved for repayment under the Group's policy.

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

Liabilities to customers under brokerage agreements. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

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

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Term borrowings from other banks and financial institutions. Term borrowings from other banks and financial institutions are carried at amortised cost.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement, except if it is recognised directly in equity because it relates to transactions that are also recognised, in the same or a different period, directly in equity.

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

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost.

Share premium. When shares are issued, the excess of contributions received, net of transaction costs, over the nominal value of the shares issued is recorded as share premium in equity.

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

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

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

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

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment, in which the entity operates. The functional currency of all of the Group's entities and the Group's presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

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

At 31 December 2007, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.8453 (2006: USD 1 = AZN 0.8714).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Segment reporting. A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately. Geographical segments of the Group have been reported separately within these consolidated financial statements based on the ultimate domicile of the counterparty, e.g. based on economic risk rather than legal risk of the counterparty.

Classification changes. Certain prior year comparatives have been updated to reflect changes in the classification of certain line item headings for balance sheet accounts and movements in the Consolidated Statement of Cash Flows. Further information on these changes are included in Sections 18.5.5., 18.5.6., 18.5.7. and 18.5.8. of the Prospectus, and as detailed below. In addition, certain balances within the economic risk concentrations within the total customer loan portfolio in Section 18.5.8. and total customer accounts in Section 18.5.16. have been reclassified in order to conform to the presentation adopted as at 31 December 2007.

	Previously Reported	**After reclassification**	**Impact**
Reclassifications or renamed lines in the Consolidated Balance Sheet			
Cash and cash equivalents (see Section 18.5.5.)	35,488	42,664	7,176
Due from other banks (see Section 18.5.6.)	9,716	2,540	(7,176)
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan (see Section 18.5.7.)	-	4,088	4,088
Loans and advances to customers (see Section 18.5.8.)	72,179	68,091	(4,088)
Other financial assets	-	1,339	1,339
Other assets	1,683	344	(1,339)
Liabilities to customers under brokerage agreements	-	43	43
Other financial liabilities	-	2,018	2,018
Other liabilities	2,676	615	(2,061)
Reclassifications or renamed lines in the Consolidated Statement of Cash Flows			
Interest received	7,844	7,868	24
Income tax paid	(1,491)	(1,515)	(24)
Cash flows from operating activities before changes in operating assets and liabilities	6,880	6,880	-
Net increase in due from other banks	(9,516)	(2,540)	6,976
Net increase in loans and advances to customers	(31,357)	(28,675)	2,682
Net decrease/ (increase) in Treasury bills	-	(2,682)	(2,682)
Net increase in liabilities to customers under brokerage agreements	-	43	43
Net increase in customer accounts	43,093	43,050	(43)
Net increase/ (decrease) in other financial liabilities	-	(999)	(999)
Net increase/ (decrease) in debt securities in issue	1,768	-	(1,768)
Net increase/ (decrease) in other liabilities	840	513	(327)
Net cash (used in)/provided from operating activities	8,424	12,306	3,882
Acquisition of premises and equipment and intangible assets	(3,639)	(2,313)	1,326
Net cash used in investing activities	(3,515)	(2,189)	1,326
Proceeds from debt securities in issue	-	1,768	1,768
Net cash provided from financing activities	15,730	17,498	1,768
Net decrease in cash and cash equivalents	20,580	27,556	6,976
Cash and cash equivalents at the beginning of year	14,908	15,108	200
Cash and cash equivalents at the end of year	35,488	42,664	7,176

18.5.2. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Going concern. Management have prepared these consolidated financial statements on a going concern basis. In making this judgement management have considered the current favourable macroeconomic environment for financial institutions operating in the Republic of Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required. As disclosed in Section 18.5.29. to this Prospectus, the Group has a net liquidity gap in the period from one to three months as at 31 December 2007. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, Management believe that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Section 18.5.29.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- three months, the provision would be approximately AZN 500 thousand (31 December 2006: AZN 173 thousand) higher or lower.

Revaluation of premises and investment property. Management uses judgement to determine when factors dictate that a revaluation of the Bank's premises is appropriate in order for the balance sheet to reflect fair value at each balance sheet date and how the assessment of the fair value of investment properties is performed. The fair value of premises and investment property is usually determined from market-based evidence by an appraisal that is undertaken by professionally qualified valuers. The evidence used by the valuers includes estimates of prevailing market prices per square meter of properties with characteristics similar to those of the Bank's premises. These estimates are based on the valuer's experience using comparable sale information and represent a benchmark of the current situation and trends in the market. The valuer also calculates valuations using an income capitalisation approach taking into account future rental incomes and other factors before confirming an overall valuation for each of the Bank's properties. The most significant estimate made in performing the valuations is the sale price per square meter for comparable buildings. To the extent that the estimate for the sale price per square meter used in the independent valuation differed by 5%, the revalued amounts of premises and investment property as at 31 December 2007 would differ by +/- AZN 96 thousand (31 December 2006: AZN 113 thousand) and AZN 7 thousand (31 December 2006: AZN 21 thousand) respectively.

Valuation of intangible assets acquired as part of business combination. Management applied judgement in determining the fair value of intangible assets recognised during the business combination that occurred in December 2006. The valuation was performed internally by management without involvement of an external appraiser as no significant future benefits are expected to flow into the Group from the intangible assets acquired. The fair value of acquired intangible assets was AZN 70 thousand.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Section 18.5.32.

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

Loans and advances to customers. The Bank has acquired long term financing from the National Fund for Support of Entrepreneurship of the Republic of Azerbaijan and Mortgage Fund of the Republic of Azerbaijan at interest rates, at which similar organisations ordinarily lend in emerging markets and which may be lower than rates at which the Bank could source the funds from other lenders. As a result of such financing, the Bank was able to issue funds to specific customers at favourable rates. The Group's policy is to recognise financial instruments initially based on their fair values, as required by IAS 39, *Financial Instruments: Recognition and Measurement*. Management has therefore considered whether gains or losses should arise on initial recognition of such instruments. As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market rates and no initial recognition gains or losses should arise.

Management have also assessed the nature of the agreement with the Azerbaijan Mortgage Fund, and in particular whether the Bank is acting as an agent of the fund, or as a principal with the borrower under this program. Having considered the risks and rewards related to the loans issued under this program, management have concluded that the Bank is acting as principal and accordingly the accounting in these consolidated financial statements follows this judgement. Had an alternative conclusion been reached, the gross amounts from such loans to customers and due to the Fund, of AZN 8,716 thousand as at 31 December 2007 (2006: AZN 515 thousand) would have been excluded from the Group's consolidated financial statements.

Share purchase agreement dated 22 December 2006. The share purchase agreement dated 22 December 2006 signed between the Bank and four of the Bank's principal shareholders from the Aliyev family, and Kazimir Investment Caspian Fund Limited ("Kazimir Investment") included a put option granting Kazimir Investment the right to sell the shares acquired under this agreement at any time at a price equal to the purchase price of the shares plus interest at a rate of 14 per cent per annum from the date of purchase. As at 31 December 2006, it was acknowledged by all the parties to the agreement that the put option was against Mr. Etibar Aliyev as an individual shareholder, and was not ever intended to be an option against the Bank. Therefore, for the purposes of these consolidated financial statements management have applied judgement and concluded that the wording related to the Put Option in the share purchase agreement was not correct and that the Put Option should not be accounted for as a liability against the Bank in these consolidated financial statements. Had an alternative judgement been reached, and the put option contained in the share purchase agreement determined not to contain an error, the share issue transaction should have been accounted for as an increase in liabilities of the Group. The impact on consolidated financial statements as at 31 December 2006 should the put option be taken into account would be an increase in payable to shareholders of AZN 4,413 thousand; decrease in equity of AZN 4,084 thousand; increase in net profit of AZN 458 thousand; and increase in deferred tax liability of AZN 129 thousand. The share purchase agreement was amended in November 2007 to delete all wording related to the put option.

18.5.3. Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2007. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to the retained earnings at 1 January 2006, unless otherwise described below.

IFRS 7, Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduced new disclosures to improve the information about financial instruments, including about quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk including sensitivity analysis to market risk. IFRS 7 replaced IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and some of the requirements in IAS 32, *Financial Instruments: Disclosure and Presentation*. The Amendment to IAS 1 introduced disclosures about the level of an entity's capital and how it manages capital. The new disclosures are made in these consolidated financial statements.

Other new standards or interpretations. The Group has adopted the following other new standards or interpretations, which became effective from 1 January 2007:

- IFRIC 7, *Applying the Restatement Approach under IAS 29* (effective for periods beginning on or after 1 March 2006);
- IFRIC 8, *Scope of IFRS 2* (effective for periods beginning on or after 1 May 2006);
- IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006); and
- IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006).

The new IFRIC interpretations 7 to 10 did not significantly affect the Group's consolidated financial statements.

18.5.4. New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the standard will have on segment disclosures in the consolidated financial statements.

Puttable financial instruments and obligations arising on liquidation — IAS 32 and IAS 1 Amendment (effective from 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 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 Group is currently assessing the impact of the amended standard on its consolidated financial statements.

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 1 July 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 acquiree's identifiable net assets) or on the same basis as US GAAP (at 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 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 recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, 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 Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2008). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13, 'Customer loyalty programmes' (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not currently relevant to the Group's operations because no Group companies operate any loyalty programmes.

Other new standards or interpretations. The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007; that is from 1 January 2008);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008); or
- IFRIC 14, IAS 19 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

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

18.5.5. Cash and Cash Equivalents

In thousands of Azerbaijani Manats	**2007**	**2006**
Cash on hand	20,437	24,214
Cash balances with the NBA (other than mandatory reserve deposits)	-	5,742
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	166	748
- Other countries	1,641	2,499
Promissory notes of the NBA	27,167	7,176
Placements with other banks with original maturities of less than three months	3,816	2,285
Total cash and cash equivalents	**53,227**	**42,664**

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

Promissory notes of the NBA represent short-term debt instruments issued by the NBA with maturities of less than a month and annual yield ranging from 10% to 12% (2006: from 11% to 14%). All of the notes outstanding as at 31 December 2007 were repaid by the issuer during January 2008. In 2006, promissory notes of the NBA were included as part of due from other banks (see Section 18.5.6.), but have been reclassified to cash and cash equivalents in 2007 in accordance with the clarification of the Group's accounting policy for such notes.

Placements with other banks with original maturities of less than three months include placements with resident banks with annual interest rates ranging from 18% to 20% (2006: 20% to 22%).

Analysis by credit quality of the cash and cash equivalents at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	**Cash on hand**	**Cash balances with the NBA**	**Correspondent accounts and overnight placements with other banks**	**Promissory notes of the NBA**	**Placements with other banks with original maturities of less than three months**	**Total**
Current and not impaired						
- Cash on hand	20,437	-	-	-	-	20,437
- The NBA	-	-	-	27,167	-	27,167
- Top 15 Azerbaijani banks	-	-	166	-	1,000	1,166
- Other Azerbaijani banks	-	-	-	-	2,504	2,504
- OECD banks	-	-	651	-	312	963
- Non-OECD banks	-	-	990	-	-	990
Total current and not impaired	**20,437**	**-**	**1,807**	**27,167**	**3,816**	**53,227**
Total cash and cash equivalents	**20,437**	**-**	**1,807**	**27,167**	**3,816**	**53,227**

Analysis by credit quality of the cash and cash equivalents at 31 December 2006 is as follows:

In thousands of Azerbaijani Manats	**Cash on hand**	**Cash balances with the NBA**	**Correspondent accounts and overnight placements with other banks**	**Promissory notes of the NBA**	**Placements with other banks with original maturities of less than three months**	**Total**
Current and not impaired						
- Cash on hand	24,214	-	-	-	-	24,214
- The NBA	-	5,742	-	7,176	-	12,918
- Top 15 Azerbaijani banks	-	-	100	-	2,135	2,235
- Other Azerbaijani banks	-	-	648	-	150	798
- OECD banks	-	-	2,008	-	-	2,008
- Non-OECD banks	-	-	491	-	-	491
Total current and not impaired	**24,214**	**5,742**	**3,247**	**7,176**	**2,285**	**42,664**
Total cash and cash equivalents	**24,214**	**5,742**	**3,247**	**7,176**	**2,285**	**42,664**

Geographical and interest rate analyses of cash and cash equivalents are disclosed in Section 18.5.29. The information on related party balances is disclosed in Section 18.5.35.

In accordance with the NBA regulations the Bank is required to maintain mandatory cash balances with the NBA calculated based on the average customer accounts balances. These mandatory cash balances may be utilised by the Group provided that the minimum required balance is maintained over the fifteen day reference period. As at 31 December 2007, the Group has utilised a portion of its mandatory cash balances in the amount of AZN 8,130 thousand under the condition that these funds will be returned during first business days of 2008. The Group has maintained the required level of mandatory reserves throughout the year and subsequently. As at 31 December 2007 and 31 December 2006 none of the mandatory cash balances with the NBA were overdue.

