

# **NBCO AZERISTAR MICROFINANCE LLC**

**Financial Statements and Auditors' Report**  
For the Year Ended 31 December 2009

## NBCO AZERISTAR MICROFINANCE LLC

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of NBCO AzeriStar Microfinance LLC:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of NBCO AzeriStar Microfinance LLC (the "Company"), which comprise the Statement of Financial Position as at 31 December 2009, and the Statement of Income, Statement of Changes in Equity and Cash Flow statements 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.

### *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 ("ISA"). 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 financial statements present fairly, in all material respects the financial position of NBCO AzeriStar Microfinance LLC as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Baku, Azerbaijan

31 March, 2010

**NBCO AZERISTAR MICROFINANCE LLC****STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2009***(in Azerbaijan manat)*

	Notes	31 December 2009	31 December 2008
<b>ASSETS:</b>			
Cash and cash equivalents	3	370,256	36,193
Loans to customers	4	2,112,016	1,905,566
Property and equipment	5	50,187	34,383
Deferred income tax assets	16	-	871
Other assets	6	9,162	-
<b>TOTAL ASSETS</b>		<b>2,541,621</b>	<b>1,977,013</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Long term borrowings	7	1,296,333	870,946
Current/Deferred income liabilities	16	2,389	-
Other liabilities	8	396	35,673
<b>Total liabilities</b>		<b>1,299,118</b>	<b>906,619</b>
<b>EQUITY:</b>			
Share capital	9	32,229	32,229
Accumulated grants		588,964	588,964
Retained earnings		621,310	449,201
<b>Total equity</b>		<b>1,242,503</b>	<b>1,070,394</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,541,621</b>	<b>1,977,013</b>

**On behalf of the Management Board:**

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**Rufat Abas**  
Chief executive officer

31 March, 2010

Baku, Azerbaijan

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**Rovshan Mammadov**  
Chief accountant

31 March, 2010

Baku, Azerbaijan

The notes on pages 7-34 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2.

**NBCO AZERISTAR MICROFINANCE LLC****STATEMENT OF INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2009  
(in Azerbaijan manat)**

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	10	1,107,383	808,514
Interest expense	10	<u>(143,007)</u>	<u>(104,881)</u>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>		<u>964,376</u>	<u>703,633</u>
(Provision)/recovery of provision for impairment losses on interest bearing assets	11	<u>26,984</u>	<u>(17,751)</u>
<b>Net interest income</b>		<u><b>991,360</b></u>	<u><b>685,882</b></u>
Net gain/(loss) on foreign exchange operations	12	(6,309)	7,169
Fee and commission expense	13	(17,785)	(17,604)
Other income	14	<u>3,647</u>	<u>14,751</u>
<b>Net non-interest income</b>		<u><b>(20,447)</b></u>	<u><b>4,316</b></u>
Operating Income		970,913	690,198
Operating Expenses	15	<u>(745,242)</u>	<u>(387,041)</u>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>225,671</b>	<b>303,157</b>
Income tax expense (benefit)	16	(53,562)	(65,597)
<b>NET PROFIT</b>		<u><u><b>172,109</b></u></u>	<u><u><b>237,560</b></u></u>

**On behalf of the Management Board:**

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**Rufat Abas**  
Chief executive officer

31 March, 2010

Baku, Azerbaijan

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**Rovshan Mammadov**  
Chief accountant

31 March, 2010

Baku, Azerbaijan

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**NBCO AZERISTAR MICROFINANCE LLC**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2009**

*(in Azerbaijan manat)*

	Note	Share Capital	Accumulated grants	Retained Earnings	Total Equity
<b>31 December 2007</b>		<b>32,229</b>	<b>588,964</b>	<b>211,640</b>	<b>832,833</b>
Net profit		-	-	237,560	237,560
<b>31 December 2008</b>		<b>32,229</b>	<b>588,964</b>	<b>449,200</b>	<b>1,070,393</b>
Net profit		-	-	172,109	172,109
<b>31 December 2009</b>		<b>32,229</b>	<b>588,964</b>	<b>621,309</b>	<b>1,242,502</b>

**On behalf of the Management Board:**

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**Rufat Abas**  
Chief executive officer

31 March, 2010

Baku, Azerbaijan

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**Rovshan Mammadov**  
Chief accountant

31 March, 2010

Baku, Azerbaijan

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**NBCO AZERISTAR MICROFINANCE LLC**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2009  
(in Azerbaijan manat)**

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		225,671	303,157
Adjustments for:			
Provision/ (recovery of provision) for impairment losses on interest bearing assets	11	(27,026)	16,873
Other granted income	14	-	(14,355)
Depreciation and amortization expense	5	29,711	7,894
Translation (gain)/loss on foreign exchange operations	12	(6,309)	7,169
Change in interest accruals, net	4,7	(22,025)	(15,649)
Cash flows from operating activities before changes in operating assets and liabilities		200,022	305,089
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Loans to customers	4	(150,800)	(822,315)
Other assets	6	(9,162)	-
Increase/(decrease) in operating liabilities			
Long term borrowings	7,12	424,989	618,337
Cash inflow/(outflow) from operating activities before taxation		465,049	101,111
Tax paid		(85,579)	(49,777)
Net cash inflow/(outflow) from operating activities		379,470	51,334
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of fixed assets	5	(45,515)	(19,309)
Net cash outflow from investing activities		(45,515)	(19,309)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Grants received		-	-
Net cash inflow from financing activities		-	-
Effect of changes in foreign exchange rate on cash and cash equivalents		108	112
<b>NET INCREASE IN CASH AND CASH EQV.</b>		<b>334,063</b>	<b>32,137</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	3	<b>36,193</b>	<b>4,055</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	3	<b>370,256</b>	<b>36,192</b>

