

**OPEN JOINT
STOCK COMPANY
PARABANK**

Financial Statements
For the Year Ended 31 December 2008

OPEN JOINT STOCK COMPANY PARABANK

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OPEN JOINT STOCK COMPANY PARABANK

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the financial statements of Open Joint Stock Company Parabank (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

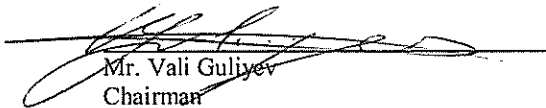
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements;
- Preparing the financial statements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

Management is also responsible for:


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

The financial statements for the year ended 31 December 2008 were authorized for issue on 17 August 2009 by the Bank's Management Board.

On behalf of the Management Board:


Mr. Vali Guliyev
Chairman




Mrs. Nigar Mehdiyeva
Financial Director

17 August 2009
Baku, Azerbaijan

INDEPENDENT AUDITORS' REPORT

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

Report on the financial statements

We have audited the accompanying financial statements of the Open Joint Stock Company Parabank (the "Bank"), which comprise the balance sheet as at 31 December 2008, and the income statement, statements of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the "Bases for qualified opinion" paragraph below, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Bases for qualified opinion

As discussed in Note 14, the Bank recorded an allowance for impairment losses on loans to customers in the amount of AZN 1,742 thousand. As at 31 December 2008, we have estimated the allowance for impairment losses on loans to customers to be AZN 2,315 thousand. Accordingly, loans to customers should be reduced by AZN 573 thousand and the loss for the year and accumulated deficit should be increased by AZN 573 thousand, respectively.

As discussed in Note 3 and Note 16 the Bank carries property and equipment under the historical cost approach. We were unable to obtain sufficient appropriate audit evidence of the recoverable value of property and equipment as at 31 December 2008. We were also unable to satisfy ourselves as to the fair value of a prepayment of AZN 1,539 thousand made by the Bank for the purchase of certain buildings during 2008. Therefore, we were unable to satisfy ourselves as to the appropriateness and accuracy of the carrying amount of property and equipment and the related depreciation expense as at 31 December 2008 and for the year then ended.

As discussed in Note 10, the Bank recognized a deferred income tax asset in the amount of AZN 275 thousand. As at 31 December 2008, we were unable to obtain sufficient appropriate audit evidence to support the recognition of a deferred tax asset as we were unable to satisfy ourselves if the Bank will have sufficient future taxable income to offset the deferred tax asset. Therefore we unable to satisfy ourselves as to the appropriateness and accuracy and appropriateness of the deferred tax asset in the amount of AZN 275 thousand as at 31 December 2008 and the related tax expense for the year then ended.

Qualified opinion

In our opinion, except for the effect of the allowance for impairment losses referred to in the preceding "Bases for qualified opinion" paragraph and the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the recoverable value of property and equipment, and the appropriateness and accuracy of the deferred tax asset, the financial statements present fairly, in all material respects the financial position of Open Joint Stock Company Parabank as at 31 December 2008, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without further qualifying our opinion, we draw your attention to Notes 2 and 31, which indicate that the Bank incurred a net loss of AZN 868 thousand during the year ended 31 December 2008 and that the Bank has a liquidity gap of AZN 4,659 thousand liquidity gap (excluding the amount of minimum reserve deposit with the National Bank of the Republic of Azerbaijan of AZN 1,861 thousand (Note 25)) as at 31 December 2008. These factors along with other factors set out in Notes 2, 24 and 31, indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern.

Deloitte Touche LLC

17 August 2009
Baku, the Republic of Azerbaijan

OPEN JOINT STOCK COMPANY PARABANK

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands, except for loss per share which are in Azerbaijan Manats)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	4, 26	8,420	4,623
Interest expense	4, 26	(6,011)	(2,875)
NET INTEREST INCOME BEFORE (PROVISION)/RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		2,409	1,748
(Provision)/recovery of provision for impairment losses on interest bearing assets	5, 26	(603)	75
NET INTEREST INCOME		1,806	1,823
Net gain on foreign exchange operations	6	557	236
Fee and commission income	7	808	555
Fee and commission expense	7	(230)	(137)
Provision for impairment on off-balance sheet commitments	5	(16)	(4)
Other income	8	510	263
NET NON-INTEREST INCOME		1,629	913
OPERATING INCOME		3,435	2,736
OPERATING EXPENSES	9, 26	(4,491)	(2,582)
(LOSS)/PROFIT BEFORE INCOME TAX		(1,056)	154
Income tax credit/(expense)	10	188	(118)
NET (LOSS)/PROFIT		<u>(868)</u>	<u>36</u>
LOSS PER SHARE			
Basic and diluted (AZN)	11	(21.49)	(1.56)

On behalf of the Management Board:

Mr. Vali Guliyev
Chairman

17 August 2009
Baku, Azerbaijan

Mrs. Nigar Mehdiyeva
Financial Director

17 August 2009
Baku, Azerbaijan

The notes on pages 9-53 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY PARABANK

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

	Share capital	(Accumulated deficit) / Retained earnings	Total shareholders' equity
31 December 2006	5,570	303	5,873
Share capital increase of:			
- ordinary shares	4,500	-	4,500
Acquisition of shares for reissue			
- ordinary shares	(483)	-	(483)
- preference shares	(193)	-	(193)
Net profit	-	36	36
Dividends declared and paid on preference shares	-	(96)	(96)
31 December 2007	<u>9,394</u>	<u>243</u>	<u>9,637</u>
Share capital increase of:			
- ordinary shares	483	-	483
- preference shares	193	-	193
Net loss	-	(868)	(868)
Dividends declared and paid on preference shares	-	(78)	(78)
31 December 2008	<u>10,070</u>	<u>(703)</u>	<u>9,367</u>

On behalf of the Management Board:

Mr. Vali Guliyev
Chairman

17 August 2009
Baku, Azerbaijan

The notes on pages 9-53 form an integral part of these financial statements.

Mrs. Nigar Mehdiyeva
Financial Director

17 August 2009
Baku, Azerbaijan

OPEN JOINT STOCK COMPANY PARABANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)


	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		7,991	4,483
Interest paid		(4,016)	(2,047)
Income from dealing operations	6	268	110
Fees and commission received	7	808	555
Fees and commission paid	7	(230)	(137)
Other operating income received		510	116
Other operating expenses paid		(3,587)	(2,201)
		<u>1,744</u>	<u>879</u>
Cash flows from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the National Bank of the Republic of Azerbaijan		99	(847)
Due from banks		1,149	(1,740)
Loans to customers		(20,887)	(4,421)
Other assets		(522)	(120)
Increase/(decrease) in operating liabilities			
Due to banks and other financial institutions		6,030	1,933
Customer accounts		17,792	9,699
Other liabilities		(23)	59
		<u>5,382</u>	<u>5,442</u>
Cash inflows from operating activities before taxation			
Income tax paid		(68)	(91)
		<u>5,314</u>	<u>5,351</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(2,618)	(7,481)
Purchase of intangible assets		(31)	(50)
Proceeds on sale of investments available-for-sale		1,474	-
Purchase of investments available-for-sale		-	(1,474)
Proceeds on sale of investment property		-	297
		<u>(1,175)</u>	<u>(8,708)</u>
Net cash outflows from investing activities			