18.5.6. Due from Other Banks

In thousands of Azerbaijani Manats	**2007**	**2006**
Placements with other banks with original maturities of more than three months	25,494	2,540
Total due from other banks	**25,494**	**2,540**

Placements with other banks with original maturities of more than three months include placements with resident banks with annual interest rates ranging from 15% to 20% (2006: 20% to 22%) and maturities from May 2008 to May 2009.

In 2006, promissory notes of the NBA were included as part of due from other banks, but have been reclassified to cash and cash equivalents in 2007 (see Section 18.5.5.) in accordance with the clarification of the Group's accounting policy for such notes.

Amounts due from other banks are normally collateralised. The analysis by credit quality of amounts due from other banks outstanding at 31 December 2007 is, as follows:

In thousands of Azerbaijani Manats	**Placements with other banks with original maturities of more than three months**
Current and not impaired	
- Top 15 Azerbaijan banks	4,599
- Other banks	19,911
- Balances renegotiated in 2007	984
Total current and not impaired	**25,494**

Balances renegotiated in 2007 were the result of routine business decisions and were not the result of any event indicating a change in the recoverability of these balances.

The analysis by credit quality of amounts due from other banks outstanding at 31 December 2006 is as follows:

In thousands of Azerbaijani Manats	**Placements with other banks with original maturities of more than three months**
Current and not impaired	
- Top 15 Azerbaijan banks	362
- Other banks	2,178
Total current and not impaired	**2,540**

The primary factor that the Group considers whether a deposit is impaired is its overdue status.

The carrying value of each class of amounts due from other banks approximates fair value at 31 December 2007 and 31 December 2006. As at 31 December 2007, the estimated fair value of due from other banks was AZN 25,494 thousand (31 December 2006: AZN 2,540 thousand). Refer to Section 18.5.33.

Geographical, maturity and interest rate analyses of due from other banks are disclosed in Section 18.5.29. The information on related party balances is disclosed in Section 18.5.35.

18.5.7. Treasury bills of the Ministry of Finance of the Republic of Azerbaijan

Treasury bills of the Ministry of Finance of the Republic of Azerbaijan represent short-term debt securities issued by the Ministry of Finance of the Republic of Azerbaijan. The investments held by the Group had maturities in March 2007 and an annual yield of 11.4%. The debt securities outstanding as at 31 December 2006 were fully repaid by the issuer during March 2007. The balance had been presented as part of loans and advances to customers in 2006, but presented separately on the balance sheet for the year ended 31 December 2007. As at 31 December 2007, the estimated fair value of Treasury bills of the Ministry of Finance of the Republic of Azerbaijan was nil (31 December 2006: AZN 4,088 thousand). Refer to Section 18.5.33.

18.5.8. Loans and Advances to Customers

In thousands of Azerbaijani Manats	**2007**	**2006**
Corporate loans	177,986	47,367
Loans to individuals – consumer loans	41,998	17,760
Loans to individuals – entrepreneurs	8,404	3,291
Mortgage loans	19,396	5,049
Less: Provision for loan impairment	(10,008)	(5,376)
Total loans and advances to customers	**237,776**	**68,091**

In 2006, Treasury bills of the Ministry of Finance of the Republic of Azerbaijan were included as part of loans and advances to customers, but has been presented separately on the consolidated balance sheet for the year ended 31 December 2007 and excluded from the comparative figures within this Section.

Of the AZN 19,396 thousand (31 December 2006: AZN 5,049 thousand) total mortgage loans, AZN 8,716 thousand (31 December 2006: AZN 515 thousand) has been provided under the programme covered by the borrowing agreement with the Azerbaijan Mortgage Fund. Refer to Section 18.5.18. In addition, a further AZN 1,544 thousand (31 December 2006: AZN 1,731 thousand) of these loans are awaiting the approval of the Azerbaijan Mortgage Fund to be included as part of this programme and therefore for further funding under the borrowing agreement to be provided to the Bank. The remaining mortgage loans were covered by the Bank's own resources.

Movements in the provision for loan impairment during 2007 are as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Consumer loans**	**Individuals – entrepreneurs**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2007	**2,978**	**2,172**	**110**	**116**	**5,376**
(Recovery of)/provision for impairment during the year	5,176	(996)	182	272	4,634
Amounts written off during the year as uncollectible	-	(2)	-	-	(2)
Provision for loan impairment at 31 December 2007	**8,154**	**1,174**	**292**	**388**	**10,008**

The provision for impairment during the year ended 31 December 2007 differs from the amount presented in the consolidated income statement due to a AZN 10 thousand recovery of amounts previously written off as uncollectible. This amount was credited directly to the provisions line in the consolidated income statement.

Movements in the provision for loan impairment during 2006 are as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Consumer loans**	**Individuals – entreprenei**	**Mortgage loans**	**Total**
Provision for loan impairment at 1 January 2006	**1,859**	**2,775**	**112**		**4,746**
(Recovery of)/provision for impairment during the year	1,583	(530)	586		
Amounts written off during the year as uncollectible	(464)	(73)			
Provision for loan impairment at 31 December 2006	**2,978**	**2,172**	**110**	**116**	**5,376**

Economic sector risk concentrations within the customer loan portfolio are as follows:

In thousands of Azerbaijani Manats	2007 Amount	2007 %	2006 Amount	2006 %
Loans to individuals:				
- Consumer loans	41,998	17	17,760	24
- Entrepreneurship	8,404	3	3,291	5
- Mortgage	19,396	8	5,049	7
Total loans to individuals	**69,798**	**28**	**26,100**	**36**
Corporate loans:				
- Trade	37,320	16	13,543	18
- Services	45,592	18	12,763	17
- Construction	33,334	14	7,937	11
- Manufacturing	47,748	19	6,791	9
- Agricultural	7,775	3	4,986	7
- Transport and communication	6,001	2	1,330	2
- Other	216	-	17	-
Total corporate loans	**177,986**	**72**	**47,367**	**64**
Total loans and advances to customers (before impairment)	**247,784**	**100**	**73,467**	**100**

At 31 December 2007, the Group had 129 borrowers (2006: 44 borrowers) with aggregated loan amounts above AZN 400 thousand. The total aggregate amount of these loans was AZN 114,087 thousand (2006: AZN 33,305 thousand) or 46% of the gross loan portfolio (2006: 46.6%).

Information about collateral at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Mortgage loans	Total
Unsecured loans	34,406	14,549	327	3,722	53,004
Loans collateralised by:					
- real estate	122,777	12,132	8,042	15,471	158,422
- movable property	12,471	10,255	35	203	22,964
- tradable securities	7,996	-	-	-	7,996
- cash deposits	-	3,481	-	-	3,481
- other assets	336	1,581	-	-	1,917
Total loans and advances to customers	**177,986**	**41,998**	**8,404**	**19,396**	**247,784**

Information about collateral at 31 December 2006 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Loans to individuals – consumer loans	Loans to individuals – entrepreneurs	Mortgage loans	Total
Unsecured loans	17,040	8,373	245	540	26,198
Loans collateralised by:					
- real estate	25,415	6,598	3,044	4,492	39,549
- movable property	2,302	2,451	2	17	4,772
- tradable securities	2,277	-	-	-	2,277
- cash deposits	333	285	-	-	618
- other assets	-	53	-	-	53
Total loans and advances to customers	**47,367**	**17,760**	**3,291**	**5,049**	**73,467**

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

The analysis by credit quality of loans outstanding at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Consumer loans**	**Individuals – entrepreneurs**	**Mortgage loans**	**Total**
Current and not impaired					
Unsecured loans	32,303	13,996	327	3,587	50,213
Loans collateralised by:					
- real estate	120,406	11,758	8,040	15,470	155,674
- movable property	9,857	9,820	36	202	19,915
- tradable securities	7,023	-	-	-	7,023
- cash deposits	-	3,480	-	-	3,480
- other assets	336	1,581	-	-	1,917
Loans renegotiated in 2007	1,835	496	-	-	2,331
Total current and not impaired	**171,760**	**41,131**	**8,403**	**19,259**	**240,553**
Past due, but not impaired					
- less than 30 days overdue	2,362	425	1	137	2,925
- 30 to 90 days overdue	1,495	33	-	-	1,528
- 90 to 180 days overdue	174	156	-	-	330
- 180 to 360 days overdue	270	114	-	-	384
- over 360 days overdue	-	-	-	-	-
Total past due but not impaired	**4,301**	**728**	**1**	**137**	**5,167**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	-	-	-	-
- 30 to 90 days overdue	186	-	-	-	186
- 90 to 180 days overdue	962	-	-	-	962
- 180 to 360 days overdue	179	-	-	-	179
- over 360 days overdue	598	139	-	-	737
Total individually impaired loans (gross)	**1,925**	**139**	**-**	**-**	**2,064**
Gross carrying value of loans	**177,986**	**41,998**	**8,404**	**19,396**	**247,784**
Less impairment provisions	**(8,154)**	**(1,174)**	**(292**	**(388**	**(10,008)**
Total loans and advances to customers	**169,832**	**40,824**	**8,112**	**19,008**	**237,776**

The analysis by credit quality of loans outstanding at 31 December 2006 is as follows:

In thousands of Azerbaijani Manats	Corporate loans	Consumer loans	Individuals – entrepreneurs	Mortgage loans	Total
Current and not impaired					
Unsecured loans	7,418	5,990	168	319	13,895
Loans collateralised by:					
- real estate	14,476	3,600	2,000	4,493	24,569
- movable property	567	2,325	2	17	2,911
- tradable securities	548	-	-	-	548
- cash deposits	205	285	-	-	490
- other assets	-	53	-	-	53
Loans renegotiated in 2006	3,030	562	-	-	3,592
Total current and not impaired	**26,244**	**12,815**	**2,170**	**4,829**	**46,058**
Past due, but not impaired					
- less than 30 days overdue	3,568	247	839	220	4,874
- 30 to 90 days overdue	3,628	235	61	-	3,924
- 90 to 180 days overdue	6,963	922	62	-	7,947
- 180 to 360 days overdue	2,268	788	-	-	3,056
- over 360 days overdue	629	241	-	-	870
Total past due but not impaired	**17,056**	**2,433**	**962**	**220**	**20,671**
Loans individually determined to be impaired (gross)					
- less than 30 days overdue	-	-	-	-	-
- 30 to 90 days overdue	-	-	-	-	-
- 90 to 180 days overdue	-	-	-	-	-
- 180 to 360 days overdue	2,544	1,728	156	-	4,428
- over 360 days overdue	1,523	784	3	-	2,310
Total individually impaired loans (gross)	**4,067**	**2,512**	**159**	**-**	**6,738**
Gross carrying value of loans	**47,367**	**17,760**	**3,291**	**5,049**	**73,467**
Less impairment provisions	**(2,978)**	**(2,172)**	**(110)**	**(116)**	**(5,376)**
Total loans and advances to customers	**44,389**	**15,588**	**3,181**	**4,933**	**68,091**

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

Current and not impaired, but renegotiated loans, represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due but not impaired loans represent collateralised 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.

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2007 was as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – consumer loans**	**Loans to individuals – entrepreneurs**	**Mortgage loans**	**Total**
Fair value of collateral - loan past due but not impaired					
- real estate	571	497	8	-	1,076
- movable property	5,160	159			5,319
- tradable securities	4,800	-	-	-	4,800
Fair value of collateral - individually impaired loans					
- real estate	295	80	-	-	375
- movable property	29	51	-	-	80
Total	**10,855**	**787**	**8**	**-**	**11,650**

Fair value of collateral in respect of loans past due but not impaired and in respect of loans individually determined to be impaired at 31 December 2006 was as follows:

In thousands of Azerbaijani Manats	**Corporate loans**	**Loans to individuals – consumer loans**	**Loans to individuals – entrepreneurs**	**Mortgage loans**	**Total**
Fair value of collateral - loan past due but not impaired					
- real estate	18,631	479	1,185	-	20,295
- movable property	507	134	-	-	641
- tradable securities	4,058	-	-	-	4,058
Fair value of collateral - individually impaired loans					
- real estate	1,070	744	82	-	1,896
- movable property	105	25	-	-	130
Total	**24,371**	**1,382**	**1,267**	**-**	**27,020**

The fair value of real estate and other assets was determined by the Group's credit department, using the Group's internal guidelines. These internal guidelines prescribe the basis that fair values are determined based on available market information (for example, related to recent transactions involving similar properties) and the need to consult with third party valuers to the extent that information on fair values is not readily ascertainable.