**On behalf of the Management Board:**

**Rufat Abas**  
Chief executive officer

31 March, 2010

Baku, Azerbaijan

**Rovshan Mammadov**  
Chief accountant

31 March, 2010

Baku, Azerbaijan

The notes on pages 7-34 form an integral part of these financial statements. The Independent Auditors' Report is on pages 2.

# NBCO AZERISTAR MICROFINANCE LLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(in Azerbaijan manat)

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### 1. INTRODUCTION

#### Organization and its principal activity

“AzeriStar Microfinance” LLC is Non-banking Credit Organization was established by “Save the Children Federation, Inc” in 18.07.2002 and entered the state registration 30.05.2003 but began operating in 01.03.2006. The Company’s operations are based on the license provided by the National Bank of Azerbaijan Republic. The company has two representative offices with Head Office in the city of Barda. The Company is involved in one main type of activity (i.e. lending) and operates in one geographical area (i.e. Azerbaijan).

The main objective of the company is:

- Support the development of micro, small and medium sized enterprises, included those engaged in production and agricultural activities;
- The creation of new employment opportunities in family, and other types of enterprises;
- Provide equal access to financial resources for both men and women.

#### Registered address and place of business

The Head Office of the Company’s registered address is Baku Street 45, Barda city, Azerbaijan Republic.

#### Founder and shareholder of the Company

As at 31 December 2009 and 2008, the following shareholder owned the issued ordinary shares of the Company:

Shareholder	31 December 2009, %	31 December 2008, %
Save the Children Federation, Inc.	100%	100%
<b>Total</b>	<b>100%</b>	<b>100%</b>

#### Operating Environment of the Company

The Azerbaijan Republic displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic, restrictive currency controls, relatively high inflation and economic growth. The financial sector in the Azerbaijan Republic is sensitive to adverse fluctuations in confidence and economic conditions. The Azerbaijani economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is able to predict economic trends and developments in the financial sector and what effect, if any, have on the financial position of the Company, however the Company is unable to manage these trends and developments that are under control of external factors

The tax and currency legislation within the Azerbaijan Republic is subject to varying interpretations and changes which can occur frequently. Moreover, the need for further developments in bankruptcy laws, the absence of formalized procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by the companies currently operating in the Azerbaijan Republic. The future perspectives of the economic developments in Azerbaijan Republic is considerable dependant on the efficiency of the economic, financial and monetary reforms of the government and the developments of tax, juridical, normative and political systems.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

*(in Azerbaijan manat)*

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**2. BASIS OF PRESENTATION**

**Accounting basis**

These financial statements of the Company 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 Azerbaijani 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 functional currency of the Company is also the Azerbaijani manat as the business activities are mainly conducted in the Republic of Azerbaijan. The Company maintains its accounting records in accordance with laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform with 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.

**Key assumptions**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts. Such estimates and assumptions are based on the information available to the Company’s management as of the date of the financial statements. Therefore, actual results could differ from those estimates and assumptions. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Loans to customers are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairments involves the exercise of significant judgment. The Company estimates allowances for impairment with the objective of maintaining balance sheet provisions at a level believed by management to be sufficient to absorb losses incurred in the Company’s loan portfolio. The calculation of provisions on impaired loans is based on the likelihood of the asset being written off and the estimated loss on such a write-off. These assessments are made using statistical techniques based on historic experience. These determinations are supplemented by the application of management judgment.

The Company considers accounting estimates related to provisions for loans key sources 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 losses relating to impaired loans and advances are based on recent performance experience, and (ii) any significant difference between the Company’s estimated losses (as reflected in the provisions) and actual losses will require the Company to take provisions which, if significantly different, could have a material impact on its future statement of income and statement of financial position. The Company’s assumptions about estimated losses are based on past performance, past customer behavior, the credit quality of recent underwritten business and general economic conditions, which are not necessarily an indication of future losses.

A deferred tax liability is recognized for all taxable temporary differences to the extent that it is probable that taxable profit will be available against which the taxable temporary difference can be utilized. Estimation of probabilities are based on management estimation of future taxable profit and involves the exercise of significant management judgment from the Company. Taxation is discussed in Notes 16 and 18.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**  
*(in Azerbaijan manat)*

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**2. BASIS OF PRESENTATION (Continued)**

**SIGNIFICANT ACCOUNTING POLICIES**

**Key recognition and measurement terms**

The Company recognizes financial assets and liabilities on its statement of financial position 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 and unrestricted balances with the commercial banks. The Company realizes the credit operations only in national currency of Azerbaijan Republic, (i.e. Azerbaijani manat - AZN).

