



İLLİK HESABAT 2010

ANNUAL REPORT 2010

 Xalq Bank

Uğurla birlikdəyik!

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Asim Məmmədli,
İdarə Heyətinin Sədri

Asim Mammadli,
Chairman of the Executive Board



Hörmətli səhmdarlar, müştərilər və tərəfdaşlar,

Bankımızın 2010-cu il üzrə maliyyə hesabatını diqqətinizə çatdırıram. Fəaliyyətinin ilk beş ilini geridə qoyan Xalq Bank, ötən il inkişafının yeni mərhələsinə qədəm qoydu. Əvvəlki illərdə olduğu kimi, altıncı il də Bankımızın tarixində bir çox nailiyyətlərlə yadda qaldı. Biz ölkənin maliyyə sektorundakı mövqelərimizi daha da möhkəmləndirdik, bank fəaliyyətinin bütün istiqamətlərində önəmli və yüksək nəticələr əldə etdik. 2010-cu ildə Xalq Bank əsas maliyyə göstəriciləri üzrə Azərbaycan bank sisteminin lider banklar qrupunda qərarlaşdı.

Ötən il istər Xalq Bank, istərsə də bank bazarının digər iştirakçıları üçün ən mürəkkəb dövrlərdən biri oldu. Bir çox maliyyə və investisiya nəhənglərinin belə tab gətirməyib təslim olduğu dünya iqtisadi böhranının gərginliyi hələ də davam etməkdə idi. Lakin 2010-cu ildə Azərbaycan iqtisadiyyatında qeyd alınan dinamik inkişaf prosesləri maliyyə qurumlarının, ilk növbədə də ölkə banklarının sabit inkişafına şərait yaratmışdır. Ölkə Prezidenti cənab İlham Əliyevin yürütdüyü iqtisadi siyasətin strateji istiqamətləri olan regionların tarazlı inkişafı, iqtisadiyyatın şaxələndirilməsi, əlverişli biznes və investisiya

Dear shareholders, customers and partners,

I am pleased to present to your attention Xalq Bank's annual report for 2010. Having completed five years of operations, the Bank raised its performance to a new stage of development over the past year. As in previous years, our sixth will go down in the Bank's history as one of many achievements. We have consolidated our position in the country's financial sector and achieved significant positive results in all areas of banking activity. In 2010, Xalq Bank established itself among the leading banks in Azerbaijan on the principal financial criteria.

Last year was a most challenging period for all players in the banking sector. The strains created by the global financial crisis, too severe for even some of the world's financial and investment giants, were still evident. However, the dynamism of the Azerbaijani economy in 2010 provided a basis for continued development by its financial structures, especially banks. This is the result of President İlham Aliyev's economic strategy: the successful promotion of balanced regional development, diversification of the economy, the establishment of an auspicious business and investment



2010-cu ildə Xalq Bank əsas maliyyə göstəriciləri üzrə Azərbaycan bank sisteminin lider banklar qrupunda qərarlaşdı.

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mühtinin formalaşdırılması, əhalinin maddi rifahının daha da yüksəldilməsi tədbirlərinin son illərdə uğurla həyata keçirilməsi öz bəhrəsini verməkdədir.

Dünyanın bir çox ölkələrində müşahidə olunan durğunluq və hətta iqtisadi geriləmə şəraitində Azərbaycanda ötən il ÜDM 5% artıb. Mülayim pul-kredit siyasəti inflyasiyanı MDB və bir çox Avropa dövlətlərindən də aşağı səviyyədə – 5,7% səviyyəsində saxlamağa imkan verib.

Düzdür, böhranın mənfi təsiri kimi ötən il zərərlə işləyən bankların sayının artması, kredit bazarında aktivliyin əvvəlki illərə nisbətən zəifləməsi və ümumi mənfəətliliyin azalması baş verdi. Lakin bütün bunlara rəğmən, yekun göstəricilər də sübut edir ki, iqtisadiyyatın aparıcı qüvvəsi olan bank sektorunun maliyyə dayanıqlığı təmin edilib. Xarici bazarlarda davam edən likvidlik böhranına baxmayaraq, Azərbaycan bankları 2010-cu ildə hətta mülayim inkişaf nümayiş etdirib. Statistika əsasən, bankların aktivləri 14%, kreditlər 9%, ümumi depozitlər 17%, o cümlədən əhalinin əmanətləri 30% artıb. İnkişafa təkan verən amillərdən biri də Mərkəzi Bankın pul-kredit siyasətində həyata

environment, and the further advancement of people's material well-being.

While many countries experience economic stagnation or reverse, last year Azerbaijan's GDP rose 5%. Financial and crediting prudence helped to hold inflation at 5.7% – a lower level than in the CIS and many European countries.

It is true that last year the negative impact of the crisis saw an increase in the number of banks working at a loss, a slowing of activity in lending market compared to previous years and a general reduction in profitability. Nevertheless, the year's final figures demonstrate that the banking sector, the backbone of the economy, maintained financial resilience. Despite the liquidity crisis in foreign markets, Azerbaijani banks achieved steady development in 2010. The statistics show that bank assets increased 14%, loans were up 9%, total deposits 17% and individual customer deposits rose 30%. One factor stimulating this progress was the softening of the Central Bank's finance-loans policy, resulting in a record low level discount rate – a cut of 2%. Thus financial stability and liquidity

keçirdiyi yumşalma və bunun nəticəsi kimi uçot dərəcəsinin rekord aşağı səviyyəyə – 2%-ə salması oldu. Nəticədə, bank sisteminin maliyyə sabitliyi və likvidliyi qorunub saxlanıldı. Mərkəzi Bank il ərzində öz siyasətinə çevik korreksiyalar etməklə makroiqtisadi və maliyyə sabitliyinin qorunmasına, habelə iqtisadi artıma zəruri dəstək verdi.

Məmnunluqla qeyd etməliyəm ki, dünyada baş verən gərgin iqtisadi proseslərə rəğmən, ölkəmizin əlverişli biznes mühiti və seçilmiş doğru strategiya Bankımıza ili yüksək göstəricilərlə başa vurmağa imkan verdi. İlin yekunları Xalq Bank kollektivinin yüksək peşəkarlığının və Bankın mövqelərinin sarsılmazlığını bir daha nümayiş etdirdi.

Ötən il Bankımız mütləq göstəricidə xalis mənfəətin həcminə görə milli bank bazarında üçüncü yeri tutdu. Bu işə aktiv əməliyyatların həcmnin artması, müştərilərin vəsaitlərinin Banka cəlb olunması istiqamətində görülən kompleks tədbirlər nəticəsində mümkün oldu. İl ərzində istər pərakəndə, istərsə də korporativ müştərilərimizin sayını artırma bildik. Müştərilərə göstərilən xidmətlərin keyfiyyətinin artırılmasına, təkmilləşdirilməsinə və innovativ texnologiyaların tətbiqinə xüsusi diqqət yetirildi. Bununla yanaşı dünya və yerli maliyyə bazarlarının şərt və tələbləri, bərqərar olmuş rəqabət şəraiti, bazaradakı hüquqi və fiziki şəxslərin tələbatını nəzərə alaraq, beynəlxalq təcrübəyə əsaslanaraq mütəmadi olaraq məhsul çeşidi yeniləndi və genişləndirildi.

Ötən il respublikanın şəhər və regional mərkəzlərinə doğru genişlənməyimiz davam etdi, Xaçmaz və Şabranda iki yeni filial istifadəyə verildi. İqtisadiyyatın maliyyə xidmətlərinə tələbatının təmin edilməsi, əhəlinin və korporativ müştərilərin təklif etdiyimiz bütün bank məhsul və xidmətlərinə çıxış imkanlarının artırılması məqsədilə Bankımız filial şəbəkəsini daim genişləndirilməkdədir. Qabaqcıl pərakəndə bankçılıq siyasətinin əsaslarından birini təşkil edən filial şəbəkəsinin genişləndirilməsi ilə strategiyamızın əsas məqsədi - respublikanın bütün bölgələrini əhatə etməklə müştərilərə daha yaxın olmaqdan ibarətdir.

Baş ofis və regional filiallar da daxil olmaqla, il ərzində Bankın bütün strukturlarında vahid informasiya texnologiyaları tətbiq edilib, ödəmə və pulköçürmə sistemləri üzrə məhsullar yenilənib, effektiv idarəçilik prinsiplərinin tətbiqi təmin olunub. Sadələşdirilmiş tədbirlər öz növbəsində dövlətin həyata keçirdiyi sosial və iqtisadi xarakterli proqramların icrasında aktiv iştirakımızı təmin edib. Artıq bir neçə ildir Xalq Bank Sahibkarlığa Kömək Milli Fondunun və Azərbaycan İpoteka Fondunun ən fəal müvəkkil bank təşkilatlarından, Bankımız özəl sektorun, o cümlədən kiçik və orta sahibkarlığın maliyyələşdirilməsi istiqamətində uğurla fəaliyyət göstərir.

was preserved in the banking sector. The Central Bank's flexible policy adjustments over the year underpinned macro-economic and financial stability, as well as economic growth.

In view of the testing global economic circumstances, I take great pleasure in pointing to the Bank's excellent year-end returns; the product of the favourable business environment in Azerbaijan and astute choice of strategy. The results testify once more to the professionalism of the Xalq Bank team and the solidity of the Bank's foundations.

In absolute terms, Xalq Bank returned the third highest figure for pure profit in the country's banking sector. This was made possible by a complex of measures taken to raise performance and attract resources. We increased the numbers of both retail and corporate clients over the year. There was particular focus on developing the quality of service to clients, including the application of innovative technology. The range of products offered was constantly renewed in light of international experience and expanded in response to conditions, demand and competition in national and international markets, as well as the requirements of business and individual clients.

Last year our expansion into regional centres continued and two new branches, in Khachmaz and Shabran, were brought into operation. The Bank's network of branches is constantly being extended to meet demand for financial services and to improve access to all our products and services for both individual and corporate clients. Network expansion lies at the heart of leading retail banking strategy, and aims to cover all regions for greater client convenience.

Last year IT systems were standardised across head office and branches, payment and money transfer systems were updated and effective administrative principles were maintained in all structures of Xalq Bank. The developments I have mentioned have also supported our involvement in social and economic programmes carried out by the government. Xalq Bank has for several years been one of the most active participants in the National Foundation to Support Entrepreneurship and the Azerbaijan Mortgage Fund. The Bank contributes effectively to the financing of the private sector, including small and medium-size businesses.

In 2010 Xalq Bank launched National Heritage - the first socio cultural project. As its name suggests, the Bank seeks strategic involvement in many important facets of public life. The purpose of this new project is to support and introduce the works of prominent Azerbaijani artists and academics to the world as examples of our principles and culture. Also last year, particular attention was given to creating



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2010-cu ildə "Xalq Əmanəti" layihəsinə başlamaqla Xalq Bank sosial-mədəni istiqamətdə fəaliyyətinə də start verdi. Qeyd etmək istəyirəm ki, adına uyğun olaraq Bankımız xalqımızın həyatında baş verən bir çox önəmli proseslərdə yaxından iştirak etməyi strateji məqsədlərindən hesab edir. Ötən il başladığımız yeni layihənin məqsədi Azərbaycan xalqının görkəmli sənət və elm xadimlərinin yaratdıqlarını mənəvi dəyərlərimizin nümunələri kimi dəstəkləmək və dünya ictimaiyyətinə tanıtmadır.

Bankımızın ən dəyərli vəsaiti kimi qiymətləndirdiyimiz əməkdaşlarımız üçün optimal şərait yaradılmasına da ötən il xüsusi diqqət yetirilib. Xalq Bankın dəyərlərinin bütövlükdə vahid komandanın və ayrılıqda kollektivin hər bir üzvünün dəyərinə çevrilməsi istiqamətində işlər aparılıb, vahid korporativ mədəniyyətin formalaşmasına nail olunub.

Ötən ilki nailiyyətlərimizin əsasında peşəkar komanda, bank biznesinin ən qabaqcıl texnologiyalarının tətbiqi və yenilikçiliyimiz, eləcə də, səhmdarlarımızın, müştəri və tərəfdaşlarımızın etimadı dayanır.

Sözsüz ki, 2010-cu ildə əldə olunan nailiyyətlər 2011-ci ilin dinamik inkişafının təməlidir. Durmadan artan rəqabəti və böhrandan sonrakı inkişafın vacibliyini nəzərə alaraq Xalq Bank 2011-ci ildə də beynəlxalq bankçılıq standartlarına uyğun geniş spektrdə bank xidmətləri təklif etməkdə davam edəcək. Maliyyə institutları ilə əlaqələrin möhkəmləndirilməsinə diqqət artırılacaq, yerli və beynəlxalq tərəfdaşların investisiya layihələrində iştirak etməklə Bankımız öz fəaliyyətini gücləndirəcək. Əldə etdiyimiz nailiyyətlərlə kifayətlənməyib dinamik inkişafı qarşıdakı illərdə də uğurla davam etdirmək üçün Bankın imkanları daha da artırılacaq.

Biz Azərbaycanın bank sektorunun gələcəyini çox nikbin görürük və əminik ki, Xalq Bank bu sahənin və ümumilikdə maliyyə bazarının inkişafı prosesində əhəmiyyətli yer tutacaq və əvvəlki dövrlərdə olduğu kimi, qarşıya qoyduğumuz məqsədlərə çatacağıq.

Yekun olaraq Xalq Bankın ölkənin nüfuzlu banklarından biri olmasına əmək sərf etmiş hər bir kəsə təşəkkür etmək istəyirəm. Bizimlə əməkdaşlığınızın bundan sonra da uğurla davam edəcəyinə əminəm.

favourable conditions for our staff, the Bank's most valuable resource. We worked individually with every member of staff towards establishing a team ethic and corporate culture for Xalq Bank.

Professional teamwork, the application of the most advanced banking technology and a culture of innovation, as well as the confidence of our shareholders, clients and partners, stand behind our achievements of the past year.

Of course the advances made in 2010 provide the basis for dynamic development in 2011. In view of intensifying competition and the necessity for post-crisis progress, in 2011 Xalq Bank will continue to offer an extensive range of banking services on international standards. We will reinforce the Bank's relations with financial institutions and enhance its work by collaborating with local and international partners on investment projects. We will not rest on the gains we have made and the Bank's potential will be increased to ensure successful continuation of its dynamic development in the years to come.

We are very optimistic about the future of the banking sector in Azerbaijan and we are sure that Xalq Bank will play an important role in its development as well as in the financial market as a whole and we will achieve the goals we have set for ourselves, as we have in earlier years.

In conclusion, I would like to thank everyone who has worked to make Xalq Bank one of the most influential banks in the country. I am sure that our joint work will continue to be as successful.

Hörmətlə,
Asim Məmmədli

With best regards,
Asim Mammadli





Xarici bazarlarda davam edən likvidlik böhranına baxmayaraq, Azərbaycan bankları 2010-cu ildə mülayim inkişaf nümayiş etdirib.

Despite the liquidity crisis in foreign markets, Azerbaijani banks achieved steady development in 2010.

İDARƏ HEYƏTİ / EXECUTIVE BOARD



Xəzər Bağırılı
İdarə Heyəti Sədrinin müavini

Khazar Baghirlı
Deputy Chairman of the
Executive Board



Elxan Ağayev
İdarə Heyəti Sədrinin müavini

Elkhan Aghayev
Deputy Chairman of the
Executive Board



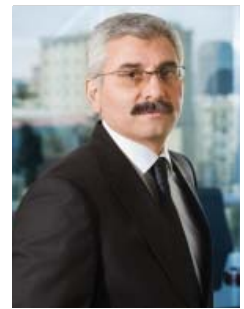
Nigar Biləndərli
İdarə Heyətinin üzvü,
Biznesin İnkişafı idarəsinin reisi

Nigar Bilandarlı
Member of the Executive
Board, Head of Business
Development Department



Yaşar Nağiyev
İdarə Heyəti Sədrinin Müavini

Yashar Naghiyev
Deputy Chairman of the
Executive Board



Kamal Tahirli
İdarə Heyəti Sədrinin Müavini

Kamal Tahirli
Deputy Chairman of the
Executive Board

RƏHBƏRLİK / MANAGEMENT



Kəmran Məcidov
Kredit İdarəsinin Reisi

Kamran Majidov
Head of Loans Department



Kəmran Sərdarov
Filiəllərlə İş İdarəsinin Reisi

Kamran Sardarov
Head of Branch Management
Department



Natella Şahverdiyeva
Xəzinədarlıq İdarəsinin Reisi

Natella Shakhverdiyeva
Head of Treasury Department



İlqar Mazanov
Təhlükəsizlik İdarəsinin Reisi

İlqar Mazanov
Head of Security Department



Tamilla Əsədova
Maliyyə İdarəsinin Reisi –
Baş Mühəsib

Tamilla Asadova
Head of Financial Department –
Chief Accountant



İlqar Mənsimov
İnformasiya Texnologiyaları
İdarəsinin Reisi

İlqar Mansimov
Head of IT Department



Elvira Əliyeva
İcra Aparatının Direktoru

Elvira Aliyeva
Head of Executive Office



Mərfət Məmmədov
Təsərrüfat İdarəsinin Reisi

Marfat Mammadov
Head of Procurement
Department



Kəmalə Axundova
Risklərin İdarə Edilməsi
İdarəsinin Reisi

Kamala Akhundova
Head of Risk Management
Department



Rəyam Hüseynzadə
İnzibati-hüquq İdarəsinin Reisi

Royam Huseynzadeh
Head of Administrative –
Legal Department



Nazim İbrahimov
Hesablaşmalar İdarəsinin Reisi

Nazim Ibragimov
Head of Clearing and
Settlement Department



Vasif Bayramov
Problemlı Kredıtlərlə İş
İdarəsinin Reisi

Vasif Bayramov
Head of Non Performing Loans
Department



Çingiz Məmmədov
Daxili Audit
İdarəsinin Reisi

Chingiz Mammadov
Head of Internal Audit
Department

2010–cu ildə

Azərbaycanın iqtisadiyyatı və bank sistemi

Azerbaijan's economy and banking system in 2010

Makroiqtisadi vəziyyətin xülasəsi

Review of the macroeconomic situation

2010-cu il dünya iqtisadiyyatının global maliyyə böhranından tədricən çıxmağa başladığı dövr kimi yadda qaldı. Məhz ötən il inkişaf etmiş dövlətlər milli iqtisadiyyatın tənəzzülə uğramasının qarşısını aldı, inkişafda olan ölkələr isə iqtisadi inkişaf prosesində hətta müəyyən müsbət dinamika nümayiş etdirdilər. Beynəlxalq Valyuta Fondunun qiymətləndirməsinə əsasən, 2010-cu ildə dünya iqtisadiyyatında 5% səviyyəsində global artım qeydə alınmışdır.

2010-cu ildə dünya bazarlarında cərəyan edən və Azərbaycan iqtisadiyyatı üçün önəm daşıyan hadisələrdən biri xam neftin qiymətinin 2009-cu ilə nisbətə 28% artması oldu. Bu proseslərin, həmçinin avro-dollar məzənnəsinin qeyri-müəyyənliyi və idxalın bahalaşması kimi əhəmiyyətli amillərin fonunda Azərbaycan iqtisadiyyatında sabit artım davam etdi. Dünya iqtisadiyyatına meyillərin güclənməsi, məcmu tələbin canlanması ölkədə makroiqtisadi sabitliyin qorunmasını və sosial-iqtisadi sahədə pozitiv dəyişikliklərin davamlılığını təmin etdi.

2010-cu ildə ölkənin inkişafını xarakterizə edən əsas

2010 year is remembered as the period when the world economy gradually began to emerge from the global financial crisis. Last year highly developed countries prevented the collapse of their national economies and developing countries even displayed a certain positive dynamic in the process of economic advance. According to estimates by the International Monetary Fund, the world economy recorded global growth of 5% in 2010.

One development in the world market in 2010, which was important for the economy of Azerbaijan, was the 28% growth in the cost of crude oil compared with 2009. Against this background, as well as uncertainty in the euro-dollar exchange rate and other significant factors, such as increasing costs of imports, Azerbaijan's economy remained stable. Strengthening tendencies in the world economy and the overall revival of demand maintained macroeconomic stability and the positive social and economic changes being made in the country.

The main macroeconomic indicator characterizing the



makroiqtisadi göstərici – Ümumi Daxili Məhsul istehsalı Azərbaycanda 5% artaraq 41,6 mlrd. man. təşkil edib.

Hesabat ili ərzində ölkədə 27,4 mlrd.man həcmində sənaye məhsulu istehsal olunub ki, bu da 2009-un analoji göstəricisinə nisbətə 22% çoxdur. Bütün maliyyə mənbələrindən əsas kapitəla 9,7 mlrd. manatdan artıq investisiya yatırılıb ki, bu da illik müqayisədə 21,2% artım deməkdir. Ölkə iqtisadiyyatına 14 mlrd. man sərmayə yatırılıb və bu göstərici 2009-cu ilə nisbətən 33% artıb. Sərmayələrin 52,4% daxili investisiyaların payına düşüb.

Tikinti kompleksində aparılan inşaat işləri üçün bütün maliyyə mənbələrindən 9,7 mlrd. AZN məbləğində vəsaitdən istifadə edilib. Yönləndirilmiş vəsaitlərin 4,7 mlrd. manatı, yaxud 48,6%-i məhsul istehsalı obyektlərinin inşasına sərf olunmuş, 75,2%-i və ya 7,3 mlrd. manatını daxili vəsaitlər təşkil edib. İl ərzində respublika üzrə 60 yeni sənaye müəssisəsi istismara verilib və daha 80 müəssisənin tikintisi davam etdirilib.