The carrying value of each class of loans and advances to customers approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007, the estimated fair value of loans and advances to customers was AZN 237,776 thousand (2006: AZN 72,179 thousand). Refer to Section 18.5.33.

The interest rate analysis of loans and advances to customers is disclosed in Section 18.5.29. The information on related party balances is disclosed in Section 18.5.35.

18.5.9. Investment Securities Available for Sale

In thousands of Azerbaijani Manats	**2007**	**2006**
Corporate shares – unquoted	460	548
Total investment securities available for sale	**460**	**548**

The movements in investment securities available for sale are as follows:

In thousands of Azerbaijani Manats	**2007**	**2006**
Carrying amount at 1 January	**548**	**548**
Disposals of investment securities available for sale	(88)	-
Carrying amount at 31 December	**460**	**548**

At 31 December 2007, the principal equity investment securities available for sale are:

Name	**Nature of business**	**Country of registration**	**Carrying value**	
			2007	**2006**
Milli Kart	Plastic card operator	Azerbaijan	400	400
Baku Stock Exchange	Financial services	Azerbaijan	60	148
Total			**460**	**548**

The investment in Baku Stock Exchange was made in 2006 and represents 5.6% of its total share capital. Currently the stock market in the Republic of Azerbaijan is practically non-existent, and the activity of Baku Stock Exchange as at the reporting date is still limited. However, management of the Group believes that the fair value of this investment does not differ materially from its carrying value (which is its cost).

The investment in Milli Kart was made in 2006 and represents 10% of its total share capital. Currently, the activity of Milli Kart as at the reporting date is still at the start-up stage. However, management of the Group believes that the fair value of this investment does not differ materially from its carrying value (which is its cost).

These securities are not actively traded in the stock market. Transactions occur from time to time between existing shareholders at nominal values of the shares.

18.5.10. Investment Properties

In thousands of Azerbaijani Manats		**2007**	**2006**
Investment properties at fair value as at 1 January		**282**	**745**
Additions		-	5
Transfer to owner occupied premises	19.5.11.	(277)	(468)
Fair value gains		140	-
Investment properties at fair value as at 31 December		**145**	**282**

As at 31 December 2007, the carrying value of investment property approximated its market value.

During 2007, the Group leased out 284 square metres (2006: 260 square metres) of its Mingechevir branch.

The rental income on investment property in 2007 amounted to AZN 10 thousand (2006: AZN 28 thousand) and is included in other operating income.

The Group did not classify any operating leases as investment properties. Investment property was independently valued at 25 July 2007. The valuation was carried out by an independent firm of valuers, DTZ Debenham Tie Leung, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Fair values were estimated, using appropriate valuation techniques under the assumption that observable prices in an active market for the property of characteristics and locations similar to those of the Group's property do not differ significantly from, and, therefore, are a good indication of the fair value of the Group's property.

18.5.11. Premises, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	Section	Premises	Office and computer equipment	Motor vehicles	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2006		1,919	1,465	425	536	4,345	67	4,412
Accumulated depreciation/ amortisation		(47)	(333)	(100)	-	(480)	(22)	(502)
Carrying amount at 1 January 2006		**1,872**	**1,132**	**325**	**536**	**3,865**	**45**	**3,910**
Acquisitions through business combinations		-	45		-	45	70	115
Additions		1,435	1,052	223	830	3,540	8	3,548
Revaluation	18.5.22.	673	-		-	673	-	673
Transfers		554	-		(86)	468	-	468
Depreciation/amortisation charge	18.5.25.	(71)	(420)	(135)	-	(626)	(15)	(641)
Carrying amount at 31 December 2006		**4,463**	**1,809**	**413**	**1,280**	**7,965**	**108**	**8,073**
Cost or valuation at 31 December 2006		4,463	2,562	648	1,280	8,953	145	9,098
Accumulated depreciation/ amortisation		-	(753)	(235)	-	(988)	(37)	(1,025)
Carrying amount at 31 December 2006		**4,463**	**1,809**	**413**	**1,280**	**7,965**	**108**	**8,073**
Additions		3,272	1,197	333	6,515	11,317	-	11,317
Revaluation	18.5.22.	1,928	-	-	-	1,928	-	1,928
Transfers		2,542	-	-	(2,265)	277	-	277
Disposals		-	(43)	-	-	(43)	-	(43)
Depreciation/amortisation charge	18.5.25.	(290)	(651)	(193)	-	(1,134)	(13)	(1,147)
Carrying amount at 31 December 2007		**11,915**	**2,312**	**553**	**5,530**	**20,310**	**95**	**20,405**
Cost or valuation at 31 December 2007		12,099	3,667	981	5,530	22,277	145	22,422
Accumulated depreciation/ amortisation		(184)	(1,355)	(428)	-	(1,967)	(50)	(2,017)
Carrying amount at 31 December 2007		**11,915**	**2,312**	**553**	**5,530**	**20,310**	**95**	**20,405**

Included in the above carrying amount as at 31 December 2007 is AZN 3,422 thousand (2006: AZN 1,554 thousand) representing a revaluation surplus relating to premises of the Group. The revaluation surplus was recorded directly in the consolidated statement of changes in equity as a revaluation reserve for premises net of deferred tax liability of AZN 753 thousand (2006: AZN 342 thousand). At 31 December 2007, the carrying amount of premises would have been AZN 8,493 thousand (2006: AZN 2,909 thousand) had the assets been carried at cost less depreciation.

The realised portion of revaluation reserve on buildings in the amount of AZN 47 thousand was transferred to retained earnings in 2007 due to depreciation of revalued buildings (2006: AZN 30 thousand).

Construction in progress in the amount of AZN 5,530 thousand as at 31 December 2007 (2006: AZN 1,280 thousand) consists of construction and refurbishment of Bilasuvar, Neftchala, Xachmaz, Beylagan and Tovuz branch premises. AZN 2,265 thousand transferred from construction in progress into premises during 2007 represents completed portion of Absheron branch and Alfa Insurance subsidiary office buildings.

Intangible assets as at 31 December 2007 represent mainly electronic data processing software, licences used for the purposes of performing banking business, such as plastic cards and SWIFT operations and also intangible assets acquired on business combinations.

Premises were independently valued at 25 July 2007. The valuation was carried out by an independent firm of valuers, DTZ Debenham Tie Leung, who hold a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category. The basis used for the appraisal was market value. Fair values were estimated, using appropriate valuation techniques under the assumption that observable prices in an active market for the premises of characteristics and locations similar to those of the Group's premises do not differ significantly from, and, therefore, are a good indication of the fair value of the Group's premises.

18.5.12. Other Financial Assets

In thousands of Azerbaijani Manats	**2007**	**2006**
Restricted cash	2,215	1,256
Credit and debit cards receivables	82	83
Total other financial assets	**2,297**	**1,339**

Restricted cash represents balances on correspondent accounts with foreign banks placed by the Group on behalf of its customers. The Group does not have the right to use these funds for the purposes of funding its own activities. The Group has received restricted deposits from these customers in the same amounts, which are recorded in customer accounts.

The analysis by credit quality of amounts outstanding at 31 December 2007 is, as follows:

In thousands of Azerbaijani Manats	**Restricted cash**	**Credit and debit cards receivable**	**Total**
Current and not impaired			
- Azerbaijan banks	43	-	43
- OECD banks	1,542	-	1,542
- Non OECD banks	630	-	630
- Medium - sized companies	-	82	82
Total current and not impaired	**2,215**	**82**	**2,297**

The analysis by credit quality of amounts outstanding at 31 December 2006 is as follows:

In thousands of Azerbaijani Manats	**Restricted Cash**	**Credit and debit cards receivable**	**Total**
Current and not impaired			
- Azerbaijan banks	43	-	43
- OECD banks	637	-	637
- Non OECD banks	576	-	576
- Medium - sized companies	-	83	83
Total current and not impaired	**1,256**	**83**	**1,339**

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

The carrying value of each class of other financial assets approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007, the estimated fair value of restricted cash was AZN 2,215 thousand (2006: AZN 1,256 thousand) and fair value of credit and debit card receivables was AZN 82 thousand (2006: AZN 83 thousand). Refer to Section 18.5.33.

18.5.13. Other Assets

In thousands of Azerbaijani Manats	**2007**	**2006**
Prepayments for services	1,002	273
Insurance and reinsurance receivables	102	43
Reinsurance assets	85	28
Total other assets	**1,189**	**344**

All other assets represent current and not impaired assets as at 31 December 2007 and 31 December 2006 and have an expected settlement period of less than one year. Geographical and maturity analyses of other assets are disclosed in Section 18.5.29.

18.5.14. Due to Other Banks

In thousands of Azerbaijani Manats	**2007**	**2006**
Correspondent accounts and overnight placements of other banks	8,882	4,780
Short - term placements of other banks	29,639	-
Long - term placements of other banks	17,227	-
Total due to other banks	**55,748**	**4,780**

The carrying value of each class of due to other banks approximates fair value at 31 December 2007 and 31 December 2006. As at 31 December 2007, the estimated fair value of due to other banks was AZN 55,748 thousand (31 December 2006: AZN 4,780 thousand). Refer to Section 18.5.33.

Geographical, maturity and interest rate analyses of due to other banks are disclosed in Section 18.5.29. The information on related party balances is disclosed in Section 18.5.35.

At 31 December 2007, 6 banks had balances with the Group (2006: 2 banks) with aggregated amounts above AZN 1,500 thousand. The total aggregate amount of these deposits was AZN 52,264 thousand (2006: AZN 4,780 thousand) or 94% of the total amount due from other banks (2006: 100%).

18.5.15. Liabilities to Customers under Brokerage Agreements

Liabilities to customers under brokerage agreements represent funds held by the Group received from brokerage clients to be allocated to investments in local securities subject to the client's instructions. These funds are a liability of the Group repayable to the brokerage clients on demand.

18.5.16. Customer Accounts

In thousands of Azerbaijani Manats	2007	2006
State and public organisations		
- Current/settlement accounts	22,147	15,259
- Term deposits	15,354	1,063
Other legal entities		
- Current/settlement accounts	30,873	22,761
- Term deposits	35,006	4,117
Individuals		
- Current/demand accounts	6,472	4,371
- Term deposits	86,360	32,761
Total customer accounts	**196,212**	**80,332**

Economic sector concentrations within customer accounts are as follows:

	2007		2006	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Individuals	92,832	48	37,132	47
Trade	13,716	7	6,893	9
Transportation and communication	36,799	19	6,262	8
Real estate	5,805	3	6,636	8
Manufacturing	4,396	2	2,751	3
Energy	3,566	2	3,515	4
Agriculture	840	-	225	-
State and public organisations	37,501	19	16,322	20
Other	757	-	596	1
Total customer accounts	**196,212**	**100**	**80,332**	**100**

In relation to the prior year comparatives for 31 December 2006, certain balances within total customer accounts have been reclassified in order to conform to the presentation adopted as at 31 December 2007.

The carrying value of each class of customer accounts approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007, the estimated fair value of customer accounts was AZN 196,212 thousand (31 December 2006: AZN 80,332 thousand). Refer to Section 18.5.33.

Geographical, maturity and interest rate analyses of customer accounts are disclosed in Section 18.5.29. The information on related party balances is disclosed in Section 18.5.35.

At 31 December 2007, the Group had 32 customers (2006: 13 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 121,450 thousand (2006: AZN 38,371 thousand) or 62% (2006: 47%) of total customer accounts.

18.5.17. Debt Securities in Issue

In thousands of Azerbaijani Manats	2007	2006
Debentures	4,679	1,768
Total debt securities in issue	**4,679**	**1,768**

On 16 November 2006, the Group issued 2,000 corporate debentures through a primary placement at the Baku Stock Exchange, with a par value of USD 1,000 each. These debentures are denominated in USD, bear interest at a rate of 14% p.a. and mature on 22 November 2008. These debentures were sold on the issue date to a foreign investment fund company registered in the Cayman Islands and domiciled in the Russian Federation. According to the terms of the agreement between the Group and the purchaser of the debt securities, the purchaser has a right to demand repayment of the total amount of the debt securities at the purchase price within one month of notice being given by the purchaser.

On 14 March 2007, the Group issued 2,000 corporate debentures through a primary placement at the Baku Stock Exchange, with a par value of AZN 1,000 each. These debentures are denominated in AZN, bear interest at a rate of 14% p.a. and mature on 12 March 2012. These debentures were sold on the issue date to a foreign investment fund company registered in the Cayman Islands and domiciled in the Russian Federation. According to the terms of the agreement between the Group and the purchaser of the debt securities, the purchaser has a right to demand repayment of the total amount of the debt securities at the purchase price within one month of notice being given by the purchaser.