**Loans to customers**

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

Loans granted by the Company 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 statement of income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans to customers are carried net of any allowance for impairment losses.

**Allowance for impairment losses**

The Company 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, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost. 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, the previously recognized impairment loss is reversed. For financial assets carried at cost, the 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.

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(in Azerbaijan manat)

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#### 2. BASIS OF PRESENTATION (Continued)

The determination of impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk assets for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in impairment losses is charged to profit, and the total of impairment losses is deducted in arriving at assets as shown in the statement of financial position. Factors that the Company considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

The Company accounts for impairment losses on financial assets at amortized cost using allowance account, for financial assets measured at cost through direct write off.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Company may sustain losses that are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets.

#### Property and equipment

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

Vehicles and computer equipment	25%
Furniture and other	20%

The carrying amounts of property and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed this estimated recoverable amount, assets are written down to their recoverable amount.

#### Long term borrowings

Long term borrowings, 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.

#### Share capital

Contributions to share capital are recognized at cost.

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in Azerbaijan manat)

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#### 2. BASIS OF PRESENTATION (Continued)

##### Grant

The company received Grants for the loan portfolio, and operating and administrative expenses. The purchase of property and equipment grant are recorded in income statement after the net income from operations. Grant for periods beyond the current operating period are recorded under liabilities as deferred grant revenue. During the useful work period these fixed assets will be decreased as depreciation amount and will be accounted as “other income” in profit/loss statement.

##### Recognition of 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 has been 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.

##### 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 Company in the preparation of the financial statements are as follows:

	31 December 2009	31 December 2008
AZN/1 US Dollar	0.8031	0.8010

##### Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and the Company 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 Company does not offset the transferred asset and the associated liability.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**  
*(in Azerbaijan manat)*

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**2. BASIS OF PRESENTATION (Continued)**

**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 Company'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 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 statement of income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

**Segment reporting**

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**  
*(in Azerbaijan manat)*

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**2. BASIS OF PRESENTATION (Continued)**

**Adoption of new standards**

For the preparation of these financial statements the following new standards and interpretations became mandatorily applicable for the financial statements beginning 1 January 2009 were adopted by the Company.

*The Company has adopted the following new and amended IFRSs as of 1 January 2009*

IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009.

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRS 8: Operating Segments (issued in 2007) (This standard is mandatory for annual periods beginning on or after 1 January 2009. This standard replaces IAS 14 - Segment Reporting and will affect how segment information will be presented and disclosed in annual and interim financial statements. According to IFRS 8, segmental information presented in the financial statements that will be issued during 2009 is consistent with information that is provided and utilised by the management of the Company. It will not affect the measurement attributes of assets and liabilities)

IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in fund balance, requiring 'nonowner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Fund presents in the consolidated statement of changes in fund balance all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Company's financial statements.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. The Company has capitalised borrowing costs with respect to intangible asset arising from internally generated software costs.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2009**

*(in Azerbaijan manat)*

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**2. BASIS OF PRESENTATION (Continued)**

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company.

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods, but the Company has not early adopted them:

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the IASB's annual improvements project published in April 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company's financial statements.

IFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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#### 2. BASIS OF PRESENTATION (Continued)

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IFRS 2 (amendments), 'Group cash-settled and share-based payment transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Company's financial statements.

Regardless of when the application of the standards and interpretations above will be mandatory, the Company is planning to adopt all of them in the financial statements for the year ended 31 December 2010, if they are then relevant to the Company.

The Company has assessed the potential impact of all new standards, amendments and interpretations that will be effective in the next periods and expects that they will not have a significant impact on transactions that are in place at 31 December 2009.

#### 3. CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
Cash in hand	3,139	1,917
Balances with the banks	<u>367,117</u>	<u>34,276</u>
<b>Total cash and cash equivalents</b>	<b><u>370,256</u></b>	<b><u>36,193</u></b>

The AZN settlement accounts of the Company are kept with International Bank of Azerbaijan.

#### 4. LOANS TO CUSTOMERS

Loans to customers comprise:

	31 December 2009	31 December 2008
Loans to customers	2,080,415	1,929,615
Accrued interest income on loans to customers	<u>44,273</u>	<u>15,649</u>
Less allowance for impairment losses	<u>(12,672)</u>	<u>(39,698)</u>
<b>Total loans to customers</b>	<b><u>2,112,016</u></b>	<b><u>1,905,566</u></b>

**NBCO AZERISTAR MICROFINANCE LLC**

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**4. LOANS TO CUSTOMERS (CONTINUED)**

