

INVEST KREDIT LLC

International Financial Reporting Standards
Financial Statements and
Independent Auditor's Report

31 December 2010

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Invest Kredit LLC:

We have audited the accompanying financial statements of Invest Kredit LLC (hereinafter referred to as "the Company") which comprise the statement of financial position as of 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Other Matters

The financial statements of the Company as of 31 December 2009 were audited by other auditors whose report, dated April 5, 2010, expressed an unqualified opinion on these statements.

Baku, the Republic of Azerbaijan

31 March 2011

INVEST KREDIT LLC**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010***(in Azerbaijani Manats)*

	Note	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	12,650	9,807
Loans and advances to customers	8	794,032	410,889
Property, plant and equipments	9	48,254	7,357
Other assets		290	6,020
TOTAL ASSETS		855,226	434,073
LIABILITIES			
Borrowings	11,12	624,419	350,248
Deferred Tax liabilities		-	-
Other liabilities	13	39,228	4,215
TOTAL LIABILITIES		663,647	354,463
EQUITY			
Charter capital	14	80,000	70,000
Retained earnings		100,601	(1,368)
Other reserves		10,978	10,978
TOTAL EQUITY		191,579	79,610
TOTAL LIABILITIES AND EQUITY		855,226	434,073

On behalf of the Management Board:

Chairman of the Management Board

31 March 2011

Baku, Azerbaijan

Chief Accountant

31 March 2011

Baku, Azerbaijan

The notes on pages 7-40 form an integral part of these financial statements. The Independent Auditors' Report is on page 1-2

INVEST KREDIT LLC

STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2010

(in New Azerbaijani Manats)

	Note	31 December 2010	31 December 2009
Interest income	15	248,902	78,206
Interest expense	15	(80,085)	(21,036)
Net interest income		168,817	57,170
Provision for loan impairment		(8,253)	(5,304)
NET INTEREST INCOME AFTER PROVISION FOR LOAN IMPAIRMENT		160,564	51,866
Fee and commission expense	16	(4,802)	(2,445)
Other income	17	88,022	3,402
Administrative and other operating expenses	18	(115,160)	(51,670)
Profit before tax		128,624	1,153
Income tax expense		(26,655)	-
Profit for the year		101,969	1,153
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		101,969	1,153

On behalf of the Management Board:

Chairman of the Management Board

31 March 2011

Baku, Azerbaijan

Chief Accountant

31 March 2011

Baku, Azerbaijan

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INVEST KREDIT LLC**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2010**
(in New Azerbaijani Manats)

	Note	Charter capital	Others	Retained earnings	Total equity
Balance at 01 January 2009		16,000	6,478	(2,521)	19,957
Increase in Stakeholders' interest		54,000	-	-	54,000
Others		-	4,500	-	4,500
Net Profit		-	-	1,153	1,153
Total comprehensive income for 2009		54,000	4,500	1,153	59,653
Balance at 31 December 2009	14	70,000	10,978	(1,368)	79,610
Increase in Stakeholders' interest	14	10,000	-	-	10,000
Net Profit		-	-	101,969	101,969
Total comprehensive income for 2010		10,000	-	101,969	111,969
Balance at 31 December 2010	14	80,000	10,978	100,601	191,579

On behalf of the Management Board:

Chairman of the Management Board

31 March 2011

Baku, Azerbaijan

Chief Accountant

31 March 2011

Baku, Azerbaijan

The notes on pages 7-40 form an integral part of these financial statements. The Independent Auditors' Report is on page 1-2

INVEST KREDIT LLC**Notes to the Financial Statements – 31 December 2010***(in Azerbaijani Manats)*

	Qeyd	31 dekabr 2010	31 dekabr 2009
Cash flows from operating activities			
Interest received		244,720	78,206
Interest paid		(69,139)	(21,036)
Fees and commissions paid		(4,802)	(2,445)
Other operating income received		88,022	3,402
Staff costs paid		(71,929)	(40,754)
Administrative and other operating expenses paid		(43,457)	(16,220)
<hr/>			
Cash flows from/(used in) operating activities before changes in operating assets and liabilities		143,415	1,153
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Changes in operating assets and liabilities			
Net increase in loans and advances to customers		(391,396)	(316,370)
Net (increase)/decrease in other assets		5,730	(5,617)
Net increase in other financial liabilities		16,802	3,507
Net increase/(decrease) in other other liabilities		-	(327)
<hr/>			
Net cash from/(used in) operating activities		(225,449)	(317,654)
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Cash flows from investing activities			
Acquisition of premises and equipment	9	(45,292)	(4,488)
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Net cash from/(used in) investing activities		(45,292)	(4,488)
<hr/>			
Cash flows from financing activities			
Proceeds from other borrowed funds		263,584	254,248
Issue of ordinary shares	13, 14	10,000	55,896
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Net cash from/(used in) financing activities		273,584	310,144
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Effect of exchange rate changes on cash and cash equivalents		-	-
<hr/>			
Net increase/(decrease) in cash and cash equivalents		2,843	(11,998)
Cash and cash equivalents at the beginning of the year		9,807	21,805
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Cash and cash equivalents at the end of the year		12,650	9,807