On 15 March 2007, the Group issued 1,000 corporate debentures through a primary placement at the Baku Stock Exchange, with a par value of USD 1,000 each. These debentures are denominated in USD, bear interest rate of 15% p.a. and mature on 22 November 2012.

The corporate debentures issued may be traded through the Baku Stock Exchange.

The carrying value of each class of debt securities approximates fair value at 31 December 2007 and 31 December 2006. As at 31 December 2007, the estimated fair value of debt securities was AZN 4,679 thousand (31 December 2006: AZN 1,768 thousand). For information on the fair value of term borrowings from other banks and other financial institutions refer to Section 18.5.33. The interest rate analysis of debt securities in issue is disclosed in Section 18.5.29. The information on debt securities in issue held by related parties is disclosed in Section 18.5.35.

18.5.18. Term Borrowings from Other Banks and Financial Institutions

In thousands of Azerbaijani Manats	2007	2006
Term borrowings from the NBA	9,995	5,501
Term borrowings from National Fund for Financial Aid to Entrepreneurs	12,526	8,831
Term borrowings from National Mortgage Fund	8,716	515
Term borrowings from local banks and other financial institutions	-	6,530
Term borrowings from Ministry of Agriculture	902	-
Term borrowings from Black Sea Trade and Development	6,778	-
Total term borrowings from other banks and financial institutions	**38,917**	**21,377**

The interest rates on funds borrowed from the NBA range between 9% and 13% per annum. These borrowings mature between January and December 2008. There are no financial covenant requirements applicable to these borrowings.

On 5 May 2005, the Group signed credit agreement with the National Fund for Support of Entrepreneurship, a programme under the auspices of the Ministry for Economic Development of the Republic of Azerbaijan, for financing of small and medium size enterprises. Under this programme, funds are made available to the Group at an interest rate of 1%-2% per annum and the Group further on lends these funds to eligible borrowers at rates not higher than 7%-8% per annum. There are no financial covenant requirements applicable to these borrowings.

On 17 February 2006, the Group signed a credit agreement with the Azerbaijan Mortgage Fund, a programme under the auspices of the National Bank of Azerbaijan, for granting long-term mortgage loans to individuals. Under this programme, funds are made available to the Group at an interest rate of 2% per annum and the Group further on lends these funds to eligible borrowers at rates not higher than 5%-8% per annum. These borrowings mature between June 2011 and December 2021. There are no financial covenant requirements applicable to these borrowings.

Included in term borrowings from local banks and other financial institutions is AZN 4,357 thousand of funds borrowed from Kazimir Russia Master Fund Limited, an entity registered in the Cayman Islands and domiciled in the Russian Federation. These borrowings bear an interest rate of 6% per annum and had a maturity date of December 2007. The full amount of the borrowing was repaid on maturity. Also included is AZN 1,743 thousand of funds borrowed from Black Sea Trade and Development Bank. These borrowings had an interest rate of LIBOR +3% per annum and had a maturity date of January 2007. The full amount of the borrowing was repaid on maturity.

On 4 September 2007, the Group signed an agreement with the Ministry of Agriculture of the Republic of Azerbaijan for financing of agricultural projects. Under this programme, funds are made available to the Group at an interest rate of 2% per annum and the Group further on lends these funds to eligible borrowers at rates not higher than 7% per annum. There are no financial covenant requirements applicable to these borrowings.

On 6 December 2007, the Group signed credit agreement with Black Sea Trade and Development Bank, registered in the Republic of Greece, for a total of USD 8,000 thousand for financing mortgage loans. These borrowings bear interest of LIBOR plus 3.7% per annum and mature in December 2013. The Group is obliged to comply with certain financial covenants stipulated by the loan agreement. For information on covenants related to these borrowings refer to Section 18.5.32.

The carrying value of each class of term borrowings from other banks and other financial institutions approximates fair value at 31 December 2007 and 31 December 2006. As at 31 December 2007, the estimated fair value of term borrowings from other banks and financial institutions was AZN 38,917 thousand (31 December 2006: AZN 14,847 thousand). For information on the fair value of term borrowings from other banks and other financial institutions refer to Section 18.5.33.

Geographical, maturity and interest rate analyses of term borrowings from other banks and financial institutions are disclosed in Section 18.5.29.

18.5.19. Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of Azerbaijani Manats	**2007**	**2006**
Amounts in the course of settlement	1,141	678
Payable for equipment	-	1,235
Trade payables	19	105
Total other financial liabilities	**1,160**	**2,018**

All other financial liabilities represent current liabilities as at 31 December 2007 and 31 December 2006.

Carrying value of each class of other financial liabilities approximates fair value at 31 December 2007 and 31 December 2006. At 31 December 2007 the estimated fair value of other financial liabilities was AZN 1,160 thousand (2006: AZN 2,018 thousand). For information on the fair value of other financial liabilities refer to Section 18.5.33.

18.5.20. Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	**2007**	**2006**
Unearned insurance premiums reserve (UPR)	1,197	445
Outstanding claims reserve	175	-
Deferred income	311	140
Other	354	30
Total other liabilities	**2,037**	**615**

All items included in other liabilities as at 31 December 2007 and 31 December 2006 are classified as current liabilities.

The movement in the unearned premiums reserve is shown below:

In thousands of Azerbaijani Manats	**Gross**	**Reinsurers' share**	**Net**
Balance at 1 January 2007	511	(66)	445
Increase during the year	864	(112)	752
Balance at 31 December 2007	**1,375**	**(178)**	**1,197**

18.5.21. Share Capital

In thousands of AZN except for number of shares	**Number of outstanding shares**	**Ordinary shares**	**Share premium**	**Total**
At 1 January 2006	**6,000**	**6,000**	**-**	**6,000**
New shares issued	5,912	5,912	3,808	9,720
At 31 December 2006	**11,912**	**11,912**	**3,808**	**15,720**
New shares issued	15,000	15,000	1,056	16,056
Treasury shares purchased	-	(2,400)	(1,400)	(3,800)
Sale of treasury shares	-	2,400	-	2,400
At 31 December 2007	**26,912**	**26,912**	**3,464**	**30,376**

The par value of the Group's issued share capital as at 31 December 2007 was AZN 26,912 thousand (2006: AZN 11,912 thousand). At 31 December 2007, all of the Group's outstanding shares were authorised, issued and fully paid.

All ordinary shares have a nominal value of AZN 1,000 per share (2006: AZN 1,000 per share) and rank equally. Each share carries one vote.

As at 31 December 2007, Mr. Etibar Aliyev, the Chairman of the Group's Supervisory Council, owned 15% of the Group's shares (2006: Mr. Etibar Aliyev and his immediate family members together owned 90%). As at 31 December 2007, the other major shareholders comprised World Wines (75%) (2006: nil) and Kazimir Caspian Fund Limited (10%) (2006: 10%). World Wines is a private company registered in the Republic of Azerbaijan, operating in wine production, food processing and agriculture. The company was established on 23 October 2000 and is owned by Mr. Adil Mammadov. Kazimir Caspian Fund Limited ("Kazimir") is a legal entity registered in the Cayman Islands and domiciled in the Russian Federation. Kazimir is an affiliated company to Kazimir Russia Master Fund Limited.

On 9 March 2007, the Group offered for sale an additional 15,000 ordinary shares with a nominal value of AZN 1,000 per share through a primary placement at the Baku Stock Exchange. On 27 March 2007, the Bank of Georgia purchased 244 shares for a total consideration of AZN 1,300 thousand, which resulted in a share premium of AZN 1,056 thousand representing the excess of contributions received by the Group over the par value of the shares issued. On 30 March 2007, 3,780 shares were allocated among Mr. Etibar Aliyev and his family members at par value by a transfer of AZN 3,780 thousand from retained earnings to share capital. In April 2007, Kazimir and Bank of Georgia purchased 455 and 86 of the new shares, respectively, at par value.

On 17 May 2007, further to an agreement among Mr. Etibar Aliyev and his family members, 8,239 of shares owned by those shareholders were sold to World Wines. As a result of this transaction, World Wines became a shareholder of the Group with a share of 50% of the total share capital as at 17 May 2007.

On 26 July 2007, the existing shareholders of the Group purchased an additional 3,523 shares of those offered for sale on 9 March 2007 at a par value of AZN 1,000 as follows: Mr. Etibar Aliyev and his family members – 3,100 shares; Kazimir – 353 shares; and Bank of Georgia – 70 shares.

On 11 October 2007, the Bank purchased all 400 shares owned by Bank of Georgia for a total consideration of AZN 1,800 thousand, which resulted in reduction of the share premium account of AZN 344 thousand.

On 11 October 2007, further to an agreement among Mr Etibar Aliyev and his family members, 4,961 of shares owned by those shareholders were sold to World Wines at AZN 4,248 per share. As a result of this transaction, World Wines increased its shareholding to 67.35% of the total share capital.

On 24 October 2007, the Bank purchased 2,000 shares owned by Mr. Etibar Aliyev and his immediate family members at a par value of AZN 1,000. As a result of this transaction, Mr. Etibar Aliyev's family members ceased to be the shareholders of the Group and allocation of shares following this transaction was as follows: Mr. Etibar Aliyev - 2,400 shares; Kazimir – 2,000 shares; and World Wines – 13,200 shares.

On 7 November 2007, the existing shareholders of the Bank purchased the 2,400 shares repurchased by the Bank and the remaining 6,912 shares of those offered for sale on 9 March 2007 at par value of AZN 1,000 by a transfer of AZN 9,312 thousand from retained earnings to share capital. As a result, the allocation of shares following this transaction was as follows: Mr. Etibar Aliyev – 4,037 shares; Kazimir – 2,691 shares; and World Wines – 20,184 shares.

Share premium represents the excess of contributions received over the nominal value of shares issued.

The purchases and sales of shares during the year are summarised in the table below:

	Number of outstanding shares at 31 December 2006	**Number of ordinary shares purchased**	**Number of ordinary shares sold**	**Number of outstanding shares at 31 December 2007**
Mr. Etibar Aliyev	2,680	4,942	(3,585)	4,037
Mrs. Esmira Bayramova	2,680	1,121	(3,801)	-
Mr. Keramet Aliyev	2,680	1,227	(3,907)	-
Mr. Reshad Aliyev	2,680	1,227	(3,907)	-
Kazimir Caspian Fund	1,192	1,499	-	2,691
World Wines	-	20,184	-	20,184
Bank of Georgia	-	400	(400)	-
Technikabank	-	2,400	(2,400)	-
Total	**11,912**	**33,000**	**(18,000)**	**26,912**

18.5.22. Revaluation Reserve for Premises

In thousands of Azerbaijani Manats	**Revaluation reserve for premises**
At 1 January 2006	**974**
- Revaluation, net of taxes	525
- Realised revaluation reserve	(30)
- Transfer of fair value gain on investment property from revaluation reserve to retained earnings	(257)
At 31 December 2006	**1,212**
Revaluation, net of taxes	1,504
Realised revaluation reserve	(47)
At 31 December 2007	**2,669**

The revaluation reserve for premises is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal.

18.5.23. Interest Income and Expense

In thousands of Azerbaijani Manats	**2007**	**2006**
Interest income		
Loans and advances to customers	26,472	7,990
Correspondent accounts with other banks	1,883	157
Total interest income	**28,355**	**8,147**
Interest expense		
Term deposits of legal entities	2,336	233
Term deposits of individuals	5,644	2,212
Term borrowings from other banks and financial institutions	5,353	678
Debt securities in issue	571	25
Other interest expenses	58	26
Total interest expense	**13,962**	**3,174**
Net interest income	**14,393**	**4,973**

18.5.24. Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	**2007**	**2006**
Fee and commission income		
Fee and commission income in respect of financial instruments not at fair value through profit or loss:		
- Cash transactions	7,111	3,346
- Settlement transactions	2,617	1,700
- Guarantees and letters of credit issued	1,725	695
- Plastic cards operations	635	329
- Other	78	35
Total fee and commission income	**12,166**	**6,105**
Fee and commission expense		
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:		
- Plastic cards operations	540	311
- Settlement transactions	732	105
- Cash collection	216	162
- Guarantees and letters of credit	142	34
- Other	133	87
Total fee and commission expense	**1,763**	**699**
Net fee and commission income	**10,403**	**5,406**

18.5.25. Administrative and Other Operating Expenses

In thousands of Azerbaijani Manats	**Section**	**2007**	**2006**
Staff costs		3,920	1,987
Depreciation of premises and equipment	18.5.11.	1,134	626
Rent expenses		596	317
Representative expenses		332	126
Communication		328	226
Stationery and office supplies		295	93
Professional services		291	92
Repair expenses		264	421
Security services		188	129
Advertising and marketing services		161	71
Taxes other than on income		93	51
Utilities		71	63
Amortisation of software and other intangible assets	18.5.11.	13	15
Other		322	145
Total administrative and other operating expenses		**8,008**	**4,362**

The increase in administrative and other operating expenses during the year ended 31 December 2007 is largely driven by a general increase in volume of operations of the Group, which required additional human resources, office space and equipment.

