THE INTERNATIONAL BANK OF AZERBAIJAN

Consolidated Condensed Interim Financial Information

For the Six Months Period Ended June 30, 2014

THE INTERNATIONAL BANK OF AZERBAIJAN

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THE INTERNATIONAL BANK OF AZERBAIJAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014

Management is responsible for the preparation of the consolidated condensed interim financial information that presents fairly the consolidated financial position of the International Bank of Azerbaijan and its subsidiaries ("the Group") as at June 30, 2014, the consolidated results of its operations, cash flows and changes in equity for the six months period ended June 30, 2014, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the consolidated condensed interim financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated condensed interim financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated condensed interim financial position of the Group, and which enable them to ensure that the consolidated condensed interim financial information of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated condensed interim financial information of the Group for the six months period ended June 30, 2014 was approved by the Board of Directors on September 12, 2014:

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev	Mr. Rashad Gasimov
Chairman of the Board of Directors Baku, the Republic of Azerbaijan	Director of Accounting and Budgeting Department Baku, the Republic of Azerbaijan
September 12, 2014	September 12, 2014

"Deloitte & Touche LLC"
Business Center Landmark
96 Nizami St.
Baku, AZ1010
Azerbaijan
Tel: +994 (12) 404 12 10
Fax: +994 (12) 404 12 11
www.deloitte.az

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of the International Bank of Azerbaijan:

We have audited the accompanying consolidated condensed interim financial information of the International Bank of Azerbaijan and its subsidiaries (collectively – "the Group"), which comprises the consolidated condensed interim statement of financial position as at June 30, 2014, and the consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows for the six months period ended June 30, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Condensed Interim Financial Information

Management is responsible for the preparation and fair presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting", and for such internal control as management determines is necessary to enable the preparation of consolidated condensed interim financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this consolidated condensed interim financial information 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 about whether the consolidated condensed interim financial information is free from material misstatement.

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

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 condensed interim financial information presents fairly, in all material respects, the consolidated condensed interim financial position of the Group as at June 30, 2014, and its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Deloitte & Touche.

September 12, 2014
Baku, the Republic of Azerbaijan

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2014
(in thousands of Azerbaijan Manats)

	Note	June 30, 2014	December 31, 2013
ASSETS			
Cash and cash equivalents	4, 26	497,412	423,085
Mandatory cash balances with the National/Central Banks	26	10,309	15,555
Due from other banks	5	495,150	282,266
Loans and advances to customers	6, 26	7,291,227	6,617,667
Financial assets at fair value through profit or loss		22,381	22,588
Other debt securities		43,226	22,822
Available-for-sale investments		4,396	10,338
Investment in associates		440	489
Premises, equipment and intangible assets		267,646	227,409
Current income tax asset	26	5,346	4,362
Deferred income tax asset		6,747	9,469
Other financial and insurance assets	7	19,305	14,955
Other assets	8	42,393	30,213
TOTAL ASSETS		8,705,978	7,681,218
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to other banks	9, 26	1,758,954	1,793,365
Customer accounts	10, 26	3,708,707	3,500,854
Debt securities in issue	11	472,124	85,126
Other borrowed funds	12, 26	1,517,584	1,219,963
Current income tax liability	26	-	377
Deferred income tax liability		18,025	7,103
Other financial and insurance liabilities	13	76,786	48,737
Other liabilities	14	19,930	18,092
Subordinated debt	15, 26	425,644	414,023
TOTAL LIABILITIES		7,997,754	7,087,640
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	16	563,295	475,038
Cumulative translation reserve		(3,296)	(3,594)
Revaluation reserve for premises		42,876	43,503
Retained earnings		102,587	75,810
Total equity attributable to owners of the Bank		705,462	590,757
Non-controlling interest		2,762	2,821
Total equity		708,224	593,578
TOTAL LIABILITIES AND EQUITY		8,705,978	7,681,218