On behalf of the Management Board:

Chairman of the Management Board

31 March 2011

Baku, Azerbaijan

Chief Accountant

31 March 2011

Baku, Azerbaijan

The notes on pages 7-40 form an integral part of these financial statements. The Independent Auditors' Report is on page 1-2

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for Invest Kredit LLC (the “Company”).

The Company is incorporated and is domiciled in the Republic of Azerbaijan. The Company is a limited liability company with limited liabilities of stakeholders and was set up in accordance with Azerbaijani regulations.

Principal activity. The Company’s principal business activity is lending operations within the Republic of Azerbaijan. The Company is a heir of “Ijma Kredit” LLC which was registered by Ministry of Justice of the Republic of Azerbaijan on 29 June 2005.

Stakeholders of the Company

As at 31 December 2010 and 31 December 2009 the following stakeholders have interests in the Company.

Stakeholders	31 December 2010,%
Naghiyev Rauf Jamal	50 stake
Aliyev Karamat Etibar	50 stake
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Total	100 stake
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Registered address and place of business. The Company’s registered address is: 529 Matbuat Avenue, Yasamal district, Baku, Azerbaijan Republic.

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

At 31 December 2010, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = AZN 0.7979 and EUR= AZN 1.056.

2 Operating Environment of the Company

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

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

2 Operating Environment of the Company (Continued)

Recent volatility in global and Azerbaijan financial markets. The ongoing global liquidity crisis which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, at times much higher than normal interbank lending rates, and lower liquidity levels across the Republic of Azerbaijan banking sector resulting in a significant reduction in the number of new loans and advances made to customers, and higher funding costs where it remains possible to obtain debt finance from International Institutions or other local banks. The uncertainties in the global financial market, has also led to bank failures and bank rescues in the United States of America, Western Europe and in Russia. Such circumstances could affect the ability of the Bank to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. The borrowers of the Bank may also be affected by the lower liquidity situation which could in turn impact their ability to repay their outstanding loans. Deteriorating operating conditions for borrowers may also have an impact on Management's cash flow forecasts and assessment of the impairment of financial and nonfinancial assets. To the extent that information is available, Management has reflected revised estimates of expected future cash flows in their impairment assessments.

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

3 Summary of Significant Accounting Policies

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Computers and communication equipment	4 years;
Furniture, fixtures and other	5 years;
Vehicles	5 years.
Other Assets	4 years;

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

Borrowings. Other borrowed funds include loans from resident and non-resident financial institutions with fixed maturities and fixed or floating interest rates. Term borrowings are carried at amortised cost.

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

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

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

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

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

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

3 Summary of Significant Accounting Policies (Continued)

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

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

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

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

Charter capital. Additional increases to charter capital are recognized at cost.

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

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

At 31 December 2010, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7979 and EUR 1 = AZN 1.056.

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

3 Summary of Significant Accounting Policies (Continued)

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

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

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The management considers the impact of financial crisis on Company's customers conservatively during estimation and calculation of loan loss provision. To the extent that the assessed delay in repayment of principal on 5% of the total loans and advances to customers differs by +/- one month, the provision would be approximately AZN 9,156 higher or lower.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 19.

Initial recognition of related party transactions. In the normal course of business the Company enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgment is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 23.

5 Adoption of New or Revised Standards and Interpretations

(a) Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Company from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 did not have an impact on these financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously “minority interests”) even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent’s ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value. . IAS 27 did not have an impact on these financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree’s identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The revised IFRS 3 did not have a material impact on these financial statements.

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

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have a material impact on these financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment did not have a material impact on these financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The revised standard did not have a material impact on these financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have a material impact on these financial statements.