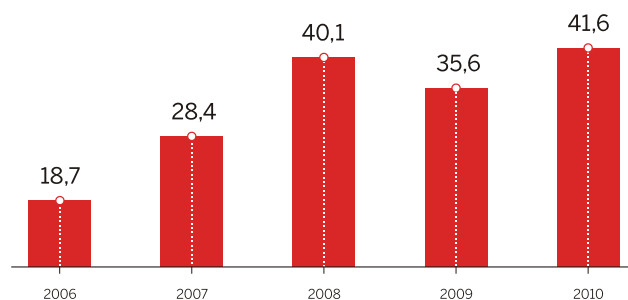
2010-cu il ərzində ölkənin tranzit potensialı yaxşılaşıb,

country's development – Gross Domestic Product in Azerbaijan – increased by 5% to AZN 41.6 billion in 2010.

The country's industrial production amounted to AZN 27.4 billion during the financial year, which was 22% more than the figure for 2009. More than AZN 9.7 billion of fixed capital investment was made from all financial sources, annual growth of 21.2%. AZN 14 billion were invested into the country's economy, an increase of 33% compared to 2009 and 52.4% of this amount was internal investment.

AZN 9.7 billion from all financial sources were used for works conducted in the construction sector. AZN 4.7 billion, or 48.6%, was invested in the construction of production facilities, and 75.2%, or AZN 7.3 billion, came from internal sources. 60 new industrial enterprises were put into operation during the year and the construction of 80 others was ongoing.

The country's potential as a transit route was improved in 2010; a State Programme on highway reconstruction and the development of the railway transport system was adopted and



Son 5 il üzrə ÜDM-nin dinamikası

GDP dynamics for the last 5 years.

avtomobil magistrallarının yenidən qurulması, Dəmir yolu nəqliyyat sisteminin inkişafı üzrə Dövlət Proqramı qəbul edilib, yeni Dəniz limanı kompleksinin tikintisinə başlanılıb.

Rabitə müəssisələrinin əhaliyə, idarə və təşkilatlara göstərdiyi 1,1 mlrd. manatlıq rabitə xidmətinin 70 %-i mobil rabitə provayderlərinin payına düşüb.

Hesabat ili ərzində ölkənin xarici ticarət dövriyyəsi 28 mlrd. ABŞ doll. təşkil edib ki, bu da əvvəlki ilin analoji göstəricisi ilə müqayisədə 34,1% çoxdur. Xarici ticarət dövriyyəsinin strukturunda ixrac 21,3 mlrd. dollar, idxal 6,6 mlrd. dollara bərabər olub. İllik müqayisədə ticarət dövriyyəsi 31%, ixrac 45,1%, idxal isə 7,8%-ə artıb.

2010-cu ildə 2009-cu ilə nisbətən istehlak mallarının qiymətləri və xidmət tarifləri 5,7%, o cümlədən ərzaq məhsullarının qiymətləri 7,2% bahalaşılıb.

Ölkənin iqtisadi və sosial sahələrində muzzla işləyənlərin orta aylıq əmək haqqı 2009-cu il ilə müqayisədə 9,1% artaraq 325 man. təşkil edib. Ötən il əhalinin gəlirlərinin əvvəlki ilə müqayisədə adambaşına düşən məbləği 12% artaraq 2 866 manata çatıb.

Regionların sosial-iqtisadi inkişafı Dövlət Proqramının icrası çərçivəsində əhəmiyyətli nailiyyətlər əldə olunub. Regionlarda

the construction began of a new sea port complex.

70% of the AZN 1.1 billion communication services offered to the population, institutions and organizations in Azerbaijan were provided by mobile communication companies.

The country's foreign trade turnover amounted to \$28 billion over the year: 34.1% higher than the figure for the previous year. Of this foreign trade, exports totalled \$21.3 billion and imports \$6.6 billion. Annual trade turnover increased by 31%, exports rising 45.1% and imports 7.8%.

Compared to 2009, prices of consumer goods and service tariffs increased by 5.7%; food prices became 7.2% more expensive.

The average monthly wage of employees in the economic and social sectors rose to AZN 325, showing 9.1% increase over the 2009 figure. Last year, the per capita income of the population increased by 12% over the previous year and has reached AZN 2,866. Significant achievements resulted from the implementation of the State Programme of socio-economic development in the regions. More than 160 industrial, commercial and service facilities were put into operation in the regions and the construction of more than 200 other enterprises was continued. The National





Xarici bazarlarda davam edən likvidlik böhranına baxmayaraq, Azərbaycan bankları 2010-cu ildə mülayim inkişaf nümayiş etdirib.

Despite the liquidity crisis in foreign markets, Azerbaijani banks achieved steady development in 2010.

160-dan çox sənaye, ticarət və xidmət obyektini istismara verilib, 200-dən çox müəssisənin tikintisi davam etdirilib. Bu müəssisələrdən 112-də Sahibkarlığa Kömək Milli Fondunun vəsaitlərindən istifadə edilib və 2010-cu il ərzində Fond tərəfindən 1430 regional sərmayə layihəsinə 115 mln. man. həcmində güzəştli şərtlərlə kreditlər ayrılıb.

Azərbaycan iqtisadiyyatında inkişafın əsas amillərindən biri kimi maliyyə sabitliyinə yönəlmiş və tarazlaşdırılmış pul-kredit siyasətini qeyd etmək olar. Ölkənin dayanıqlı inkişafına əsas zəmanətlərdən hesab olunan strateji valyuta ehtiyatları ilin əvvəlinə olan göstərici ilə müqayisədə 50% artaraq təxminən 30 mlrd. ABŞ doll. təşkil edib. Bunun 22,767 mlrd. dolları Dövlət Neft Fondu, 6,408 mlrd. dolları isə Azərbaycan Mərkəzi Bankının sərəncamında olan valyuta ehtiyatlarının payına düşüb.

2010-cu ildə isə 2009-cu illə müqayisədə məhsulların və əhaliyə göstərilən pullu xidmətlərin qiymət indeksi artıb və nəticədə ilin yekun inflyasiyası 5,7% təşkil edib.

Milli valyutanın dayanıqlığını və inflyasiyanın optimal səviyyədə saxlanılmasını təmin edən pul-kredit siyasəti 2011-ci ildə də davam etdiriləcək. Mərkəzi Bankın proqnozlarına əsasən, 2011-ci ildə ölkədə inflyasiya birrəqəmli səviyyədə qalacaq. Beynəlxalq maliyyə institutlarının ekspertləri tərəfindən aparılan qiymətləndirmələrə görə, 2011-2012-ci illərdə Azərbaycanda orta illik inflyasiyanın təxminən 5-6% səviyyəsində olacağı proqnozlaşdırılır.

Entrepreneurship Support Fund assisted 112 of these establishments; during 2010 the Fund issued AZN 115 million in loans on preferential terms to 1,430 regional investment projects.

Financial stability and a balanced monetary and credit policy may be seen as the main factors in the development of the Azerbaijani economy. The country's strategic currency reserves, considered one of the main guarantees of the country's sustainable development, increased by 50% from the beginning of the year to about \$30 billion. Of this amount, \$22,767 billion were held by the State Oil Fund and \$6,408 billion were in the foreign currency reserves of the Central Bank of Azerbaijan.

Compared to 2009, the price index for goods and paid services to the population increased in 2010 and, as a result, the final figure for inflation was 5.7%.

The monetary and credit policy which maintains the optimum level of inflation and the sustainability of the national currency will be continued in 2011. The Central Bank forecasts again single-digit inflation in 2011. Experts from international financial institutions estimate that average annual inflation in Azerbaijan will remain at approximately 5-6% in the years 2011–2012.

Bank sektorunun inkişafı

Development of the banking sector

Ölkənin dinamik inkişafı bank sektorunun tərəqqisini təmin edib. Son bir neçə ilin ilk növbədə bank sektoru üçün mürəkkəb dövr kimi xarakterizə olunmasına baxmayaraq, Azərbaycan banklarında sabit müsbət tendensiyalar davam edib. Qlobal maliyyə böhranı fonunda bank sistemi xarici hadisələrə qarşı davamlı olduqlarını və öhdəliklərini vaxtında və tam həcmdə yerinə yetirmək iqtidarında olduğunu təsdiqləməklə müştərilərinin etibarını daha da möhkəmləndiriblər. Nəticədə, 2010-cu ildə bank sektorunun fəaliyyətinin bütün əsas parametrləri üzrə artım tendensiyası davam edib.

Hesabat ilində Azərbaycanda 1 yeni banka lisenziya verilib, 2 bankın lisenziyası isə ləğv edilib. Nəticədə, 2011-ci il 1 yanvar tarixinə ölkədə 45 bank təşkilatı fəaliyyət göstərmiş ki, bunlardan da 22-si xarici kapitallı banklar olub. Eyni zamanda, əsasən regionlarda yaşayan əhəlinin bank xidmətlərinə çıxışını yaxşılaşdırmaq məqsədilə Mərkəzi Bank tərəfindən «Azərpoçt» MMC - poçt rabitəsi milli operatoruna məhdud saylı bank əməliyyatları aparmaq üçün lisenziya verilib.

İl ərzində bank sisteminin məcmu aktivləri təqribən 14% artaraq 13,3 mlrd. manata çatıb. İqtisadiyyatın maliyyə xidmətlərinə tələbatını təmin etmək və əhəlinin maliyyə xidmətlərinə çıxış imkanlarının artırmaq üçün 2010-cu ildə bankların filial şəbəkəsinin və struktur bölmələrinin genişlənməsi davam edib. İl ərzində ölkədə bank filiallarının sayı 644-ə, şöbələrin sayı 120-yə çatıb.

The country's dynamic development has ensured progress in the banking sector. Despite the last few years being a difficult period, especially for the banking sector, banks in Azerbaijan have continued to enjoy stable positive trends. Against the background of global financial crisis, confidence in the banking system has strengthened among clients as banks prove that they can withstand the pressures of external events and that they are fully able to fulfil their obligations in timely fashion. As a result, all the main parameters of the bank sector continued to grow in 2010.

One new bank was issued with a licence and two banks had their licences revoked during the financial year. As a result, on 1 January 2011 there were 45 banking establishments in the country; 22 of them were banks with foreign capital. At the same time, in order to improve access to banking services for people living in the regions, Azerpocht LLC – the national operator of postal communications - was issued with a licence by the Central Bank to carry out a limited number of banking operations.

Total assets in the banking system increased during the year by about 14%, totalling AZN 13.3 billion. In order to maintain demand for financial services in the economy and to ease people's access to financial services, banks continued to expand their networks of branches and structure in 2010. During the year the number of branches in the country rose to 644 and retail outlets increased to 120.



Son bir neçə ilin ilk növbədə bank sektoru üçün mürəkkəb dövr kimi xarakterizə olunmasına baxmayaraq, Azərbaycan banklarında sabit müsbət tendensiyalar davam edib.

Despite the last few years being a difficult period, especially for the banking sector, banks in Azerbaijan have continued to enjoy stable positive trends.



Hesabat ilinin yekununda Azərbaycan bankları 120,0 mln.man xails mənfəət əldə ediblər.

At the end of the reporting year Azerbaijani banks had made AZN 120,0 million in pure profit.

Ümumilikdə, hesabat ilinin yekununda banklar 120,0 mln. man. xalis mənfəət əldə ediblər və bu zaman 32 bank mənfəətlə, 13 bank zərərle işləyib. Bankların xarici öhdəlikləri hesabat dövrünün sonuna 2,5 mlrd. man. təşkil edib. 2010-cu il ərzində bank sisteminin məcmu kapitalının həcmi 8% artaraq 2 mlrd. manata yaxınlaşdı. Xarici investorların bank sisteminin kapitalında iştirakı 20% artaraq 245 mln. man. təşkil edib.

İlin əvvəli ilə müqayisədə bankların depozit bazası 17% artaraq 5,45 mlrd. man. təşkil edib. Eyni zamanda, əmanətlər üzrə faiz dərəcələrinin azaldılmasının təşviqi siyasəti davam edib. Əmanətlərin Sığortalanması Fondu 2010-cu il 1 iyun tarixindən qorunan əmanətlər üzrə illik faiz dərəcəsinin yuxarı həddini 15%-dən 12%-dək endirib. Bu qərar əmanətlərin faiz dərəcəsinin azaldılmasına təsir göstərərək kreditlər üzrə faiz dərəcəsinin də aşağı meyllənməsinə səbəb olub.

2009-cu ilə nisbətən bank kreditləri 9% artaraq 9 mlrd. manatı ötdü. Daxili valyuta bazarında məzənnə sabitliyinin qorunub saxlanması milli valyutada olan kreditlərin 2010-cu ildə 20% artaraq cəmi kredit portfelində xüsusi çəkisinin 64,3%-ə çatmasına səbəb olub.

Bank sahəsində önəmli hadisələrdən biri Bakıda İslam İnkişaf Bankının növbəti, 35-ci illik toplantısının keçirilməsi olub. Toplantıda 55 ölkədən minlərlə nümayəndə iştirak edib.

Overall, at the end of the year the banks had made AZN 120,0 million in pure profit; 32 banks had made profits and 13 banks had made losses. The banks' foreign liabilities amounted to AZN 2.5 billion at the end of the report year. The volume of capital in the banking system increased by 8% and approached AZN 2 billion during 2010. The contribution of foreign investors to capital in the system rose by 20% to AZN 245 million.

Banks' deposit base increased by 17% compared to the beginning of the year, to AZN 5.45 billion. At the same time, the policy of reducing interest rates on deposits continued. Azerbaijan Deposit Insurance Fund reduced interest rates on protected deposits from 15% to 12%, as from 1 June 2010. This resulted in reduction of interest rates on deposit savings and influenced on loans' rates which also went down.

Bank loans exceeded AZN 9 billion and compare with 2009 has increased by 9%. Maintaining a stable exchange rate in the domestic currency market resulted in a 20% increase in loans in the national currency; they constituted 64.3% of the total loan portfolio in 2010.

An important event in the banking sector was the 35th annual meeting of the Islamic Development Bank in Baku. The meeting was attended by thousands of delegates from 55 countries.

Xalq Bank: 2010 –cu ilin mühüm hadisələri

Xalq Bank: key events of 2010

Fevral – Mart / February – March

Xalq Bankın "Xaçmaz" filialı açıldı.

"B&B TV Communication" yayım şirkətinin və Bakcell mobil operatorunun xidmətlərinin ödənilməsi üçün Xalq Bank tərəfindən yaradılan ödəmə sistemi tətbiq edildi.

The Khachmaz branch of Xalq Bank was opened.

A payment system was established by Xalq Bank for the services of the B&B TV Communication Company and Bakcell, the mobile operator.

Aprel / April

"Xalq Kapital" MMC şirkətinin nizamnamə kapitalı 210 min. man. məbləğinə qədər artırıldı.

The authorized capital of Xalq Capital LLC was raised to AZN 0,21million.

May / May

Xalq Bankın nizamnamə kapitalı 72,828 mln.man. məbləğinə qədər artırıldı.

Xalq Bank "Reuters" beynəlxalq informasiya və diling sisteminə qoşuldu.

Xalq Bank Vergilər Nazirliyi ilə elektron sənəd mübadiləsi aparılması məqsədilə "TaxBank" sisteminə qoşuldu.

The authorized capital of Xalq Bank was raised to AZN 72.828 million.

Xalq Bank joined the Reuters international information and trading system.

Xalq Bank joined the 'TaxBank' system in order to exchange electronic documentation with the Ministry of Taxes.

İyun / June

"Sentr Znaniy" tərəfindən təşkil edilən və əsas tərəfdaşları Xalq Bank, Azercell, Caspel, R.I.S.K. şirkətləri olan "Start-up" layihəsinə start verildi.

The 'Start-Up' project, organized by 'Sentr Znaniy' in partnership with the Xalq Bank, Azercell, Caspel and R.I.S.K. companies, was launched.

Avqust / August

Xalq Bankın "Şabran" filialı açıldı.

Standard Chartered Bank (Çin) ilə müxbir əlaqələr quruldu.

The Shabran branch of Xalq Bank was opened.

Correspondent relations with Standard Chartered Bank (China) were established.

Oktyabr / October

"Xalq Əmanəti" sosial mədəni layihəsinə start verildi.

"Xalq Əmanəti" layihəsinin birinci buraxılışı çərçivəsində Xalq Rəssamı Böyükağa Mirzəzadəyə həsr olunmuş sərgi keçirildi və bədii albom təqdim olundu.

Xalq Bank "Intranet" – daxili korporativ portalını işə saldı.

The National Heritage socio-cultural project was launched.

As part of the first issue of the 'National Heritage' project, an exhibition devoted to People's Artist Beyukaga Mirzazadeh was organized and an album of art was presented.

Xalq Bank's Intranet – its internal corporate website – was launched.

Sentyabr / September

Xalq Bank İnternet Bank və Mobil Bank xidmətlərini işə saldı.

Xalq Bankın iştirakçısı və əsas tərəfdaşlarından biri olduğu "Start Up" layihəsinin ikinci mərhələsi yekunlaşdı.

Xalq Bank launched Internet Banking and Mobile Banking services.

The 'Start Up' project, in which Xalq Bank is a participant and principal partner, completed its second stage.

Dekabr / December

"Xalq Əmanəti" layihəsinin ikinci buraxılışı çərçivəsində Bankın Baş ofisində Xalq Şairi Məmməd Arazın "Seçilmiş əsərləri" təqdim olundu və ona həsr olunmuş yaradıcılıq axşamı keçirildi.

Xalq Bank tərəfindən yaradılmış Sənəd Arxivi proqramı tətbiq olundu.

Within the framework of the second issue of the National Heritage project, the 'Selected Works' of People's Poet Mammad Araz were presented in the Bank's Head Office and a commemoration evening devoted to him was organized.

The Document Archive programme, created by Xalq Bank, was put into operation.

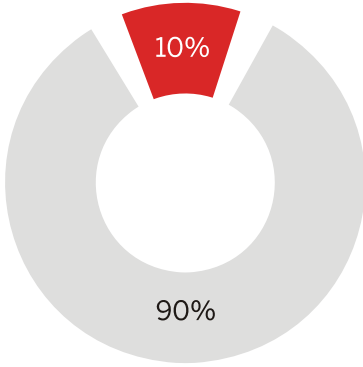
Xalq Bank-ın 2010-cu ildə fəaliyyətinin ümumi yekunları və bank bazarında mövqeləri

The overall results of Xalq Bank activities and its position in the banking market in 2010



İlin sonuna Bankın aktivləri 632,2 mln.man həddini keçib ki, bu da Azərbaycanın bank sektoru üzrə məcmu aktivlərin 5%-ni təşkil edib.Fəal və tarazlaşdırılmış bank fəaliyyətinin nəticəsi olaraq hesabat ili ərzində Xalq Bankın aktivləri 29,6% artıb.

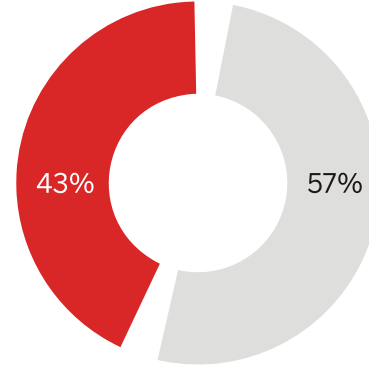
As a result of its dynamic and balanced banking activity the assets of the Bank increased 29,6% over the year and exceeded AZN 632.2 million, which consitutes 5% of the total assests of the banking sector of Azerbaijan.



Gəlirlərdə faiz gəlirlərinin payı
Interest received as share of total income

■ Faiz gəlirləri
Interest income

■ Qeyri-faiz gəlirləri
Non-interest income



Xərclərdə faiz xərclərinin payı
Interest paid as share of total expenditure

■ Faiz xərcləri
Interest expenditure

■ Qeyri-faiz xərcləri
Non-interest expenditure

2010-cu ildə Xalq Bank fəaliyyətinin bütün əsas istiqamətlərində inkişaf nümayiş etdirib. Ölkə üzrə bir çox bankların əhəmiyyətli göstəriciləri üzrə hətta geriləmə müşahidə olunsada, Xalq Bank sabit artım dinamikası sayəsində əsas göstəriciləri üzrə ölkə bankları sırasında lider mövqələrini daha da möhkəmləndirib. Bir sıra bankların iqtisadi böhranla və sahibkarlıq fəaliyyətinin əvvəlki illərlə nisbətdə tempinin aşağı düşməsi ilə əlaqədar olaraq ili zərərle başa vurmaı fonunda Xalq Bank mənfəət göstəricisinə görə Azərbaycanın bank bazarında ilk üçlükdə qərarlaşıb. Bu isə Bankın fəaliyyətinin düzgün qurulmasına və bütün mümkün risklər nəzərə alınmaqla doğru strategiyanın seçilməsinə dəlalət edir.

İlin sonuna Bankın aktivləri 632,2 mln. man. həddini keçib ki, bu da Azərbaycanın bank sektoru üzrə məcmu aktivlərin 5%-ni təşkil edib. Fəal və tarazlaşdırılmış bank fəaliyyətinin nəticəsi olaraq hesabat ili ərzində Xalq Bankın aktivləri 29,6 % artıb. 2010-cu ilin sonuna Bankın nizamnamə kapitalı 72,828 mln. man. təşkil edib və bu göstəriciyə görə Xalq Bank ölkə bankları arasında dördüncü olub.