OPEN JOINT STOCK COMPANY PARABANK

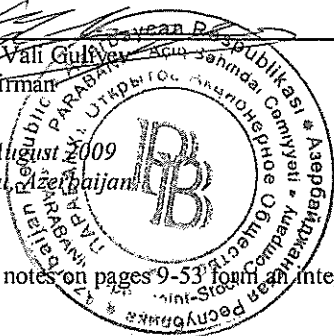
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED) (in Azerbaijan Manats and in thousands)


	Notes	Year ended 31 December 2008	Year ended 31 December 2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issue of shares		676	4,500
Acquisition of shares for reissue		-	(676)
Repayment of debt securities issued, including interest paid		(560)	(614)
Dividends paid		(78)	(96)
		<u>38</u>	<u>3,114</u>
Net cash inflows from financing activities			
Effect of changes in foreign exchange rate on cash and cash equivalents		<u>59</u>	<u>57</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,236	(186)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	12	<u>1,702</u>	<u>1,888</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	12	<u>5,938</u>	<u>1,702</u>

On behalf of the Management Board:


Mr. Vali Guliyev
Chairman

17 August 2009
Baku, Azerbaijan




Mrs. Nigar Mehdiyeva
Financial Director

17 August 2009
Baku, Azerbaijan

The notes on pages 9-53 form an integral part of these financial statements.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 *(in Azerbaijan Manats and in thousands)*

1. ORGANISATION

Open Joint Stock Company Parabank (“the Bank”) was established on 3 December 1991 as a limited liability company under the laws of the Republic of Azerbaijan. On 19 January 1993 the Bank was re-registered as a Joint Stock Commercial Bank with limited liability of the shareholders. On 14 March 2008 the Bank was re-registered by the Ministry of Justice of the Republic of Azerbaijan as an Open Joint Stock Company Parabank. The Bank is registered in the Republic of Azerbaijan to provide commercial banking services and has been operating under a full banking license # 02-10/41 dated 23 January 2001 granted by the National Bank of the Republic of Azerbaijan (“NBA”). The Bank has a license of the NBA # 19 of 6 August 2002 which allows issuing local plastic cards and process transactions with them. On 10 May 2008 the NBA granted the Bank license #30 for export and import operations with currency notes. The Bank’s primary business consists of commercial activities, trading with securities, foreign currencies, originating loans and guarantees.

The registered office of the Bank is located at 60, S.Vurgun str., Baku AZ 1022, the Republic of Azerbaijan. As at 31 December 2008 and 2007 the Bank has 12 and 8 branches operating in the Republic of Azerbaijan, respectively.

At 31 December 2008 and 2007, the ultimate shareholders of the Bank were Mr. Eldar Guliyev and his family which effectively own 72.70% and 69.95% respectively of the voting shares of the Bank.

These financial statements were authorized for issue by the Bank’s Management Board on 17 August 2009.

2. BASIS OF PRESENTATION

Accounting basis

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

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

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

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Equity as at 31 December 2008 and 2007 and net profit for the years then ended are reconciled between statutory rules and IFRS as follows:

	31 December 2008	Year ended 31 December 2008	31 December 2007	Year ended 31 December 2007
	Equity	Net loss	Equity	Net profit
Statutory rules (unaudited)	9,831	(827)	10,083	397
Effect of prior year differences, net	(415)	(70)	62	51
Deferred taxation	188	188	8	8
Difference in accrued expenses	(31)	(31)	-	-
Change in accrual of unused vacation payables	(59)	(59)	(24)	(24)
Deferral of loan origination fee	(69)	(69)	(425)	(425)
Reclassification of dividends paid	(78)	-	(96)	-
Change in allowance for impairment losses on due from banks	-	-	33	33
Change in allowance for impairment losses on off-balance sheet activities	-	-	(4)	(4)
	<u>9,367</u>	<u>(868)</u>	<u>9,637</u>	<u>36</u>
International Financial Reporting Standards	<u>9,367</u>	<u>(868)</u>	<u>9,637</u>	<u>36</u>

Functional currency

Items included in the financial statements of the Bank are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that Bank (the "functional currency"). The functional currency of these financial statements is the Azerbaijan Manat ("AZN").

Going concern uncertainty

The Bank's losses from operations for the year ended 31 December 2008 were AZN 868 thousand. In addition, the Bank is exposed to a cumulative negative liquidity gap of AZN 4,659 thousand (Note 31) (2007: AZN 3,463 thousand) (excluding the amount of minimum reserve deposit with the National Bank of the Republic of Azerbaijan of AZN 1,861 thousand). Management has prepared these financial statements on a going concern basis. Management believes the possibility that the banks and other major creditors of the Bank will demand repayment of outstanding amounts prior to alternative sources of financing being obtained is low. Management has an intention to obtain sufficient repayments of loans to customers and raise sufficient financing which will allow to the Bank to settle a substantial portion of its current liabilities and improve working capital ratios. Management believes that through continuing support of its shareholders, future cash flows from operating and financing activities will be sufficient for the Bank to meet its obligations as they become due. These financial statements do not include any adjustments that might result from the outcome of these uncertainties as stated above.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 *(in Azerbaijan Manats and in thousands)*

3. SIGNIFICANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts with the NBA with original maturity within 90 days, advances to banks in countries included in the Organization for Economic Co-operation and Development ("OECD"). For purposes of determining cash flows, the minimum reserve deposit required by the NBA is not included as a cash equivalent due to restrictions on its availability (Note 12).

Due from banks

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

Loans to customers

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

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

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

Write off of loans and advances

Loans and advances are written off against allowance for impairment losses in case of uncollectibility of loans and advances, including through repossession of collateral. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge in accordance with the statutory legislation for impairment of financial assets in the income statements in the period of recovery. In accordance with the statutory legislation, loans may only be written off with the approval of the Supervisory Board and, in certain cases, with the respective decision of the Court.

Allowance for impairment losses

Assets carried at amortized cost

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

Such impairment losses are not reversed, unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjustment of an allowance account.

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

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognized in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment losses was recognized in the income statement.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Investments available-for-sale

Investments available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at fair value. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in equity until sold when gain/loss previously recorded in equity recycles through the income statement, except for impairment losses, foreign exchange gains or losses and interest income accrued using the effective interest method, which are recognized directly in the income statement. The Bank uses quoted market prices to determine the fair value for the Bank's investments available-for-sale. If the market for investments is not active, the Bank establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Bank uses that technique.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

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

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

Property, equipment and intangible assets

Property, equipment and intangible assets are stated at cost less accumulated depreciation or amortization and any recognized impairment loss.

Depreciation and amortization is calculated using a straight line basis at the following annual prescribed rates:

Buildings	5%
Furniture, fixtures and others	15%
Computers	20%
Vehicles	10%
Intangible assets	10%

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

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

Investment property

Investment property, comprising office buildings, is held for long-term rental yields or appreciation in value and is not occupied by the Bank. Investment property is initially measured at cost together with transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation is calculated on a straight line basis over the useful life of the assets, which is 20 years.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

Taxation

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

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

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

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

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

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

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

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

Due to banks and other financial institutions, customer accounts and debt securities issued

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

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Preference shares

The component parts of preference shares are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the preference shares as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

Provisions

Provisions are recognized when the Bank 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 obligation can be made.