	<b>31 December 2009</b>	<b>31 December 2008</b>
<b>Analysis by sector:</b>		
Livestock	899,758	600,425
Retail	753,991	586,545
Consumer	156,440	553,266
Services	202,583	112,433
Production	65,599	41,976
Agriculture	21,220	24,841
Other	25,097	25,778
Less allowance for impairment losses	(12,672)	(39,698)
<b>Total loans to customers</b>	<b>2,112,016</b>	<b>1,905,566</b>
	<b>31 December 2009</b>	<b>31 December 2008</b>
<b>Analysis by region:</b>		
Barda	1,006,633	1,001,062
Ganja	886,575	944,202
Goychay	231,480	-
Less allowance for impairment losses	(12,672)	(39,698)
<b>Total loans to customers</b>	<b>2,112,016</b>	<b>1,905,566</b>
	<b>31 December 2009</b>	<b>31 December 2008</b>
<b>Analysis by loan models:</b>		
Zirve	1,134,820	820,790
Individual	112,466	516,905
Business	751,605	505,257
Livestock	81,823	65,951
Employees	43,974	36,361
Less allowance for impairment losses	(12,672)	(39,698)
<b>Total loans to customers</b>	<b>2,112,016</b>	<b>1,905,566</b>

Movements in allowances for impairment losses for the years ended 31 December 2009 and 2008 are disclosed in Note 11.

As at 31 December 2009 and 2008 a maximum credit risk exposure on loans to customers amounted to AZN 2,112,016 and AZN 1,905,566 respectively.

As at 31 December 2009 loans to customers included loans in amount of AZN 12,672 that were individually determined to be impaired. As at 31 December 2009 such loans were not collateralized by tangible items.

**NBCO AZERISTAR MICROFINANCE LLC**

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**5. PROPERTY AND EQUIPMENT**

Property and equipment comprise:

	Equipments	Computer equipment	Vehicles	Total
<b>At initial cost</b>				
31 December 2007	9,194	21,991	15,542	46,727
Additions	12,212	3,345	3,752	19,309
Transfers to other assets	(2,824)	(6,421)	(5,109)	(14,354)
31 December 2008	18,582	18,915	14,185	51,682
Additions	7,932	6,816	30,767	45,515
Transfer out	-	-	(3,628)	(3,628)
31 December 2009	26,514	25,731	41,324	93,569
<b>Accumulated depreciation</b>				
31 December 2007	(5,979)	(11,557)	(6,223)	(23,759)
Charge for the year	(605)	(3,914)	(3,375)	(7,894)
Transfers to other assets	2,824	6,421	5,109	14,354
31 December 2008	(3,760)	(9,050)	(4,489)	(17,299)
Charge for the year	(6,006)	(6,936)	(16,769)	(29,711)
Disposal			3,628	3,628
31 December 2009	(9,766)	(15,986)	(17,630)	(43,382)
<b>Net book value</b>				
<b>31 December 2008</b>	<b>14,822</b>	<b>9,865</b>	<b>9,696</b>	<b>34,383</b>
<b>31 December 2009</b>	<b>16,748</b>	<b>9,745</b>	<b>23,694</b>	<b>50,187</b>

In 2005, the Company received fixed assets in the amount of AZN 14,354 as grant. As of 31.12.2008, the management estimated the future useful life of these fixed assets as zero.

**6. OTHER ASSETS**

Other assets:

	31 December 2009	31 December 2008
Receivables on penalties	783	-
Prepayments for taxes other than income taxes	4,514	-
Prepayments	3,865	-
Other	-	-
<b>Total other assets</b>	<b>9,162</b>	<b>-</b>

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in Azerbaijan manat)

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#### 7. LONG TERM BORROWINGS

	31 December 2009	31 December 2008
Microcredit Enterprise	240,930	-
Triple Jump	717,520	362,040
Oiko credit	233,628	240,300
Blue Orchard	-	160,200
Qafqaz kredit	75,250	86,000
Accured interest	29,005	22,406
	<hr/>	<hr/>
<b>Total long term borrowings</b>	<b>1,296,333</b>	<b>870,946</b>

Long term borrowings from foreign non-banking credit organizations as at 31 December 2009 represent the accounts of Microcredit Enterprise (USD 300,00 with average 10% p.a.), Triple Jump (AZN 717,520 with average 14% p.a.), Oiko credit (USD 290,909 with average 11% p.a.), Qafqaz kredit (USD 75,250 with average 15% p.a.) and accrued interest payable as at the end of the period.

#### 8. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Road tax payable	28	-
Profit tax payable	-	34,968
Rent tax payable	197	670
Property tax payable	171	35
Differed income	-	-
	<hr/>	<hr/>
<b>Total other liabilities</b>	<b>396</b>	<b>35,673</b>

#### 9. SHARE CAPITAL

According to confirmed instructions, the share capital of the company was determined as 33,000 USD (32,229 AZN) in two contribution forms. USD 8,414 was made in the form of cash, but USD 24,586 as fixed assets.

Share capital contribution made in the form of cash is registered at fair value at the date of contribution.