Xalq Bankın kredit fəaliyyəti onun əsas istiqamətlərdən biridir, çünki Bankın strateji inkişaf planları və əsas gəlirlərin əldə edilməsi kredit əməliyyatlarının həcminin artırılması ilə bilavasitə bağlıdır. Keçən il ərzində Bankın kredit portfeli 29,0 mln artıb və 2010-cu ilin sonuna 471,5 mln. man təşkil edib və bu göstərici üzrə Xalq Bank ölkə bankları arasında üçüncü yeri tutub.

In 2010 Xalq Bank demonstrated progress in all its principal activities. Although many of the country's banks fell behind on important indicators, Xalq Bank further strengthened its leading position on the main criteria thanks to its dynamic of stable growth. Xalq Bank is placed among the first three banks in Azerbaijan's banking market in profits returned, against a background of many banks making losses over the year as a result of the financial crisis and the slowdown in business activity compared to previous years. This confirms that the Bank's activities were soundly established and the strategy of taking all possible risks into consideration had been correctly adopted.

As a result of its dynamic and balanced banking activity the assets of the Bank increased 29.6% over the year and exceeded AZN 632.2 million, which constitutes 5% of the total assets of the banking sector of Azerbaijan. The Bank's authorized capital amounted to AZN 72.828 million at the end of 2010, taking Xalq Bank to 4th place among the country's banks on this criterion.

The lending activity of the Bank is the most priority trend, as launching of development projects and generation of main incomes directly relate to the growth of credit portfolio. At the end of 2010 the Bank's loan portfolio has increased to AZN 29,0 million and amounted to AZN 471,5 million, placing the Bank to the 3d place among local banks.



İl ərzində vəsaitlərin daha effektiv və sabit idarə olunmasını təmin etmək məqsədi ilə uzunmüddətli vəsaitlərin cəlb olunmasına xüsusi diqqət yetirilib.

During the year, special attention was given to long-term funding to ensure more effective and sustainable management of resources.

2010-cu ilin sonuna Bankın öhdəlikləri 544,9 mln.man. çatıb. Əvvəlki il ilə müqayisədə öhdəliklərin artımı 132,7 mln. manatdan çox olub. Bu isə müştərilərin və tərəfdaşların etibarının artması, təklif olunan məhsul və xidmətlərin müxtəlifliyi və yüksək keyfiyyəti, Bankın çevik tarif siyasəti ilə şərtləndirilir.

İl ərzində vəsaitlərin daha effektiv və sabit idarə olunmasını təmin etmək məqsədi ilə uzunmüddətli vəsaitlərin cəlb olunmasına xüsusi diqqət yetirilib. Nəticədə, ilin sonuna Bankda müddətli depozitlər 26,8% artaraq 285,4 mln. manata çatıb. Bu göstərici üzrə Xalq Bank ölkə bankları arasında ikinci yerdə yerləşib. Ümumi depozitlərin strukturunda müddətli depozitlərin xüsusi çəkisi 63,9% təşkil edib.

2010-cu ildə nizamnamə kapitalı 36% artaraq 72,828 mln. man təşkil edən Xalq Bank ölkə bankları sırasında ilk beşlikdə yer tutub. Bankın balans kapitalının artımı 11,6 mln. man. və ya 15,3%-ə bərabər olub və 2010-cu ilin sonuna bu göstərici 87,2 mln. man. təşkil edib. Kapitalın adekvatlığı 16 % təşkil edib.

Bankın aktivləri və passivlərinin strukturunda dəyişikliklər gəlir və xərclərin formalaşmasına birbaşa təsir göstərib. 2009-cu ilə nisbətə hesabat ilində Bankın xalis mənfəəti 22% azalaraq 13,5 mln.man. təşkil edib. Ölkədə işgüzar fəallığın nisbətən səngiməsi, bankların kreditləşmə siyasətində risklərin qiymətləndirilməsinə daha ciddi yanaşması və maliyyələşdirmənin əhəmiyyətli şəkildə məhdudlaşdırılması fonunda ümumilikdə bütün bank sisteminin gəlirliliyinin azalmasına təsir göstərib. Məcburi göstəricidə Xalq Bank xalis mənfəətinin həcminə görə ölkə bankları arasında üçüncü yeri tutub. Eyni zamanda Xalq Bankda faiz gəlirləri üzrə 26,7% artımın əldə olunması Bankın rentabelliyyə istiqamətlənmiş düzgün strategiya seçməsinə göstərir. Bu göstərici üzrə də Xalq Bank ölkənin bank bazarında ilk beşlikdədir. Ümumilikdə, faiz əməliyyatlarından əldə olunan gəlirlər il ərzində 26,7% artaraq 47,4 mln.man.olub ki, bu da gəlirlərin ümumi həcmimin strukturunda faiz gəlirlərinin xüsusi çəkisi 90,1% təşkil edib. Faiz xərcləri 2010-cu il üzrə 22,3 mln. man. olub və onların ümumi xərclərdə xüsusi çəkisi 57%-ə bərabər olub. Bankın ümumi xərcləri 39,1 mln. man. təşkil edib. Bankın aktivlərin gəlirlilik əmsalı (ROA) 2,13%, kapitalın gəlirlilik əmsalı (ROE) isə 15,47% təşkil edib.

Liabilities of the Bank increased to AZN 544.9 million in the past year and compared to the previous year this index is greater for AZN 132.7 million. This was the result of increased trust from clients and partners, the variety and high quality of products and services offered and the Bank's flexible tariff policy.

During the year, special attention was given to long-term funding to ensure more effective and sustainable management of resources. Thus, towards the end of the year term deposits in the Bank had increased by 26.8% to AZN 285.4. On this criterion, Xalq Bank now ranks second among the country's banks. Term deposits now comprise 63.9% of the total deposit portfolio.

Xalq Bank, whose authorized capital increased by 36% to AZN 72.828 million in 2010, is now among the top five banks in the country regarding this indicator. Growth in the Bank's balance capital amounted to AZN 11.6 million, or 15.3%, and towards the end of 2010 it stood at AZN 87.2 million. The Bank's capital adequacy ratio was 16%.

Changes in the structure of the Bank's assets and liabilities have had a direct influence on its income and expenditure. Net profit declined by 22% to AZN 13.5 million for the financial year, compared to 2009. The relative slowdown in business activity in the country, against the background of a more serious approach to risk assessment in lending policy and a significant limitation on funding caused a general reduction in profitability across the whole bank system. In absolute terms of net profit, Xalq Bank ranks third among the country's banks. At the same time the 26.7% growth in interest income shows that the Bank's strategy is on the right path to achieve profitability. This figure also places Xalq Bank among the top five in the country. Overall, the percentage of income from operations rose 26.7% to AZN 47.4 million; income from interest amounted to 90.1% of total revenues. In 2010 interest payments totalled AZN 22.3 million, 57% of all expenditure. The Bank's total expenses were AZN 39.1 million. The Bank's profitability relative to its assets (ROA) was 2.13% and its rate of return on equity (ROE) was 15.47%.

Korporativ xidmətlər

Corporate banking



Korporativ biznes Xalq Bankın fəaliyyətinin əsas istiqamətlərindən biridir və hesabat ilində Bank bu sahədə mövqelərinin möhkəmləndirilməsinə nail olub. Xalq Bankın korporativ seqmentdə fəaliyyətinin əsas prinsipləri istər iri şirkətlər, istərsə də kiçik və orta sahibkarlar üçün yüksək keyfiyyətli bank məhsullarının təklif edilməsi, informasiya şəffaflığı, xidmət üçün ən rahat şəraitin yaradılması və operativlikdir. Bank, cəlb olunmuş vəsaitlərin strukturunda sabit inkişaf nümayiş etdirən şirkətlərin xüsusi çəkisinin artırılmasına önəm verir. Ötən il də korporativ müştərilərlə, ilk növbədə də maliyyə dayanıqlığı nümayiş etdirən müəssisələrlə uzunmüddətli tərəfdaşlıq münasibətlərinin və konstruktiv dialoqun qurulması davam edib. Bankda etibarlı tərəfdaş şirkətlərin potensialını aşkarlamağa imkan verən biznes-mühit yaradılıb.

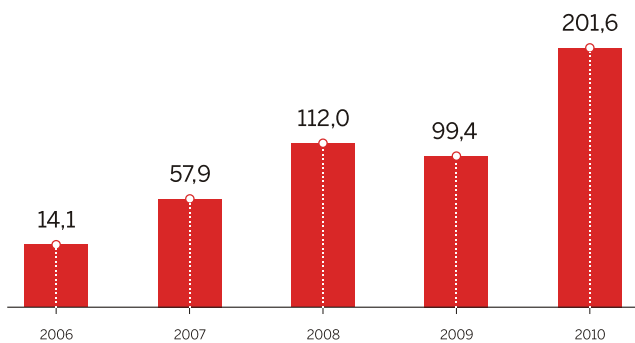
Hesabat ilində Xalq Bank 1000 yaxın korporativ müştərinin hesablarına xidmət göstərüb. Müştərilərə sərbəst pul vəsaitlərinin yerləşdirilməsi üzrə kredit və valyuta əməliyyatları aparmaq imkanı yaradılıb, sənədli əməliyyatların çeşidi genişləndirilib, korporativ bank kartları və inkassasiya

Corporate banking is one of the main focuses of Xalq Bank's activity and it achieved a stronger position in the field over the year. The main principles supporting Xalq Bank's business in the corporate sector for large companies, as well as for small and medium-size businesses, are to offer high quality banking products, information transparency and to create the most convenient conditions for service and efficiency. The Bank gives special importance to increasing the number of companies which demonstrate sustainable development in its funding structure. In the past year the Bank continued to build constructive dialogue and long-term partnerships with corporate clients, principally with those exhibiting financial stability. A business environment has been created in the Bank and this gives an opportunity to establish the potential for a reliable partnership with companies.

During the financial year Xalq Bank operated accounts for almost 1,000 corporate clients. These clients were offered the opportunity to carry out credit and foreign currency transactions to free up cash flows, a broadened spectrum of documentary operations, corporate bank cards and cash

Korporativ müştərilərin depozit portfeli
(mln. man)

Corporate client deposits (AZN mln.)



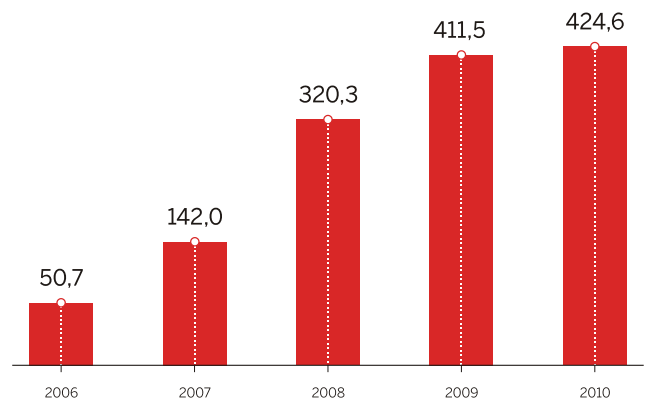
xidmətləri, İnternetBank, MobilBank, SMS-məlumatlandırma kimi məsafəli xidmətlər təklif olunub. Müştərilərimiz əsasən yanacaq-energetika, mobil rabitə, sənaye və tikinti, xidmət və ticarət sahələrində fəaliyyət göstərir. Müştərilərin iqtisadiyyatın sahələri üzrə diversifikasiyası göstərir ki, Bankın korporativ müştəri bazasında sahibkarlıq subyektləri üstünlük təşkil edir. 2010-cu ildə Bank 500-ə yaxın sahibkara, 300-ə yaxın ticarət və xidmət sektoru obyektinə xidmət göstərmişdir.

Hesabat ilində korporativ müştəri bazasının kəmiyyət artımı ilə yanaşı müştəri bazasının keyfiyyət xüsusiyyətləri də yaxşılaşıb. Hüquqi şəxslərin depozit portfeli 102,2 mln. man. və ya 2 dəfədən çox artaraq 201,6 mln. man. təşkil edib. Korporativ müştərilər üzrə Bankın kredit portfeli 424,6 mln. man. olmaqla əvvəlki ilə nisbətən 13,1 mln. man. artıb.

Korporativ siyasət strategiyasına uyğun olaraq Xalq Bank 2011-ci ildə də yeni məhsul və xidmətlər təklif etməklə yanaşı müştəri hesablaşmalarının optimallaşdırılmasına, onların biznesinin dəstəklənməsinə və genişləndirilməsinə yönəldilən korporativ biznes fəaliyyətini davam etdirmək niyyətindədir.

Korporativ müştərilərin kredit portfeli
(mln. man)

Corporate client loans (AZN mln.)



collection services, and remote services such as İnternetBank, MobileBank and SMS Notification. Our clients work mostly in the fields of fuel-energy, mobile communications, industry and construction, service and trade. The diversification of our clients across the sectors of the economy shows that entrepreneurship is prominent in the Bank's corporate client base. In 2010 the Bank served 500 entrepreneurs and 300 businesses in the trade and service sector.

As well as the quantitative growth in the corporate client base, qualitative aspects were also improved during the year. The deposit portfolio of legal entities amounted to AZN 102.2 million, or AZN 201.6 million after more than doubling. The Bank's corporate credit portfolio amounted to AZN 424.6 million, an increase of AZN 13.1 million compared to the previous year.

In accordance with its corporate policy and strategy for 2011, by offering new products and services, as well as optimizing client settlements in support of their business, Xalq Bank intends to continue to expand its corporate business activities.

Pərakəndə xidmətlər

Retail banking

Ölkədə fəaliyyət göstərən bankların böyük əksəriyyətində fərdi müştərilərə xidmət biznes strategiyasının əsasını təşkil etdiyi üçün bu sahədə güclü rəqabət mövcuddur. Xalq Bank bu istiqamətdə nailiyyətlərini ilbəl yaxşılaşdırmaq üçün fiziki şəxslərə geniş çeşiddə məhsul və xidmətlər təklif etməklə yanaşı hər bir müştəriyə fərdi yanaşma və uzunmüddətli əməkdaşlıq münasibətlərinin qurulmasını əsas meyar kimi götürür. 2010-cu il ərzində Bank fiziki şəxslərə təklif olunan məhsulların sırasını genişləndirib və onlara rahat xidmət göstərilməsini maksimum təmin edib. Nəticədə, Bankımız pərakəndə xidmətlər bazarında mövqelərini daha da möhkəmləndirib, əhəlinin bütün təbəqələrindən müştəriləri cəlb edib.

2010-ci il ərzində Bank 15 000 yaxın fiziki şəxsə xidmət göstərüb ki, bu da 2009-cu ilə nisbətə 4,5% artıqdır. Fiziki şəxslərdən 67% hesab və depozit məhsullarının istifadəçiləri, 33% isə kredit alanlardır.

2010-cu ilin sonuna Bankda fiziki şəxslərin əmanətləri 270,9 mln. manata çatmaqla 2009-cu ilin yekun göstəricisi ilə müqayisədə 65,9 mln. man. və ya 32,1 % artıb. Bank pərakəndə biznes sahəsində fəaliyyətini daim təkmilləşdirməkdə, müasir bank məhsulları tətbiq etməkdə və müştərilərin tələblərini öyrənməkdədir. Bununla, Bankın bu istiqamətdə inkişaf göstəriciləri üzrə hər il müşahidə olunan müsbət artım davam edib.

Paralel olaraq fiziki şəxslərə ayrılan kreditlərin həcmi də sürətlə artıb. Belə ki, hesabat ilində fiziki şəxslərə 2009-cu ilə nisbətən 15,1 mln. man. və ya 47% çox vəsait ayrılıb ki, bununla da 2010-cu ildə fiziki şəxslərə ayrılan kreditlərin həcmi 46,8 mln. man təşkil edib. Kreditlərdən 16,5 mln. man Azərbaycan İpoteka Fondu tərəfindən ayrılan vəsaitlərin, 10,6 mln. man

Because services to individual clients are at the heart of business strategy for most banks operating in the country, there is strong competition in this area. In addition to offering a wide variety of products and services for individuals in order to improve its performance in this field year by year, Xalq Bank has adopted an individual approach to each client; building a long-term partnership is its main criterion. The Bank extended the range of products offered to individuals to maintain maximum convenience of service in 2010. As a result, it strengthened its position in the retail services market and attracted clients from all levels of society.

In 2010 the Bank served almost 15,000 individuals; 4.5%, more than in 2009. 67% of these individuals used accounts and deposit facilities and 33% took out loans.

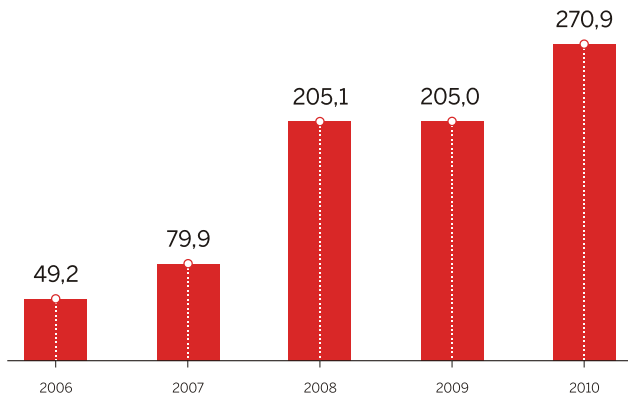
At the end of 2010, deposits by individuals reached AZN 270.9 million, an increase of AZN 65.9 million, or 32.1%, over the final figure for 2009. The Bank is continuously developing its activities in the retail business sector, applying modern banking products and analysing client demand. Consequently, the positive dynamics observed every year in the Bank's development in this area were continued.

At the same time, loans issued to individuals rose rapidly. Thus, over the financial year individuals were issued with AZN 15.1 million, or 47%, more in loans than in 2009; in 2010 the total amount issued in loans to individuals was AZN 46.8 million. AZN 16.5 million of this amount came from funds allocated by the Azerbaijan Mortgage Fund, AZN 10.6 million were other mortgage loans, AZN 7.3 million were for car loans, AZN 0.8 million were drawn on credit cards and AZN 0.3 million were consumer loans.

Xalq Bank also improved its position in the plastic cards

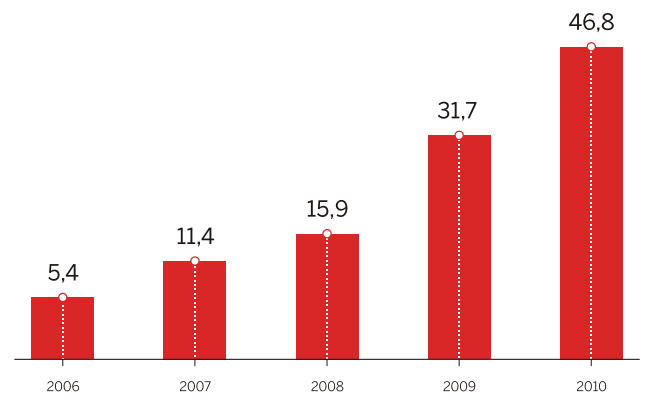
Pərakəndə müştərilərin əmanətləri
(mln. man.)

Retail customer deposits (AZN mln.)



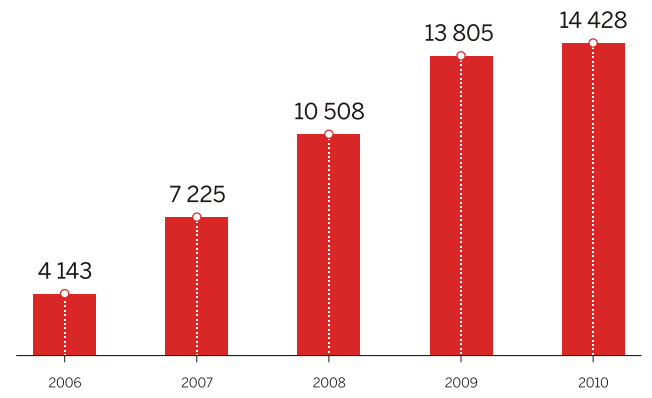
Pərakəndə müştərilərin kredit portfeli
(mln. man.)

Loans to retail customers (AZN mln.)



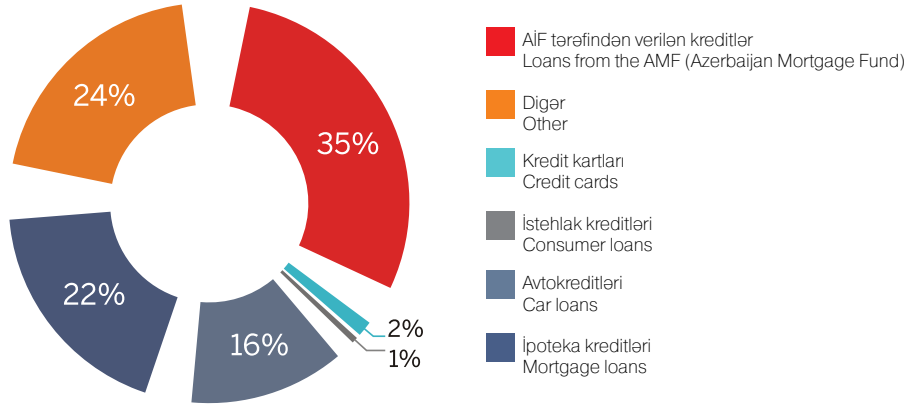
Pərakəndə müştərilərin sayı

Number of retail customers



Perakəndə müştərilər üzrə kredit portfelinin strukturu

The structure of the loan portfolio for retail customers



İpoteka kreditlərinin, 7,3 mln. man avtokreditlərin, 0,8 mln. man. kredit kartlarının, 0,3 mln. man. istehlak kreditlərinin payına düşüb.