Financial guarantee contracts issued and letters of credit

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

Contingencies

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

Share capital

Contributions to share capital are recognized at cost.

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

Retirement and other benefit obligations

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

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

Recognition of income and expense

Recognition of interest income and expense

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

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

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

Recognition of fee and commission income and expense

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

Foreign currency translation

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

Rates of exchange

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

	31 December 2008	31 December 2007
1 US Dollar/ AZN	0.8010 AZN	0.8453 AZN
1 Euro/ AZN	1.1292 AZN	1.2450 AZN

Offset of financial assets and liabilities

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

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Segment reporting

A segment is a distinguishable component of the Bank 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 per cent or more of all the segments are reported separately. Geographical segments of the Bank have been concentrated in the Republic of Azerbaijan.

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans

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

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

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

The carrying amount of the allowance for impairment of loans and receivables is AZN 1,749 thousand and AZN 1,146 thousand as at 31 December 2008 and 2007, respectively.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss or available for sale are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty. Where market-based valuation parameters are not directly observable, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the income statement on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

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

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

The carrying amount of the financial instruments at fair value is as follows as at 31 December 2008 and 2007, respectively.

	31 December 2008	31 December 2007
Investments available-for-sale	400	1,874

Adoption of new and revised standards

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Bank's accounting policies that have affected the amounts reported for the current or prior years.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Amendments to IAS 1 “Capital Disclosures” (“IAS 1”) – On 18 August 2005, the IASB issued amendments to IAS 1 which requires certain disclosures to be made regarding the Bank’s objectives, policies and processes for managing capital. Additional information was disclosed in the financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, “Financial Instruments: Recognition and Measurement”, and IFRS 7, “Financial Instruments: Disclosures”, titled “Reclassification of Financial Assets” – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if a bank has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008. The Bank has elected not to apply the amendments to IAS 39 and IFRS 7 retrospectively.

Standards and interpretations issued and not yet adopted

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

IFRIC 9 - “Reassessment of Embedded Derivatives” which requires that there should be no reassessment of whether an embedded derivative should be separated from the host contract after initial recognition, unless there have been changes to the contract. The adoption of IFRIC 9 had no impact on the Bank’s profit or loss or financial position.

IFRS 8 – The IASB issued IFRS 8 “Operating Segments” in December 2006. This will replace IAS 14 “Segment Reporting” for accounting periods beginning on or after 1 January 2009. IFRS 8 requires segmental analysis reported by a Bank to be based on information used by management. Management is currently assessing the impact of the adoption of IFRS 8.

IAS 1 – on 6 September 2006, the IASB issued an amendment to IAS 1 which changes the way in which non-owner changes in equity are required to be presented to in IFRS but does not require that these be renamed in a Bank’s financial statements. The amendment to IAS 1 is effective for periods beginning on or after 1 January 2009.

IAS 23 – On March 2007 the IASB issued a revised IAS 23 “Borrowing Costs”. The main change 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. A Bank is, therefore, required to capitalise borrowing costs as part of the cost of such asset. The Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

IAS 27 - In 2008 the Standard was amended as part of the second phase of the business combinations project. That phase of the project was undertaken jointly with the US Financial Accounting Standards Board (FASB). The amendments related, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary. The boards concluded the second phase of the project by the IASB issuing the amended IAS 27 and the FASB issuing FASB Statement No. 160 Noncontrolling Interests in Financial Statements, along with, respectively, a revised IFRS 3 Business Combinations and FASB Statement No. 141 (revised 2007) Business Combinations. The amended Standard must be applied for annual periods beginning on or after 1 July 2009. Earlier application is permitted. However, the Bank must not apply the amendments for annual periods beginning before 1 July 2009 unless it also applies IFRS 3 (as revised in 2008).

4. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on impaired financial assets	4,087	2,395
- interest income on unimpaired financial assets	4,333	2,228
Total interest income	8,420	4,623
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans to customers	8,009	4,516
Interest on due from banks	350	73
Other interest income	61	34
Total interest income on financial assets recorded at amortized cost	8,420	4,623
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest on customer accounts	(4,553)	(1,644)
Interest on deposits from banks	(906)	(648)
Interest on debt securities issued	(552)	(583)
Total interest expense	(6,011)	(2,875)
Net interest income before (provision)/recovery of provision for impairment losses on interest bearing financial assets	2,409	1,748

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

5. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Due from banks	Loans and advances to customers	Total
31 December 2006	-	1,221	1,221
Recovery of provision	-	(75)	(75)
31 December 2007	-	1,146	1,146
Additional provision recognized	7	596	603
31 December 2008	<u>7</u>	<u>1,742</u>	<u>1,749</u>

The movements in allowances for impairment losses on off-balance sheet commitments:

	Guarantees and other commitments	Total
31 December 2006	-	-
Additional provision recognized	4	4
31 December 2007	4	4
Additional provision recognized	16	16
31 December 2008	<u>20</u>	<u>20</u>

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Translation differences, net	289	126
Dealing, net	268	110
Total net gain on foreign exchange operations	<u>557</u>	<u>236</u>

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

7. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Fee and commission income:		
Cash operations	445	222
Settlements	194	137
Plastic cards operations	33	12
Foreign exchange operations	31	37
Letter of credit	3	41
Other	102	106
	<hr/>	<hr/>
Total fee and commission income	808	555
	<hr/> <hr/>	<hr/> <hr/>
Fee and commission expense:		
Cash operations	(118)	(49)
Plastic cards services	(57)	(24)
Letter of credit	(24)	(37)
Settlements	(23)	(18)
Other	(8)	(9)
	<hr/>	<hr/>
Total fee and commission expense	(230)	(137)
	<hr/> <hr/>	<hr/> <hr/>

8. OTHER INCOME

Other income comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
Income from fines and penalties	509	112
Gain on disposal of investment property	-	147
Other income	1	4
	<hr/>	<hr/>
Total other income	510	263
	<hr/> <hr/>	<hr/> <hr/>

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

9. OPERATING EXPENSES

Operating expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Salary and bonuses	1,397	843
Depreciation and amortization	712	382
Advertising and marketing expenses	470	332
Rent	336	255
Social security cost	296	181
Professional services and fees	231	121
Communications	192	106
Premises security	153	72
Office supplies and printing	142	73
Payments to Deposit Insurance Fund	104	-
Repairs and maintenance	96	96
Insurance and other services consumed	91	15
Impairment loss on investment property	69	-
Fines and penalties	43	-
Travel expenses	31	42
Other than income tax expense	25	5
Utilities	23	9
Other expenses	80	50
Total operating expense	4,491	2,582

10. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the Republic of Azerbaijan tax regulations which may differ from International Financial Reporting Standards. The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses. The statutory income tax rate is 22%.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2008 and 2007 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Temporary differences comprise:

	31 December 2008	31 December 2007
Deductible temporary differences:		
Loans to customers	495	425
Tax loss for the year ended	827	-
Other liabilities	272	154
Other assets	5	-
	<u>1,599</u>	<u>579</u>
Total deductible temporary differences		
Taxable temporary differences:		
Property and equipment	(349)	(118)
Due from banks	-	(50)
Provisions under guarantees and letters of credit	-	(15)
	<u>(349)</u>	<u>(183)</u>
Total taxable temporary differences		
Net deferred deductible temporary differences	<u>1,250</u>	<u>396</u>
Net deferred tax asset at the statutory tax rate (22%)	<u>275</u>	<u>87</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2008 and 2007 are explained as follows:

	Year ended 31 December 2008	Year ended 31 December 2007
(Loss)/profit before income tax	<u>(1,056)</u>	<u>154</u>
Theoretical tax at the statutory tax rate (22%)	(232)	34
Tax effect of permanent differences	44	84
	<u>(188)</u>	<u>118</u>
Income tax (credit)/expense		
Current income tax expense	-	126
Increase in income tax asset for the period charged to profit	(188)	(8)
	<u>(188)</u>	<u>118</u>
Income tax (credit)/expense		

The tax rate used for the 2008 and 2007 reconciliations above is the corporate tax rate of 22% payable by corporate entities on taxable profits under tax law of Azerbaijan.