The increase in staff costs is associated mainly with an increase in the number of employees during 2007 and the impact of a salary increase in June 2007.

The increase in rent expenses is related to an increase in rental fees for the branch buildings.

Included in staff costs are statutory social security costs of AZN 644 thousand (2006: AZN 321 thousand) and pension contributions of AZN 91 thousand (2006: AZN 45 thousand).

18.5.26. Income Taxes

Income tax expense comprises the following:

In thousands of Azerbaijani Manats	2007	2006
Current tax	3,415	1,229
Deferred tax	-	62
Income tax expense for the year	**3,415**	**1,291**

The income tax rate applicable to the majority of the Group's income is 22% (2006: 22%). The income tax rate applicable to subsidiaries income is 22% (2006: 22%). Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	2007	2006
IFRS profit before tax	**15,167**	**5,572**
Theoretical tax charge at statutory rate (2007: 22%; 2006: 22%)	(3,337)	(1,226)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	31	-
- Non deductible expenses	(109)	(65)
Income tax expense for the year	**(3,415)**	**(1,291)**

A deferred tax liability of AZN 424 thousand (2006: AZN 148 thousand) has been recorded directly in equity in respect of the revaluation of the Group's premises. Refer to Section 18.5.11. and 18.5.22.

Differences between IFRS and Azerbaijan statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 22% (2006: 22%).

In thousands of Azerbaijani Manats	31 December 2006	Charged/ (credited) to profit or loss	Charged directly to equity	31 December 2007
Tax effect of deductible/(taxable) temporary differences				
Gains arising from a change in fair value of investment property	459	31	-	490
Premises and equipment: revaluation	319	(15)	424	728
Provision on credit related commitments	141	(138)	-	3
Provision on loans to banks	-	122	-	122
Deferred tax liability	**919**	**-**	**424**	**1,343**

In the context of the Group's current structure and Azerbaijani tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss.

Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In thousands of Azerbaijani Manats	31 December 2005	Charged/ (credited) to profit or loss	Charged/ Directly to equity	31 December 2006
Tax effect of taxable temporary differences				
Gains arising from a change in fair value of investment property	464	(5)	-	459
Premises and equipment	175	(4)	148	319
Provisions on credit related commitments	70	71	-	141
Net deferred tax liability	**709**	**62**	**148**	**919**

18.5.27. Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

In thousands of Azerbaijani Manats	2007	2006
Profit for the year attributable to ordinary shareholders	11,752	4,281
Profit for the year	**11,752**	**4,281**
Weighted average number of ordinary shares in issue	17,772	8,642
Basic earnings per ordinary share	**0.661**	**0.49**

18.5.28. Segment Analysis

The Group's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Group is organised on a basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.

- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.

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

Segment information for the main reportable business segments of the Group for the years ended 31 December 2007 and 2006 is set out below:

In thousands of Azerbaijani Manats	**Retail banking**	**Corporate banking**	**Total**
2007			
External revenues	13,546	28,606	42,152
Total revenues	**13,546**	**28,606**	**42,152**
Total revenues comprise:			
- Interest income	8,793	19,562	28,355
- Fee and commission income	3,773	8,393	12,166
- Insurance premium written	600	935	1,535
- Other operating income	81	181	262
Total revenues	**13,247**	**29,071**	**42,318**
Segment result	**(1,428)**	**17,910**	**16,482**
Unallocated costs	-	-	(1,315)
Profit before tax			**15,167**
Income tax expense			(3,415)
Profit			**11,752**
Total segment assets	**99,785**	**249,148**	**348,933**
Unallocated assets			473
Total assets			**349,406**
Total segment liabilities	**94,921**	**213,929**	**308,850**
Current and deferred tax liabilities			3,194
Other unallocated liabilities			697
Total liabilities			**312,741**
Other segment items			
Capital expenditure	(4,425)	(6,892)	(11,317)
Depreciation and amortisation expense	(447)	(700)	(1,147)
Other non-cash expenses	(1,586)	(3,530)	(5,116)

In thousands of Azerbaijani Manats	**Retail banking**	**Corporate banking**	**Total**
2006			
External revenues	3,238	11,043	14,281
Total revenues	**3,238**	**11,043**	**14,281**
Total revenues comprise:			
- Interest income	1,567	6,580	8,147
- Fee and commission income	1,671	4,434	6,105
- Other operating income	-	29	29
Total revenues	**3,238**	**11,043**	**14,281**
Segment result	**757**	**6,143**	**6,900**
Unallocated costs	-	-	(1,328)
Profit before tax			**5,572**
Income tax expense			(1,291)
Profit			**4,281**
Segment assets	**45,351**	**87,113**	**132,464**
Other unallocated assets			1,683
Total assets			**134,147**
Segment liabilities	**36,505**	**71,752**	**108,257**
Current and deferred tax liabilities			1,369
Other unallocated liabilities			2,676
Total liabilities	**36,505**	**71,752**	**112,302**
Other segment items			
Capital expenditure	(1,196)	(2,352)	(3,548)
Depreciation and amortisation expense	(216)	(425)	(641)
Other non-cash income/(expenses)	(1,244)	3,058	1,814

Geographical segments. Segment information for the main geographical segments of the Group is set out below for the years ended 31 December 2007 and 2006.

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non OECD	Total
2007				
Segment assets	**344,710**	**3,034**	**1,662**	**349,406**
External revenues	40,783	-	-	40,783
Capital expenditure	(9,757)	-	-	(9,757)
Credit related commitments (Note 18.5.32)	791	-	-	791
2006				
Segment assets	**130,392**	**3,264**	**491**	**134,147**
External revenues	13,333	-	-	13,333
Capital expenditure	(3,548)	-	-	(3,548)
Credit related commitments (Note 18.5.32)	39,510	-	-	39,510

External revenues, assets and credit related commitments have generally been allocated based on domicile of the counterparty. Cash on hand, premises and equipment and capital expenditure have been allocated based on the country, in which they are physically held.

18.5.29. Financial Risk Management

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

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

Management of credit risk is an integral part of the Group's operations. Risk management covers all stages of the credit process, from loan origination and credit approval to collection. The Bank's Risk Management, Asset Liability Committee ("ALCO"), and Credit Committees meet regularly and report at least once a month to the Supervisory Board. The committees have clearly defined responsibilities and guidelines for maximum risk levels in accordance with the NBA's Risk Management Standards and Procedures, approved by the Management Board of the NBA as of 29 December 2004, classification of assets and the Bank's internal asset management policy. Under the NBA Risk Management Standards and Procedures, the process of risk management entails the control over and reduction of risks through their determination and evaluation, the preparation of reports about such risks (for example, by the Executive Board, the committees and the risk management officers) and the adoption by the Supervisory Board of risk limits.

These are the primary objectives of the risk management function which are described below. Under the NBA Risk Management Standards, the risk management infrastucture and the risks of a bank must be evaluated by an outside specialist or auditor at least once a year. Generally, the NBA's standards require the Bank to adopt an appropriate methodology to evaluate risks, though no specific quantitative limits or standards are prescribed.

The risk management function is within the overall structure of the duties and powers of all bank personnel, from the supervisory board down to the employees of a bank. This function requires the determination of: (i) the volume or levels of the risks controlled by the risk management function, (ii) the position of the body responsible for the performance of risk management functions within the internal organisational structure of the bank and (iii) the methodology used to evaluate information about the risks, prepare reports thereon, control such risks (i.e., determine their limits) and taking such information into account as part of the decision-making process. The structure of the risk management function consists of the risk management responsibilities borne by each of the Supervisory Board, Executive Board and the Risk Management, ALCO and Credit Committees as well as the risk management divisions or departments within a bank. The Bank's internal risk management policy is the same as required by the standards set by the NBA.

The NBA risk management standards explain the nature of credit risks as well as their measurement and evaluation methodology. Furthermore, the Standards envision the adoption by the supervisory board of a bank of the following risk limits: limits for capital exposed to risk, market risk limits, credit risk limits as well as concentration risk limits.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a day to day basis by the relevant responsible sections of the Bank such as the Credit Committee of the Bank. Such risks are also monitored on a monthly basis by the Risk Management Committee of the Bank and are subject to an annual or more frequent review of risk management procedures by the Risk Management Committee for possible overhaul to improve procedures, if the need arises to reduce the number of overdue loans. Limits on the level of credit risk by product, borrower and industry sector are reviewed regularly by the Executive Board.

The exposure to any one borrower including banks and brokers is further restricted by the NBA regulatory sub-limits covering on and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. The following sub-limits are applied by the Group:

(1) the maximum loan amount for one borrower or related borrowers' group is, as follows:

(i) 20 per cent of the Bank's total equity if the market value of the collateral is at least equal to 100 per cent of the value of the loan; and

(ii) 7 per cent of the Bank's total equity if the market value of the collateral is less than 100 per cent of the value of the loan;

(2) for large loans without collateral exceeding 10 per cent of the Bank's total equity, such loans in aggregate must not exceed 800 per cent in total of the Bank's total equity;

(3) the total maximum amount of the Bank's loans to related parties must not exceed

(i) 20 per cent of the Bank's total equity; and

(ii) 10 per cent of the Bank's equity per legal person; or

(iii) 3 per cent of the Bank's equity per physical person.

Exposure to credit risk is managed through the regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. This analysis is undertaken on a monthly basis by the Credit Committee. The analysis is based on information including overdue payments due to the Group, any changes in the financial condition of the Group's customers, substantial changes in any segment of the market or country's economic sector, or any negative information regarding the customer's reputation. The analysis also takes into consideration the Group's consolidated exposure to credit risk at the time the analysis is performed. This allows the Group to assess whether any preventive measures are needed to avoid these risks.

The Group's consolidated maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Section 18.5.32.

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

The Group's credit department reviews ageing analysis of outstanding loans and follows up past due balances. Management, therefore, considers it appropriate to provide ageing and other information about credit risk as disclosed in Sections 18.5.6., 18.5.7., 18.5.9. and 18.5.12.

Credit approval process and structure. Management believes the credit approval process described below enhances its ability to accurately monitor and limit its credit exposure. Under the Bank's credit approval structure, smaller loans (loans up to AZN 5 thousand) may be issued by local branches while larger loans are issued by the head office. The Bank has established the following credit approval structures:

(1) Each of the Bank's branches has a credit officer. Each branch credit officer is authorised to approve loans of up to AZN 5 thousand. Although the branches do not have any aggregate lending limits, they are monitored regularly by the Bank's head office for any unusual lending activities.

(2) The Credit Committee of the head office in Baku is authorised to extend loans of up to AZN 100 thousand.

(3) All loans exceeding AZN 100 thousand but less than AZN 300 thousand must also be approved by the Executive Board in addition to the Credit Committee. Loans over AZN 300 thousand and all transactions with related parties must be approved by the Supervisory Board in accordance with Article 25 of the Azerbaijani Law on Banks. The Bank intends to implement an internal policy in 2008 whereby no more than 20 per cent of its loan portfolio is comprised of loans in each sector in which its clients operate.

(4) The pricing of the loan is based on a number of factors including the inflation rate, average cost of funding and the premium imposed by the Bank for the specific loan type and the customer risk profile.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rate and (c) equity products, all of which are exposed to general and specific market movements. The goal of the Group's market risk management is to limit and reduce the amount of possible losses on open market positions that may be incurred by the Bank due to negative changes in currency exchange rates and interest rates. The executive Board sets limits on the value of risk that may be accepted, which is monitored on a daily basis. These limits are set in accordance with the NBA guidelines on Determining and Regulating the Open Foreign Currency Position. The open currency position of the Bank in any single currency may not exceed 10.0 per cent, and in all foreign currencies 15.0 per cent of the Bank's total equity. The Bank's management uses its discretion to apply limits stricter than those of NBA if it believes such action is necessary.

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

In accordance with the guidelines of the management board of the NBA on Determining and Regulating the Open Foreign Currency Position, the open foreign currency position of the Bank in any single currency should not exceed 10 per cent, and in all foreign currencies, 15 per cent of the Bank's total equity.