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

September 12, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan

September 12, 2014

The notes on pages 8-39 form an integral part of this consolidated condensed interim financial information.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Note	Six months period ended June 30, 2014	Six months period ended June 30, 2013
Interest income	17, 26	328,017	224,526
Interest expense	17, 26	(184,201)	(164,032)
NET INTEREST INCOME		143,816	60,494
Initial recognition adjustment on interest bearing assets		(3,369)	(3,019)
Provision for impairment of due from other banks	5	(6,649)	895
Provision for impairment of loans and advances to customers	6, 26	(56,454)	(8,851)
Provision for other debt securities		(1,115)	-
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		76,229	49,519
Fee and commission income	18, 26	47,962	45,460
Fee and commission expense	18	(6,658)	(6,784)
Fair value (loss)/gain on derivatives		(881)	9,308
Gains less losses from trading in foreign currencies		11,874	16,887
Foreign exchange transaction gains less losses		(1,330)	(12,454)
Net income on financial assets at fair value through profit or loss		1,168	47
Gross insurance premiums written		7,052	7,729
Reinsurance premiums ceded		(2,133)	(2,731)
Net claims incurred		(2,566)	(3,077)
Other operating income		291	464
Provision for other operations	14	(2,572)	-
(Increase)/decrease of provision for unearned premium, net of reinsurance		(70)	740
Administrative and other operating expenses	19, 26	(72,759)	(68,155)
Share of loss of associates	26	(48)	(64)
PROFIT BEFORE INCOME TAX		55,559	36,889
Income tax expense	26	(14,733)	(5,531)
PROFIT FOR THE PERIOD		40,826	31,358
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of premises		-	21,190
Income tax recorded directly in other comprehensive income		-	(4,238)
		-	16,952
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation reserve		298	(3,094)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		298	13,858
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		41,124	45,216
PROFIT IS ATTRIBUTABLE TO:			
Owners of the Bank		40,802	31,299
Non-controlling interest		24	59
PROFIT FOR THE PERIOD		40,826	31,358
TOTAL COMPREHENSIVE INCOME IS ATTRIBUTABLE TO:			
Owners of the Bank		41,183	45,157
Non-controlling interest		(59)	59
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		41,124	45,216
Earnings per share for profit attributable to the owners of the Bank:			
Basic (expressed in AZN per share)	20	0.02	0.02
Diluted (expressed in AZN per share)	20	0.02	0.02

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

September 12, 2014

Mr. Rashad Gasimov
Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan

September 12, 2014

The notes on pages 8-39 form an integral part of this consolidated condensed interim financial information.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014

(in thousands of Azerbaijan Manats)

	Share capital	Cumulative translation reserve	Revaluation reserve for premises	Retained earnings	Total equity attributable to owners of the Bank	Non-controlling interest	Total equity
December 31, 2012	330,834	(3,670)	28,244	58,503	413,911	2,326	416,237
Profit for the period	-	-	-	31,299	31,299	59	31,358
Other comprehensive income for the period	-	(3,094)	16,952	-	13,858	-	13,858
Transfer to retained earnings	-	-	(884)	884	-	-	-
Issue of ordinary shares (Note 16)	9,166	-	-	-	9,166	-	9,166
June 30, 2013	340,000	(6,764)	44,312	90,686	468,234	2,385	470,619
Profit for the period	-	-	-	26,690	26,690	495	27,185
Other comprehensive income for the period	-	3,170		-	3,170	(59)	3,111
Transfer to retained earnings			(809)	809	-	-	-
Dividends paid	-	-	-	(14,805)	(14,805)	-	(14,805)
Issue of ordinary shares (Note 16)	107,468	-	-	-	107,468	-	107,468
Increase in par value of shares	27,570	-	-	(27,570)	-	-	-
December 31, 2013	475,038	(3,594)	43,503	75,810	590,757	2,821	593,578
Profit for the period	-	-	-	40,802	40,802	24	40,826
Other comprehensive income for the period	-	298	-	-	298	(83)	215
Transfer to retained earnings	-	-	(627)	627	-	-	-
Dividends paid	-	-	-	(14,652)	(14,652)	-	(14,652)
Issue of ordinary shares (Note 16)	88,257	-	-	-	88,257	-	88,257
June 30, 2014	563,295	(3,296)	42,876	102,587	705,462	2,762	708,224

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

September 12, 2014

Mr. Rashad Gasimov

Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan

September 12, 2014

The notes on pages 8-39 form an integral part of this consolidated condensed interim financial information.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014
(in thousands of Azerbaijan Manats)