Hesabat ilində Xalq Bank son illərdə Azərbaycanda daha da aktuallaşan plastik kartlar bazarında da mövqelərini yaxşılaşdırıb. MasterCard International və Visa International beynəlxalq ödəniş sistemlərinin üzvü olan Bank müxtəlif kartları buraxmaqda davam edib. İlin sonuna Bankın emissiya etdiyi plastik kartların ümumi sayı 19 280 ədədə çatıb ki, bu da bir il öncəki analoji göstəricidən 7 285 ədəd və ya 61% çoxdur. 2010-cu ildə plastik kartlar sahiblərinə xidmət göstərmək üçün Bankın 28 bankomatı fəaliyyət göstərib.

2010-cu il ərzində Bank, kommunal və mobil rabitə xidmətləri üzrə ödənişlərin qəbul edilməsi üçün imkanlarını genişləndirib. Bankın bütün ofislərində Bakcell və BBTV şirkətinin ödəmələrinin qəbulu üçün müvafiq proqram təminatı və infrastruktur yaradılıb. Müştərilərə istər filiallar, istərsə də İnternet vasitəsilə kommunal xidmət haqlarını, eləcə də Bakcell, Azerfon, Azerfon-Vodafone mobil rabitə istifadə haqlarını ödəmək imkanı yaradılıb. Plastik kart istifadəçilərinə həmçinin İnternet provayderlərin xidmətlərini, kabel TV ödənişlərini və sığorta haqlarını da internet vasitəsilə həyata keçirmək təklif olunub.

Müştərilərin beynəlxalq pul köçürmələrini etibarlı, rahat və sürətli həyata keçirməsini təmin etmək məqsədi ilə ötən il Xalq Bank bütün dünyanı əhatə edən təcili pul köçürmə sistemlərinin xidmətlərini təqdim etdi. Beləliklə, Bank, ən sərfəli tariflərlə və şərtlərlə Western Union, Bistraya Poçta, Contact, PrivatMoney, Zolotaya Korona, Xpress Money təcili pul köçürmə sistemlərinin xidmətlərini müştərilərinə təklif edib.

Xalq Bank 2011-ci ildə də fərdi şəxslərə təklif olunan xidmətlərin çeşidini daha da genişləndirmək, müştərilərin tələblərinə uyğun yeni məhsullar təklif etmək niyyətindədir.

market, which has become more popular in Azerbaijan in recent years. The Bank, which is a member of the MasterCard International and Visa International payment systems continued to issue various cards.

At the end of the year the Bank had issued 19,280, 61%, or 7,285, more than the corresponding figure for the previous year. In 2010, totally 28 ATM of the Bank were installed and serving cardholders all over the country .

During 2010, the Bank extended its facilities for accepting payments for public utilities and mobile services. Special software developed by Bank and installed in not only in Xalq Bank all branches but in other local banks also, allowed to accept payments for the Bakcell and B&B TV companies. In addition, clients were able to make payments for utilities, as well as to the Bakcell, Azerfon and Azerfon-Vodafone mobile phone companies, both at branches and via the internet. Cardholders were also able to pay for internet provider services, cable TV and insurance premiums via the internet.

In order to maintain reliable, convenient and speedy international money transfers for clients, last year Xalq Bank continued to present express money transfer service to cover the whole world. Thus the Bank offered the services of the fast money transfer systems of Western Union, Bistraya Pochta, Contact, PrivatMoney, Zolotaya Korona and Xpress Money on the most advantageous tariffs and conditions.

In 2011 Xalq Bank intends to expand even further the spectrum of services offered to individual clients and to offer new products according to client demand.

Risqlərin İdarə Edilməsi

Risk Management

Xalq Bankda risklərin idarə edilməsi sistemi risklərin tanınması, onların təhlili və idarə olunmasına yönəlib. Risklərin tanınması, ölçülməsi və idarə edilməsi prinsipləri Azərbaycan Respublikası Mərkəzi Bankının Risklərin İdarə Edilməsi Standartına, Mərkəzi Bankın risklərin idarə edilməsi sahəsindəki təlimatlarına və Bazel Komitəsinin tövsiyələrinə uyğun həyata keçirilir. Hesabat ilində Xalq Bank risklərin idarə olunması istiqamətində fəaliyyətini davam etdirib. Bankın bütün riskli əməliyyatları müəyyən edilmiş limitlər və məhdudiyyətlər çərçivəsində, ciddi nəzarətdə saxlanılmaqla həyata keçirilib. Bu zaman potensial itkilərin həcmi məhdudlaşdırılması, risklərin vaxtında dəyərləndirilməsi, aydın və effektiv idarə olunması kimi üç əsas elementlər Bank tərəfindən bu sahədə əsas meyarlar kimi götürülüb.

2010-cu il ərzində Bankda risklərə nəzarətin daha effektiv həyata keçirilməsi və hesabatlılığın gücləndirilməsi məqsədi ilə Risklərin idarə edilməsi idarəsi ilə digər idarələrin qarşılıqlı iş proseduraları müəyyən olunub və risklərə əsaslanan idarəetmə mədəniyyətinə keçid istiqamətində əhəmiyyətli addımlar atılıb. Risklərin idarə edilməsi işinin təkmilləşdirilməsi, tətbiq olunan metodların qabaqcıl beynəlxalq təcrübəyə uyğunlaşdırılması məqsədi ilə kadr potensialının gücləndirilməsi istiqamətində ixtisaslaşmış beynəlxalq araşdırma institutları (GARP, WatRisQ və s.) ilə sıx əməkdaşlıq edilir. Bu tədbirlər çərçivəsində Xalq Bankın əməkdaşları treyninqlərə cəlb olunaraq bir neçə müxtəlif sertifikatlar əldə ediblər.

Bankın əmanətçilərin və səhmdarlarının maraqlarının qorunması məqsədi ilə gözlənilən risklərin idarə edilməsi

The risk management system in Xalq Bank is aimed at the identification of risks, their analysis and management. The principles of identifying, measuring and managing risks are carried out according to the Risk Management Standards of the Central Bank of the Republic of Azerbaijan, the instructions on risk management of the Central Bank and the recommendations of the Basel Committee. Xalq Bank continued its work on risk management throughout the financial year. All the Bank's risky operations were undertaken within the defined limits and restrictions, and under strict control. The three basic elements: limiting the amount of potential loss, evaluating the risk in timely fashion and clear and effective management have been adopted as the main criteria by the Bank.

During 2010, in order to achieve more effective control of risk and to strengthen accountability, mutual working procedures for the Risk Management department with other departments were defined and important steps taken to progress to a culture of risk management. We are working closely with international research institutions (GARP, WatRisQ etc.) to strengthen the capacities of our personnel, improve the work of Risk Management and adapt the methods used in leading international practice. Within the framework of these measures, Xalq Bank employees were involved in training and achieved certification at several levels.

To protect the interests of the Bank's depositors and shareholders, in addition to the management of anticipated risk, stress tests have been carried out in various scenarios



ilə yanaşı, Bankın gözlənilməz, lakin mümkün risklərə və ani iqtisadi şoklara davamlılığını da yoxlamaq və daim nəzarətdə saxlamaq üçün müxtəlif ssenarilərdə stress-testlər keçirilib. Həmçinin, xarici ekspertlərin apardığı təlimlərdə mütəmadi iştirak edilir, məsləhətləşmələr aparılır. Bazarın spesifikasına adekvat ssenarilərin yaradılması və alınan nəticələrə görə müvafiq tədbirlər planının hazırlanması istiqamətində işlər davam etdirilib. Gözlənilməz risklərə qarşı fəvqəladə tədbirlər planının bir hissəsi kimi kapitallaşmaya böyük əhəmiyyət verilir. Belə ehtiyatlı risk siyasəti nəticəsində global maliyyə böhranına baxmayaraq hesabat ili ərzində Xalq Bank mənfəətlə işləməklə yanaşı kapitalın adekvatlıq səviyyəsinə görə də Mərkəzi Bankın minimum tələblərini xeyli üstələyib. İl ərzində korporativ bankçılığa paralel riteyl müştərilərə təklif olunan məhsul və xidmətlərin spektri genişləndirilib, regional ekspansiya gücləndirilib ki, bu strateji addımları həm də perspektivdə risklərin diversifikasiyası kimi də qiymətləndirmək olar.

Xalq Bank fəaliyyəti dövründə qarşılaşa biləcəyi əhəmiyyətli risklərin idarə edilməsi istiqamətində qabaqcıl üsul və alətlərdən geniş istifadə edir. Bankın risklərin idarə olunması sistemi maliyyə fəaliyyəti ilə əlaqəli bütün risk növlərini – kredit, likvidlik, əməliyyat, bazar və digər mümkün riskləri əhatə edir.

Kredit Riskləri. Aktivlərin əsas hissəsini təşkil edən kredit riskləri, ödəmə qabiliyyəti riski, defolt riski, cəmləşmə riski Xalq Bankda müxtəlif üsullarla qiymətləndirilir və nəticələr daim nəzarətdə saxlanılır. Tətbiq olunan diversifikasiya modelləri gələcəkdə yarana biləcək bu risklərə nəzarət etməyə xidmət edir.

Likvidlik riski. Son illərdə yerli bankların qarşılaşdığı ən böyük risklərdən biri likvidlik riskidir. Bu həm bankın öz öhdəliklərini yerinə yetirə bilməməsi, həm də daxil olan iri məbləğli kredit sorğularının maliyyələşdirə bilməməsi kimi başa düşülür. Likvidlik riski aparılan daxili qiymətləndirmələr, likvidlik boşluqlarına nəzarət, yığılmış likvidlik boşluqlarının təhlili, müxtəlif ssenarilərdə bankın likvidlik riskinə dözümlülüyü baxımından nəzarət Bankın Xəzinədarlıq və Risklərin İdarə Edilməsi İdarələri tərəfindən həyata keçirilir.

Əməliyyat riskləri. Hazırda Xalq Bank müasir texnologiyalara və proqram təminatlarına sərmayələr yönəldir ki, bu da əməliyyat riskləri baş verəcəyi halda Bankın həssaslığını və davamlılığını təmin edəcək.

Bazar Riskləri. Bank bazar risklərinə olduqca həssas yanaşır, riskli birja əməliyyatlarına getmir və əsasən dövlət təminatlı qiymətli kağızlarla əməliyyatlar aparır. Birja spekulyasiyaları, artıq xarici borclanma və bu kimi digər bazar və faiz risklərinə həssas olan əməliyyatlardan qaçmaqla Xalq Bank maliyyə institutları arasında daha konservativ, stabil və uğurla inkişaf edən Bank təşkilatı imici formalaşdırıb.

in order to check and maintain the Bank's ability to withstand unexpected risk and sudden economic shocks. Further, we regularly participate in training led by foreign experts and we are in constant consultation with them. Work has continued on creating accurate market scenarios and, from the results observed, preparing appropriate rafts of measures. As a part of the emergency plan for measures against unexpected risk, we place great weight on capitalisation. As a result of our prudent risk policy, and despite the global financial crisis, in addition to profitability, Xalq Bank exceeded the minimum requirements of the Central Bank capital adequacy during the financial year. The range of products and services offered to retail clients, as well as corporate customers, was extended and regional expansion was strengthened during the year; these developments may also be regarded as further steps of strategic diversification against risk.

Xalq Bank makes extensive use of the leading methods and tools for managing the main risks it can face in its work. The Bank's risk management system covers every kind of possible risk relating to financial activities – credit, liquidity, operational, market and others.

Credit Risk. The main risks associated with loan: the risks of insolvency, default and concentration are evaluated by various methods and the results are under constant monitoring in Xalq Bank. The diversification models applied serve to monitor and control those risks which may occur in the future.

Liquidity Risk. One of the biggest risks facing local banks in recent years is liquidity risk. This is understood both as a bank being unable to fulfil its duties and being unable to finance requests for large-scale projects such as loans. Liquidity risk is assessed internally by the Bank's Treasury and Risk Management Departments, analysing gaps in liquidity control, analysis of cumulative gaps in liquidity and the Bank's liquidity risk tolerance in various scenarios.

Operational Risk. Xalq Bank is currently investing in modern technology and software which will provide sensitivity and ensure the Bank's sustainability in the event of operational risk.

Market Risk. The Bank adopts a highly sensitive approach to market risk; it does not enter risky exchange operations and mainly carries out state-secured transactions. By avoiding exchange speculation and external borrowing and other operations vulnerable to market and interest fluctuations, Xalq Bank is regarded as a more conservative, stable and successfully developing Bank by the financial institutions.



Xalq Bank fəaliyyəti dövründə qarşılaşa biləcəyi əhəmiyyətli risklərin idarə edilməsi istiqamətində qabaqcıl üsul və alətlərdən geniş istifadə edir.

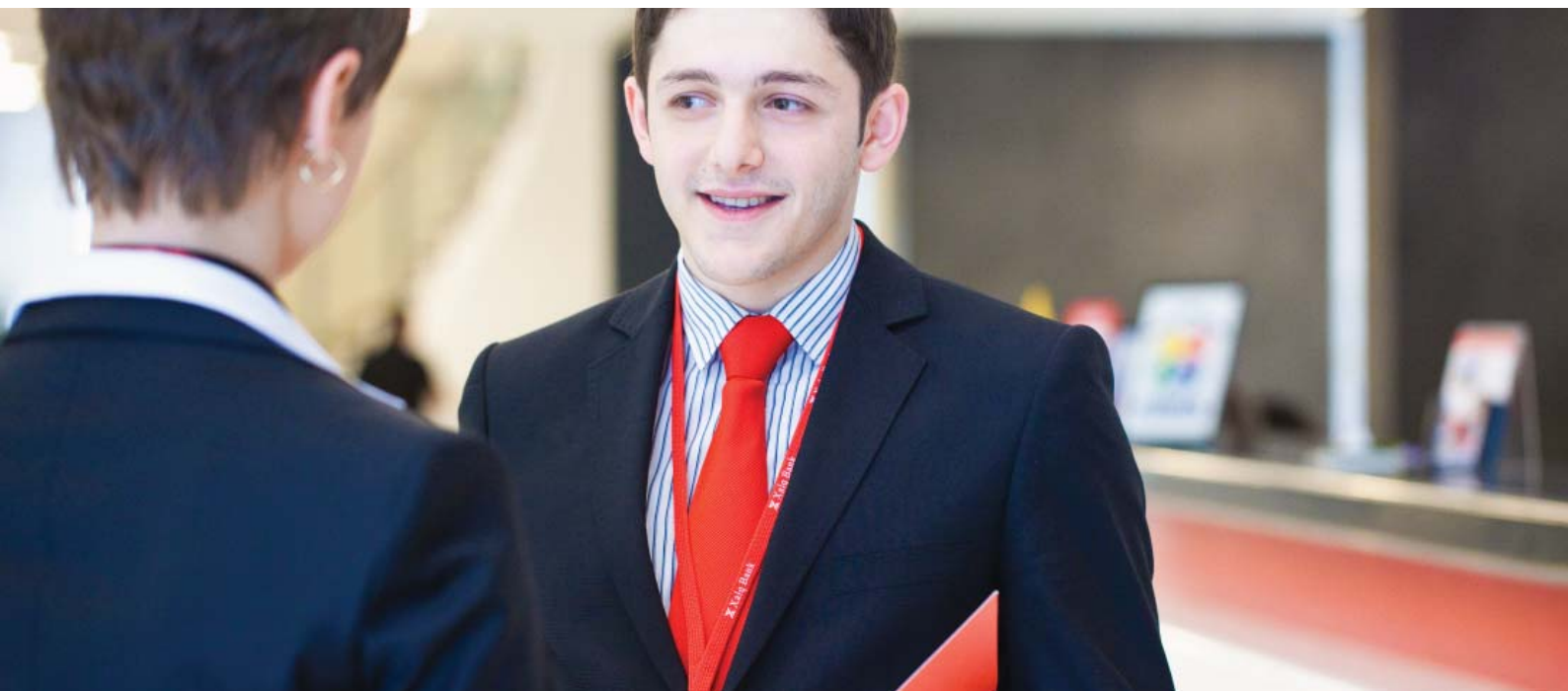
Xalq Bank makes extensive use of the leading methods and tools for managing the main risks it can face in its work.

Filial şəbəkəsi

Branch network

Xalq Bankın dinamik inkişaf strategiyasının əsas istiqamətlərindən biri filial şəbəkəsinin genişləndirilməsi və ölkənin bütün regionlarının müasir bank məhsulları ilə əhatə edilməsidir. Uğurlu regional siyasətinin nəticəsi kimi 2010-cu ilin sonuna Bankın bir çox iqtisadi fəal regional mərkəzlərdə filial və şöbələri fəaliyyət göstərmişdir.

One of the main thrusts of Xalq Bank's dynamic development strategy is to expand the network of branches and to offer modern bank products to all regions of the country. As a result of its successful regional policy, the Bank branches were functioning in many economically active regional centres by the end of 2010.

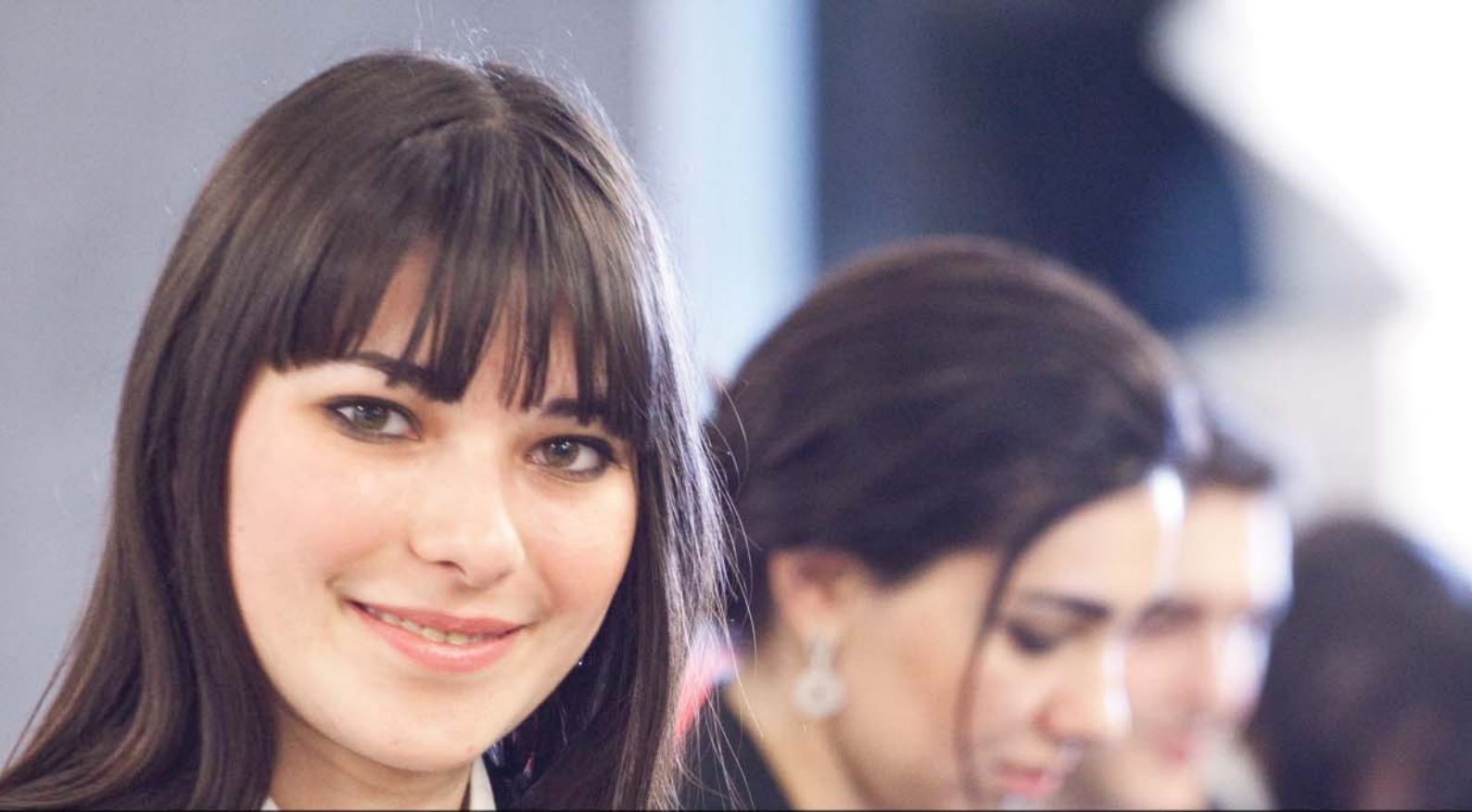


2010-cu ildə Xalq Bankın iki yeni filialı - Xaçmaz və Şabran filialları əhalinin xidmətinə verilib və bununla Bankın filial şəbəkəsi 12 filialdan və 2 şöbədən ibarət oldu. Hər il yeni filial açmaqla, Xalq Bank filial şəbəkəsinin artım tempinin sabitliyini təmin edir.

Xalq Bank filiallarının sayını artımların xidmətlərin müştərilərə yaxınlaşdırılması, yeni müştərilərin, o cümlədən kiçik və orta sahibkarların cəlb edilməsi kimi vəzifələri yerinə yetirir. Bununla da Bank həmçinin müxtəlif regional zonalarda fəaliyyət göstərən iri müəssisə və təşkilatlara kompleks şəkildə universal bank məhsullarını təklif etmək imkanlarını da genişləndirmiş olur.