The Bank has exposure to the US Dollar. As at 31 December 2007, 6.2 per cent of total loans are in US dollars. The Bank expects the Azerbaijani Manat to appreciate against the US Dollar in the future, therefore the Bank's policy has been to make loans mostly in Azerbaijani Manats. Management believes that the Bank will be able to obtain the resources necessary in order to cover any losses resulting from open currency positions without a material impact on the Bank, and is actively taking measures to reduce such risks. These measures include active forecasting the appreciation of the Azerbaijani Manat against the US Dollar, as well as monitoring studies by the International Monetary Fund and entering into swap agreements in order to reduce exposure to US Dollar amounts in the future. However, there is no significant swap market in Azerbaijan at present.

The table below summarises the Group's consolidated exposure to foreign currency exchange rate risk at the balance sheet date:

	At 31 December 2007			**At 31 December 2006**		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
Azerbaijani Manats	293,301	232,601	60,700	89,063	73,350	15,713
US Dollars	31,871	68,248	(36,377)	33,874	34,646	(772)
Euro	1,658	6,038	(4,380)	1,675	1,922	(247)
Other	377	622	(245)	288	400	(112)
Total	**327,207**	**307,509**	**19,698**	**124,900**	**110,318**	**14,582**

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

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

	2007	**2006**
In thousands of Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollars strengthening by 5%	(1,793)	(84)
US Dollars weakening by 5%	1,793	84
Euro strengthening by 10%	(479)	(28)
Euro weakening by 10%	479	28
RUR strengthening by 5%	(7)	(13)
RUR weakening by 5%	7	13
GBP strengthening by 5%	(6)	(4)
GBP weakening by 5%	6	4

Other than as a result of any impact on the Group's consolidated profit or loss, there is no other impact on the Group's consolidated equity as a result of such changes in exchange rates. The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group.

The Group's exposure to currency risk at the balance sheet date is not representative of the typical exposure during the year. The following table presents sensitivities of profit and loss and equity to reasonably possible changes in exchange rates applied to average exposure to currency risk during the year, with all other variables held constant:

	Average exposure during 2007	**Average exposure during 2006**
In thousands of Azerbaijani Manats	**Impact on profit or loss**	**Impact on profit or loss**
US Dollars strengthening by 5%	(679)	(17)
US Dollars weakening by 5%	679	17
Euro strengthening by 10%	(242)	(30)
Euro weakening by 10%	242	30
RUR strengthening by 5%	(4)	(221)
RUR weakening by 5%	4	221
GBP strengthening by 5%	(1)	(25)
GBP weakening by 5%	1	25

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

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Executive Board monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions. The table below summarises the Group's consolidated exposure to interest rate risks. The table presents the aggregated amounts of the Group's consolidated financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2007						
Total financial assets	70,013	26,685	176,593	53,916	460	327,667
Total financial liabilities	98,084	85,117	110,942	13,366	-	307,509
Net interest sensitivity gap at 31 December 2007	**(28,071)**	**(58,432)**	**65,651**	**40,550**	**460**	**20,158**
31 December 2006						
Total financial assets	57,639	19,445	30,754	17,062	548	125,448
Total financial liabilities	55,393	15,560	34,570	4,795	-	110,318
Net interest sensitivity gap at 31 December 2006	**2,246**	**3,885**	**(3,816)**	**12,267**	**548**	**15,130**

At 31 December 2007, if USD interest rates at that date had been 100 basis points lower/higher with all other variables held constant, profit for the year would have been AZN 1 (2006: nil) higher/lower, mainly as a result of lower/higher interest expense on variable interest liabilities.

If interest rates had been 100 basis points higher/lower, with all other variables held constant, profit would have been AZN 1 thousand (2006: nil) lower/higher, mainly as a result of higher/lower interest expense on variable interest liabilities. The Bank's profit is not exposed to AZN market interest rate changes because the bank does not have variable interest assets or liabilities denominated in AZN. The impact of a reasonably possible shift in market interest rates on other components of equity, including as a result of an increase in the fair value of fixed rate financial assets classified as available for sale, would not be significant.

The Group monitors effective interest rates for its financial instruments.

The table below summarises interest rates based on reports reviewed by key management personnel:

	2007				**2006**			
In % p.a.	**AZN**	**USD**	**Euro**	**Other**	**AZN**	**USD**	**Euro**	**Other**
Assets								
Cash and cash equivalents	20	4	-	-	20	4	-	-
Due from other banks	15	17	-	-	12	18	-	-
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	-	-	-	11	-	-	-
Loans and advances to customers	17	16	-	-	7 - 18	15 - 25	-	-
Liabilities								
Due to other banks	11	11	-	-	0	7	-	-
Customer accounts								
- current and settlement accounts	0	0	0	0		0	0	0
- term deposits	7	9	11	5	7 - 12	7 - 12	8 - 12	12

	2007				2006			
In % p.a.	**AZN**	**USD**	**Euro**	**Other**	**AZN**	**USD**	**Euro**	**Other**
Debt securities in issue	15	15	-	-	-	14	-	-
Term borrowings from other banks and financial institutions	4	9	-	-	1-10	6-9	-	-

Geographical risk concentrations. The geographical concentration of the Group's consolidated financial assets and liabilities at 31 December 2007 is set out below.

Assets, liabilities and credit related commitments have been based on the country, in which the counterparty is located. Cash on hand, investment property and premises and equipment have been allocated based on the country, in which they are physically held.

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	51,274	963	990	53,227
Mandatory cash balances with the NBA	8,413	-	-	8,413
Due from other banks	25,494	-	-	25,494
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	-	-	-
Loans and advances to customers	237,776	-	-	237,776
Investments	460	-	-	460
Other financial assets	82	1,543	672	2,297
Total financial assets	**323,499**	**2,506**	**1,662**	**327,667**
Non-financial assets	**21,211**	**528**	**-**	**21,739**
Total assets	**344,710**	**3,034**	**1,662**	**349,406**
Liabilities				
Due to other banks	15,432	36,906	3,410	55,748
Liabilities to customers under brokerage agreements	-	10,793	-	10,793
Customer accounts	196,212	-	-	196,212
Debt securities in issue	4,679	-	-	4,679
Term borrowings from other banks and other financial institutions	32,137	6,780	-	38,917
Other financial liabilities	1,160	-	-	1,160
Total financial liabilities	**249,620**	**54,479**	**3,410**	**307,509**
Non-financial liabilities	**5,232**	**-**	**-**	**5,232**
Total liabilities	**254,852**	**54,479**	**3,410**	**312,741**
Net balance sheet position	**89,858**	**(51,445)**	**(1,748)**	**36,665**
Credit related commitments	**791**	**-**	**-**	**791**

The geographical concentration of the Group's consolidated assets and liabilities at 31 December 2006 is set out below:

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**Total**
Assets				
Cash and cash equivalents	40,165	2,008	491	42,664
Mandatory cash balances with the NBA	6,178	-	-	6,178
Due from other banks	2,540	-	-	2,540
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	4,088	-	-	4,088
Loans and advances to customers	68,091	-	-	68,091
Investment securities available for sale	548	-	-	548
Other financial assets	83	1,256	-	1,339
Total financial assets	**121,693**	**3,264**	**491**	**125,448**
Non-financial assets	**8,699**	**-**	**-**	**8,699**
Total assets	**130,392**	**3,264**	**491**	**134,147**
Liabilities				
Due to other banks	4,780	-	-	4,780
Liabilities to customers under brokerage agreements	-	43	-	43
Customer accounts	80,332	-	-	80,332
Debt securities in issue	1,768	-	-	1,768
Term borrowings from other banks and other financial institutions	15,277	1,743	4,357	21,377
Other financial liabilities	2,018	-	-	2,018
Total financial liabilities	**104,175**	**1,786**	**4,357**	**110,318**
Non-financial liabilities	**1,984**	**-**	**-**	**1,984**
Total liabilities	**106,159**	**1,786**	**4,357**	**112,302**
Net balance sheet position	**24,233**	**1,478**	**(3,866)**	**21,845**
Credit related commitments	**39,510**	**-**	**-**	**39,510**

Liquidity risk. **.** Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The Committee seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management of the Group requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Committee calculates liquidity ratios on a monthly basis in accordance with the requirement of the NBA. According to instructions set by the National Bank of Azerbaijan, the Bank calculates instant liquidity as a ratio of daily average liquid assets to daily average liquid liabilities. The ratio was 42% at 31 December 2007 (2006: 88%). These ratios are calculated based on balances derived from statutory financial statements as at 31 December 2007.

The Treasury Department of the Bank receives information about the liquidity profile of the consolidated financial assets and liabilities. The Treasury then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The table below shows liabilities as at 31 December 2007 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated balance sheet because the balance sheet amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated into AZN using official exchange rate of AZN to foreign currencies established by the NBA as at the balance sheet date.

The maturity analysis of consolidated financial liabilities at 31 December 2007 is as follows:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Liabilities						
Due to other banks	15,265	1,300	44,516	-	-	61,081
Liabilities to customers under brokerage agreements	10,793	-	-	-	-	10,793
Customer accounts – individuals	29,802	6,341	52,139	11,328	427	100,037
Customer accounts – other	54,191	37,307	13,012	-	-	104,510
Debt securities in issue	6,689	-	-	-	-	6,689
Term borrowings from other banks and financial institutions	10,482	871	8,267	17,988	9,143	46,751
Other financial liabilities	-	-	1,160	-	-	1,160
Undrawn credit lines (Note 18.5.32)	-	-	-	64	-	64
Total potential future payments for financial obligations	**127,222**	**45,819**	**119,094**	**29,380**	**9,570**	**331,085**

The maturity analysis of consolidated financial liabilities at 31 December 2006 is, as follows:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities						
Due to other banks	5,019	-	-	-	-	5,019
Liabilities to customers under brokerage agreements	43	-	-	-	-	43
Customer accounts – individuals	10,132	5,964	19,658	5,103	11	40,868
Customer accounts – other	36,984	593	4,137	580	-	42,294
Debt securities in issue	2,205	-	-	-	-	2,205
Term borrowings from other banks and financial institutions	6,475	2,270	4,746	8,891	905	23,287
Other financial liabilities	-	-	2,018	-		2,018
Undrawn credit lines (Note 18.5.32)	-	-	2,135	-	-	2,135
Total potential future payments for financial obligations	**60,858**	**8,827**	**32,694**	**14,574**	**916**	**117,869**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijan Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors expected maturities, which may be summarised, as follows at 31 December 2007:

In thousands of Azerbaijani Manats	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	49,723	3,504	-	-	-	53,227
Mandatory cash balances with NBA	3,801	1,715	2,470	420	7	8,413
Due from other banks	4,934	3,604	8,130	8,826	-	25,494
Loans and advances to customers	11,555	17,862	163,696	32,861	11,802	237,776
Investments	-	-	-	460	-	460
Other financial assets	-	-	2,297	-	-	2,297
Total financial assets	**70,013**	**26,685**	**176,593**	**42,567**	**11,809**	**327,667**
Liabilities						
Due to other banks	15,203	-	40,545	-	-	55,748
Liabilities to customers under brokerage agreements	10,793	-	-	-		10,793
Customer accounts	82,737	42,186	60,768	10,328	193	196,212
Debt securities in issue	4,679	-	-	-	-	4,679
Term borrowings from other banks and other financial institutions	10,386	500	6,094	15,449	6,488	38,917
Other financial liabilities	-	-	1,160	-	-	1,160
Total financial liabilities	**123,798**	**42,686**	**108,567**	**25,777**	**6,681**	**307,509**
Net liquidity gap at 31 December 2007	**(53,785)**	**(16,001)**	**68,026**	**16,790**	**5,128**	**20,158**
Cumulative liquidity gap at 31 December 2007	**(53,785)**	**(69,786)**	**(1,760)**	**15,030**	**20,158**	

The above analysis is based on expected maturities.

The analysis by expected maturities may be summarised, as follows at 31 December 2006:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**	**Total**
Assets						
Cash and cash equivalents	42,664	-	-	-	-	42,664
Mandatory cash balances with NBA	3,623	496	1,681	378	-	6,178
Due from other banks	2,540	-	-	-	-	2,540
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	4,088	-	-	-	4,088
Loans and advances to customers	9,360	14,861	29,144	12,484	2,242	68,091
Investments	-	-	-	548	-	548
Other financial assets	-	-	1,339	-	-	1,339
Total financial assets	**58,187**	**19,4[illegible]**	**32,1[illegible]**	**13,4[illegible]**	**2,242**	**125,448**
Liabilities						
Due to other banks	4,780	-	-	-	-	4,780
Liabilities to customers under brokerage agreements	43	-	-	-	-	43
Customer accounts	47,101	6,448	21,858	4,920	5	80,332
Debt securities in issue	1,768	-	-	-	-	1,768
Term borrowings from other banks and other financial institutions	5,944	2,084	4,357	8,162	830	21,377
Other financial liabilities	-	-	2,018	-	-	2,018
Total financial liabilities	**59,636**	**8,532**	**28,233**	**13,082**	**835**	**110,318**
Net liquidity gap at 31 December 2006	**(1,449)**	**10,913**	**3,931**	**328**	**1,407**	**15,130**
Cumulative liquidity gap at 31 December 2006	**(1,449)**	**9,464**	**13,395**	**13,723**	**15,130**	

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

Management believe that despite a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customers accounts provide a long-term and stable source of funding for the Group.