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

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards*, which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these financial statements.

(b) Amendments to standards adopted before their effective date

The Company adopted the amendment to IAS 1, *Presentation of Financial Statements*, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Company has not early adopted.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. The Company does not expect the amendments to have any material effect on its financial statements.

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Company does not expect the amendments to have any material effect on its financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Company does not expect IFRIC 19 to have any material effect on its financial statements.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Company does not expect the amendments to have any material effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Company does not expect the amendments to have any effect on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Company is considering the implications of the standard, the impact on the Company and the timing of its adoption by the Company.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment is not expected to have any impact on the Company's financial statements.

6 New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Company does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Company.

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

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Notes to the Financial Statements – 31 December 2010
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7 Cash and Cash Equivalents

	2010	2009
Cash on hand	1,428	3,750
Bank accounts	11,222	6,057
Total cash and cash equivalents	12,650	9,807

The analysis by credit quality of cash and cash equivalents at 31 December 2010 is as follows:

	Cash on hand	Current accounts and overnight placements with other banks	Total
<i>Current and not impaired</i>			
- Cash on hand	1,428	-	1,428
- Top 15 Azerbaijani banks	-	11,222	11,222
Total current and not impaired	1,428	11,222	12,650
Total cash and cash equivalents	1,428	11,222	12,650

The analysis by credit quality of cash and cash equivalents at 31 December 2009 is as follows:

	Cash on hand	Current accounts and overnight placements with other banks	Total
<i>Current and not impaired</i>			
- Cash on hand	3,750	-	3,750
- Top 15 Azerbaijani banks	-	6,057	6,057
Total current and not impaired	3,750	6,057	9,807
Total cash and cash equivalents	3,750	6,057	9,807

7 Cash and Cash Equivalents (Continued)

The analysis by credit quality of cash and cash equivalents at 31 December 2010 and 31 December 2009 is as follows:

	Current Accounts and overnight placements 31 December 2010	Current Accounts and overnight placements 31 December 2009
<i>Current and not impaired</i>		
- Unrated Banks	11,222	6,057
Total cash and cash equivalents, excluding cash on hand	11,222	6,057

8 Loans and Advances to Customers

	2010	2009
Corporate loans	-	-
Loans to individuals - consumer loans	168,833	152,698
Loans to individuals – working capital	641,096	266,543
Loans to individuals – to employee	708	-
Less: Provision for loan impairment	(16,605)	(8,352)
Total loans and advances to customers	794,032	410,889

	2010		2009	
	Amount	%	Amount	%
Individuals				
Consumer loans	168,833	20.83%	152,698	36.42%
Working capital	641,096	79.09%	266,543	63.58%
Loans to employee	708	0.09%	-	
Total individuals	810,637	100%	419,241	100%
Total corporate loans	-	0%	-	0%
Total loans and advances to customers (before impairment)	810,637	100%	419,241	100%

At 31 December 2010, the Company's top 10 borrowers had an aggregated loan amount of AZN 59,332 or 7% of the gross loan portfolio. There are six local borrowers, with the outstanding loan balance over 3% of total equity of the Company as at 31 December 2010.

INVEST KREDIT LLC**Notes to the Financial Statements – 31 December 2010***(in Azerbaijani Manats)***8 Loans and Advances to Customers (Continued)**

The movement in the provision for loan impairment during 2010 is as follows:

	Corporate loans	Consumer loans	Working capital	Loans to employee	Total
Provision for loan impairment at 1 January 2010	-	(3,174)	(5,178)	-	(8,352)
Provision for loan impairment during the year	-	(3,186)	(5,060)	(7)	(8,253)
Provision for loan impairment at 31 December 2010	-	(6,360)	(10,238)	(7)	(16,605)

The movement in the provision for loan impairment during 2009 is as follows:

	Corporate loans	Consumer loans	Working capital	Loans to employee	Total
Provision for loan impairment at 1 January 2009	-	(715)	(1,166)	-	(1,881)
Provision for loan impairment during the year	-	(2,459)	(4,012)	-	(6,471)
Provision for loan impairment at 31 December 2009	-	(3,174)	(5,178)	-	(8,352)

INVEST KREDIT LLC**Notes to the Financial Statements – 31 December 2010***(in Azerbaijani Manats)***8 Loans and Advances to Customers (Continued)**

Information about collateral at 31 December 2010 is as follows:

	Corporate loans	Consumer loans	Working capital	Loans to employee	Total
Unsecured loans	-	155,643	470,774	708	627,125
Loans collateralized by:					
-residential real estate	-	-	9,147	-	9,147
-movable property	-	13,190	161,175	-	174,365
Total loans and advances to customers	-	168,833	641,096	708	810,637

Information about collateral at 31 December 2009 is as follows:

	Corporate loans	Consumer loans	Working capital	Loans to employee	Total
Unsecured loans	-	80,704	242,112	-	322,816
Loans collateralized by:					
-residential real estate	-	-	4,192	-	4,192
-movable property	-	7,379	84,854	-	92,233
Total loans and advances to customers	-	88,083	331,158	-	419,241

8 Loans and Advances to Customers (Continued)

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

	Financial assets past due but not impaired					31 December 2010	
	Neither past due nor impaired	0-1 month	1-6 Months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
<i>Loans and advances to customers</i>	739,725	21,684	4,509	3,502	5,761	35,456	810,637

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

	Financial assets past due but not impaired					31 December 2009	
	Neither past due nor impaired	0-1 month	1-6 Months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
<i>Loans and advances to customers</i>	382,567	11,215	2,332	1,811	2,979	18,337	419,241

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

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

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9 Premises, Equipment and Intangible Assets

	Leasehold improvements	Furniture and Fixture	Computer equipments	Total
Net book amount at 1 January 2009	-	-	3,020	3,020
Additions	-	4,500	510	5,010
Depreciation charge	-	-	(673)	(673)
Net book amount at 31 December 2009	-	4,500	2,857	7,357
Additions	40,000	4,647	645	45,292
Depreciation charge	(1,656)	(1,827)	(912)	(4,395)
Net book amount at 31 December 2010	38,344	7,320	2,590	48,254
Cost at 31 December 2009	-	4,500	3,530	8,030
Accumulated Depreciation	-	-	(673)	(673)
Net book amount at 31 December 2009	-	4,500	2,857	7,357
Cost at 31 December 2010	40,000	9,147	4,175	53,322
Accumulated Depreciation	(1,656)	(1,827)	(1,585)	(5,068)
Net book amount at 31 December 2010	38,344	7,320	2,590	48,254

10 Other Assets

	2010	2009
Receivables from State Budget	290	290
Other	-	5,730
Total other assets	290	6,020

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11 Debt Securities in issue

	2010	2009
- Debt securities	300,000	150,000
- Accrued interest payables	10,587	-
Total debt securities in issue	310,587	150,000

During 2010, the Company issued 300 discount debt securities respectively through a primary placements at different dates at the Baku Stock Exchange, with a par value of AZN 1000 each and maturity of two years. These discount debt securities were denominated in AZN, had an interest rate of 14% p.a. and the contractual maturity date is 2012.

12 Borrowings

	2010	2009
Borrowed funds from resident banks and other institutions:		
- Tekhnika Bank OJSC	313,832	114,248
- Qafqaz Credit NBCO	-	86,000
TOTAL BORROWINGS	313,832	200,248

The Company has different loan agreements signed in 2009 and 2010 at the amount of AZN 140 thousand and USD 80 thousand with Tekhnika Bank OJSC (registered at Azerbaijani state authorities) for the purposes of lending and financing daily operations with the maturity date of one year and with market interest rate. There were no financial covenants with regard to this borrowing from Tekhnika Bank OJSC that the Company should have complied with.

13 Other Liabilities

Other liabilities comprise the following:

	2010	2009
Settlements with State Budget	28,427	899
Settlements with local budgets	1,645	967
Other creditors	6,000	359
Liabilities and other payables in progress	3,156	1,990
Total other liabilities	39,228	4,215

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

14 Charter Capital

The Company's registered charter capital is AZN 80,000 and AZN 70,000 as at 31 December 2010 and 31 December 2009 respectively.