	2008	2007
Deferred income tax assets		
Beginning of the period	87	79
Increase in income tax asset for the period	188	8
	<u>275</u>	<u>87</u>
End of the period		

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

11. LOSS PER SHARE

Loss per share comprises:

	Year ended 31 December 2008	Year ended 31 December 2007
(Loss)/profit:		
Net (loss)/profit for the year	<u>(868)</u>	<u>36</u>
Less:		
Dividends paid to the preferred shareholders	<u>(78)</u>	<u>(96)</u>
Net loss after dividends on preference shares	<u>(946)</u>	<u>(60)</u>
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>44,024</u>	<u>38,446</u>
Loss per share – basic and diluted (AZN)	<u>(21.49)</u>	<u>(1.56)</u>

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

	31 December 2008	31 December 2007
Cash on hand	2,102	1,273
Balances with the NBA	<u>5,658</u>	<u>1,577</u>
Total cash and balances with the NBA	<u>7,760</u>	<u>2,850</u>

The balances with the NBA as at 31 December 2008 and 2007 include AZN 1,861 thousand and AZN 1,960 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBA. The Bank is entitled to use the reserve balance provided that average daily balance for 15 days period will be eventually higher than required mandatory reserve.

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

	31 December 2008	31 December 2007
Cash and balances with the NBA	7,760	2,850
Due from banks in OECD countries (Note 31)	<u>39</u>	<u>812</u>
	7,799	3,662
Less minimum reserve deposits with the NBA	<u>(1,861)</u>	<u>(1,960)</u>
Total cash and cash equivalents	<u>5,938</u>	<u>1,702</u>

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

13. DUE FROM BANKS

Due from banks comprise:

	31 December 2008	31 December 2007
Recorded as loans and receivables:		
Loans and advances to banks	1,491	3,198
Correspondent accounts with other banks	<u>301</u>	<u>1,436</u>
	1,792	4,634
Less: allowance for impairment losses	<u>(7)</u>	<u>-</u>
Total due from banks	<u>1,785</u>	<u>4,634</u>

Movements in allowances for impairment losses on balances due from banks for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

As at 31 December 2008 and 2007 the Bank had due from one and three banks totaling AZN 1,129 thousand and AZN 3,982 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2008 and 2007 the Bank had AZN 10 thousand and 11 thousand, respectively, as blocked accounts for plastic card operations with undefined maturity.

Included in loans and advances to banks is accrued interest income of AZN 13 thousand and AZN 3 thousand as at 31 December 2008 and 2007.

During the years ended 31 December 2008 the Bank simultaneously placed with and received short-term funds from Azerbaijan banks in different currencies. As at 31 December 2008, the Bank placed equivalent of AZN 1,129 thousand as deposits with another local bank, which were received from the same bank (see Note 19).

14. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2008	31 December 2007
Recorded as loans and receivables:		
Loans to customers	42,632	21,679
Less: allowance for impairment losses	<u>(1,742)</u>	<u>(1,146)</u>
Total loans to customers	<u>40,890</u>	<u>20,533</u>

Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

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

	31 December 2008	31 December 2007
Loans collateralized by real estate	30,860	14,939
Loans collateralized by vehicles	4,430	753
Loans collateralized by securities	2,296	1,405
Loans collateralized by equipment	1,290	1,064
Loans collateralized by deposits	803	521
Loans collateralized by guarantees of financial institutions	586	859
Loans collateralized by inventories	357	316
Loans collateralized by others	449	945
Unsecured loans	1,561	877
	<u>42,632</u>	<u>21,679</u>
Less: allowance for impairment losses	<u>(1,742)</u>	<u>(1,146)</u>
Total loans to customers	<u>40,890</u>	<u>20,533</u>

	31 December 2008	31 December 2007
Analysis by sector:		
Individuals	21,200	11,303
Trading	17,659	9,160
Construction	2,019	124
Manufacturing	1,233	943
Agriculture	322	140
Other	199	9
	<u>42,632</u>	<u>21,679</u>
Less: allowance for impairment losses	<u>(1,742)</u>	<u>(1,146)</u>
Total loans to customers	<u>40,890</u>	<u>20,533</u>

Loans to individuals comprise the following products:

	31 December 2008	31 December 2007
Consumer loans	9,850	5,536
Private entrepreneurs	7,107	4,323
Car loans	2,558	275
Mortgage loans	1,106	1,008
Plastic cards	579	161
	<u>21,200</u>	<u>11,303</u>
Total loans to individuals	<u>21,200</u>	<u>11,303</u>

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

As at 31 December 2008 and 2007 the Bank granted loans to four and one customers, totaling AZN 5,851 thousand and AZN 1,042 thousand, respectively, which individually exceeded 10% of the Bank's equity.

As at 31 December 2008 and 2007 a significant amount of loans (100% of total portfolio) is granted to companies operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

As at 31 December 2008 and 2007 loans to customers included loans in amount of AZN 1,512 thousand and AZN 350 thousand, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2008 and 2007 loans to customers included loans in amount of AZN 3,277 thousand and AZN 240 thousand, respectively, that was individually determined to be impaired. As at 31 December 2008 such loans were collateralized by real estate and vehicles with a fair value of AZN 3,972 thousand. As at 31 December 2007 such loans were collateralized by vehicles and equipment with a fair value of AZN 122 thousand.

As at 31 December 2008 and 2007 accrued interest income included in loans to customers amounted to AZN 816 thousand and AZN 397 thousand, respectively.

15. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2008	31 December 2007
Equity securities	400	400
Debt securities	-	1,474
Total investments available-for-sale	400	1,874

	Ownership interest	31 December 2008	Ownership interest	31 December 2007
Equity securities				
Milli Kart LLC	10%	400	10%	400
Total equity securities		400		400

	Interest to nominal %	31 December 2007
Debt securities		
Notes of the NBA	6.80%	500
Notes of the NBA	7.84%	499
Notes of the NBA	11.28%	475
Total debt securities		1,474