Two new branches of Xalq Bank – Khachmaz and Shabran branches - were opened for service in 2010, thus its branch network comprised 12 branches and 2 departments. By opening an every new branch, Xalq Bank maintains a stable momentum in the expansion of its network all over the country.

By increasing the number of branches, Xalq Bank brings its services closer to clients and develops a new client base, including small and medium businesses. The Bank also increases its opportunities to offer universal banking products as a complex to the large enterprises and organizations which function in various regional zones.



Bankın filial siyasəti yeni xidmət ofislərinin artırılması ilə yanaşı, mövcud strukturların effektivliyinin artırılmasına da yönəlib. Bankın bütün filiallarında müasir bank texnologiyaları tətbiq olunub və müştərilərə iş prinsipi fərdi yanaşma əsasında qurulub.

Ölkənin ən böyük universal banklarından biri olan Xalq Bank statusuna uyğun olaraq filial şəbəkəsinin genişləndirilməsi tempini gələcəkdə də yüksək səviyyədə saxlamaq niyyətindədir. Regionların sosial-iqtisadi inkişafı fonunda bank məhsullarına tələbatın artdığını nəzərə alaraq, Xalq Bank qarşıdakı illərdə Lənkəran, Şəki, Şəmkir, Bərdə, Şamaxı, Naftalan, Quba, Qusar, Qazax, İsmayilli və İmişlidə filiallar açmağı planlaşdırır.

In addition to increasing branch network, a new service policy, aimed at increasing the efficiency of existing structures, has been instituted. Modern banking technology has been installed in all branches of the Bank based on the principle of adopting an individual approach to customers and business.

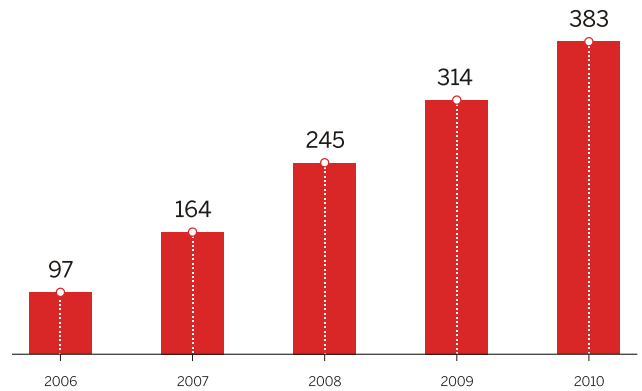
Xalq Bank, which is one of the largest multi-operational banks in the country, intends to maintain the high rate of expansion of its branch network in the future, in accordance with its status. In the light of socio-economic development in the regions and the increasing demand for banking products, Xalq Bank plans to open branches in Lankaran, Sheki, Shamkir, Barda, Shamakhi, Naftalan, Guba, Gusar, Gazakh, Ismayilli and Imishli in the coming years.



İnsan resurslarının idarə edilməsi

Human Resource Management

Əməkdaşların sayı
Number of employees



2010-cu il ərzində İnsan Resursların idarə edilməsi prosesləri Bankın sürətlə inkişaf edən biznesinə və rəqabətli əmək bazarı tələblərinə uyğun həyata keçirilib. Xalq Bankın kadr strategiyası planlaşma, əməkdaşların fəaliyyətinin dəyərləndirilməsi əsasında qurulub, təhsil vasitəsi ilə işçilərinin karyer inkişafı üçün imkanlar yaradır.

Yeridilən kadr siyasəti əməkdaşların peşəkarlıq baxımından inkişafını dəstəkləyir, korporativ mədəniyyəti əsas tutur və bu addımlar əmək bazarında Bankın rəqabət qabiliyyətini artırır. Fəaliyyətin yeni istiqamətlərinin mənimsənilməsinə və müasir informasiya texnologiyalarının tətbiq edilməsi şəraitində əməkdaşların seçilməsinə, onların potensialının səmərəli istifadəsinə, heyətin peşəkarlıq səviyyəsinin yüksəlməsi üçün əlverişli şəraitin yaradılmasına və korporativ mədəniyyətin inkişafına ciddi diqqət yetirilib.

Bütün bunlar müştərilərə xidmətin yüksək keyfiyyətini təmin

In 2010 the processes of human resource management were conducted in accordance with the requirements of the Bank's rapidly developing business and the competitive labour market. Xalq Bank's personnel strategy is based on planning, the evaluation of employees' performance and training for employees to create opportunities for career development.

The personnel strategy supports the professional development of staff and encourages a corporate culture, thus improving the Bank's competitiveness in the labour market. Close attention was given to employees' handling of new directions in their work, the selection and application of modern information technology, to the efficient use of their potential and creating an environment conducive to raising the professional level of staff and developing a corporate culture.

This has created the conditions to provide high quality services to clients. There was strong focus on the professionalism of



etməyə imkan yaradıb. Bankın işçilərinin peşəkarlığına, mütərəqqi bank texnologiyaları ilə tanış olmalarına, ümumi mədəni səviyyəsinə, müştərilərlə və tərəfdaşlarla əməkdaşlıq bacarığına ciddi diqqət yetirilib.

2011-ci il 1 yanvar tarixinə Bankda 383 əməkdaş çalışıb, 2009-cu ilə nisbətə işçi artımı 22% təşkil edib. Hesabat ili ərzində Banka 103 yeni işçi qəbul olunub. Hesabat ilində Bankın 138 əməkdaşı müxtəlif seminar və treyninqlərdə iştirak ediblər. Seminar və treyninqlərdən 49-u bank daxilində, 71-i ölkə daxilində, 18-i isə xarici ölkələrdə keçirilib. Yeni gənc kadrların cəlb olunması üçün Bank ali təhsil müəssisələri ilə yaxından əməkdaşlıq edib. Ümumilikdə Bankda çalışan əməkdaşlardan 303 nəfər və ya heyətin təxminən 80%-i ali təhsilli, 25 nəfər orta ixtisas təhsilli, 2 nəfər peşə və 53 nəfər orta təhsillidir. Ümumi işçi sayında bank sahəsində 1-5 il iş təcrübəsi olanlar

the Bank's employees, their familiarity with advanced banking technology, their general cultural level and ability to get on with clients and colleagues.

On 1 January 2011, 383 persons were employed by the Bank, an increase of 22% compared to 2009. 103 new employees were taken on by the Bank during 2010. 138 of the Bank's employees participated in various seminars and training. 49 of the seminars and training sessions were organized within the Bank; 71 were organized in-country and 18 were held abroad. The Bank has worked closely with local higher educational institutions to attract new, young staff. Overall, 303 employees, or 80% of the staff working in the Bank, have a higher education, 25 employees have secondary professional education, 2 have vocational and 53 have secondary education. Of all employees, 83% have 1-5 years' experience in the banking sector, 12% have 5-10

- 83%, 5-10 il bank təcrübəsi olanlar – 12% və 10 ildən çox bank təcrübəsi olanlar 5% təşkil edib.

Bank rəhbərliyinin təşəbbüsü ilə 2010-cu ildə hər ay korporativ tədbirlərin keçirilməsinə start verilib. Əməkdaşların qeyri-ış vaxtlarını birgə keçirməsinin təşkil edilməsində əsas məqsəd iş prosesinə müsbət emosiyalar əlavə etmək, işçilər arasında kommunikasiyanı yaxşılaşdırmaq, ümumi işə mənsubluq hissini gücləndirməkdir.

Bankın hazırda çalışan əməkdaşlar və iş axtaran peşəkar kadrlar üçün cəlbedici qalması üçün 2011-ci ildə də İnsan Resursları bölməsi bazardakı dəyişiklikləri daim nəzarətdə

years' banking experience and 5% have more than 10 years of banking experience.

In 2010 the Bank's management initiated monthly corporate events. The main aims in organizing for employees to spend time together after work are to generate positive feelings about the work process, to improve communication between employees and to enhance an overall sense of belonging to a common cause.

To ensure that the Bank remains attractive for current employees and for job-seeking professionals, the Human Resources department will always keep abreast of changes




saxlayacaq. Kadrların effektivliyinin əsas göstəriciləri üzrə sistemin yaradılması, müvafiq biznes-strategiyaların qurulması, peşəkar bacarıqların inkişaf etdirilməsi istiqamətində Bank kadr siyasətini davam etdirəcək. Kadr ehtiyatının seçilməsi sisteminin yaradılması, insan resurslarının uçotunun, təhlilinin, planlaşdırılmasının avtomatlaşdırılmış sistem vasitəsi ilə idarə edilməsinin təşkili kadrların səmərəli idarə olunmasının əsas parametrlərindən biridir.

Bankda əməyin ödənilməsi və maddi stimullaşdırma sisteminin yaradılması, Bankın struktur bölmə rəhbərlərinin idarəçilik fəaliyyəti standartlarının tərtib edilməsi, istedadlı kadrların Bankda qalması, yeni personalın cəlb olunması və onların öyrədilməsi üzrə səmərəli sistemin yaradılması işi

in the market. The Bank will continue its personnel policy based on the main indicators of employee effectiveness by establishing appropriate business strategies and developing professional skills. Building a human resource selection system and developing an automated administrative system for the accounting, analysis and planning of human resources are some of the main parameters for the effective management of personnel.

Creation of an effective system of salaries and financial incentives, setting standards for the managerial work of the Bank's departmental heads, retaining talented staff, and recruiting and training new personnel processes will continue in the next year. Besides training and seminars, there are plans to initiate a system



davam edəcək. Planlara əsasən, treyning və seminarlarla yanaşı Bankın tədris mərkəzində məsafəli təhsil sisteminin tətbiqi nəzərdə tutulub. Kadr menecmentinin planlarına əsasən, 2011-cu ildə kollektivdə komanda ruhunun möhkəmləndirilməsi üçün bir sıra birgə sosial tədbirlər həyata keçiriləcək. Gənc və perspektivli mütəxəssislərin Banka cəlb edilməsi istiqamətində ciddi iş aparılmasına xüsusi önəm veriləcək. Bu məqsədlə 2011-ci ildə ali təhsil müəssisələri ilə sıx əməkdaşlığı davam etdirməklə yanaşı universitetlərdə "karyera günləri" və görüşlər keçiriləcək, Bankda istehsalat və diplomqabağı təcrübələrin keçirilməsi üçün müsabiqələr təşkil olunacaq, ali təhsil müəssisələrindən müsabiqə əsasında seçilmiş tələbələr üçün təqaüd proqramı hazırlanacaq.

Bunlarla yanaşı, yüksək motivasiyalı, Xalq Bankın məqsədlərini və strategiyasını anlayan, həmçinin Bankın korporativ mədəniyyət prinsiplərinə xidmət göstərən vahid komandanın yaradılması istiqamətində iş davam edəcək.

of distance learning in the Bank's education centre.

Personnel management is planning a series of social activities in 2011 to strengthen team spirit in the workforce. Priority will be given to attracting young professionals to the Bank. With this in mind, 2011 will see, besides a continuation of the close cooperation with higher educational establishments, the organisation of 'career days' and meetings in the universities, competitions for pre-diploma work experience in the Bank, and the preparation of a scholarship programme on a competitive basis for students of higher educational institutions.

In addition, work will continue on the creation of a highly motivated team of people who understand Xalq Bank's objectives and strategy, thus serving the Bank's principles of corporate culture.

İnformasiya texnologiyaları

Information technologies

2010-cu ildə Bankın bölmələrinin funksional fəaliyyətinin dəstəklənməsinə və təkmilləşdirilməsinə xidmət edən avtomatlaşdırılmış sistemin inkişafı, yeni texnologiyalar və İT həllərin tətbiqi davam edib. İl ərzində Bankın informasiya sisteminin təhlükəsizlik və etibarlılıq səviyyəsinin yüksəlməsinə diqqət artırılıb.

2009-cu ilin sonundan başlayaraq Bank İT infrastrukturunun müasir texnologiyalar əsasında yenilənməsi və təkmilləşdirilməsi layihəsinin icrası 2010-cu ildə filiallar da daxil olmaqla müvəffəqiyyətlə başa çatdırılıb.

Müştərilərin sayının artması və regionlarda filial şəbəkəsinin genişlənməsini nəzərə alaraq müştərilərlə Bank arasında əlaqələrin daha keyfiyyətli və çevik olmasını təmin etmək məqsədilə mövcud filiallararası xətlər fiber-optik kəməllə əvəz edilib və trafik sürəti 10 Mbit/s səviyyəsində qaldırılıb. Filiallarda şəbəkə avadanlıqları müasir tələblərə cavab verən yeni avadanlıqlarla əvəz edilib və şəbəkə təhlükəsizliyi ilə bağlı bir sıra təkmilləşdirmə və standartlaşdırma işləri aparılıb. Həmçinin, Baş ofislə filiallar arasında korporativ şəbəkə istifadəçilərinin telefon əlaqələri yaradılmasının idarə olunmasını və Banka daxil olan zənglərin emalını həyata keçirən sistem qurulub. Məqsəd regionlarda yerləşən filiallarda müştərilərə operativ xidmət təklif etmək olmuşdur. Eyni zamanda, daxili İtranet şəbəkəsi yaradılıb, yeni qurulmuş avadanlıqlar və sistemlər sayəsində bir çox biznes prosesləri mərkəzləşdirilib. İl ərzində İT xərclərinin azaldılması və xidmət

In 2010 Xalq Bank continued the process of developing of an automated system to support and improve the functioning of all departments and implementation of the latest technology and IT solutions. Greater attention was given to increasing levels of security and reliability in the Bank's information system.

The implementation of a project to update and improve the IT infrastructure with modern technology, which began at the end of 2009, was successfully completed in 2010; and here branch offices were also included.

As the number of clients is continually increasing and the network of branches is expanding across the regions, communication lines existing between branches were replaced by fibre-optic cables and the speed of traffic was increased to 10 Mbit/s in order to provide a higher quality and more rapid connection between the Bank and its clients. Network equipment was replaced by new, modern equipment and web security was enhanced by a number of improvements and standardisations. Further, a system was installed to control telephone connections for corporate network users between the Head office and branches and the processing of all incoming to the Bank calls. The aim was to offer an operational service to customers in regional branches. At the same time, an intranet portal was created and, thanks to the new built-in equipment and systems many business processes have been centralised. Over the year measures were taken to reduce IT



Il ərzində Bankın informasiya sisteminin təhlükəsizlik və etibarlılıq səviyyəsinin yüksəlməsinə diqqət artırılıb.

Greater attention was given to increasing levels of security and reliability in the Bank's information system.

keyfiyyətin artırılması məqsədilə tədbirlər həyata keçirilib. Müasir bank biznesinin IT-nin əhəmiyyətinin artması və elektron kommersiyanın daim yenilənməsi nəzərə alınıb. 2010-cu il Bankın Baş ofisi və filiallarında korporativ standartlar tətbiq edilib, bankdaxili istifadə edilən proqram təminatlarının lisenziyalaşdırılması siyasətinin davamı kimi Microsoft şirkəti ilə Enterprise Agreement sazişi imzalanıb və tətbiq edilib.

Hesabat ilində korporativ və pərakəndə biznesi inkişaf etdirmək, bütün müasir satış kanallarından istifadə etməklə müştərilərə geniş çeşiddə keyfiyyətli bank məhsulları təqdim etmək üçün mövcud bank sisteminin müasir tələblərə uyğun olan avtomatlaşdırılmış bank sistemi ilə əvəz edilməsi istiqamətində araşdırmalar davam etdirilib. Yeni sistemin tətbiqi informasiya təhlükəsizliyinin daha yüksək səviyyədə təmin edilməsinə, əməliyyatların effektivliyinin artırılmasına, risklərin idarə olunması sisteminin təkmilləşdirilməsinə və əməliyyat risklərini minimuma endirilməsinə şərait yaradacaq. 2010-cu ildə Ehtiyat Mərkəzinin yaradılması ilə bağlı işlərə start verilib, Mərkəzin infrastrukturunu ilə əlaqədar olaraq struktur, avadanlıq və proqram təminatının seçilməsi və digər texniki tələblərin müəyyənləşdirilməsi mərhələsi başa çatdırılıb.

Müxtəlif ödəmə sistemlərinin tətbiqinə xüsusi diqqət yetirilib. 2010-cu ildə Bakcell ödəmələrinin qəbulu üçün müvafiq proqram təminatı və infrastruktur yaradılıb. Xalq Bank tərəfindən yaradılan bu sistem üzərindən Bankın bütün filialları, eləcə də 30-dan yuxarı digər yerli banklar da Bakcell ödənişlərinin qəbulunu aparır.

Qısa müddət ərzində BBTV ödəmə sisteminin də tətbiqi başa çatdırılıb, Bankın Bakı və Sumqayıt şəhərlərində yerləşən filiallarında, eləcə də Nar Mobile və Azerfon-Vodafone ödəmə məntəqələrində qəbul qüsursuz həyata keçirilib.

Eyni zamanda, Vergilər Nazirliyi ilə sənəd mübadiləsinin operativliyini təmin etmək məqsədi ilə 2010-cu ildə Xalq Bankda TaxBank sistemi tətbiq olunub. Nəticədə Vergilər Nazirliyi ilə kağız daşıyıcılar vasitəsilə aparılan sənəd mübadiləsi bütövlüklə elektronlaşdırılıb.

Xalq Bank inkişaf strategiyasını reallaşdırarkən bank servisinin keyfiyyət xarakteristikaları, rəqabət üstünlükləri və bütövlükdə işin səmərəliliyinin ilk növbədə tətbiq olunan informasiya texnologiyalarından asılı olduğunu 2011-ci ildə də əsas götürəcək. Bu baxımdan əvvəlki illərdə olduğu kimi, gələcəkdə də Bankda IT və təhlükəsizlik sistemlərinin dayanıqlı inkişafına və müasir tələblərə uyğunlaşdırılmasına xüsusi önəm verilecək.

costs and improve service quality. The growing dependence of the modern banking business on IT, the fundamental changes continuously taking place in e-commerce and the current and future requirements of clients were all taken into account.

In 2010 corporate standards were applied to the Bank's head office and branches; as the continuation of this policy the licensing of software used inside the Bank was introduced and an Enterprise Agreement was signed with Microsoft.

In order to develop corporate and retail business and to present a wide range of quality banking products, using all modern channels of sale, research was continued to replace the current banking system with an automatic one corresponding to modern requirements.

The application of the new system will create the conditions to ensure a higher level of information security, increasing operational effectiveness, improving the risk management system and reducing operational risk to the minimum. In 2010 establishment of a Reserve Centre started; the selection of structure, equipment and other technical requirements related to the centre's infrastructure was completed.

There was a special focus on the implementation of various payment systems. In 2010 appropriate software and infrastructure for accepting Bakcell (mobile operator) payments was created. All branches of the Bank, as well as more than 30 other banks, accept Bakcell payments via the system created by Xalq Bank.

The implementation of a B&B TV payment system was also completed swiftly and faultlessly in branches of the Bank in the cities of Baku and Sumqayıt, alongside payment points for Nar Mobile and Azerfon-Vodafone.

Simultaneously, the Taxbank system was implemented in Xalq Bank in 2010, in order to maintain effective document exchange with the Ministry of Taxes. As a result, the former document exchange with the Ministry of Taxes by paper carriers is conducted wholly electronically.

Xalq Bank's main strategy of development, to achieve a banking service of quality, competitive advantage and all-round efficiency, will primarily depend on information technology to be applied in 2011. In this respect, as in previous years, adapting the Bank's IT and security systems to modern requirements and sustainable development will be always of particular importance in the future too.



Bankdaxili istifadə edilən proqram təminatlarının lisenziyalaşdırılması siyasətinin davamı kimi Microsoft şirkəti ilə Enterprise Agreement sazişi imzalanıb və tətbiq edilib.

As the continuation of this policy the licensing of software used inside the Bank was introduced and an Enterprise Agreement was signed with Microsoft.

Sosial-mədəni layihə "Xalq Əmanəti"

National Heritage socio-cultural project

2010-cu il Xalq Bankın sosial-mədəni istiqamətdə fəaliyyətinin başlanğıc dövrü oldu. Xalqımızın mədəni irsinin qorunub gələcək nəsillərə ötürülməsi və mənəvi dəyərlərimizin dünyaya tanıtılması məqsədi ilə Bank "Xalq Əmanəti" - sosial-mədəni layihəsinə start verdi. Mədəni irsi xalqın heç bir qiymətlə ölçülməyən mənəvi, mədəni və sosial kapitalı kimi dəyərləndirən Bank bu layihə ilə Azərbaycan xalqının görkəmli

2010 was important for Xalq Bank's socio-cultural life. The Bank launched National Heritage, a socio-cultural project with the aim of protecting our people's cultural heritage and passing it on to future generations, as well as introducing our moral values to the world. The Bank holds our national valuable cultural heritage as priceless moral, cultural and social capital and with this project it demonstrated that



sənət və elm xadimlərinin yaratdıqlarına ən qiymətli Əmanət olaraq dəyər verdiyini nümayiş etdirdi.

Layihə çərçivəsində Azərbaycanın görkəmli ədəbiyyat, incəsənət və elm xadimlərinin əsərləri, eləcə də folklor nümunələri nəfis tərtibatda nəşr olunub sənətsevərlərin ixtiyarına verilir. "Xalq Əmanəti" layihəsinin ilk buraxılışı Xalq rəssamı Böyükağa Mirzəzadənin həyat və yaradıcılığına həsr olunmuşdur. Bu buraxılış çərçivəsində Xalq Bankın rəsm-qalereyasında Böyükağa Mirzəzadənin rəsm sərgisinin açılışı həyata keçirilmiş və Bankın dəstəyi ilə nəşr edilmiş bədii albom təqdim olunmuşdur. Layihənin ikinci buraxılışı Xalq şairi Məmməd Aza həsr edilmişdir. Azərbaycanın dövlət və milli mükafatlar laureatı, "İstiqlal" ordeni kavaleri, Azərbaycanın Xalq

it grades the works of the great cultural and scientific representatives of the people of Azerbaijan as the most precious values.