15 Interest Income and Expense

	2010	2009
Interest income		
Loans and advances to customers	248,902	78,206
Total interest income	248,902	78,206
Interest expense		
Borrowings	(42,000)	(21,036)
Debt securities in issue	(38,085)	-
Total interest expense	(80,085)	(21,036)
Net interest income	168,817	57,170

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16 Fee and Commission Expense

	2010	2009
Fee and commission expense		
- Expenses related to buying and selling of foreign currency	-	46
- Commissions and Charges on Cash and Cheque Operations	-	76
- Commissions and Charges on Communication and Computer Centre Services	-	876
- Expenses related to bank guarantee letters	61	414
- Commissions and Charges on Opening and Servicing Correspondent Accounts	4,711	1,003
- Expenses Related to Broker Operations	30	30
Total fee and commission expense	4,802	2,445

17 Other Income

	2010	2009
Grants received	80,340	-
Other	7,682	3,402
Total Other Income	88,022	3,402

18 Administrative and Other Expenses

	2010	2009
Staff costs	58,984	32,865
Payroll taxes and social security costs	12,945	7,889
Advertisement and marketing costs	11,006	4
Rent expenses	10,000	800
Professional services	8,020	1,466
Depreciation of premises and equipment	4,395	673
Stationery and other office supplies	2,483	1,484
Communication expense	2,060	1,220
Membership fees	1,500	1,500
Business trip	-	2,212
Maintenance expenses	-	30
Software expenses	880	50
Utilities	747	-
Other	2,140	1,477
Total administrative and other operating expenses	115,160	51,670

19 Income Tax

Income tax expense comprises the following:

	2010	2009
Current tax	26,655	-
Deferred tax	-	-
Income tax expense for the year	26,655	-

Income tax is calculated at the rate of 20% (2009:22%) from the profit of the Company. Reconciliation between the expected and the actual taxation charge is provided below

	2010	2009
IFRS PROFIT BEFORE TAX	128,624	1,153
Theoretical tax charge at statutory rate 20% (2009: 22%)	25,725	254
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non deductible expenses	7	-
- Other non permanent differences	923	(254)
INCOME TAX EXPENSE FOR THE YEAR	26,655	-

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The Republic of Azerbaijan reduced the standard corporate income tax rate from 22% to 20% with effect from 1 January 2010. The tax effect of the movements in these temporary differences is recorded at the rate of 20% (2009: 22%).

20 Financial Risk Management

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

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

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

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

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

	2010	2009
Corporate loans	-	-
Loans to individuals - consumer loans	168,833	152,698
Loans to individuals – working capital	641,096	266,543
Loans to individuals – loans to employee	708	-
Less: Provision for loan impairment	(16,605)	(8,352)
Total loans and advances to customers	794,032	410,889

The above table represents a worse-case scenario of credit risk exposure to the Company at 31 December 2010, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. The appraisal of the collateral value provided to secure a loan is conducted by independent qualified companies and by the Company's professional staff depending on type of collateral and amount of credit granted.

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

20 Financial Risk Management (Continued)

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

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

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

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

	At 31 December 2010		
	Monetary financial assets	Monetary financial liabilities	Position
Azerbaijani Manats	796,150	592,518	203,632
US Dollars	59,076	63,832	(4,756)
Total	855,226	656,350	198,876

	At 31 December 2009		
	Monetary financial assets	Monetary financial liabilities	Position
Azerbaijani Manats	366,890	289,468	77,422
US Dollars	67,183	64,963	2,220
Total	434,073	354,431	79,642

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

	31 December 2010	31 December 2009
	impact on profit or loss	impact on profit or loss
US Dollars strengthening by 2%	(95)	45
US Dollars weakening by 2%	95	(45)
Totals	-	-

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

20 Financial Risk Management (Continued)

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

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

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

<i>In % p.a.</i>	2010		2009	
	AZN	USD	AZN	USD
Assets				
Loans and advances to customers	30-38.4%	30-38.4%	30-38.4%	30-38.4%
Liabilities				
Debt Securities in Issue	14-16%	14-16%	14-17%	14-17%
Borrowings	14%	14%	14%	14%

Geographical risk concentrations. The geographical concentration of the Company's financial assets and liabilities at 31 December 2010 is set out below:

	Azerbaijan Republic
ASSETS	
Cash and cash equivalents	12,650
Loans and advances to customers	794,032
Fixed assets	48,254
Other assets	290
TOTAL ASSETS	855,226
LIABILITIES	
Borrowings	624,419
Current/Deferred tax expenses	-
Other liabilities	31,931
TOTAL LIABILITIES	656,350
NET POSITION	198,876

20 Financial Risk Management (Continued)

The geographical concentration of the Company's financial assets and liabilities at 31 December 2009 is set out below:

	Azerbaijan Republic
ASSETS	
Cash and cash equivalents	9,807
Loans and advances to customers	410,889
Fixed assets	7,357
Intangible assets	-
Other assets	6,020
TOTAL ASSETS	434,073
Liabilities	
Borrowings	350,248
Current/Deferred tax expense	(327)
Other liabilities	4,183
Total liabilities	354,104
NET POSITION	79,969