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**10. NET INTEREST INCOME**

	<b>Year ended 31 December 2009</b>	<b>Year ended 31 December 2008</b>
<b>Interest income comprises:</b>		
Interest income on assets recorded at amortized cost:		
- interest income on unimpaired assets	1,107,383	808,514
<b>Total interest income</b>	<b>1,107,383</b>	<b>808,514</b>
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	1,107,383	808,514
<b>Total interest income on financial assets recorded at amortized cost</b>	<b>1,107,383</b>	<b>808,514</b>
<b>Interest expense comprises:</b>		
Interest on liabilities recorded at amortized cost	(143,007)	(104,881)
<b>Total interest expense</b>	<b>(143,007)</b>	<b>(104,881)</b>
Interest expense on liabilities recorded at amortized cost comprise:		
Microcredit Enterprise	(17,843)	-
Triple Jump	(63,816)	(61,438)
Oikocredit	(35,493)	(22,498)
Blue Orchard	(12,299)	(11,753)
Qafqaz Kredit	(13,556)	(9,192)
<b>Total interest expense on financial assets recorded at amortized cost</b>	<b>(143,007)</b>	<b>(104,881)</b>
<b>Net interest income before (provision)/recovery of provision for impairment losses on interest bearing assets</b>	<b>964,376</b>	<b>703,633</b>

**11. ALLOWANCE FOR IMPAIRMENT LOSSES**

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

	<b>Loans to customers</b>
<b>31 December 2007</b>	<b>22,824</b>
Provision for loan impairment	17,751
Write-off	(877)
<b>31 December 2008</b>	<b>39,698</b>
Provision for loan impairment	(26,984)
Write-off	(42)
<b>31 December 2009</b>	<b>12,672</b>

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in Azerbaijan manat)

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#### 12. NET GAIN/(LOSS) ON FOREIGN EXCHANGE OPERATIONS

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

	Year ended 31 December 2009	Year ended 31 December 2008
Long term borrowing operations	(6,201)	7,281
Other operations	(108)	(112)
<b>Total net gain/(loss) on foreign exchange operations</b>	<b>(6,309)</b>	<b>7,169</b>

#### 13. FEE AND COMMISSION EXPENSE

Fee and commission expense comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Fee and commission expense:</b>		
Long term borrowings	(6,044)	(6,306)
Salary	(1,892)	(1,223)
Other operations	(9,849)	(10,075)
<b>Total fee and commission expense</b>	<b>(17,785)</b>	<b>(17,604)</b>

#### 14. OTHER INCOME

Other income comprises:

	Year ended 31 December 2009	Year ended 31 December 2008
<b>Other income:</b>		
Penalty income from loans	3,647	396
Asset related grant income	-	14,355
<b>Total other income</b>	<b>3,647</b>	<b>14,751</b>

Asset related grant income as at 31 December 2008 is income recognition of fully depreciated granted assets.

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in Azerbaijan manat)

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#### 15. OPERATING EXPENSES

Operating expenses comprise of the following items:

	Year ended 31 December 2009	Year ended 31 December 2008
Salary and bonuses	(554,633)	(254,110)
Hired drivers payments	(57,640)	(40,624)
Rent expense	(32,230)	(25,713)
Depreciation and amortization	(29,711)	(7,894)
Professional services fees	(15,596)	(4,430)
Office supplies	(14,536)	(10,179)
Rating expenses	(12,833)	(5,473)
Travel expenses	(10,755)	(13,947)
Utilities	(8,240)	(8,901)
Printed products	(2,166)	(1,994)
Membership fees	(2,093)	(3,029)
Vehicle maintenance and insurance	(1,715)	(1,272)
Business lunch	(249)	(375)
Training expenses	-	(1,500)
Other expenses	(2,845)	(7,600)
<b>Total operating expenses</b>	<b><u>(745,242)</u></b>	<b><u>(387,041)</u></b>

#### 16. INCOME TAXES

The Company provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Republic of Azerbaijan which may differ from International Financial Reporting Standards.

The Company is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income.

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 2009 and 2008 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

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**16. INCOME TAXES (Continued)**

Temporary differences as at 31 December 2009 and 2008 comprise:

	<b>31 December 2009</b>	<b>31 December 2008</b>
<b>Deductible temporary differences:</b>		
Long-term borrowings	29,005	22,406
Property and equipment	4,105	-
<b>Total deductible temporary differences</b>	<b>33,110</b>	<b>22,406</b>
<b>Taxable temporary differences:</b>		
Property and equipment	-	2,767
Loans to customers	44,273	15,649
Other assets	783	-
Other liabilities	-	32
<b>Total taxable temporary differences</b>	<b>45,057</b>	<b>18,448</b>
Net deferred deductible temporary differences	(11,947)	3,958
Net deferred tax asset at the statutory tax rate (22%)	(2,389)	871

Relationships between tax expenses and accounting profit for the years ended 31 December 2009 and 2008 are explained as follows:

	<b>Year ended 31 December 2009</b>	<b>Year ended 31 December 2008</b>
Profit before income tax	<b>225,672</b>	<b>303,157</b>
Tax at the statutory tax rate	49,648	66,694
Tax effect of permanent differences	3,914	(1,097)
<b>Income tax expense</b>	<b>53,562</b>	<b>65,597</b>
Current income tax expense	50,302	66,468
Change in the deferred tax asset	3,260	(871)
<b>Income tax expense</b>	<b>53,562</b>	<b>65,597</b>
	<b>31 December 2009</b>	<b>31 December 2008</b>
<b>Deferred income tax asset</b>		
<b>Beginning of the period</b>	<b>871</b>	<b>-</b>
Change in the income tax asset for the period charged to profit	(3,260)	871
<b>End of the period</b>	<b>(2,389)</b>	<b>871</b>

## NBCO AZERISTAR MICROFINANCE LLC

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in Azerbaijan manat)

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#### 17. BUSINESS SEGMENTS

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

- Grant base operations - representing operations are financed by grants.
- Non-grant base operations - representing operations are financed by borrowings from other credit organizations

Segment information about this business is presented below.