Within this project the works of great literary, artistic and scientific figures of Azerbaijan, as well as examples of its folklore, were published in elegant design and made available to cultural enthusiasts. The first issue from the National Heritage project was devoted to the life and work of People's Artist Beyukaga Mirzazadeh. An album of the Artist's work was published with the support of the Bank and presented at the opening of Beyukaga Mirzazadeh's exhibition in Xalq Bank's Art gallery. The next issue from the project was devoted to People's Poet Mammad Araz. "The Selected Works" of



şairi Məmməd Arazın (1933-2004) "Seçilmiş əsərləri" geniş ictimaiyyətə təqdim olundu. Təqdim olunan kitabın unikalığı ondadır ki, kitabın format və dizaynı şairin özü tərəfindən 1968-ci ildə yazdığı "Vəsiyyət" şeirində təsvir edilmişdir.

"Xalq Əmanəti" layihəsinin qarşıdakı illərdə də davam etdirilməsi nəzərdə tutulur. Layihə mədəniyyət və incəsənətin müxtəlif sahələrindən mədəni irsimizin töhfəsi olan sənətkarların yaradıcılığını dəstəkləyəcək. Azərbaycan folklor nümunələrinin, şair və yazıçılarının, rəssam və heykəltəraşlarının, xanəndə və bəstəkarlarının, alim və mütəfəkkirlərinin yaratdıqlarını daim diqqət mərkəzində saxlamaqla, onların incilərini müxtəlif dillərə çevirməklə, dünya xalqlarına təqdim etməklə, Xalq Bank Azərbaycanın mədəni irsinin, mənəvi dəyərlərinin bəşər mədəniyyətinə inteqrasiya etməsinə təkan verəcək.

laureate of State and National awards of Azerbaijan, holder of the Order of Independence and People's Poet of Azerbaijan Mammad Araz (1933-2004), was presented to a large audience. The unique quality of the book was that the poet had, himself, described the format and design of the book in his poem Testament, in 1968.

The National Heritage project is planned to continue in forthcoming years. The project will support the work of artists from various fields of art and culture who have made a contribution to our cultural heritage. By keeping examples of folklore, the work of the poets and writers, artists and sculptors, khanendes (mugham singers) and composers, scientists and thinkers of Azerbaijan at the centre of attention, by translating these jewels into different languages and presenting them to the people of the world, Xalq Bank will promote the integration of Azerbaijan's cultural heritage and moral values into world culture.

Ümumi məlumat

Adı:	Açıq Səhmdar Cəmiyyəti "Xalq" Bankı
Qısaldılmış adı:	Xalq Bank
Qeydiyyat:	N1104-A1-414 Azərbaycan Respublikası Ədliyyə Nazirliyi
Lisenzia:	Azərbaycan Respublikası Mərkəzi Bankı tərəfindən verilmiş 27 Dekabr 2004-cü il tarixli, 246 sayılı lisenziya
Fəaliyyətə başladığı tarix:	24 Dekabr 2004-cü il
Faktiki ünvan:	AZ1006, İnşaatçılar pr.,22L,Bakı şəh., Azərbaycan
Hüquqi ünvan:	AZ1025, Babək pr., 1145, Bakı şəh., Azərbaycan
VÖEN:	2000296061
Kod:	505055
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Tel.:	+994 (12) 404 43 43
Faks:	+994 (12) 404 43 34
Teleks:	142400 XALG AI
E-poçt:	mail@xalqbank.az
URL:	www.xalqbank.az
Beynəlxalq auditor:	BDO International
Filialların sayı:	12
Şöbələrin sayı:	2
İşçilərin sayı:	383
Əsas maliyyə göstəriciləri:	
Aktivlər:	632,184 mln AZN
Kreditlər:	471,457 mln AZN
Əmanətlər:	472,462 mln AZN
Xalis mənfəət:	13,496 mln AZN
Nizamnamə kapitalı:	72,828 mln AZN

General details

Name:	Open Joint-Stock Company Xalq Bank
Short name:	Xalq Bank
Registration:	1 104-A 1-4 14, Ministry of Justice of Azerbaijan
License:	N246 issued by Central Bank of Azerbaijan Republic on December 27th, 2004
Date of establishment:	December 24, 2004
Actual address:	22L, İnshaatchilar ave., AZ1006, Baku, Azerbaijan
Legal address:	1 145, Babek ave., AZ1025, Baku, Azerbaijan
Tax ID:	2000296061
Code:	505055
SWIFT:	HAJCAZ22
Tel:	994 (12) 404 43 43
Fax:	994 (12) 404 43 34
Telex:	142400 XALG AI
E-mail:	mail@xalqbank.az
URL:	www.xalqbank.az
Independent auditor:	BDO International
Branches:	12
Retail divisions:	2
Staff:	383

Key financial indicators:

Assets:	AZN 632.184 mln.
Loans:	AZN 471.457 mln.
Deposits:	AZN 472.462 mln.
Net profit:	AZN 13.496 mln.
Shareholders capital:	AZN 72.828 mln.



Xalq B



OPEN JOINT-STOCK COMPANY XALQ BANK

INDEPENDENT AUDITORS' REPORT
AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

ank

Open Joint Stock Company Xalq Bank

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Statement of Management's Responsibilities for the Preparation and Approval of the Consolidated Financial Statements for the Year Ended 31 December 2010

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

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

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2010 were authorized for issue on 20 February 2011 by the Management Board.

Approved for issue and signed on behalf of the Management Board on 20 February 2011.

Chairman
Mr. Asim Mammadli



Acting Chief Accountant
Mrs. Tamilla Asadova

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Xalq Bank and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement cash flows for the year ended 31 December 2010 and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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 consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company Xalq Bank as at 31 December 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

“BDO” JSC
Certified Auditors Commercial Company
Licence No.112

D.Tunsts
International Liaison Partner



Riga, Latvia
20 February 2011



A.Putniņš
The responsible certified auditor
Certificate No. 123

Open Joint Stock Company Xalq Bank

Consolidated Statement of Comprehensive Income for the year ended 31 December 2010 (in Azerbaijan Manats)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Interest income	4	47,385,669	37,369,613
Interest expense	4	(22,280,750)	(17,355,773)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		25,104,919	20,013,840
(Provision) / recovery of provision for impairment losses on interest bearing assets	5	(3,986,677)	2,981,845
NET INTEREST INCOME		21,118,242	22,995,685
Net gain on foreign exchange operations	7	772,932	341,257
Net gain / (loss) on gold operations	6	1,371,437	(23,475)
Fee and commission income	8	2,934,315	3,095,184
Fee and commission expense	8	(273,095)	(344,777)
Gain / (loss) on revaluation of investment property	17	200,352	(106,292)
Other income		633,914	69,442
NET NON-INTEREST INCOME		5,639,855	3,031,339
OPERATING INCOME		26,758,097	26,027,024
OPERATING EXPENSES	9	(12,592,313)	(9,097,983)
OPERATING PROFIT		14,165,784	16,929,041
Recovery of provision for impairment losses on guarantees and other commitments		-	137,424
PROFIT BEFORE INCOME TAX		14,165,784	17,066,465
Income tax (expense) / benefit	10	(669,345)	169,947
NET PROFIT FOR THE YEAR		13,496,439	17,236,412
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		13,496,439	17,236,412
Attributable to:			
Equity holders of the parent		13,484,070	17,239,984
Non-controlling interest		12,369	(3,572)
		13,496,439	17,236,412
EARNINGS PER SHARE			
<i>Basic and diluted (AZN)</i>	11	6.295	8.049

Approved for issue and signed on behalf of the Management Board on 20 February 2011.

Chairman
Mr. Asim Mammadli

Acting Chief Accountant
Mrs. Tamilla Asadova

The accompanying notes on pages 61 to 102 form an integral part of these consolidated financial statements

Open Joint Stock Company Xalq Bank

Consolidated Statement of Financial Position as at 31 December 2010 (in Azerbaijan Manats)

	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	12	126,229,976	18,298,937
Gold		8,642,082	5,230,000
Due from banks	13	3,142,161	3,166,674
Loans to customers	14	471,456,772	443,197,140
Investments available-for-sale	15	1,202,449	42,633
Property and equipment	16	12,834,687	8,663,620
Investment property	17	6,132,246	5,931,894
Intangible assets	16	640,382	333,823
Deferred income tax asset	10	90,944	222,790
Other assets	18	1,812,126	2,755,110
TOTAL ASSETS		632,183,825	487,842,621
LIABILITIES			
Due to banks and government agencies	19	67,745,113	106,348,730
Customer accounts	20	472,461,571	304,375,060
Current income tax liability		532,996	-
Other liabilities	21	4,207,846	1,507,012
TOTAL LIABILITIES		544,947,526	412,230,802
EQUITY			
Share capital	22	72,828,000	53,550,000
Retained earnings		14,244,058	21,909,947
Non-controlling interest		164,241	151,872
TOTAL EQUITY		87,236,299	75,611,819
TOTAL LIABILITIES AND EQUITY		632,183,825	487,842,621

Approved for issue and signed on behalf of the Management Board on 20 February 2011.

Chairman
Mr. Asim Mammadli

Acting Chief Accountant
Mrs. Tamilla Asadova

The accompanying notes on pages 61 to 102 form an integral part of these consolidated financial statements

Open Joint Stock Company Xalq Bank

Consolidated Statement of Changes in Equity for the year ended 31 December 2010 (in Azerbaijan Manats)

	Share capital	Retained earnings / (Accumulated deficit)	Non- controlling interest	Total equity
31 December 2008	53,550,000	4,669,963	155,444	58,375,407
Total comprehensive income for the year	-	17,239,984	(3,572)	17,236,412
31 December 2009	53,550,000	21,909,947	151,872	75,611,819
Capitalization of net profit for the year 2009 to share capital	19,278,000	(19,278,000)	-	-
Tax on capitalized profit of 2009	-	(1,871,959)	-	(1,871,959)
Total comprehensive income for the year	-	13,484,070	12,369	13,496,439
31 December 2010	72,828,000	14,244,058	164,241	87,236,299

Approved for issue and signed on behalf of the Management Board on 20 February 2011.

Chairman
Mr. Asim MammadliActing Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Consolidated Statement of Cash Flows for the year ended 31 December 2010 (in Azerbaijan Manats)

CASH FLOWS FROM OPERATING ACTIVITIES:	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax		14,165,784	17,066,465
Adjustments for:			
Provision / (recovery of provision) for impairment losses on interest bearing assets	5	3,986,677	(2,981,845)
Recovery of provision for guarantees and other commitments		-	(137,424)
Net unrealized (gain) / loss arising from changes in foreign currency exchange rates		(249,723)	415,429
Depreciation and amortization	16	1,678,239	1,291,966
(Gain) / loss on revaluation of investment property	17	(200,352)	106,292
Gain on disposal of property and equipment		(237,017)	(70)
Change in interest accruals, net		(1,180,047)	(946,793)
Cash flows from operating activities before changes in operating assets and liabilities		17,963,561	14,814,020
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the Central Bank of Azerbaijan Republic		(364,211)	13,813,742
Gold		(3,412,082)	(3,847,718)
Due from banks		(535,582)	6,507,257
Loans to customers		(30,814,843)	(103,350,292)
Other assets		953,442	(1,860,191)
Increase/(decrease) in operating liabilities:			
Due to banks and government agencies		(38,688,100)	99,631,251
Customer accounts		167,895,696	(12,397,149)
Other liabilities		828,875	305,826
Cash inflow from operating activities before taxation		113,826,756	13,616,746
Income tax paid		(4,503)	(41,201)
Net cash inflow from operating activities		113,822,253	13,575,545
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	16	(6,859,314)	(3,625,401)
Proceeds on disposal of property and equipment		940,466	201
Purchase of investments available-for-sale		(1,146,785)	(47)
Net cash outflow from investing activities		(7,065,633)	(3,625,247)

Open Joint Stock Company Xalq Bank

Consolidated Statement of Cash Flows for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

	Notes	Year ended 31 December 2010	Year ended 31 December 2009
Effect of foreign exchange rate changes on cash and cash equivalents		249,723	(415,429)
NET INCREASE IN CASH AND CASH EQUIVALENTS		107,006,343	9,534,869
CASH AND CASH EQUIVALENTS, beginning of year		<u>19,762,687</u>	<u>10,227,818</u>
CASH AND CASH EQUIVALENTS, end of year	12	<u>126,769,030</u>	<u>19,762,687</u>

Interest paid and received by the Group in cash during the year ended 31 December 2010 amounted to AZN 22,005,452 and AZN 45,930,324, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2009 amounted to AZN 17,649,073 and AZN 36,714,959, respectively.

Approved for issue and signed on behalf of the Management Board on 20 February 2011.

Chairman
Mr. Asim Mammadli



Acting Chief Accountant
Mrs. Tamilla Asadova

The accompanying notes on pages 61 to 102 form an integral part of these consolidated financial statements

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (in Azerbaijan Manats)

1. Background

Xalq Bank is a joint stock company which was established on 24 December 2004 in accordance with establishment agreement and was registered by the Central Bank of Azerbaijan Republic on 27 December 2004. The address of its registered office is 1145 Babek Avenue, Baku, AZ 1025, Azerbaijan. The Bank is regulated by the Central Bank of Azerbaijan Republic (the "CBAR") and conducts its business under the general banking license number 246. The Bank had 12 branches in Azerbaijan as at 31 December 2010. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees.

The number of employees of the Bank at 31 December 2010 and 2009 was 384 and 315, respectively.

The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	The Bank ownership interest/ voting rights		Type of operation
		2010	2009	
<i>Xalq Kapital LLC</i>	<i>The Republic of Azerbaijan</i>	100 %	100%	<i>Securities market transactions</i>
<i>Baki Ayaqqabi -2 OJSC</i>	<i>The Republic of Azerbaijan</i>	97.27%	97.27%	<i>Dormant</i>

"Xalq Kapital" LLC is a limited liability company registered in the Republic of Azerbaijan on 17 August 2007. The company's principal activity is operations with securities, broker and dealer operations.

"Baki Ayaqqabi -2" OJSC is a Joint Stock Company registered in the Republic of Azerbaijan in December 1980. The Company's principal activity had been the manufacture of footwear. The Company has not been functioning since June 1999. The Group has acquired the controlling interest in the Company's capital with the primary purpose of using it as investment property. The Group's management is still uncertain of the detailed plans regarding the Company.

As at 31 December 2010 and 2009 the following shareholders owned the issued shares of the Bank:

	31 December 2010	31 December 2009
	Ownership interest, %	Ownership interest, %
Ideal Biznes Ko LLC	50.00	50.00
Yevro Standart LLC	33.85	33.85
Avangard-1 LLC	16.15	16.15
Total	100	100

The ultimate controlling party of the Group is L.Aliyeva.

These consolidated financial statements were authorized for issue by the Management Board on 20 February 2011.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

2. Basis of Presentation

Accounting basis

These consolidated financial statements of the Group 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 consolidated financial statements are presented in Azerbaijan Manats (“AZN”) unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of investment property at revalued amounts according to International Accounting Standard (“IAS”) No. 40 “Investment Property”.

The Group maintains its accounting records in accordance with Azerbaijan law. These consolidated financial statements have been prepared based on the Azerbaijani 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 consolidated financial statements in conformity 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 Group’s management as of the date of the consolidated 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.

Key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2010	31 December 2009
Loans to customers	471,456,772	443,197,140
Investments available for sale	1,202,449	42,633
Property and equipment	12,834,687	8,663,620
Investment Property	6,132,246	5,931,894

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 Group 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 Bank’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.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

The Group 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 Group's estimated losses (as reflected in the provisions) and actual losses will require the Group to take provisions which, if significantly different, could have a material impact on its future income statement and its statement of financial position. The Group'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.

Investments available-for-sale are measured at fair value less impairment losses. The estimation of impairment losses involves the exercise of significant management judgment. The accounting policy for the impairment of financial instruments is discussed in Note 3 below.

Functional currency

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

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated statement of financial position and income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting.

Investments in associates are carried in the consolidated statement of financial position at cost as adjusted for goodwill and for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognized.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition is recognized as goodwill. The goodwill is included in the carrying amount of the investment and is assessed for impairment as part of the investment. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable assets, liabilities and contingent liabilities of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the consolidated income statement in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of assets, liabilities and contingent liabilities of a subsidiary as at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measure at cost less any accumulated impairment losses.

The Group tests goodwill for impairment at least annually. An impairment loss recognized for goodwill is not reversed in a subsequent period.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the Group:

- (a) Reassesses the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and
- (b) Recognizes immediately in profit or loss any excess remaining after that reassessment.

On disposal of an investment, the amount of goodwill attributable is included in the determination of financial result from disposal.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its consolidated 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.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Cash and cash equivalents

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

Gold

Assets and liabilities denominated in gold are translated at the current rate computed based on the Central Bank rate effective at the date. Changes in the bid prices are recorded in net gain on operations with gold.

Fiduciary activities

The Group provides depository services to its customers which include transactions with securities on their depository accounts. Assets accepted and liabilities incurred under the fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts operational risks relating to these activities, whereas the Group's customers bear the credit and market risks associated with such operations.

Due from banks

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

Loans to customers

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

Loans to customers granted by the Group with fixed maturities are initially recognized at fair value plus related transaction costs, directly attributable to the acquisition or creation of qualifying financial assets. 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 consolidated income statement 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.

The Group will take possession of any collateral held as security when a customer defaults on repayments of the loan and the loan cannot be renegotiated. The Group will engage a third party to dispose of the collateral on their behalf in the open market.

Factoring Assets

Factoring assets are non-derivative assets with determinable payments. These assets are initially recognized at fair value and any costs directly related to creation of qualifying financial assets.

Where the fair value of consideration given does not equal the fair value of the factoring asset the difference between the fair value of consideration given and the fair value of the asset is recognized as a loss on initial recognition of the asset and included in the consolidated income statement according to nature of these losses. Subsequently, factoring assets are carried at amortized cost using the effective interest method and are carried net of any allowance for impairment losses.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Write-off of loans and advances

Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the consolidated income statement in the period of recovery.

Allowance for impairment losses

Assets carried at amortized cost

The Group accounts for impairment losses of financial assets that are not carried at fair value when there is objective evidence that a financial asset or group of financial assets is impaired. The impairment losses are measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. Such impairment losses are not reversed unless if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, such as recoveries, in which case the previously recognized impairment loss is reversed by adjusting an allowance account.

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.

Available-for-sale financial assets

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

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 either through allowance account (financial assets that are carried at amortized cost) or direct write-off (financial assets carried at cost). The total of the impairment losses is deducted in arriving at assets as shown in the consolidated statement of financial position. Factors that the Group 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.

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

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Provisions

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

Investments available-for-sale

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

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

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

Investment properties

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the companies in the Group or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property. Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the property. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections. Changes in the fair value of investment property are recorded in the income statement.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Premises, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost (except for buildings, which are stated at revalued amounts) less accumulated depreciation and amortization and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and amortization of intangible assets is charged on their historical cost and is designed to write off assets over their useful lives. It is calculated on a straight line basis at the following annual rates:

Building	5%
Furniture and equipment	25%
Computers	25%
Vehicles	25%
Other equipment	20%
Intangible assets	10%

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

Land and buildings held for use in supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent valuers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount of the assets does not differ materially from that which would be determined using fair values at the reporting date.

Market value of property is assessed using three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The cost method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Any revaluation increase arising on the revaluation of property is credited to the property, plant and equipment and equipment revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense in the consolidated income statement, in which case the increase is credited to the consolidated income statements to the extent of the decrease previously charged. A decrease in carrying amount of an asset arising on the revaluation is charged as an expense to the income statement to the extent that it exceeds the balance, if any, held in the property, plant and equipment revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the consolidated income statement. Upon the retirement or sale of buildings, the attributable revaluation surplus is transferred to retained earnings.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Taxation

Income tax expense comprises current and deferred taxation. Income tax expense for the current period is determined on the basis of the taxable profit received in 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 Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is reported using the balance sheet liability method and represents income tax assets and liabilities on the temporary difference between the carrying value of assets and liabilities and the respective tax accounting data used to arrive at the taxable profit. 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 the respective deferred tax assets can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that a related tax benefit will be realized sufficient for full or partial recovery of the asset.

Deferred tax assets and liabilities are offset by the Group with the resulting difference reported in the financial statements if:

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

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

Due to banks and customer accounts

Due to banks and customer accounts are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Contingencies

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

Financial guarantee contracts issued

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

Share capital

Share capital is recognized at cost.

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

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Group does not have any pension arrangements separate from the state pension system of Azerbaijan, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expense

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

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

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

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

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Foreign currency translation

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

Rates of exchange

The exchange rates at the yearend used by the Group in the preparation of the consolidated financial statements are as follows:

31 December 2010	31 December 2009
USD 1 = AZN 0.7979	USD 1 = AZN 0.8031
EUR 1 = AZN 1.0560	EUR 1 = AZN 1.1499
GBP 1 = AZN 1.2377	GBP 1 = AZN 1.2759
RUR 1 = AZN 0.0263	RUR 1 = AZN 0.0266

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose, revenue, results are ten per cent or more of all the segments are reported separately. No geographical segments of the Group have been reported separately within these consolidated financial statements as all operations are conducted within Azerbaijan.