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

16. PROPERTY AND EQUIPMENT

	Buildings	Furniture, fixtures and other	Computers	Vehicles	Construction in progress	Total
At cost						
31 December 2006	44	333	276	409	50	1,112
Additions	<u>9,298</u>	<u>125</u>	<u>144</u>	<u>238</u>	<u>-</u>	<u>9,805</u>
31 December 2007	9,342	458	420	647	50	10,917
Additions	-	298	294	280	-	872
Disposals	<u>-</u>	<u>(52)</u>	<u>(54)</u>	<u>-</u>	<u>-</u>	<u>(106)</u>
31 December 2008	<u>9,342</u>	<u>704</u>	<u>660</u>	<u>927</u>	<u>50</u>	<u>11,683</u>
Accumulated depreciation						
31 December 2006	15	161	184	126	-	486
Charge for the year	<u>234</u>	<u>41</u>	<u>45</u>	<u>40</u>	<u>-</u>	<u>360</u>
31 December 2007	249	202	229	166	-	846
Charge for the year	463	79	83	71	-	696
Eliminated on disposals	<u>-</u>	<u>(52)</u>	<u>(54)</u>	<u>-</u>	<u>-</u>	<u>(106)</u>
31 December 2008	<u>712</u>	<u>229</u>	<u>258</u>	<u>237</u>	<u>-</u>	<u>1,436</u>
Net book value						
31 December 2008	<u>8,630</u>	<u>475</u>	<u>402</u>	<u>690</u>	<u>50</u>	<u>10,247</u>
31 December 2007	<u>9,093</u>	<u>256</u>	<u>191</u>	<u>481</u>	<u>50</u>	<u>10,071</u>

As at 31 December 2008 and 2007 property and equipment included fully depreciated assets in amount of AZN 278 thousand and AZN 384 thousand, respectively.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

17. INVESTMENT PROPERTY

Investment property comprises:

	2008	2007
At cost		
At the beginning of the period	118	290
Disposals	<u>-</u>	<u>(172)</u>
At the end of the period	<u>118</u>	<u>118</u>
Accumulated depreciation		
At the beginning of the period	42	50
Charge for the year	7	14
Eliminated on disposals	-	(22)
Impairment losses charged to profit or loss	<u>69</u>	<u>-</u>
At the end of the period	<u>118</u>	<u>42</u>
Net book value		
At the end of the period	<u>-</u>	<u>76</u>
At the beginning of the period	<u>76</u>	<u>240</u>

As at 31 December 2008 and 2007 fair value of investment property approximately amounted to nil and AZN 105 thousand, respectively.

18. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
Other non-financial assets:		
Prepayments for property and equipment	1,794	48
Prepaid expenses	471	174
Prepaid taxes	296	7
Intangible assets	98	76
Other	<u>3</u>	<u>67</u>
Total other assets	<u>2,662</u>	<u>372</u>

Intangible assets include computer software and licenses.

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	2008	2007
At cost		
At the beginning of the period	101	51
Additions	<u>31</u>	<u>50</u>
At the end of the period	<u>132</u>	<u>101</u>
Accumulated depreciation		
At the beginning of the period	25	17
Charge for the year	<u>9</u>	<u>8</u>
At the end of the period	<u>34</u>	<u>25</u>
Net book value		
At the end of the period	<u><u>98</u></u>	<u><u>76</u></u>
At the beginning of the period	<u><u>76</u></u>	<u><u>34</u></u>

19. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2008	31 December 2007
Recorded at amortized cost:		
Loans from banks	7,942	4,310
Loans from other financial institutions	5,402	3,317
Correspondent accounts of other banks	<u>164</u>	<u>96</u>
Total due to banks and other financial institutions	<u><u>13,508</u></u>	<u><u>7,723</u></u>

As at 31 December 2008 and 2007 accrued interest expense on due to banks and other financial institutions amounted to AZN 19 thousand and AZN 10 thousand, respectively.

As at 31 December 2008 the Bank had three loans from the NBA amounted to AZN 2,000 thousand, AZN 1,500 thousand and AZN 1,100 thousand loans with an interest rate of 10%, 12% and 8% per annum, respectively. As at 31 December 2007 the Bank had AZN 1,000 thousand loans from the NBA with an interest rate of 13% per annum, respectively.

The Bank receives loans from the National Fund for Support of Entrepreneurship as a means of support of small and medium-sized entrepreneurs in the Republic of Azerbaijan. Under the agreement with the Fund as at 31 December 2008 and 2007 the Bank received loans of AZN 3,516 thousand and AZN 1,667 thousand, respectively, with maturity periods from 1 to 5 years and interest rates of 1 and 1-2% per annum, respectively. Subsequently, these funds were used by the Bank to issue loans with the same maturity periods to companies and individual entrepreneurs in the Republic of Azerbaijan at annual interest rates of up to 7%.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

During 2008 the Bank simultaneously placed with and received short-term funds from another local bank in different currencies (see Note 13).

As at 31 December 2008 and 2007 the due to banks in the amounts of AZN 12,003 thousand (89%) and AZN 5,650 thousand (73%), respectively, were due to four and three banks, respectively, which represents significant concentration.

20. CUSTOMER ACCOUNTS

Customer accounts comprise:

	31 December 2008	31 December 2007
Recorded at amortized cost:		
Time deposits	36,068	16,974
Repayable on demand	<u>1,650</u>	<u>2,624</u>
Total customer accounts	<u>37,718</u>	<u>19,598</u>

As at 31 December 2008 and 2007 accrued interest expense on customer accounts amounted to AZN 1,812 thousand and AZN 378 thousand, respectively.

As at 31 December 2008 and 2007 customer accounts amounted to AZN 45 thousand and AZN 1,643 thousand, respectively, were held as security against letters of credit issued and other transaction related contingent obligations.

	31 December 2008	31 December 2007
Analysis by sector:		
Individuals	34,584	16,236
Insurance	1,000	985
Trade	760	823
Manufacturing	195	66
Construction and real estate	64	64
Public	18	123
Transport and communication	5	53
Agriculture	1	12
Other	<u>1,091</u>	<u>1,236</u>
Total customer accounts	<u>37,718</u>	<u>19,598</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

21. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	Maturity date	Annual coupon rate %	31 December 2008	31 December 2007
Recorded at amortized cost:				
Debt securities issued	February 2011	18%	1,743	1,859
Debt securities issued	December 2010	18%	<u>1,319</u>	<u>1,381</u>
Total debt securities issued			<u>3,062</u>	<u>3,240</u>

As at 31 December 2008 and 2007 accrued interest expense on debt securities issued amounted to AZN 50 thousand and AZN 58 thousand, respectively.

According to the letter obtained from the National Bank of the Republic of Azerbaijan dated 1 December 2005 subordinated debt securities issued by the Bank should be considered as a part of the total capital for capital adequacy purposes.

22. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
Other financial liabilities:		
Accruals for unused vacations and other payables to employees	137	80
Accrued expenses	59	-
Liabilities to the Deposit Insurance Fund	41	-
Accrued professional fees	37	77
Payments on the course of settlement	35	14
Dividends payable	3	3
Other financial liabilities	<u>10</u>	<u>-</u>
	322	174
Other non-financial liabilities:		
Allowance for off-balance sheet commitments	20	4
Other	<u>22</u>	<u>53</u>
	<u>42</u>	<u>57</u>
Total other liabilities	<u>364</u>	<u>231</u>

23. SHARE CAPITAL

As at 31 December 2008 and 2007 authorized, issued and paid-in share capital consisted of 46,332 and 43,918 ordinary shares and 4,020 and 3,053 preference shares, respectively, with par value of AZN 200 each. Each ordinary share entitles one vote to the shareholder.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

The below table provides a reconciliation of the number of shares outstanding as of 31 December 2008 and 2007:

	Ordinary Shares (number of shares)	Preference shares (number of shares)	Total (number of shares)
31 December 2006	23,832	4,020	27,852
Issue of shares	22,500	-	22,500
Repurchased share capital	<u>(2,414)</u>	<u>(967)</u>	<u>(3,381)</u>
31 December 2007	43,918	3,053	46,971
Issue of shares	<u>2,414</u>	<u>967</u>	<u>3,381</u>
31 December 2008	<u>46,332</u>	<u>4,020</u>	<u>50,352</u>

In 2008 and 2007 the shareholders approved increase in share capital of AZN 676 thousand and AZN 4,500 thousand, respectively.