#### As of 31 December 2009

	Note	Grant base operations	Non-grant base operations	Shared services	Total
<b>External Revenue</b>					
Net Interest Income		530,216	461,145	-	991,361
Net Fee and Commission Exp.		(9,512)	(8,273)	-	(17,785)
Other Operating Income		-	(2,662)	-	(2,662)
<b>Total Segment Revenue</b>		<b>520,704</b>	<b>450,210</b>	-	<b>970,914</b>
Segment Results		(399,675)	(345,567)	-	(745,242)
Income Tax Expense		-	-	(53,562)	(53,562)
<b>Profit for the Period</b>		-	-	172,110	<b>172,110</b>
Segment Assets		1,176,162	935,855	429,604	2,541,621
Unallocated Assets		-	-	-	-
<b>Total Assets</b>		<b>1,176,162</b>	<b>935,855</b>	<b>429,604</b>	<b>2,541,621</b>
Segment Liabilities		-	1,296,333	2,785	1,299,118
Unallocated Liabilities		-	-	-	-
<b>Total Liabilities</b>		-	<b>1,296,333</b>	<b>2,785</b>	<b>1,299,118</b>
Impairment losses on financial assets		-	-	26,984	26,984
Depreciation and amortization		-	-	(29,711)	(29,711)

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**17. BUSINESS SEGMENTS (Continued)**

**As of 31 December 2008**

	Note	Grant base operations	Non-grant base operations	Shared services	Total
<b>External Revenue</b>					
Net Interest Income		463,551	222,331	-	685,882
Net Fee and Commission Exp.		(11,898)	(5,706)	-	(17,604)
Other Operating Income		-	21,920	-	21,920
<b>Total Segment Revenue</b>		<b>451,653</b>	<b>238,545</b>	<b>-</b>	<b>690,198</b>
Segment Results		(253,274)	(133,768)	-	(387,042)
Income Tax Expense		-	-	(65,597)	(65,597)
<b>Profit for the Period</b>		<b>-</b>	<b>-</b>	<b>(237,559)</b>	<b>(237,559)</b>
Segment Assets		1,066,433	839,133	71,445	1,977,013
Unallocated Assets		-	-	-	-
<b>Total Assets</b>		<b>1,066,433</b>	<b>839,133</b>	<b>71,445</b>	<b>1,977,013</b>
Segment Liabilities		-	870,946	35,672	906,618
Unallocated Liabilities		-	-	-	-
<b>Total Liabilities</b>		<b>-</b>	<b>870,946</b>	<b>35,672</b>	<b>906,618</b>
Impairment losses on financial assets		-	-	(17,751)	(17,751)
Depreciation and amortization		-	-	(7,894)	(7,894)

**18. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, the Company 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 statement of financial position. The Company'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.

*Operating lease commitments* – Where the Company is the lessee, the future minimum lease payments under the operating leases cancellable in average one month, are as follows:

	31 December 2009	31 December 2008
Not later than 1 year	38,340	25,720
Later than 1 year and not later than 5 years	16,840	-
<b>Total operating lease commitments</b>	<b>55,180</b>	<b>25,720</b>

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**18. COMMITMENTS AND CONTINGENCIES (Continued)**

***Taxation***

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

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

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

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

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**19. TRANSACTIONS WITH RELATED PARTIES (Continued)**

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

	<b>Year ended 31 December 2009</b>		<b>Year ended 31 December 2008</b>
	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>	<b>Related party transactions</b>
			<b>Total category as per financial statements caption</b>
Loans to customers		2,080,415	1,929,615
- <i>key management personnel of the entity or its parent</i>	16,615		36,404
Allowance for impairment losses		(12,672)	(39,698)
- <i>key management personnel of the entity or its parent</i>	-		(728)

	<b>Year ended 31 December 2009</b>		<b>Year ended 31 December 2008</b>
	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>	<b>Related party transactions</b>
			<b>Total category as per financial statements caption</b>
Key management personnel compensation:		(554,633)	(254,110)
- <i>short-term employee benefits</i>	(128,169)		89,173
<b>Total key management personnel compensation</b>	<b>(128,169)</b>		<b>89,173</b>

Included in the income statement for the years ended 31 December 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	<b>Year ended 31 December 2009</b>		<b>Year ended 31 December 2008</b>
	<b>Related party transactions</b>	<b>Total category as per financial statements caption</b>	<b>Related party transactions</b>
			<b>Total category as per financial statements caption</b>
Interest income		1,107,383	808,514
- <i>key management personnel of the entity or its parent</i>	2,143		6,553
Provision for impairment losses		26,984	(17,751)
- <i>key management personnel of the entity or its parent</i>	-		(7)

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**20. 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 Company could realize in a market exchange from the sale of its full holdings of a particular instrument.