Offset of financial assets and liabilities

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

Adoption of new or revised standards and interpretations and new accounting pronouncements

Certain new IFRSs became effective for the Group from 1 January 2010. Listed below are those new or amended standards or interpretations which are relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate' (Effective for annual periods beginning on or after 1 July 2009) - The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

IFRS 3, 'Business combinations' (Effective for annual periods beginning on or after 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 income statement. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either 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 Group applied IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items' (Effective for annual periods beginning on or after 1 July 2009) - The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

IFRIC 17, 'Distribution to non-cash assets to owners' (Effective for annual periods beginning on or after 1 July 2009) - IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

IAS 27, 'Consolidated and separate financial statements' (Effective for annual periods beginning on or after 1 July 2009) - The revised standard requires the effects of all transactions with non-controlling 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 re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2011 or later periods and which are relevant to the Group but not early adopted by the Group.

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

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 "Financial Instruments" In November 2009 the IASB issued the first phase of IFRS 9 Financial instruments. This Standard will eventually replace IAS 39 Financial Instrument: Recognition and Measurement. IFRS 9 becomes effective for financial years beginning on or after 1 January 2013. Entities may adopt the first phase for reporting periods ending on or after 31 December 2009. The first phase of IFRS 9 introduces new requirements on classification and measurement of financial assets. In particular, for subsequent measurement all financial assets are to be classified at amortised cost or at fair value through profit or loss with the irrevocable option for equity instruments not held for trading to be measured at fair value through other comprehensive income.

IFRIC 14 Amendment - Prepayments of a Minimum Funding Requirement The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction was developed by the International Financial Reporting Interpretations Committee and issued by the International Accounting Standards Board in July 2007. IFRIC 14 and its accompanying documents have been amended by Prepayments of a Minimum Funding Requirement (issued November 2009).

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IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability.

Improvements to IFRSs In May 2010 the IASB issued the third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. Most of the amendments are effective for annual periods beginning on or after 1 January 2011. There are separate transitional provisions for each standard. Amendments included in May 2010 “Improvements to IFRS” will have impact on the accounting policies, financial position or performance of the Group, as described below.

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. As the amendment should be applied from the date the Group applies IFRS 3 Revised, it may be required to restate for effects incurred under IFRS 3 Revised, but before the adoption of this amendment. The Group expects that other amendments to IFRS 3 will have no impact on financial statements of the Group.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements are expected to have minor impact as information is expected to be readily available.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets.

Described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans and receivables

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

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

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

The carrying amount of the allowance for impairment of loans to customers is AZN 26,511,641 and AZN 22,556,144 as at 31 December 2010 and 2009.

Valuation of Financial Instruments

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

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

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Group's reported net income. The carrying amount of the financial instruments at fair value is as follows as at 31 December 2010 and 2009:

	31 December 2010	31 December 2009
Investments available-for-sale	1,202,449	42,633

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4. Net Interest Income

	Year ended 31 December 2010	Year ended 31 December 2009
Interest income comprises		
interest income on assets recorded at amortized cost:		
- interest income on assets that have been written down as a result of an impairment loss	40,430,363	29,419,935
- interest income on unimpaired assets	6,955,306	7,949,678
Total Interest income	47,385,669	37,369,613
Interest income on assets recorded at amortized cost comprises:		
Interest on loans to customers	47,288,251	37,045,248
Interest on guarantees	73,305	183,077
Interest on debt securities	21,482	95,730
Interest on due from banks	2,631	45,558
Total interest income on financial assets recorded at amortized cost	47,385,669	37,369,613
Interest expense comprises:		
Interest on customer accounts	20,166,948	16,771,339
Interest on due to banks and government agencies	2,113,802	584,434
Total interest expense on financial assets recorded at amortized cost	22,280,750	17,355,773
Net interest income before provision for impairment losses on interest bearing assets	25,104,919	20,013,840

5. Allowance For Impairment Losses

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

	Loans to customers
31 December 2008	25,542,526
Recovery of provision	(2,981,845)
Write-off of assets	(4,537)
31 December 2009	22,556,144
Additional provision	3,986,677
Write-off of assets	(31,180)
31 December 2010	26,511,641

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6. Net Gain / (Loss) on Gold Operations

Net gain / (loss) on gold operations comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Net loss on gold operations	(313,563)	(727,429)
Translation difference on gold	<u>1,685,000</u>	<u>703,954</u>
Total net gain / (loss) on gold operations	<u>1,371,437</u>	<u>(23,475)</u>

7. Net Gain on Foreign Exchange Operations

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Dealing differences, net	523,209	756,686
Translation differences, net	<u>249,723</u>	<u>(415,429)</u>
Total net gain on foreign exchange operations	<u>772,932</u>	<u>341,257</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

8. Fee and Commission Income and Expense

Fee and commission income and expense comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Fee and commission income:		
Cash operations	1,040,963	951,104
Settlements	738,743	696,762
Foreign exchange operations	712,269	1,191,225
Plastic cards operations	292,267	212,969
Guarantee letters	142,389	34,675
Letters of credit	355	2,394
Other	7,329	6,055
	<u>2,934,315</u>	<u>3,095,184</u>
Fee and commission expense:		
Settlements	135,843	138,522
Plastic cards operations	123,560	156,758
Cash operations	10,767	40,843
Guarantee letters	807	-
Foreign exchange operations	402	3,103
Letters of credit	355	-
Other	1,361	5,551
	<u>273,095</u>	<u>344,777</u>

9. Operating Expenses

Operating expenses comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Staff costs	6,259,385	4,294,904
Depreciation and amortization	1,678,239	1,291,966
Payments to the Deposit Insurance Fund of the Republic of Azerbaijan	1,073,360	824,677
Operating leases	665,847	580,356
Security expenses	512,179	382,558
Entertainment	411,401	139,640
Communications	399,810	371,440
Advertising and marketing expenses	268,224	300,202
Stationery expenses	219,121	112,623
Insurance	200,500	150,043
Utilities	192,073	60,599
Repairs and maintenance expenses	175,443	162,289
Transportation and business trip expenses	166,630	121,667
Professional services fees	137,960	127,865
Taxes, other than income tax	91,922	75,449
Loss on disposal of property, equipment and intangible assets	23,053	-
Membership fees	16,250	18,496
Other expenses	100,916	83,209
	<u>12,592,313</u>	<u>9,097,983</u>

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

10. Income Taxes

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income. The statutory income tax rate is 20%.

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 2010 and 2009 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2010 and 2009 comprise:

	31 December 2010	31 December 2009
Deductible temporary differences:		
Depreciation	421,765	971,421
Amortization	<u>32,956</u>	<u>41,262</u>
Total deductible temporary differences	<u>454,721</u>	<u>1,012,683</u>
Net deferred deductible temporary differences	454,721	1,012,683
Net deferred tax asset at the statutory tax rate (20%)	<u>90,944</u>	<u>222,790</u>
Net deferred tax asset	<u>90,944</u>	<u>222,790</u>

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

	Year ended 31 December 2010	Year ended 31 December 2009
Profit before income tax	<u>14,165,784</u>	<u>17,066,465</u>
Tax at the statutory tax rate of 20% (2009: 22%)	2,833,157	3,754,622
Tax effect of permanent differences	138,865	66,834
Effect of tax exemption in the result of capitalization of net profit	<u>(2,302,677)</u>	<u>(3,991,403)</u>
Income tax expense / (benefit)	<u>669,345</u>	<u>(169,947)</u>
Current income tax expense	537,499	-
Deferred income tax expense / (benefit)	<u>131,846</u>	<u>(169,947)</u>
Income tax expense / (benefit)	<u>669,345</u>	<u>(169,947)</u>

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On 14 November 2008, a new law "On Stimulation of Increasing the capitalization of Banks, Insurance and Reinsurance companies" was enacted. According to the Law the profit tax rates for banks, insurance and reinsurance companies is reduced to 0% for three fiscal years from 1 January 2009, where all profits are retained within the business. The management of the Bank decided to take advantage of the new law in the year 2010 and capitalize the full amount of the Bank's profit for the reporting year and part of the retained earnings as at 1 January 2010. The Bank's management believes that the permanent taxable difference between financial and tax results is fully covered by the amount of profit directed to capitalization and makes the Bank fully exempt from the current income tax liability for the reporting year in accordance with the law. Taking into consideration that the law will be in force for three year period, the management of the Bank estimated the deferred tax effect on the temporary differences that are probable to realize subsequent to the 3 year period.

Deferred income tax assets	31 December 2010	31 December 2009
Beginning of the period	<u>222,790</u>	<u>52,843</u>
Change in the income tax assets for the period charged to profit	<u>(131,846)</u>	<u>169,947</u>
End of the period	<u>90,944</u>	<u>222,790</u>

11. Earnings Per Share

The earnings per share are calculated as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
Profit:		
Net profit for the year	<u>13,484,070</u>	<u>17,239,984</u>
Weighted average number of ordinary shares for basic earnings per share	<u>2,142,000</u>	<u>2,142,000</u>
Earnings per share – basic and diluted (AZN)	<u>6.295</u>	<u>8.049</u>

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12. Cash and Cash Equivalents

Cash and balances with the Central Bank of Azerbaijan Republic comprise:

	31 December 2010	31 December 2009
Cash on hand	17,494,125	10,619,953
Balances with the Central Bank of Azerbaijan Republic	<u>108,735,851</u>	<u>7,678,984</u>
Total cash and balances with the Central Bank of Azerbaijan Republic	<u>126,229,976</u>	<u>18,298,937</u>

The balances with the CBAR as at 31 December 2010 and 2009 include AZN 1,684,355 and AZN 1,320,144, respectively, which represent the minimum reserve deposits required by the CBAR. The Bank is entitled to use all funds on its correspondent account provided that average daily balance for 30 days period will be eventually higher than required mandatory reserve.

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

	31 December 2010	31 December 2009
Cash and balances with the Central Bank of Azerbaijan Republic	126,229,976	18,298,937
Due from banks in OECD countries	<u>2,349,754</u>	<u>2,783,894</u>
	128,579,730	21,082,831
Less minimum reserve deposit with the Central Bank of Azerbaijan Republic	(1,684,355)	(1,320,144)
Less restricted deposit in OECD countries	<u>(126,345)</u>	<u>-</u>
Total cash and cash equivalents	<u>126,769,030</u>	<u>19,762,687</u>

13. Due from Banks

Due from banks comprise:

	31 December 2010	31 December 2009
Correspondent accounts with other banks	2,499,469	3,125,716
Loans and time deposits with other banks	500,389	-
Restricted deposits	<u>142,303</u>	<u>40,958</u>
Total due from banks	<u>3,142,161</u>	<u>3,166,674</u>

As at 31 December 2010 and 2009 the maximum credit risk exposure of due from banks amounted to AZN 3,142,161 and AZN 3,166,674, respectively.

As at 31 December 2010 and 2009 the Bank had restricted deposits blocked in support of guarantees issued and plastic cards operations and money transfers totaling AZN 142,303 and AZN 40,958, respectively.

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14. Loans to Customers

Loans to customers comprise:

	31 December 2010	31 December 2009
Loans to customers	497,968,413	465,753,284
Less allowance for impairment losses	<u>(26,511,641)</u>	<u>(22,556,144)</u>
Total loans to customers	<u>471,456,772</u>	<u>443,197,140</u>

As at 31 December 2010 and 2009 accrued interest income included in loans to customers amounted to AZN 3,252,436 and AZN 1,820,969, respectively.

Movements in allowances for impairment losses for the years ended 31 December 2010 and 2009 are disclosed in Note 5.

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

	31 December 2010	31 December 2009
Loans collateralized by equipment	167,003,120	129,429,082
Loans collateralized by real estate	155,961,012	95,879,122
Loans collateralized by guarantees	53,972,168	2,198,462
Loans collateralized by vehicles	18,544,925	14,846,786
Loans collateralized by cash	5,151,932	1,098,542
Loans collateralized by shares of other entities	2,182,801	1,013,577
Loans collateralized by tractors	1,681,862	1,730,146
Loans collateralized by inventories	76,173	30,422
Loans collateralized by other collateral	203	184
Unsecured loans	<u>93,394,217</u>	<u>219,526,961</u>
	497,968,413	465,753,284
Less allowance for impairment losses	<u>(26,511,641)</u>	<u>(22,556,144)</u>
Total loans to customers	<u>471,456,772</u>	<u>443,197,140</u>

Analysis by industry

	31 December 2010	31 December 2009
Transportation and communication	197,910,680	201,724,504
Construction	106,347,406	61,731,808
Energy	98,834,716	122,715,510
Individuals	50,283,752	34,307,143
Agriculture	19,218,523	12,891,850
Manufacturing	17,292,712	16,922,417
Trading	4,683,541	9,593,728
Other	<u>3,397,083</u>	<u>5,866,324</u>
	497,968,413	465,753,284
Less allowance for impairment losses	<u>(26,511,641)</u>	<u>(22,556,144)</u>
Total loans to customers	<u>471,456,772</u>	<u>443,197,140</u>

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Loans to individuals comprise the following products:

	31 December 2010	31 December 2009
Consumer loans	20,021,269	18,301,011
Mortgage loans	16,464,615	10,450,612
Car loans	7,320,666	2,598,161
Business loans	5,683,415	2,490,386
Plastic cards	<u>793,787</u>	<u>466,973</u>
	50,283,752	34,307,143
Less allowance for impairment losses	<u>(3,472,130)</u>	<u>(2,613,699)</u>
Total loans to customers	<u>46,811,622</u>	<u>31,693,444</u>

As at 31 December 2010 and 2009 the Bank granted 11 and 11 loans totaling AZN 368,219,354 and AZN 381,585,983, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2010 and 2009 the maximum credit risk exposure of loans to customers amounted to AZN 471,456,772 and AZN 443,197,140, respectively.

As at 31 December 2010 and 2009 loans to customers included loans in amount of AZN 60,183,649 and AZN 12,957,609, respectively, whose terms have been renegotiated. Otherwise these loans would be past due or impaired.

As at 31 December 2010 and 2009 loans to customers included loans in amount of AZN 396,458,925 and AZN 345,933,555, respectively, that were individually determined to be impaired.

As at 31 December 2010 and 2009 71% and 73% of total amount of loans to customers are given to 9 and 6 entities, respectively.

A significant amount of loans (100% of loans to customers) is granted to companies operating in the Republic of Azerbaijan, which represents significant geographical concentration in one region.

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15. Investments Available-for-Sale

Investments available-for-sale comprise:

	31 December 2010	31 December 2009
Equity securities	177,418	42,633
Debt securities	<u>1,025,031</u>	<u>-</u>
Total investments available-for-sale	<u>1,202,449</u>	<u>42,633</u>

As at 31 December 2010 and 2009 accrued interest income included in investments available for sale amounted to AZN 13,031 and nil, respectively.

Equity securities	Share %	31 December 2010	Share %	31 December 2009
Baku Stock Exchange	5	135,000	-	-
Millikart LTD	1	40,000	1	40,000
SWIFT SCRL		<u>2,418</u>		<u>2,633</u>
Total equity securities		<u>177,418</u>		<u>42,633</u>

Debt securities	Nominal interest rate	31 December 2010	Nominal Interest rate	31 December 2009
Notes issued by Azerbaijan Mortgage Fund	3.25	<u>1,025,031</u>	-	<u>-</u>
Total debt securities		<u>1,025,031</u>		<u>-</u>

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16. Premises, Equipment and Intangible Assets

	Land	Buildings	Computers	Vehicles	Furniture & Equipment	Other Equipment	Construction in progress	Total Premises & Equipment	Intangible Assets	Total
Cost at 31 December 2008	20,044	3,307,905	899,041	1,566,365	2,534,523	89,805	157,100	8,574,783	445,581	9,020,364
Additions	302,000	25,030	230,682	216,845	740,989	38,774	2,033,867	3,588,187	37,214	3,625,401
Disposals	-	-	(2,067)	-	-	-	-	(2,067)	-	(2,067)
Cost at 31 December 2009	322,044	3,332,935	1,127,656	1,783,210	3,275,512	128,579	2,190,967	12,160,903	482,795	12,643,698
Additions	557,064	17,220	1,179,658	364,730	1,689,132	422,429	2,246,289	6,476,522	382,792	6,859,314
Disposals	-	(899,750)	(86,551)	(52,977)	(271,984)	(6,418)	-	(1,317,680)	-	(1,317,680)
Transfers	(99,064)	811,982	(7,034)	-	42,982	44,905	(796,603)	(2,832)	2,832	-
Cost at 31 December 2010	780,044	3,262,387	2,213,729	2,094,963	4,735,642	589,495	3,640,653	17,316,913	868,419	18,185,332
Accumulated Depreciation at 31 December 2008	-	(326,755)	(400,482)	(653,544)	(841,487)	(32,101)	-	(2,254,369)	(101,856)	(2,356,225)
Charge for the year	-	(165,998)	(197,996)	(332,460)	(527,285)	(21,111)	-	(1,244,850)	(47,116)	(1,291,966)
Disposals	-	-	1,936	-	-	-	-	1,936	-	1,936
Accumulated Depreciation at 31 December 2009	-	(492,753)	(596,542)	(986,004)	(1,368,772)	(53,212)	-	(3,497,283)	(148,972)	(3,646,255)
Charge for the year	-	(158,028)	(398,993)	(382,953)	(601,703)	(58,380)	-	(1,600,057)	(78,182)	(1,678,239)
Disposals	-	259,756	52,569	48,416	247,239	6,251	-	614,231	-	614,231
Transfers	-	-	14,692	-	(2,963)	(10,846)	-	883	(883)	-
Accumulated Depreciation at 31 December 2010	-	(391,025)	(928,274)	(1,320,541)	(1,726,199)	(116,187)	-	(4,482,226)	(228,037)	(4,710,263)
NBV at 31 December 2009	322,044	2,840,182	531,114	797,206	1,906,740	75,367	2,190,967	8,663,620	333,823	8,997,443
NBV at 31 December 2010	780,044	2,871,362	1,285,455	774,422	3,009,443	473,308	3,640,653	12,834,687	640,382	13,475,069

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

17. Investment Properties

Investment properties comprise:

	Year ended 31 December 2010	Year ended 31 December 2009
Investment property at fair value at beginning of the year	<u>5,931,894</u>	<u>6,038,186</u>
Fair value gains / (loss)	200,352	(106,292)
Investment properties at end of the year	<u>6,132,246</u>	<u>5,931,894</u>

Details of valuation of investment property:

The Group holds its investment property for the purposes of capital appreciation and possible future rental out to third parties. The fair value of investment property as at 31 December 2010 was determined on 29 December 2010 by AIS Azintellektservice, who holds a recognized professional qualification. The basis used for the appraisal was market value.

18. Other Assets

Other assets comprise:

	31 December 2010	31 December 2009
Deferred expenses	613,639	304,450
Settlements on money transfers	601,953	11,199
Prepayments for purchase of property and equipment	289,179	1,608,972
Prepayments and receivables on other transactions	229,168	511,511
Prepaid operating taxes	43,883	238,952
Prepayments for purchases of intangible assets	22,685	78,866
Accrued interests on letters of credit	-	-
Accrued interest on other operations	11,619	1,160
Total other assets	<u>1,812,126</u>	<u>2,755,110</u>

19. Due to Banks and Government Agencies

Due to banks and government agencies comprise:

	31 December 2010	31 December 2009
Loans from the CBAR	25,851,111	16,000,583
Amount due to the National Fund for Support of Entrepreneurship	22,477,517	16,415,668
Amount due to Azerbaijan Mortgage Fund	14,104,509	4,053,468
Correspondent accounts of other banks	4,006,959	2,012,018
Amount due to the National Depository Center	1,305,017	904,050
Amount due to the Ministry of Finance of Azerbaijan	-	65,007,222
Loans from banks	-	1,955,721
Total due to banks and government agencies	<u>67,745,113</u>	<u>106,348,730</u>

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

As at 31 December 2010 and 2009 accrued interest expense included in due to banks and government agencies amounted to AZN 120,196 and AZN 35,713, respectively.

20. Customer Accounts

Customer accounts comprise:

	31 December 2010	31 December 2009
Time deposits	311,093,660	245,191,710
Repayable on demand	<u>161,367,911</u>	<u>59,183,350</u>
Total customer accounts	<u>472,461,571</u>	<u>304,375,060</u>

As at 31 December 2010 and 2009 accrued interest expense included in customer accounts amounted to AZN 968,732 and AZN 777,917, respectively.

As at 31 December 2010 and 2009 customer accounts amounting to AZN 264,344,625 and AZN 206,258,059 were due to 9 and 7 customers representing a significant concentration, being approximately 56% and 68%, respectively.

	31 December 2010	31 December 2009
Individuals	270,870,622	205,018,849
Manufacturing	100,264,623	4,106,154
Trade	69,304,195	64,566,688
Insurance	25,966,988	22,978,405
Transport and communication	2,756,660	6,164,733
Energy	1,270,056	1,996
Agriculture	698,048	373,011
Construction	633,942	491,955
Other	<u>696,437</u>	<u>673,269</u>
Total customer accounts	<u>472,461,571</u>	<u>304,375,060</u>

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

21. Other Liabilities

Other liabilities comprise:

	31 December 2010	31 December 2009
Taxes other than income tax	2,069,762	309,161
Settlements on money transfers and plastic cards	972,173	379,695
Payables to the Deposit Insurance Fund	308,045	205,394
Payables to the employees	296,446	256,080
Accrued expenses	214,666	159,540
Deferred revenue	185,134	60,244
Professional fees payable	56,720	51,562
Payables to the State Social Protection Fund	17,164	17,136
Other	87,736	68,200
Total other liabilities	4,207,846	1,507,012

22. Share Capital

As of 31 December 2010 and 2009 the Group's shareholders' authorized, issued and fully paid capital amounted to AZN 72,828,000 and AZN 53,550,000, respectively and comprised 2,142,000 ordinary shares with a par value of AZN 34 and AZN 25, respectively. Each share entitles one vote to the shareholder.