The amount of preference dividends for the year ended 31 December 2008 and 2007 amounted to AZN 78 thousand and AZN 96 thousand, respectively.

24. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the balance sheet.

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

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

Provision for losses on contingent liabilities amounted to AZN 20 thousand and AZN 4 thousand as at 31 December 2008 and 2007, respectively. Movements in allowances for impairment losses for the years ended 31 December 2008 and 2007 are disclosed in Note 5.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

As at 31 December 2008 and 2007 the nominal or contract amounts were:

	31 December 2008 Nominal amount	31 December 2007 Nominal amount
Contingent liabilities and credit commitments		
Commitments on loans and unused credit lines	7,122	4,397
Guarantees issued and similar commitments	160	-
Letters of credit and other transaction related contingent obligations	-	726
Total contingent liabilities and credit commitments	7,282	5,123

Capital commitments – The Bank had no material capital commitments for capital expenditures outstanding as at 31 December 2008.

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

The Bank may receive claims from individual customers with respect to certain commissions withheld by the Bank for loan agreements service. The NBA issued an instruction requiring banks to disclose effective interest rates on loans granted to individuals. Management is of the opinion that such claims would not have adverse consequences for the Bank, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the NBA instruction.

Taxation – Commercial legislation and tax legislation of the Republic of Azerbaijan in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Bank may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years. Management believes that the Bank has already made all tax payments that are due, and therefore no provisions have been made in these financial statements for any potential liabilities.

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

Recent volatility in global financial markets and its effects on the Republic of Azerbaijan – In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. Notwithstanding any potential economic stabilization measures that may be put into place by the Republic of Azerbaijan Government, as a consequence of this turmoil in capital and credit markets there exists, as at the date these financial statements are authorized for issue, globally and in the Republic of Azerbaijan, economic uncertainties surrounding the continual availability, and cost, of credit both for the entity and its counterparties globally and in the Republic of Azerbaijan. These economic uncertainties may continue in the foreseeable future which could to some degree have an impact on the Bank's profitability and recoverability of the assets at their carrying amount.

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

(in Azerbaijan Manats and in thousands)

Government programs – The Republic of Azerbaijan Government continues to exercise significant influence over the Republic of Azerbaijan economy. In response to the economic crisis and to support the Republic of Azerbaijan businesses, the government of the Republic of Azerbaijan has introduced significant measures including taxation holidays for banking sector from 1 January 2009, support from the National Bank of the Republic of Azerbaijan and continued support for the local currency, the Azerbaijan Manat. As the Republic of Azerbaijan is heavily dependent on hydrocarbon revenues, the economy's size and reserves are affected by oil prices fluctuations in the global market.

Inflation – Historically, the Republic of Azerbaijan has experienced high levels of hyperinflation. The annual rate of inflation, as measures by changes in the Customer Price Index, was 20.8% for 2008, 16.7% for 2007 (according to the State Statistics Committee of the Republic of Azerbaijan) and is projected at the rate of approximately up to 13% for 2009. The financial results in the Republic of Azerbaijan economy and, consequently, the Bank's financial results will be affected if inflation is not controlled effectively.

Recoverability of financial assets – As a result of recent economic turmoil in capital and credit markets globally, and the consequential economic uncertainties existing as at balance sheet date, there exists the potential that assets may not be recovered at their carrying amount in the regular course of business.

As at 31 December 2008, the Bank has financial assets amounting to AZN 50,835 thousand (as at 31 December 2007: AZN 29,891 thousand). The recoverability of these financial assets depends on a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the Bank's control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the Bank's financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management's opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

25. SUBSEQUENT EVENTS

As per decision of the National Bank of the Republic of Azerbaijan dated 25 February 2009 the rate of minimum reserve deposit with the National Bank of the Republic of Azerbaijan on all attracted obligations reduced from 3% to 0.5%.

As a result of a referendum held in the Republic of Azerbaijan on 18 March 2009 in respect of amendments and supplements to the Constitution of the Republic of Azerbaijan the word "National" in the title of the National Bank of the Republic of Azerbaijan has been replaced with the word "Central".

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

26. TRANSACTIONS WITH RELATED PARTIES

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

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the Bank and other related parties are disclosed below:

	31 December 2008		31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers	133	42,632	12	21,679
- <i>key management personnel of the Bank</i>	12		12	
- <i>other related parties</i>	121		-	
Allowance for impairment losses	(2)	(1,742)	(5)	(1,146)
- <i>key management personnel of the Bank</i>	-		(5)	
- <i>other related parties</i>	(2)		-	
Customer accounts	(71)	(37,718)	(100)	(19,598)
- <i>key management personnel of the Bank</i>	(66)		(100)	
- <i>shareholders</i>	(5)		-	
Debt securities issued	(16)	(3,062)	(25)	(3,240)
- <i>key management personnel of the Bank</i>	-		(25)	
- <i>other related parties</i>	(16)		-	

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

The remunerations of directors and other members of key management were as follows:

	31 December 2008		31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
Short-term employee benefits	178	1,693	73	1,024

Included in the income statement for the years ended 31 December 2008 and 2007 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	13	8,420	2	4,623
- <i>key management personnel of the Bank</i>	12		2	
- <i>shareholders</i>	1		-	
Interest expense	(17)	(6,011)	(22)	(2,875)
- <i>shareholders</i>	(13)		-	
- <i>key management personnel of the Bank</i>	(4)		(22)	
(Provision)/ recovery of provision for impairment losses on interest bearing assets	3	(603)	(31)	75
- <i>key management personnel of the Bank</i>	5		(9)	
- <i>other related parties</i>	(2)		(22)	
Operating expenses	(189)	(4,491)	(73)	(2,582)
- <i>key management personnel of the Bank</i>	(178)		(73)	
- <i>other related parties</i>	(11)		-	

27. SEGMENT REPORTING

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

Business segments

The Bank is organized on the basis of two main business segments:

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

Transactions between the business segments are on normal commercial terms and conditions. Operating expenses and income tax expense are ordinarily reallocated between segments based on the split of the Bank's interest income. There are no other material items of income and expense between the business segments.

Segment information about these businesses is presented below.