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

	<b>31 December 2009</b>		<b>31 December 2008</b>	
	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
Cash and cash equivalents	370,256	(370,256)	36,193	(36,193)
Loans to customers	2,112,016	(2,112,016)	1,905,566	(1,905,566)
Long term borrowings	(1,296,333)	1,296,333	(870,946)	870,946

**21. RISK MANAGEMENT POLICIES**

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

- Credit risk
- Liquidity risk
- Market risk.

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

***Credit risk***

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

***Maximum Exposure***

The Company 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. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral.

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**21. RISK MANAGEMENT POLICIES (Continued)**

	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral Pledged</b>	<b>31 December 2009 Net exposure after offset and collateral</b>
Loans to customers	2,112,016	-	2,112,016	-	2,112,016

	<b>Maximum exposure</b>	<b>Offset</b>	<b>Net exposure after offset</b>	<b>Collateral Pledged</b>	<b>31 December 2008 Net exposure after offset and collateral</b>
Loans to customers	1,905,566	-	1,905,566	-	1,905,566

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

The following table details the carrying value of assets that are impaired and the ageing of those that are past due but not impaired:

	<b>Neither past due nor impaired</b>	<b>Financial assets past due but not impaired</b>				<b>31 December 2009</b>	
		<b>0-3 months</b>	<b>3-6 Months</b>	<b>6 months to 1 year</b>	<b>Greater than one year</b>	<b>Financial assets that have been impaired</b>	<b>Total</b>
Loans to customers	2,058,671	44,273	-	-	-	9,073	2,112,016

	<b>Neither past due nor impaired</b>	<b>Financial assets past due but not impaired</b>				<b>31 December 2008</b>	
		<b>0-3 months</b>	<b>3-6 Months</b>	<b>6 months to 1 year</b>	<b>Greater than one year</b>	<b>Financial assets that have been Impaired</b>	<b>Total</b>
Loans to customers	1,888,881	15,649	-	-	-	1,036	1,905,566

***Geographical concentration***

The Management exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Company's activity. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Azerbaijan Republic.

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**21. RISK MANAGEMENT POLICIES (Continued)**

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

	Azerbaijan Republic	OECD countries	31 December 2009 Total
<b>ASSETS</b>			
Cash and cash equivalents	370,256	-	370,256
Loans to customers	2,112,016	-	2,112,016
Property and equipment	50,187	-	50,187
Deferred income tax assets	-	-	-
Other assets	9,162	-	9,162
<b>TOTAL ASSETS</b>	<b>2,541,621</b>	<b>-</b>	<b>2,541,621</b>
<b>LIABILITIES</b>			
Long term borrowings	76,325	1,220,008	1,296,333
Deferred liabilities	2,389	-	2,389
Other liabilities	396	-	396
<b>TOTAL LIABILITIES</b>	<b>79,110</b>	<b>1,220,008</b>	<b>1,299,118</b>
<b>NET POSITION</b>	<b>2,462,511</b>	<b>(1,220,008)</b>	<b>1,242,503</b>
	Azerbaijan Republic	OECD countries	31 December 2008 Total
<b>ASSETS</b>			
Cash and cash equivalents	36,193	-	36,193
Loans to customers	1,905,566	-	1,905,566
Property and equipment	34,383	-	34,383
Deferred income tax assets	871	-	871
<b>TOTAL ASSETS</b>	<b>1,977,013</b>	<b>-</b>	<b>1,977,013</b>
<b>LIABILITIES</b>			
Long term borrowings	86,419	784,527	870,946
Other liabilities	35,673	-	35,673
<b>TOTAL LIABILITIES</b>	<b>122,092</b>	<b>784,527</b>	<b>906,619</b>
<b>NET POSITION</b>	<b>1,854,921</b>	<b>(784,527)</b>	<b>1,070,394</b>

***Liquidity risk***

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

(i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Company can be required to pay;

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**21. RISK MANAGEMENT POLICIES (Continued)**

(ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	<b>Weighted average effective interest rate</b>	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 month to 1 year</b>	<b>1 year to 5 years</b>	<b>Maturity undefined</b>	<b>31 December 2009 Total</b>
<b>ASSETS</b>							
Cash and cash equivalents		370,256	-	-	-	-	370,256
Loans to customers	42%	458,047	759,318	1,372,492	22,840	6,535	2,619,232
Other assets		9,162	-	-	-	-	9,162
<b>TOTAL ASSETS</b>		<b>837,465</b>	<b>759,318</b>	<b>1,372,492</b>	<b>22,840</b>	<b>6,535</b>	<b>2,998,650</b>
<b>LIABILITIES</b>							
Long term borrowings	13%	40,696	93,829	425,524	1,117,210	-	1,677,259
Other liabilities		396	-	-	-	-	396
<b>TOTAL LIABILITIES</b>		<b>41,092</b>	<b>93,829</b>	<b>425,524</b>	<b>1,117,210</b>	<b>-</b>	<b>1,677,655</b>
Liquidity gap		796,373	665,489	946,968	(1,094,370)	6,535	
Interest sensitivity gap		88,699	116,109	133,058	(215,215)	3,640	
<b>Cumulative interest sensitivity gap</b>		<b>88,699</b>	<b>204,808</b>	<b>337,866</b>	<b>122,651</b>	<b>126,291</b>	