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

18.5.30. Management of Insurance Risk

Insurance risk. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable for each individual insurance contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insured events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Group manages its insurance risk by means of established internal procedures which include underwriting authority levels, pricing policy, approved reinsurers list and ongoing monitoring.

Estimation of insurance loss reserves Loss provisions are calculated based on the Group's historical data. In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques include a combination of loss ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where a greater weight is given to actual claims experience as time passes.

The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The initial estimate of the loss ratios used for the current year (before reinsurance) are analysed by type of risk for current and prior year premiums earned.

Sources of uncertainty in the estimation of future claim payments. Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, if the loss is discovered before the end of the contract term. As a result, liability claims are settled within a short period of time, which historically has not exceeded 3 months from the end of the contract term. There are several variables that affect the amount and timing of cash flows from insurance contracts. These mainly relate to the inherent risks of the activities carried out by both corporate and individual contract holders and the risk management procedures they adopted. The compensation paid on insurance contracts in the Group's portfolio primarily consists of monetary awards granted for:

- medical insurance;
- physical damage to motor vehicles (for motor vehicle insurance covers);
- financial loss, bodily injury and physical damage suffered by the third parties (caused by the vehicle owners); and
- physical damage to property (for property insurance covers).

Such awards are lump-sum payments that are calculated by the Group's in-house underwriters as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

Reinsurance policy. An element of the Group's motor, property, third party liability, employer liability and cargo portfolios is reinsured with local and foreign insurance companies under reinsurance agreements that reduce the potential maximum exposure that the Group is subject to.

Diversification. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

18.5.31. Management of Capital

National Bank of the Azerbaijan Republic, and (ii) to safeguard the Group's ability to continue as a going concern. Compliance with capital adequacy ratios set by the National Bank of the Azerbaijan Republic is monitored monthly with reports outlining their calculation reviewed and signed by the Group's Chief Executive Officer and Chief Accountant. These reports are prepared based on balances derived from statutory financial statements. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the National Bank of the Azerbaijan Republic banks have to maintain a ratio of regulatory capital to risk weighted assets ("total capital ratio") and a ratio of Tier I capita! to risk weighted assets above the prescribed minimum level. As at 31 December 2007, these minimum levels were 12% and 6% respectively (2006; 10% and 6%) The minimum total capital requirement set by the National Bank of the Azerbaijan Republic was AZN 10,000 thousand (2006: AZN 8,500 thousand). The Bank was in compliance with these requirements as at 31 December 2007.

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in the loan agreement with Black Sea Trade and Development, including capital adequacy levels calculated in accordance with the requirements of the Basle Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I, The composition of the Group's consolidated capital calculated in accordance with the Basel Accord is as follows:

For the NBA statutory capital adequacy purposes the amount of the cumulative capital that the Bank manages as at 31 December 2007 is AZN 35,466 thousand {2006: AZN 20,500 thousand).

In thousands of Azerbaijani Manats	**2007**	**2006**
Tier 1 capital		
Share capital	26,912	11,912
Share premium	3,464	3,808
Retained earnings	1,180	4,550
Deductions	(95)	(108)
Total tier 1 capital	**31,461**	**20,162**
Tier 2 capital		
Current year profit	2,440	363
Revaluation reserves	2,669	1,212
Provision on risk weighted assets	3,416	1,548
Total tier 2 capital	**8,525**	**3,123**
Total capital	**39,986**	**23,285**
Share capital requirement (minimum 2007: AZN 10,000 thousand; 2006: AZN 8,500 thousand)	**26,912**	**11,912**
Total capital ratio (minimum 2007: 12%; 2006: 10%)	**15%**	**19%**
Tier I Capital to risk weighted assets (minimum 2007: 6%; 2006: 6%)	**12%**	**16%**

The Group has complied with externally imposed capital requirement throughout 2007 and 2006.

18.5.32. Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. Based on its own estimates and both internal and external professional advice, management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in these consolidated financial statements (2006: nil).

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

Management have assessed whether capital transactions involving the Bank's own shares may give rise to non-sales income in the hands of the Group that is subject to income tax in accordance with the Tax Code of the Republic of Azerbaijan. Management firmly believe that such transactions, for example, the issuance by the Group of new shares giving rise to share premium, are not within the scope of the Tax Code and therefore not required to be included in the Bank's income tax calculation. Accordingly, the Bank has not paid or accrued any income tax in relation to such transactions that have resulted in a total share premium account of AZN 3,464 thousand as at 31 December 2007 (2006: AZN 3,808 thousand). If the Ministry of Taxes of the Republic of Azerbaijan will explicitly require the Bank to pay tax with regard to capital gains resulting from capital transactions involving the Bank's own shares, i.e. share premium, then the Bank will have to pay AZN 831 thousand for its share premium accumulated as at 31 December 2007.

Tax liabilities arising from inter-company transactions are determined, using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Republic of Azerbaijan and the changes in the approach of the Azerbaijani tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Azerbaijani transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2007 no provision for potential tax liabilities had been recorded (2006: no provision).

Capital expenditure commitments. At 31 December 2007, the Group has contractual capital expenditure commitments in respect of premises and equipment totaiiing AZN 400 thousand (2006: nil).

The Group has already allocated the necessary resources in respect *of* these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

Operating lease commitments. At 31 December 2007 and 2006, the Group has no operating lease commitments under non-cancellable operating leases.

Compliance with covenants. The Group is subject to certain covenants related to borrowings from Black Sea Trade and Development Bank. Non-compliance with such covenants may result in negative consequences for the Group, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believes that during the period the Group has complied with the covenants that were in force, except for liquidity ratio as detailed below.

The borrowing agreement with Black Sea Trade and Development requires the ratio of liquid assets to short-term liabilities to be not less than sixty per cent at all times. As at 31 December 2007, management have calculated that the Group's liquidity ratio was 42% based on the consolidated financial statements and method of calculation as specified in the loan agreement. Accordingly as at 31 December 2007, management considers that the lender had the right to require the repayment of this loan on demand.

The total borrowings affected by the breach of the covenant related to the liquidity ratio were AZN 6,762 thousand as at 31 December 2007 (31 December 2006: nil). In accordance with the loan agreement, the borrowings are classified as due and/or repayable on demand.

Accordingly, the borrowings impacted have been reclassified to being on demand in the liquidity disclosures in Note 31 within these consolidated financial statements. Management believes that the Group is in compliance with all other covenants as at 31 December 2007 and at all times during the year then ended.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit related commitments are, as follows:

In thousands of Azerbaijani Manats	**2007**	**2006**
Undrawn credit	64	2,135
Import letters of credit	147	1,886
Guarantees issued	580	35,489
Total credit related commitments	**791**	**39,510**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. The fair value of credit related commitments was AZN 6 thousand at 31 December 2007 (2006: AZN 140 thousand). Credit related commitments are denominated in the following currencies:

In thousands of Azerbaijani Manats	**2007**	**2006**
Azerbaijani Manats	580	39,257
US Dollars	169	226
Euro	42	27
Total	**791**	**39,510**

18.5.33. Fair Value of Financial Instruments

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

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

Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Investment securities available for sale are carried on the consolidated balance sheet *at* their fair value. Cash and cash equivalents are carried at amortised cost, which approximates current fair value.

Fair values of available for sale securities have been fair valued by the Group based on financial data of the investees. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Loans and receivables carried at amortised cost The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on currency, maturity of the instrument and credit risk of the counterparty and were, as follows:

In thousands of Azerbaijani Manats	**2007**	**2006**
Due from other banks – Note 18.5.6		
Short-term placements with other banks with original maturities of more than three months	15% to 20% p.a.	20 % to 22 % p.a.
Loans and advances to customers – Note 0		
Corporate loans	7% to 30% p.a.	11% to 25 % p.a.
Loans to individuals - consumer loans	7% to 36% p.a.	12 % to 36 % p.a.
Loans to individuals – entrepreneurs	7% to 28% p.a.	7 % to 26 % p.a.
Mortgage loans	7% to 16% p.a.	7 % to 10 % p.a.

Refer to Section 18.5.6. and 18.5.8. for the estimated fair values of due from other banks and loans and advances to customers, respectively.

Liabilities carried at amortised cost. The fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Sections 18.5.14., 18.5.15., 18.5.16., 18.5.17. and 18.5.18. for the estimated fair values of due to other banks, liabilities to customers under brokerage agreements, customer accounts, debt securities in issue and term borrowings, respectively.

18.5.34. Reconciliation of Classes of Financial Instruments with Measurement Categories

For the purposes of measurement, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss (“FVTPL”). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories.

In thousands of Azerbaijani Manats	Loans and receivables		Available for-sale assets		Total	
	2					
Assets						
Cash and cash equivalents	53,227	42,664	-	-	53,227	42,664
Mandatory Reserves	8,413	6,178	-	-	8,413	6,178
Due from other banks:	25,494	2,540			25,494	2,540
Treasury bills of the Ministry of Finance of the Republic of Azerbaijan	-	4,088	-	-	-	4,088
Loans and advances to customers						
- Corporate loans	169,832	44,389	-	-	169,832	44,389
- Loans to individuals - consumer loans	40,824	15,588	-	-	40,824	15,588
- Loans to individuals - entrepreneurs	8,112	3,181	-	-	8,112	3,181
- Mortgage loans	19,008	4,933	-	-	19,008	4,933
Investment securities available for sale	-	-	460	548	460	548
Other financial assets:						
- Restricted cash	2,215	1,256	-	-	2,215	1,256
- Credit and debit cards receivables	82	83	-	-	82	83
Total financial assets	**327,207**	**124,900**	**460**	**548**	**327,667**	**125,448**
Non-financial assets	-	-	-	-	**21,739**	**8,699**
Total assets	-	-	-	-	**349,406**	**134,147**

All of the Group’s financial liabilities are carried at amortised cost.

18.5.35. Related Party Transactions

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

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 5% - 18% p.a.)	-	63	394
Due to other banks (contractual interest rate: 12.5% p.a.)	3,411	-	-
Liabilities to customers under brokerage agreements (no interest applicable)	10,793	-	-
Customer accounts (contractual interest rate: 12% - 13% p.a.)	26	4	23
Debt securities in issue (contractual interest rate: 14% p.a.)	3,691	-	-

The income and expense items with related parties for the year 2006 were, as follows:

The income and expense items with related parties for the year 2007 were, as follows:

In thousands of Azerbaijani Manats	**Shareholders**	**Key management personnel**	**Other related parties**
Interest income	-	6	36
Interest expense	820	-	7
Fee and commission income	-	-	5
Rental payments for lease of premises	-	-	8

Aggregate amounts lent to and repaid by related parties during 2007 were, as follows:

In thousands of Azerbaijani Manats	**Shareholders**	**Key management personnel**	**Other related parties**
Amounts lent to related parties during the year	-	78	30
Amounts repaid by related parties during the year	7	17	735
Amounts lent by related parties during the year	3,411	-	-
Amounts repaid to related parties during the year	4,357	-	-

At 31 December 2006, the outstanding balances with related parties were, as follows:

In thousands of Azerbaijani Manats	**Shareholders**	**Key management personnel**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 9%-18% p.a.)	7	5	1,099
Due to other banks (contractual interest rate: 6% p.a.)	4,357	-	-
Customer accounts (contractual interest rate: 12% - 13% p.a.)	4	-	1
Debt securities in issue (contractual interest rate: 14% p.a.)	1,743	-	-

The income and expense items with related parties for the year 2006 were, as follows:

In thousands of Azerbaijani Manats	**Shareholders**	**Key management personnel**	**Other related parties**
Interest income	-	-	53
Interest expense	26	-	-
Fee and commission income	-	-	1
Rental payments for lease of premises	8	-	-

Aggregate amounts lent to and repaid by related parties during 2006 were, as follows:

In thousands of Azerbaijani Manats	Shareholders	Key management personnel	Other related parties
Amounts lent to related parties during the year	-	8	727
Amounts repaid by related parties during the year	-	20	647
Amounts lent by related parties during the year	4,357	-	-

Key management compensation is presented below:

In thousands of Azerbaijani Manats	2007	2006
Short-term benefits:		
- Salaries and bonuses	356	178
- Other benefits	6	-
Total	**362**	**178**

18.5.36. Business Combination

On 12 December 2006, the Group acquired 100% of the share capital of Alfa Insurance LLC. The acquired subsidiary contributed revenue of AZN 46 thousand and profit of AZN 6 thousand to the Group for the period from the date of acquisition to 31 December 2006. Had the acquisition occurred on 1 January 2006 the amounts of revenue and profit contributed by the acquired subsidiary would have equalled AZN 1,267 and AZN 146 thousand, respectively, for the year ended 31 December 2006.