	Retail Banking	Corporate banking	Unallocated	As at and for the year ended 31 December 2008
Interest income	3,975	4,444	1	8,420
Interest expense	(4,553)	(906)	(552)	(6,011)
Provisions for impairment losses on interest bearing assets	(389)	(214)	-	(603)
Net gain on foreign exchange operations	-	-	557	557
Fee and commission income	233	472	103	808
Fee and commission expense	(58)	(164)	(8)	(230)
Provision for impairment on off- balance sheet commitments	-	(16)	-	(16)
Other income	228	281	1	510
Total operating income	(564)	3,897	102	3,435
Operating expenses	-	-	(4,491)	(4,491)
Operating (loss)/profit	(564)	3,897	(4,389)	(1,056)
Income tax credit	-	-	188	188
Net (loss)/profit	(564)	3,897	(4,201)	(868)
Segment assets	19,577	30,858	13,584	64,019
Segment liabilities	34,584	16,642	3,426	54,652
Other segment items				
Depreciation charge on property and equipment	-	-	696	696
Loans to customers	19,577	21,313	-	40,890
Property and equipment	-	-	10,247	10,247
Customer accounts	34,584	3,134	-	37,718

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

	Retail Banking	Corporate banking	Unallocated	As at and for the year ended 31 December 2007
Interest income	4,447	142	34	4,623
Interest expense	(1,644)	(648)	(583)	(2,875)
Recovery of provisions for impairment losses on interest bearing assets	75	-	-	75
Net gain on foreign exchange operations	-	-	236	236
Fee and commission income	173	313	69	555
Fee and commission expense	(24)	(103)	(10)	(137)
Provision for impairment on off- balance sheet commitments	-	(4)	-	(4)
Other income	77	35	151	263
Total operating income	3,104	(265)	(103)	2,736
Operating expenses	-	-	(2,582)	(2,582)
Operating profit/(loss)	3,104	(265)	(2,685)	154
Income tax expense	-	-	(118)	(118)
Net profit/(loss)	3,104	(265)	(2,803)	36
Segment assets	10,362	17,655	12,480	40,497
Segment liabilities	16,236	11,085	3,539	30,860
Other segment items				
Depreciation charge on property and equipment	-	-	360	360
Loans to customers	10,362	10,171	-	20,533
Property and equipment	-	-	10,071	10,071
Customer accounts	16,236	3,362	-	19,598

Geographical segments

The Bank's assets are located in the Republic of Azerbaijan and major parts of its revenue and net profit arrives from operations in the Republic of Azerbaijan.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

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

	31 December 2008		31 December 2007	
	Carrying value	Fair value	Carrying value	Fair value
Cash and balances with the NBA	7,760	7,760	2,850	2,850
Due from banks	1,785	1,785	4,634	4,634
Investments available-for-sale	-	-	1,474	1,474
Due to banks and other financial institutions	13,508	13,508	7,723	7,723
Customer accounts	37,718	37,718	19,598	19,598
Debt securities issued	3,062	3,062	3,240	3,240
Other financial liabilities	322	322	174	174

The fair value of loans to customers can not be measured reliably as it is not practicable to obtain market information or apply any other valuation techniques on such instruments.

The fair value of equity securities included in investments available-for-sale cannot be measured reliably. As at 31 December 2008 and 2007 the cost of them was AZN 400 thousand. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate their fair value.

29. REGULATORY MATTERS

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

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

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

Capital amounts and ratios	For Capital Adequacy purposes	Ratio For Capital Adequacy purposes	Minimum Required Ratio
As at 31 December 2008			
Total capital	10,592	16%	12%
Tier 1 capital	9,367	14%	6%
As at 31 December 2007			
Total capital	11,581	29%	12%
Tier 1 capital	9,637	24%	6%

OPEN JOINT STOCK COMPANY PARABANK

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 *(in Azerbaijan Manats and in thousands)*

30. CAPITAL MANAGEMENT

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of debt and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, if any, as disclosed in the statement of changes in equity.

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

The Bank's overall capital risk management policy remains unchanged from 2007.

31. RISK MANAGEMENT POLICIES

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

- Credit risk
- Liquidity risk
- Market risk.

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

Credit risk

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

Risk management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Department and Branches Credit Divisions.

The Bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Management Board. The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

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Where appropriate, and in the case of most loans, the Bank obtains collateral and corporate and personal guarantees but a significant portion is consumer lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to more frequent reviews.

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

Maximum Exposure

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

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

					31 December 2008
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	1,785	-	1,785	-	1,785
Loans to customers	40,890	803	40,087	36,728	3,359
Investments available-for-sale	400	-	400	-	400

					31 December 2007
	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	4,634	-	4,634	-	4,634
Loans to customers	20,533	521	20,012	17,498	2,514
Investments available-for-sale	1,874	-	1,874	-	1,874

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

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

					31 December 2008	
	A	BBB	<BBB	Not Rated	Total	
Due from banks	63	58	1,162	502	1,785	
Loans to customers	-	-	-	40,890	40,890	
Investments available-for-sale	-	-	-	400	400	

					31 December 2007	
	A	BBB	<BBB	Not Rated	Total	
Due from banks	5	738	895	2,996	4,634	
Loans to customers	-	-	-	20,533	20,533	
Investments available-for-sale	-	-	1,474	400	1,874	

Rating model

The Bank has developed an internal rating model, which allows it to determine the rating of counterparties. The rating of corporate borrowers is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (in Azerbaijan Manats and in thousands)

The following table details the carrying value of assets that are impaired and those financial assets that are neither past due nor impaired:

	Financial assets past due but not impaired					31 December 2008	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	656	-	-	-	-	1,129	1,785
Loans to customers	10,240	83	4	786	202	29,575	40,890
Investments available-for-sale	400	-	-	-	-	-	400

	Financial assets past due but not impaired					31 December 2007	
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	4,634	-	-	-	-	-	4,634
Loans to customers	6,785	-	-	-	-	13,748	20,533
Investments available-for-sale	1,874	-	-	-	-	-	1,874

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

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

	The Republic of Azerbaijan	Non-OECD countries	OECD countries	31 December 2008 Total
FINANCIAL ASSETS				
Cash and balances with the NBA	7,760	-	-	7,760
Due from banks	1,642	104	39	1,785
Loans to customers	40,890	-	-	40,890
Investments available-for-sale	400	-	-	400
TOTAL FINANCIAL ASSETS	50,692	104	39	50,835
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	13,508	-	-	13,508
Customer accounts	37,614	18	86	37,718
Debt securities issued	3,062	-	-	3,062
Other financial liabilities	318	4	-	322
TOTAL FINANCIAL LIABILITIES	54,502	22	86	54,610
NET POSITION	(3,810)	82	(47)	

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	The Republic of Azerbaijan	Non-OECD countries	OECD countries	31 December 2007 Total
FINANCIAL ASSETS				
Cash and balances with the NBA	2,850	-	-	2,850
Due from banks	2,913	909	812	4,634
Loans to customers	20,533	-	-	20,533
Investments available-for-sale	1,874	-	-	1,874
TOTAL FINANCIAL ASSETS	28,170	909	812	29,891
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	6,074	-	1,649	7,723
Customer accounts	19,598	-	-	19,598
Debt securities issued	3,240	-	-	3,240
Other financial liabilities	164	10	-	174
TOTAL FINANCIAL LIABILITIES	29,076	10	1,649	30,735
NET POSITION	(906)	899	(837)	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee ("ALMC") controls these types of risks by means of maturity analysis, determining the Bank's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Bank.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2008 Total
FINANCIAL ASSETS						
Due from banks	289	1,129	-	-	66	1,484
Loans to customers	2,258	3,029	25,190	9,931	482	40,890
Total interest bearing financial assets	2,547	4,158	25,190	9,931	548	42,374
Cash and balances with the NBA	5,899	-	-	-	1,861	7,760
Due from banks	301	-	-	-	-	301
Investments available-for-sale	-	-	-	-	400	400
Total financial assets	8,747	4,158	25,190	9,931	2,809	50,835
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	-	938	7,329	3,152	1,925	13,344
Customer accounts	4,302	1,594	9,396	20,776	-	36,068
Debt securities issued	50	-	-	3,012	-	3,062
Total interest bearing financial liabilities	4,352	2,532	16,725	26,940	1,925	52,474
Due to banks and other financial institutions	164	-	-	-	-	164
Customer accounts	1,650	-	-	-	-	1,650
Other financial liabilities	322	-	-	-	-	322
Total financial liabilities	6,488	2,532	16,725	26,940	1,925	54,610
Liquidity gap	2,259	1,626	8,465	(17,009)		
Interest sensitivity gap	(1,805)	1,626	8,465	(17,009)		
Cumulative interest sensitivity gap	(1,805)	(179)	8,286	(8,723)		
Cumulative interest sensitivity gap as a percentage of total assets	(2.8%)	(0.3%)	12.9%	(13.6%)		