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**21. RISK MANAGEMENT POLICIES (Continued)**

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Maturity undefined	31 December 2008 Total
<b>ASSETS</b>							
Cash and cash equivalents		36,193	-	-	-	-	36,193
Loans to customers	46%	344,353	622,333	1,340,514	60,357	16,403	2,383,960
<b>TOTAL ASSETS</b>		<b>380,546</b>	<b>622,333</b>	<b>1,340,514</b>	<b>60,357</b>	<b>16,403</b>	<b>2,420,153</b>
<b>LIABILITIES</b>							
Long term borrowings	13%	2,150	33,875	135,493	900,672	-	1,072,190
Other liabilities		35,672	-	-	-	-	35,672
<b>TOTAL LIABILITIES</b>		<b>37,822</b>	<b>33,875</b>	<b>135,493</b>	<b>900,672</b>	<b>-</b>	<b>1,107,862</b>
Liquidity gap		342,724	588,458	1,205,021	(840,315)	16,403	
Interest sensitivity gap		78,709	106,320	185,050	(115,399)	67	
<b>Cumulative interest sensitivity gap</b>		<b>78,709</b>	<b>185,029</b>	<b>370,079</b>	<b>254,680</b>	<b>254,747</b>	

***Market risk***

Market risk covers interest rate risk, currency risk and other pricing risks to which the Company is exposed. There have been no changes as to the way the Company measures risk or to the risk it is exposed in 2007.

***Interest rate risk***

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

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**21. RISK MANAGEMENT POLICIES (Continued)**

Impact on profit before tax:

	<b>As at 31 December 2009</b>		<b>As at 31 December 2008</b>	
	<b>Interest rate +1%</b>	<b>Interest rate +1%</b>	<b>Interest rate +1%</b>	<b>Interest rate +1%</b>
<b>Assets:</b>				
Loans to customers	20,804	(20,804)	13,621	(13,621)
<b>Liabilities:</b>				
Long term borrowings	<u>(29,346)</u>	<u>29,346</u>	<u>(17,443)</u>	<u>17,443</u>
<b>Net impact on profit before tax</b>	<u><u>(8,542)</u></u>	<u><u>8,542</u></u>	<u><u>(3,822)</u></u>	<u><u>3,822</u></u>

Impact on shareholders equity:

	<b>As at 31 December 2009</b>		<b>As at 31 December 2008</b>	
	<b>Interest rate +1%</b>	<b>Interest rate +1%</b>	<b>Interest rate +1%</b>	<b>Interest rate +1%</b>
<b>Assets:</b>				
Loans to customers	20,804	(20,804)	13,621	(13,621)
<b>Liabilities:</b>				
Long term borrowings	<u>(29,346)</u>	<u>29,346</u>	<u>(17,443)</u>	<u>17,443</u>
<b>Net impact on shareholders equity</b>	<u><u>(8,542)</u></u>	<u><u>8,542</u></u>	<u><u>(3,822)</u></u>	<u><u>3,822</u></u>

***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 Company 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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**21. RISK MANAGEMENT POLICIES (Continued)**

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

	AZN	USD	31 December 2009 Total
<b>ASSETS</b>			
Cash and cash equivalents	370,256	-	370,256
Loans to customers	2,112,016	-	2,112,016
Property and equipment	50,187	-	50,187
Deferred income tax assets	-	-	-
Other assets	9,162	-	9,162
<b>TOTAL ASSETS</b>	<b>2,541,621</b>	<b>-</b>	<b>2,541,621</b>
<b>LIABILITIES</b>			
Long term borrowings	816,309	480,024	1,296,333
Deferred liabilities	2,389	-	2,389
Other liabilities	396	-	396
<b>TOTAL LIABILITIES</b>	<b>819,094</b>	<b>480,024</b>	<b>1,299,118</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,722,527</b>	<b>(480,024)</b>	<b>1,242,503</b>
	AZN	USD	31 December 2008 Total
<b>ASSETS</b>			
Cash and cash equivalents	36,193	-	36,193
Loans to customers	1,905,566	-	1,905,566
Property and equipment	34,383	-	34,383
<b>TOTAL ASSETS</b>	<b>1,977,013</b>	<b>-</b>	<b>1,977,013</b>
<b>LIABILITIES</b>			
Long term borrowings	465,400	405,546	870,946
Deferred liabilities	35,673	-	35,673
Other liabilities	871	-	871
<b>TOTAL LIABILITIES</b>	<b>501,073</b>	<b>405,546</b>	<b>906,619</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>1,475,941</b>	<b>(405,546)</b>	<b>(1,070,395)</b>

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009 (in Azerbaijan manat)

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#### 21. RISK MANAGEMENT POLICIES (Continued)

##### *Currency risk sensitivity*

The following table details the Company's Sensitivity to a 10% increase and decrease in the USD 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 Company where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at 31 December 2009		As at 31 December 2008	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Impact on profit or loss	(48,002)	48,002	(40,555)	40,555
Impact on equity	(48,002)	48,002	(40,555)	40,555