During 2010 par value of ordinary shares of the Group was increased by AZN 9.

23. Financial Commitments and Contingencies

In the normal course of business, the Group 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 consolidated statement of financial position.

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

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

As at 31 Decemer 2010 Provision for losses on contingent liabilities was nil.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

As at 31 December 2010 and 2009, the nominal or contract amounts and the risk amounts were:

	31 December 2010		31 December 2009	
	Nominal Amount	Risk Weighted Amount	Nominal Amount	Risk Weighted Amount
Contingent liabilities and credit commitments				
Guarantees issued and similar commitments	7,382,578	7,382,578	11,455,843	11,455,843
Commitments on credits and unused credit lines	<u>20,148,786</u>	<u>10,074,393</u>	<u>16,390,298</u>	<u>8,195,149</u>
Total contingent liabilities and credit commitments	<u>27,531,364</u>	<u>17,456,971</u>	<u>27,846,141</u>	<u>19,650,992</u>

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2010.

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

The Group is receiving claims from individual customers with respect to certain commissions withheld by the Group for loan agreements service. Management is of the opinion that such claims would not have adverse consequences for the Group, and is in the process of establishing procedures on disclosing additional information in loan agreements in compliance with the CBAR instruction.

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

Pensions and retirement plans - Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2010 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

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

24. Subsequent Events

On January 2011 the Group has opened one branch in Qazakh. This branch is regulated by the permission of the Central Bank of the Republic of Azerbaijan.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

25. Transactions with Related Parties

Related parties or transactions with related parties in the Group, 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 Group (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Group that gives them significant influence over the Group; and that have joint control over the Group;
- (b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Members of key management personnel of the Group or its parent;
- (d) Close members of the family of any individuals referred to in (a) or (c);
- (e) 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 (c) or (d).

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2010 and 2009 with related parties:

	31 December 2010		31 December 2009	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers		497,968,413		465,753,285
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	7,000,000		6,000,000	
- <i>key management personnel of the entity</i>	195,730		387,960	
Allowance for impairment losses		(26,511,641)		(22,556,144)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	(140,000)		(120,000)	
- <i>key management personnel of the entity</i>	(3,915)		(7,759)	
Customer accounts		472,461,571		304,375,060
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	83,958,556		77,286,233	
- <i>key management personnel of the entity</i>	-		175,646	
Guarantees issued		7,382,578		11,455,843
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	2,275		20,000	

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption

Key management personnel compensation:

short-term employee benefits	413,156	6,259,385	387,500	4,294,904
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Included in the consolidated income statement for the years ended 31 December 2010 and 2009 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2010		Year ended 31 December 2009	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		47,385,669		37,369,613
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	1,260,000		1,003,608	
- <i>key management personnel of the entity</i>	8,320		43,173	
Interest expense		(22,280,750)		(17,355,773)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	(4,979,233)		(3,178,688)	
- <i>key management personnel of the entity</i>	(21,407)		(9,804)	
Fee and commission income		2,934,315		3,095,184
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	35,053		47,736	
- <i>key management personnel of the entity</i>	10,905		11,805	
Other income		642,551		69,442
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	40,475		40,475	
Operating expense		(12,592,313)		(9,097,983)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	(207,455)		(150,043)	

26. Segment Reporting

The Group's activity is sufficiently integrated and primarily relates to the banking sector. Accordingly, for purposes of IAS 14 "Segment reporting" the Group is accounted for as a single segment. The Group's assets are located in the Republic of Azerbaijan and major parts of its revenue and net profit arrives from operations in the Republic of Azerbaijan. The Group's operations include transactions with banks, legal entities and individuals. Data on other transaction balances and their results are provided in the respective notes to the consolidated financial statements.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

27. 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 Group 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 consolidated statement of financial position of the Group is presented below:

	31 December 2010		31 December 2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	126,229,976	126,229,976	18,298,937	18,298,937
Due from banks	3,142,161	3,142,161	3,166,674	3,166,674
Due to banks and government agencies	67,754,113	67,754,113	106,348,730	106,348,730
Customer accounts	472,461,571	472,461,571	304,375,060	304,375,060

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

The fair value of equity securities included in investments available-for-sale cannot be measured reliably. As at 31 December 2010 and 2009 the cost of them was 1,202,449 and AZN 42,633, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate their fair value.

28. Regulatory Matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (8%) and tier 1 capital (4%) to risk weighted assets.

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

Weighting	Description of position
0%	Cash and cash equivalents
20%	Nostro in OECD
100%	Nostro in NON-OECD
20%	Loans and advances to banks for up to 1 year
100%	Loans and advances to customers
100%	Other assets
50%	Obligations and commitments on unused loans with the initial maturity of over 1 year
100%	Guarantees

As at 31 December 2010 the Group's total capital amount for Capital Adequacy purposes was AZN 86,595,917 and tier 1 capital amount was AZN 86,595,917 with ratios of 17% and 17%, respectively.

As at 31 December 2009 the Group's total capital amount for Capital Adequacy purposes was AZN 75,277,996 and tier 1 capital amount was AZN 75,277,996 with ratios of 16% and 16%, respectively.

In addition, the Group has to maintain a statutory capital adequacy ratio based on the Central Bank of Azerbaijan Republic requirements. During the years ended 31 December 2010 and 2009 the Group was in compliance with the minimum capital requirements imposed by the CBAR.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

29. Capital Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

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

The Group's overall capital risk management policy remains unchanged from 2009.

30. Risk Management Policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows. The Group manages the following risks:

Credit risk

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

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

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

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

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

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Maximum Exposure

The Groups maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks. The following table presents the maximum exposure to credit risk of financial assets and contingent liabilities. For financial assets the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities the maximum exposure to credit risk is the maximum amount the Group would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

	31 December 2010			
	Maximum exposure	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	3,142,161	3,142,161	-	3,142,161
Loans to customers	471,456,772	471,456,772	378,062,554	93,394,218
Investments available-for-sale	1,202,449	1,202,449	-	1,202,449

	31 December 2009			
	Maximum exposure	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Due from banks	3,166,674	3,166,674	-	3,166,674
Loans to customers	443,197,140	443,197,140	223,670,179	219,526,961
Investments available-for-sale	42,633	42,633	-	42,633

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

The following table details the credit ratings of financial assets held by the Group:

	31 December 2010						
	AAA	AA	A	BBB	< BBB	Not rated	Total
Due from banks	-	2,349,755	-	-	290,270	502,136	3,142,161
Loans to customers	-	-	-	-	-	471,456,772	471,456,772
Investments available-for-sale	-	-	-	-	-	1,202,449	1,202,449

	31 December 2009						
	AAA	AA	A	BBB	< BBB	Not rated	Total
Due from banks	-	2,783,894	-	-	365,063	17,717	3,166,674
Loans to customers	-	-	-	-	-	443,197,140	443,197,140
Investments available-for-sale	-	-	-	-	-	42,633	42,633

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. Credit risk exposure of the Group is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Group's risk management policy are not breached. The Group enters into numerous transactions where the counterparties are not rated by international rating agencies.

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Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Rating model

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

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

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

The Group applies internal rating methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from that used by international rating agencies. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

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

	Neither past due nor impaired	Financial assets past due but not impaired				31 December 2010	
		0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	3,142,161	-	-	-	-	-	3,142,161
Loans to customers	72,064,455	-	-	-	-	399,392,317	471,456,772
Investments available-for-sale	1,202,449	-	-	-	-	-	1,202,449

	Neither past due nor impaired	Financial assets past due but not impaired				31 December 2009	
		0-3 months	3-6 months	6 months to 1 year	Greater than one year	Financial assets that have been impaired	Total
Due from banks	3,166,674	-	-	-	-	-	3,166,674
Loans to customers	95,473,282	-	-	-	-	347,723,858	443,197,140
Investments available-for-sale	42,633	-	-	-	-	-	42,633

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Geographical concentration

The Assets and Liabilities Management Committee exercises control over the risk in the legislation and regulatory arena and assess its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan. The Group's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

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

	The Republic of Azerbaijan	CIS countries	OECD countries	31 December 2010 Total
ASSETS				
Cash and cash equivalents	126,229,976	-	-	126,229,976
Gold	8,642,082	-	-	8,642,082
Due from banks	664,145	128,261	2,349,755	3,142,161
Loans to customers	471,456,772	-	-	471,456,772
Investments available-for-sale	1,200,031	-	2,418	1,202,449
Property and equipment	12,834,687	-	-	12,834,687
Investment property	6,132,246	-	-	6,132,246
Intangible assets	640,382	-	-	640,382
Deferred income tax asset	90,944	-	-	90,944
Other assets	1,805,348	-	6,778	1,812,126
TOTAL ASSETS	629,696,613	128,261	2,358,951	632,183,825
LIABILITIES				
Due to banks and government agencies	67,745,113	-	-	67,745,113
Customer accounts	472,461,571	-	-	472,461,571
Current income tax liability	532,996	-	-	532,996
Other liabilities	4,070,538	173	137,135	4,207,846
TOTAL LIABILITIES	544,810,218	173	137,135	544,947,526
NET POSITION	84,886,395	128,088	2,221,816	

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	The Republic of Azerbaijan	CIS countries	OECD countries	31 December 2009 Total
ASSETS				
Cash and cash equivalents	18,298,937	-	-	18,298,937
Gold	5,230,000	-	-	5,230,000
Due from banks	287,111	95,669	2,783,894	3,166,674
Loans to customers	443 197 140	-	-	443,197,140
Investments available for sale	40,000	-	2,633	42,633
Property and equipment	8,663,620	-	-	8,663,620
Investment property	5,931,894	-	-	5,931,894
Intangible assets	333,823	-	-	333,823
Deferred income tax asset	222,790	-	-	222,790
Other assets	2,740,010	12,679	2,421	2,755,110
TOTAL ASSETS	484,945,325	108,348	2,788,948	487,842,621
LIABILITIES				
Due to banks and government agencies	106,348,730	-	-	106,348,730
Customer accounts	304,375,060	-	-	304,375,060
Other liabilities	1,459,476	8,229	39,307	1,507,012
TOTAL LIABILITIES	412,183,266	8,229	39,307	412,230,802
NET POSITION	72,762,059	100,119	2,749,641	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of expected future cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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 Group can be required to pay, and

(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 Group anticipates that the cash flow will occur in a different period.

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total 31 December 2010
ASSETS								
Due from banks	8,00%	353,960	1,349,823	-	-	-	-	1,703,783
Loans to customers	11,43%	798,254	81,302,031	90,252,656	261,478,089	17,197,595	17,175,713	468,204,338
Investments available-for-sale	3,25%	-	-	-	1,025,031	-	-	1,025,031
Total interest bearing assets at fixed rates		<u>1,152,214</u>	<u>82,651,854</u>	<u>90,252,656</u>	<u>262,503,120</u>	<u>17,197,595</u>	<u>17,175,713</u>	<u>470,933,152</u>
Total interest bearing assets		1,152,214	82,651,854	90,252,656	262,503,120	17,197,595	17,175,713	470,933,152
Cash and cash equivalents		124,545,621	-	-	-	-	1,684,355	126,229,976
Gold		8,642,082	-	-	-	-	-	8,642,082
Due from banks		1,296,075	-	-	-	-	142,303	1,438,378
Loans to customers		3,178,627	-	-	-	-	73,807	3,252,434
Investments available-for-sale		-	-	-	-	-	177,418	177,418
Other assets		613,599	-	-	-	-	-	613,599
		<u>139,428,218</u>	<u>82,651,854</u>	<u>90,252,656</u>	<u>262,503,120</u>	<u>17,197,595</u>	<u>19,253,596</u>	<u>611,287,039</u>
LIABILITIES								
Due to banks and government agencies	2.00%	200,000	91,534	1,815,887	46,686,878	12,462,559	-	61,256,858
Customer accounts	7,99%	15,037,002	126,856,831	88,300,486	80,401,652	-	-	310,595,971
Total interest bearing liabilities at fixed rates		<u>15,237,002</u>	<u>126,948,365</u>	<u>90,116,373</u>	<u>127,088,530</u>	<u>12,462,559</u>	<u>-</u>	<u>371,852,829</u>
Total interest bearing liabilities		15,237,002	126,948,365	90,116,373	127,088,530	12,462,559	-	371,852,829
Due to banks and government agencies		6,488,255	-	-	-	-	-	6,488,255
Customer accounts		161,865,600	-	-	-	-	-	161,865,600
		-	532,996	-	-	-	-	532,996
Other liabilities		1,497,267	271,687	296,799	-	-	85,000	2,150,753
Guarantees issued and similar commitments		1,220,000	852,600	4,769,160	540,818	-	-	7,382,578
Commitments on credits and unused credit lines		8,885,355	-	2,421,779	8,841,652	-	-	20,148,786
		<u>195,193,479</u>	<u>128,605,648</u>	<u>97,604,111</u>	<u>136,471,000</u>	<u>12,462,559</u>	<u>85,000</u>	<u>570,421,797</u>
Liquidity gap		<u>(55,765,261)</u>	<u>(45,953,794)</u>	<u>(7,351,455)</u>	<u>126,032,120</u>	<u>4,735,036</u>		
Interest sensitivity gap for fixed rate instruments		<u>(14,084,788)</u>	<u>(44,296,511)</u>	<u>136,283</u>	<u>135,414,590</u>	<u>4,735,036</u>		
Interest sensitivity gap		<u>(14,084,788)</u>	<u>(44,296,511)</u>	<u>136,283</u>	<u>135,414,590</u>	<u>4,735,036</u>		
Cumulative interest sensitivity gap		<u>(14,084,788)</u>	<u>(58,381,299)</u>	<u>(58,245,016)</u>	<u>77,169,574</u>	<u>81,904,610</u>		

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total 31 December 2009
ASSETS								
Loans to customers	10,74%	95,183,090	15,572,634	47,114,924	263,385,639	16,335,901	3,783,983	441,376,171
Total interest bearing assets at fixed rates		95,183,090	15,572,634	47,114,924	263,385,639	16,335,901	3,783,983	441,376,171
Total interest bearing assets		95,183,090	15,572,634	47,114,924	263,385,639	16,335,901	3,783,983	441,376,171
Cash and cash equivalents		16,978,793	-	-	-	-	1,320,144	18,298,937
Gold		5,230,000	-	-	-	-	-	5,230,000
Due from banks		3,125,716	-	-	-	-	40,958	3,166,674
Loans to customers Investments available for sale		1,765,346	-	-	-	-	55,623	1,820,969
Other assets		435,421	-	-	-	-	42,633	42,633
		435,421	-	-	-	-	-	435,421
		122,718,366	15,572,634	47,114,924	263,385,639	16,335,901	5,243,341	470,370,805
LIABILITIES								
Due to banks and government agencies	1,93%	1,959,377	70,000,000	1,900,000	19,915,000	10,526,622	-	104,300,999
Customer accounts	7,07%	14,986,985	18,589,580	46,536,438	164,217,054	-	-	244,330,057
Total interest bearing liabilities at fixed rates		16,946,362	88,589,580	48,436,438	184,132,054	10,526,622	-	348,631,056
Total interest bearing liabilities		16,946,362	88,589,580	48,436,438	184,132,054	10,526,622	-	348,631,056
Due to banks and government agencies		2,047,731	-	-	-	-	-	2,047,731
Customer accounts		59,845,003	-	-	-	-	200,000	60,045,003
Other liabilities		759,919	86,298	25,632	272,937	-	362,226	1,507,012
Guarantees issued and similar commitments		2,811,000	1,557,200	6,164,645	622,998	-	300,000	11,455,843
Commitments on credits and unused credit lines		3,371,301	680	3,413,427	9,604,890	-	-	16,390,298
		85,781,316	90,233,758	58,040,142	194,632,879	10,526,622	862,226	440,076,943
Liquidity gap		36,937,050	(74,661,124)	(10,925,218)	68,752,760	5,809,279	-	-
Interest sensitivity gap for fixed rate instruments		78,236,728	(73,016,946)	(1,321,514)	79,253,585	5,809,279	-	-
Interest sensitivity gap		78,236,728	(73,016,946)	(1,321,514)	79,253,585	5,809,279	-	-
Cumulative interest sensitivity gap		78,236,728	5,219,782	3,898,268	83,151,853	88,961,132	-	-

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Market Risk

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

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings. The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Department of Financial Control conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

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

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

Impact on profit before tax:

	As at 31 December 2010		As at 31 December 2009	
	Interest rate	Interest rate	Interest rate	Interest rate
	+1%	-1%	+1%	-1%
Assets:				
Due from banks	17,038	(17,038)	-	-
Loans to customers	4,682,043	(4,682,043)	4,413,762	(4,413,762)
Investments available-for-sale	10,250	(10,250)	-	-
Liabilities:				
Due to banks and government agencies	(612,569)	612,569	(1,043,010)	1,043,010
Customer accounts	(3,105,960)	3,105,960	(2,443,301)	2,443,301
Net impact on profit before tax	990,802	(990,802)	927,451	(927,451)

Impact on shareholders equity:

	As at 31 December 2010		As at 31 December 2009	
	Interest rate	Interest rate	Interest rate	Interest rate
	+1%	-1%	+1%	-1%
Assets:				
Due from banks	17,038	(17,038)	-	-
Loans to customers	4,682,043	(4,682,043)	4,413,762	(4,413,762)
Investments available-for-sale	10,250	(10,250)	-	-
Liabilities:				
Due to banks and government agencies	(612,569)	612,569	(1,043,010)	1,043,010
Customer accounts	(3,105,960)	3,105,960	(2,443,301)	2,443,301
Net impact on profit before tax	990,802	(990,802)	927,451	(927,451)

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

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 Group is exposed to the 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 currencies. These limits also comply with the minimum requirements of the CBAR. The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other currency	31 December 2010 Total
ASSETS					
Cash and cash equivalents	120,514,883	4,117,000	1,598,093	-	126,229,976
Gold	8,642,082	-	-	-	8,642,082
Due from banks	500,389	1,943,387	690,972	7,413	3,142,161
Loans to customers	278,851,564	192,338,236	266,972	-	471,456,772
Investments available-for-sale	1,200,031	-	2,418	-	1,202,449
Property and equipment	12,834,687	-	-	-	12,834,687
Investment property	6,132,246	-	-	-	6,132,246
Intangible assets	640,382	-	-	-	640,382
Deferred income tax asset	90,944	-	-	-	90,944
Other assets	1,675,535	134,420	2,171	-	1,812,126
TOTAL ASSETS	431,082,743	198,533,043	2,560,626	7,413	632,183,825
LIABILITIES					
Due to banks and government agencies	63,738,154	4,004,187	2,772	-	67,745,113
Customer accounts	268,281,588	195,114,026	9,064,768	1,189	472,461,571
Current income tax liabilities	532,996	-	-	-	532,996
Other liabilities	3,813,301	273,947	120,538	60	4,207,846
TOTAL LIABILITIES	336,366,039	199,392,160	9,188,078	1,249	544,947,526
OPEN CURRENCY POSITION	94,716,704	(859,117)	(6,627,452)	6,164	

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

	AZN	USD	EUR	Other currency	31 December 2009 Total
ASSETS					
Cash and cash equivalents	12,580,338	4,056,924	1,661,675	-	18,298,937
Gold	5,230,000	-	-	-	5,230,000
Due from banks	-	2,796,705	268,524	101,445	3,166,674
Loans to customers	280,052,488	160,885,255	318,670	1,940,727	443,197,140
Investments available-for-sale	40,000	-	2,633	-	42,633
Property and equipment	8,663,620	-	-	-	8,663,620
Investment property	5,931,894	-	-	-	5,931,894
Intangible assets	333,823	-	-	-	333,823
Deferred income tax asset	222,790	-	-	-	222,790
Other assets	2,708,761	43,757	2,592	-	2,755,110
TOTAL ASSETS	315,763,714	167,782,641	2,254,094	2,042,172	487,842,621
LIABILITIES					
Due to banks and government agencies	102,380,991	2,025,697	750	1,941,292	106,348,730
Customer accounts	131,816,674	166,733,361	5,725,697	99,328	304,375,060
Other liabilities	1,287,454	208,411	10,479	668	1,507,012
TOTAL LIABILITIES	235,485,119	168,967,469	5,736,926	2,041,288	412,230,802
OPEN CURRENCY POSITION	80,278,595	(1,184,828)	(3,482,832)	884	

Currency risk sensitivity

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

	As at 31 December 2010		As at 31 December 2009	
	AZN / USD +10%	AZN / USD -10%	AZN / USD +10%	AZN / USD -10%
Impact on profit or loss	85,912	(85,912)	118,483	(118,483)

	As at 31 December 2009		As at 31 December 2008	
	AZN / EURO +10%	AZN / EURO -10%	AZN / EURO +10%	AZN / EURO -10%
Impact on profit or loss	662,745	(662,745)	348,283	(348,283)

Open Joint Stock Company Xalq Bank

Notes to the Consolidated Financial Statements for the year ended 31 December 2010 (Continued) (in Azerbaijan Manats)

Limitations of sensitivity analysis

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

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

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