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	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2007 Total
FINANCIAL ASSETS						
Due from banks	687	2,500	-	-	11	3,198
Loans to customers	564	2,294	8,924	6,834	1,917	20,533
Investments available-for-sale	1,474	-	-	-	-	1,474
Total interest bearing financial assets	2,725	4,794	8,924	6,834	1,928	25,205
Cash and balances with the NBA	890	-	-	-	1,960	2,850
Due from banks	1,436	-	-	-	-	1,436
Investments available-for-sale	-	-	-	-	400	400
Total financial assets	5,051	4,794	8,924	6,834	4,288	29,891
FINANCIAL LIABILITIES						
Due to banks and other financial institutions	1	-	1,307	-	1,669	2,977
Customer accounts	1,175	1,343	4,878	9,578	-	16,974
Debt securities issued	62	-	-	3,178	-	3,240
Total interest bearing financial liabilities	1,238	1,343	6,185	12,756	1,669	23,191
Due to banks and other financial institutions	96	-	2,650	2,000	-	4,746
Customer accounts	2,624	-	-	-	-	2,624
Other financial liabilities	174	-	-	-	-	174
Total financial liabilities	4,132	1,343	8,835	14,756	1,669	30,735
Liquidity gap	919	3,451	89	(7,922)		
Interest sensitivity gap	1,487	3,451	2,739	(5,922)		
Cumulative interest sensitivity gap	1,487	4,938	7,677	1,755		
Cumulative interest sensitivity gap as a percentage of total assets	2.3%	7.7%	12.0%	2.7%		

Cash and balances with the NBA as at 31 December 2008 and 2007 include AZN 1,861 thousand and AZN 1,960 thousand, respectively, which represent the obligatory minimum reserve deposits with the NBA. The Bank is entitled to use the reserve balance provided that average daily balance for 15 days period will be eventually higher than required mandatory reserve.

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

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(in Azerbaijan Manats and in thousands)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	Over 1 year	Maturity undefined	31 December 2008 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	7.99%	75	1,082	7,462	3,258	1,925	13,802
Customer accounts	18.00%	4,805	2,621	12,836	25,625	-	45,887
Debt securities issued		50	136	408	3,836	-	4,430
Total interest bearing liabilities at fixed rates		4,930	3,839	20,706	32,719	1,925	64,119
Due to banks and other financial institutions		164	-	-	-	-	164
Customer accounts		1,650	-	-	-	-	1,650
Other financial liabilities		322	-	-	-	-	322
Total financial liabilities		7,066	3,839	20,706	32,719	1,925	66,255

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	Over 1 year	Maturity undefined	31 December 2007 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	10.16%	6	4	1,335	37	1,669	3,051
Customer accounts	17.09%	1,330	1,631	6,786	12,358	-	22,105
Debt securities issued	18.00%	62	136	408	4,558	-	5,164
Total interest bearing liabilities at fixed rates		1,398	1,771	8,529	16,953	1,669	30,320
Due to banks and other financial institutions		96	-	2,650	2,000	-	4,746
Customer accounts		2,624	-	-	-	-	2,624
Other financial liabilities		174	-	-	-	-	174
Total financial liabilities		4,292	1,771	11,179	18,953	1,669	37,864

Market Risk

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

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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Interest rate sensitivity

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

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

Impact on profit before tax:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Due from banks	15	(15)	32	(32)
Loans to customers	409	(409)	205	(205)
Investments available-for-sale	-	-	15	(15)
Financial liabilities:				
Due to banks and other financial institutions	(133)	133	(30)	30
Customer accounts	(361)	361	(170)	170
Debt securities issued	(31)	31	(32)	32
Net impact on profit before tax	(101)	101	20	(20)

Impact on shareholders equity:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Financial assets:				
Due from banks	12	(12)	25	(25)
Loans to customers	319	(319)	160	(160)
Investments available-for-sale	-	-	12	(12)
Financial liabilities:				
Due to banks and other financial institutions	(104)	104	(23)	23
Customer accounts	(282)	282	(133)	133
Debt securities issued	(24)	24	(25)	25
Net impact on shareholders equity	(79)	79	16	(16)

Currency risk

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

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The ALMC controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of NBA.

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

	AZN	USD USD 1 = AZN 0.8010	EUR EUR 1 = AZN 1.1292	Other currency	31 December 2008 Total
Financial assets					
Cash and balances with the NBA	2,422	432	4,901	5	7,760
Due from banks	2	263	1,491	29	1,785
Loans to customers	27,954	12,218	346	372	40,890
Investments available-for-sale	400	-	-	-	400
Total financial assets	30,778	12,913	6,738	406	50,835
Financial liabilities					
Due to banks and other financial institutions	10,134	1,113	1,887	374	13,508
Customer accounts	22,338	10,166	5,213	1	37,718
Debt securities issued	-	3,062	-	-	3,062
Other financial liabilities	244	78	-	-	322
Total financial liabilities	32,716	14,419	7,100	375	54,610
OPEN BALANCE SHEET POSITION	(1,938)	(1,506)	(362)	31	
	AZN	USD USD 1 = AZN 0.8453	EUR EUR 1 = AZN 1.2450	Other currency	31 December 2007 Total
Financial assets					
Cash and balances with the NBA	1,292	311	1,247	-	2,850
Due from banks	2,515	182	1,136	801	4,634
Loans to customers	14,845	4,631	1,057	-	20,533
Investments available-for-sale	1,874	-	-	-	1,874
Total financial assets	20,526	5,124	3,440	801	29,891
Financial liabilities					
Due to banks and other financial institutions	5,977	96	1,650	-	7,723
Customer accounts	9,662	7,331	1,807	798	19,598
Debt securities issued	-	3,240	-	-	3,240
Other financial liabilities	144	29	1	-	174
Total financial liabilities	15,783	10,696	3,458	798	30,735
OPEN BALANCE SHEET POSITION	4,743	(5,572)	(18)	3	

Other currencies are represented by Japanese Yen (JPY) and Russian Rubles (RUR).

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Currency risk sensitivity

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

	As at 31 December 2008		As at 31 December 2007	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit or loss	(151)	151	(557)	557

	As at 31 December 2008		As at 31 December 2007	
	AZN/EUR +10%	AZN/EUR -10%	AZN/EUR +10%	AZN/EUR -10%
Impact on profit or loss	(36)	36	(2)	2

Limitations of sensitivity analysis

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

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

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

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. Equity investments do not form a significant part of the Bank's investment portfolio.