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

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

The day-to-day liquidity management is performed by the Company within a comprehensive framework set by the Assets and Liabilities Committee, and monitored independently by the Board Management. The Company monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

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

20 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2010 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2010 Total
ASSETS						
Loans to customers	28,631	87,019	568,679	109,703	-	794,032
Total interest bearing assets	28,631	87,019	568,679	109,703	-	794,032
Cash and balances with CBA	12,650	-	-	-	-	12,650
Property, Plant and Equipment	-	-	-	-	48,254	48,254
Intangible assets	-	-	-	-	-	-
Other assets	-	-	-	-	290	290
Total Assets	41,281	87,019	568,679	109,703	48,544	855,226
LIABILITIES						
Borrowings	324,419	-	-	-	300,000	624,419
Total Interest Bearing Liabilities	324,419	-	-	-	300,000	624,419
Other liabilities	31,931	-	-	-	-	31,931
Total Liabilities	356,350	-	-	-	300,000	656,350
Liquidity gap	(315,069)	87,019	568,679	109,703	(251,456)	198,876

INVEST KREDIT LLC
Notes to the Financial Statements – 31 December 2010
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20 Financial Risk Management (Continued)

The contractual maturity analysis of balance sheet at 31 December 2009 is as follows:

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2009 Total
ASSETS						
Loans to customers	16,436	45,198	291,731	57,524	-	410,889
Total interest bearing assets	16,436	45,198	291,731	57,524	-	410,889
Cash and balances with CBA	9,807	-	-	-	-	9,807
Property, Plant and Equipment	-	-	-	-	7,357	7,357
Intangible assets	-	-	-	-	-	-
Other assets	-	-	-	-	6,020	6,020
Total Assets	26,243	45,198	291,731	57,524	13,377	434,073
LIABILITIES						
Borrowings	182,129	-	-	-	168,119	350,248
Total Interest Bearing Liabilities	182,129	-	-	-	168,119	350,248
Other liabilities	-	-	-	-	3,856	3,856
Total Liabilities	182,129	-	-	-	171,975	354,104
Liquidity gap	(155,886)	45,198	291,731	57,524	(158,598)	79,969

20 Financial Risk Management (Continued)

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

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

21 Contingencies and Commitments

Capital expenditure commitments. At 31 December 2010, the Company had no significant contractual capital expenditure commitments in respect of premises and equipment, or in any other areas.

Operating lease commitments. At 31 December 2010, the Company had no significant operating lease commitments.

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

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

22 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Azerbaijan Republic continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

INVEST KREDIT LLC**Notes to the Financial Statements – 31 December 2010***(in Azerbaijani Manats)***22 Fair Value of Financial Instruments (Continued)**

Fair values of financial instruments carried at amortized cost. At 31 December 2010, fair values of financial instruments carried at amortized cost are as follows:

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS				
Cash and cash equivalents	12,650	12,650	9,807	9,807
Loans and advances to customers	794,032	794,032	410,889	410,889
Total Financial assets (carried at amortised cost)	806,682	806,682	420,696	420,696
FINANCIAL LIABILITIES				
Borrowings	624,419	624,419	350,248	350,248
Other financial liabilities	31,931	31,931	3,856	3,856
Total Financial liabilities (carried at amortised cost)	656,350	655,350	354,104	354,104

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

22 Fair Value of Financial Instruments (Continued)

The methods and assumptions applied in determining fair values.

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

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

	31 December 2010	31 December 2009
Loans and advances to customers	30-38%	30-38%
Borrowings	14-16%.	14-17%.
Debt securities in issue	14%	14%

23 Related Party Transactions

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

No related party transactions have been made by the Company as at 31 December 2010 and 31 December 2009.

Key management compensation is presented below:

	2010
Short-term benefits – salaries and bonuses	26,781
Total	26,781

During the year ended 31 December 2010, the remuneration of members of the key management, being the members of the Board of Directors, comprised salaries and performance related short-term bonuses amounting to AZN 22,600 for the year ended 31 December 2010.

24 Events After the Reporting Period

The Company has different loan agreements signed in February and March of 2011 at the amount of AZN 294 thousand for the purposes of lending and financing daily operations with the maturity date of one year and with interest rate of 14%.