The consideration paid by the Group was based on results of an internal appraisal of the acquiree's business taken as a whole. However, in accordance with IFRS 3 "Business Combinations", the Group must account for acquisitions based on fair values of the identifiable assets acquired and liabilities and contingent liabilities assumed. These two different approaches can lead to differences; and, as set out in the table below, recognition of the excess of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost ("negative goodwill") immediately in the consolidated income statement for the year ended 31 December 2006.

The details of the assets and liabilities acquired and negative goodwill arising are as follows:

In thousands of Azerbaijani Manats	**IFRS carrying amount immediately before business combination**	**Attributed fair value**
Cash and cash equivalents	2,172	2,172
Premises, equipment and intangible assets	47	117
Other assets	72	72
Unearned insurance premiums reserve (UPR)	(445)	(445)
Outstanding Claims Reserve (OCR)	(52)	(52)
Other liabilities	(148)	(148)
Fair value of net assets of subsidiary		**1,716**
Fair value of acquired interest in net assets of subsidiary		**1,716**
Negative goodwill arising on the acquisition		(216)
Total purchase consideration		**1,500**
Less: cash and cash equivalents of subsidiary acquired		(2,172)
Inflow of cash and cash equivalents on acquisition		**672**

The purchase consideration comprises cash and cash equivalents paid of AZN 1,500 thousand. The resulting negative goodwill was largely due to the willingness of the seller to accept a lower price in return for the prompt payment of the purchase consideration as negotiated between the parties.

The fair values of assets and liabilities acquired have been determined based on discounted cash flow model as appropriate. The valuation of identifiable intangible assets has been performed internally by management based on a number of reference points. Based on the appraisal the following items were included in the purchase price allocation:

- employees service contracts in respect of the employees of Alfa Insurance valued at AZN 26 thousand;
- the brand name of Alfa Insurance valued at AZN 17 thousand; and
- the customer list of Alfa Insurance valued at AZN 27 thousand.

No business combination took place during the year ended 31 December 2007.

18.5.37. Subsequent Events

In January 2008, the general meeting of shareholders of the Group resolved to increase the Bank's share capital from AZN 26,912 thousand to AZN 50,912 thousand by the issue of an additional 24,000 shares at AZN 1,000 per share. Management expect that these shares will be acquired by new or the existing shareholders of the Bank during the year ending 31 December 2008.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Eastern Europe B.V.
Azerbaijan branch
The Landmark Office Plaza
5th floor, 96 Nizami Street
Baku AZ1010, Azerbaijan
Telephone [994] 12 497 25 15
Facsimile [994] 12 497 74 11
www.pwc.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Technikabank Open Joint Stock Company:

1. We have audited the accompanying consolidated financial statements of Technikabank and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated 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 Consolidated Financial Statements

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

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

PRICEWATERHOUSECOOPERS

Opinion

6. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

7. Without qualifying our opinion, we draw your attention to Note 1 to the financial statements. Management has withdrawn the previously issued 2006 consolidated financial statements on which we issued an audit report dated 27 April 2007 due to errors identified by management related to interest income and segment information. The 2006 consolidated financial statements as previously reported by the Group have been reissued with these errors corrected.

PricewaterhouseCoopers Eastern Europe B.V. Azerbaijan branch

PricewaterhouseCoopers Eastern Europe B.V. Azerbaijan branch
Baku, Republic of Azerbaijan
15 January 2008

(2)

18.7. Auditor's Report on 2007 Financial Statements

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Eastern Europe B.V.
Azerbaijan branch
The Landmark Office Plaza
5th floor, 96 Nizami Street
Baku AZ1010, Azerbaijan
Telephone [994] 12 497 25 15
Facsimile [994] 12 497 74 11
www.pwc.com

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Technikabank Open Joint Stock Company:

1 We have audited the accompanying consolidated financial statements of Technikabank and its subsidiaries (the "Group") which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

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Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

6 In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2007, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Eastern Europe B.V. Azerbaijan branch

PricewaterhouseCoopers Eastern Europe B.V. Azerbaijan branch
Baku, Republic of Azerbaijan
21 April 2008

19. Interim Financial Information

The financial information presented in this section of the Prospectus is taken from unaudited consolidated condensed financial statements for the first 6 months of 2007 and 2008.

19.1. Income Statement

AZN '000	01.01.2008 – 30.06.2008	01.01.2007 – 30.06.2007
Interest income	25,044	9,000
Interest expense	(12,420)	(4,349)
Net interest income	**12,624**	**4,651**
Provision for loan impairment	(1,708)	(2,639)
Net interest income after provision for loan impairment	**10,916**	**2,012**
Fee and commission income	6,370	4,702
Fee and commission expense	(759)	(637)
Gains less losses from trading in foreign currencies	1,180	827
Foreign exchange translation gains less losses/ (losses less gains)	1,996	99
Insurance premiums written	406	694
Reinsurance premiums ceded	(32)	(25)
Increase in provision for unearned premiums	181*	(493)*
Claims incurred	(158)	(66)
Other operating income	136	84
Administrative and other operating expenses	(6,617)	(3,717)
Profit before tax	**13,619**	**3,480**
Income tax expense	(3,068)	(1,708)
Profit for the year	**10,551**	**1,772**

** net of reinsurance*

19.2. Balance Sheet

AZN '000	30/06/2008	31/12/2007
Cash and cash equivalents	58,317	53,227
Mandatory cash balances with NBA	9,097	8,413
Due from other banks	20,659	25,494
Loans and advances to customers	289,978	237,776
Investment securities available for sale	460	460
Investment properties	145	145
Premises and equipment	24,154	20,310
Intangible assets	114	95
Other assets	4,090	3,486
Total assets	**407,014**	**349,406**
Due to other banks	67,664	55,748
Liabilities to customers under brokerage agreements	13,888	10,793
Customer accounts	198,865	196,212
Debt securities in issue	25,837	4,679
Term borrowings from other banks and financial institutions	44,351	38,917
Current income tax liabilities	1,966	1,852
Deferred income tax liabilities	1,341	1,343
Other liabilities	5,886	3,197
Total liabilities	**359,798**	**312,741**
Share capital	26,912	26,912
Share premium	3,464	3,464
Retained income	14,211	3,620
Revaluation reserve for premises	2,629	2,669
Total equity	**47,216**	**36,665**
Total liabilities and equity	**407,014**	**349,406**

19.3. Cash Flow Statement

AZN '000	01.01.2008 – 30.06.2008	01.01.2007 – 30.06.2007
Cash flows from operating activities		
Interest received	20,553	7,192
Interest paid	(11,663)	(2,739)
Fees and commissions received	6,370	4,702
Fees and commissions paid	(759)	(637)
Insurance premium received	406	694
Reinsurance premium ceded	(32)	(25)
Insurance claims paid	(158)	(66)
Income received from trading in foreign currencies	1,180	827
Other operating income received	136	84
Staff costs paid	(2,742)	(1,660)
Administrative and other operating expenses	(2,740)	(1,365)
Income tax paid	(2,954)	(702)
Cash flows from operating activities before changes in operating assets and liabilities	***7,597***	***6,305***
Net increase in mandatory cash balances with the NBA	(684)	3,014
Net increase in due from other banks	3,879	(11,517)
Net increase in loans and advances to customers	(50,276)	(82,167)
Net increase in other financial assets	675	(263)
Net increase in other assets	(1,279)	134
Net increase in due to other banks	13,230	40,160
Net increase in liabilities to customers under brokerage agreements	3,095	2,278
Net increase in customer accounts	5,388	25,630
Net increase/(decrease) in other financial liabilities	829	1,754
Net increase/(decrease) in other liabilities	2,041	(259)
Net cash used in operating activities	***(15,505)***	***(14,931)***
Cash flows from investing activities		
Proceeds from disposal of investment securities available for sale	-	88
Acquisition of premises and equipment and intangible assets	(4,653)	(2,820)
Net cash used in investing activities	***(4,653)***	***(2,732)***
Cash flows from financing activities		
Proceeds from term borrowings from other banks and financial institutions	9,475	33,562
Repayment of term borrowings from other banks and financial institutions	(4,445)	(18,713)
Proceeds from debt securities in issue	21,000	2,825
Issue and sale of ordinary share	-	1,744
Net cash provided from financing activities	***26,030***	***19,418***
Effect of exchange rate changes on cash and cash equivalents	***(782)***	***99***
Net increase in cash and cash equivalents	**5,090**	**1,854**
Cash and cash equivalents at the beginning of the year	**53,227**	**46,752**
Cash and cash equivalents at the end of the year	**58,317**	**48,606**

19.4. Statement of Changes in Equity

AZN '000	Share capital	Share premium	Revaluation reserve for premises	Retained earnings	Total equity
Balance at 1 January 2007	**11,912**	**3,808**	**1,212**	**4,913**	**21,845**
Premises and equipment:					
- Realised revaluation reserve	-	-	(18)	18	-
Net income recognised directly in equity	-	-	(18)	18	-
Profit for the period (unaudited)	-	-	-	1,772	1,772
Total recognised income for the year	**-**	**-**	**(18)**	**1,790**	**1,772**
Share issue	4,565	1,056	-	(3,780)	1,841
Balance at 30 June 2007 (unaudited)	**16,477**	**4,864**	**1,194**	**2,923**	**25,458**
Premises and equipment:					
- Revaluation of premises, net of tax	-	-	1,504	-	1,504
- Realised revaluation reserve	-	-	(29)	29	-
Net income recognised directly in equity	-	-	1,475	29	1,504
Profit for the period (unaudited)	-	-	-	9,980	9,980
Total recognised income for the year	**-**	**-**	**1,475**	**10,009**	**11,484**
Share issue	10,435	-	-	(6,912)	3,523
Treasury shares					
- Acquisitions	2,400	(1,400)	-	-	1,000
- Disposals	(2,400)	-	-	(2,400)	(4,800)
Balance at 31 December 2007	**26,912**	**3,464**	**2,669**	**3,620**	**36,665**
Premises and equipment:					
- Revaluation of premises, net of tax	-	-	-	-	-
- Realised revaluation reserve	-	-	(40)	40	-
Net income recognised directly in equity	-	-	(40)	40	-
Profit for the period (unaudited)	-	-	-	10,551	10,551
Total recognised income for the year	**-**	**-**	**(40)**	**10,591**	**10,551**
Share issue	-	-	-	-	-
Balance at 30 June 2008	**26,912**	**3,464**	**2,629**	**14,211**	**47,216**

20. Substantial Changes in Financial Situation

The last published financial data of Technikabank are unaudited consolidated condensed interim financial statements as of 30 June 2008. Since then Technikabank has not experienced any significant changes in its financial situation.

21. Important Agreements

Technikabank has no knowledge of any important agreements that could have been concluded between its shareholders and that could affect its capability to fulfil its liabilities due to investors regarding the securities to be issued.

22. Legal Proceedings and Arbitrage

Since the foundation of Technikabank in 1994, there have not been and as at the moment of registration of the Prospectus there are no government interventions, lawsuits or arbitrage processes which could affect or have affected substantially its financial situation.

23. Additional Information

23.1. Share Capital

The information on Technikabank's issued capital can be found in Section 16 "Shareholders" of the Prospectus.

23.2. Memorandum and Articles of Association

Technikabank's Memorandum and Articles of Association can be inspected at Technikabank's office at the address indicated in Section 24 "Documents on Display" of the Prospectus or can be presented electronically at the request of Investors or Note holders.

Technikabank's objectives and purposes are described in Section 11.2 "Strategy" of the Prospectus.

24. Documents on Display

For the life of the Prospectus the following documents (or copies) may be inspected:

- Technikabank's registration documents including Articles of Association;
- historical financial information including consolidated financial statements for each of the two financial years preceding the publication of the Prospectus;
- credit rating reports prepared by credit rating agencies at Technikabank's request;

at Technikabank's office at 1107 Ataturk Avenue, Baku AZ1069, Azerbaijan or request an electronic copy by e-mail info@texnikabank.az.

25. Other Information

All disputes between Note holders and Technikabank shall be settled in courts of the Republic of Latvia in accordance to the legal acts in force. FCMC will register the Prospectus in the English language with the Summary translated into Latvian if required, and any translations of the Prospectus into another language are unofficial and made exceptionally for the Investors' convenience. In case of any disputes' settlement, interpretation of the norms of the Prospectus in the English language takes precedence.