	Six months period ended June 30, 2014	Six months period ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest received	188,418	207,227
Interest paid	(158,631)	(157,470)
Fees and commissions received	48,053	45,406
Fees and commissions paid	(7,921)	(6,516)
Insurance premiums received	8,453	7,729
Reinsurance premiums paid	(2,133)	(2,816)
Net claims paid	(2,566)	(3,083)
Income received from trading in foreign currencies	11,874	16,887
Other operating income received	291	432
Staff costs paid	(31,740)	(29,431)
Administrative and other operating expenses paid	(36,765)	(14,944)
Cash flows from operating activities before changes in operating assets and liabilities	17,333	63,421
Changes in operating assets and liabilities:		
Net decrease/(increase) in mandatory cash balances with the Central/National Banks	5,246	(751)
Cash collected on behalf of a related party	-	136,333
Cash paid on behalf of a related party	-	(136,333)
Net (increase)/decrease in due from other banks	(219,139)	2,085
Net increase in loans and advances to customers	(595,295)	(772,356)
Net decrease/(increase) in financial assets at fair value through profit or loss	1,362	(1,711)
Net increase in other financial and insurance assets	(4,431)	(5,477)
Net increase in other assets	(5,645)	(415)
Net (decrease)/increase in due to other banks	(28,636)	162,049
Net increase in customer accounts	201,573	108,601
Net increase/(decrease) in other financial and insurance liabilities	18,261	(32,093)
Net (decrease)/increase in other liabilities	(530)	1,784
Cash used in operating activities before taxation	(609,901)	(474,863)
Income tax paid	(2,450)	(1,934)
Net cash used in operating activities	(612,351)	(476,797)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for premises, equipment and intangible assets	(51,920)	(10,174)
Proceeds on sale of available-for-sale investments	6,287	-
Payments for available-for-sale investments	-	(3,690)
Payments for other debt securities	(21,545)	-
Net cash used in investing activities	(67,178)	(13,864)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2014
(in thousands of Azerbaijan Manats)

	Note	Six months period ended June 30, 2014	Six months period ended June 30, 2013
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		88,257	9,166
Proceeds from issue of debt securities in issue		382,841	72,308
Proceeds from other borrowed funds		697,402	1,192,499
Repayment of other borrowed funds		(408,607)	(1,132,667)
Proceeds from subordinated debt		-	101,299
Dividends paid		(5,745)	-
Net cash generated from financing activities		754,148	242,605
Effect of exchange rate changes on cash and cash equivalents		(292)	(931)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		74,327	(248,987)
CASH AND CASH EQUIVALENTS, beginning of period	4	423,085	489,142
CASH AND CASH EQUIVALENTS, end of period	4	497,412	240,155

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

September 12, 2014

Mr. Rashad Gasimov

Director of Accounting and Budgeting Department
Baku, the Republic of Azerbaijan

September 12, 2014

The notes on pages 8-39 form an integral part of this consolidated condensed interim financial information.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

The International Bank of Azerbaijan ("the Bank") was incorporated in 1991 as a fully state-owned bank and is domiciled in the Republic of Azerbaijan. On October 28, 1992, the Bank became a joint-stock commercial bank and the Ministry of Finance of the Republic of Azerbaijan ("MoF") became the major shareholder of the Bank. As at June 30, 2014 the MoF held 50.65 % (December 31, 2013: 60.06%) of the total paid-in share capital of the Bank. The Bank is regulated by the Central Bank of the Republic of Azerbaijan ("the CBAR") and conducts its business under a general full banking license issued on December 30, 1992. On March 1, 2005, a Presidential Decree, which outlined the process for privatisation of the state shareholding in the Bank's share capital, was enacted. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 67, Nizami Street, AZ1005, Baku, the Republic of Azerbaijan.

As at June 30, 2014 and December 31, 2013 the Bank had 35 branches operating in the Republic of Azerbaijan, 5 representative offices in London, Frankfurt, Dubai, Luxemburg and New York.

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

Name	Country of operation	Proportion of ownership interest/voting rights (%) 2014	2013	Type of operation
The International Bank of Azerbaijan	The Republic of Azerbaijan	Parent		Banking
Subsidiaries:				
IBA Moscow	Russian Federation	100.0	100.0	Banking
International Insurance Company	The Republic of Azerbaijan	100.0	100.0	Insurance
Azericard Limited	The Republic of Azerbaijan	100.0	100.0	Plastic cards
IBA Georgia	The Republic of Georgia	75.0	75.0	Banking
Associates:				
Joint Leasing	The Republic of Azerbaijan	47.6	47.6	Leasing
Baku Inter-Bank Currency Exchange	The Republic of Azerbaijan	20.0	20.0	Currency exchange

The ultimate controlling party of the Group is the Government of the Republic of Azerbaijan.

On January 24, 2002, the Group registered its fully-owned subsidiary, the International Bank of Azerbaijan - Moscow, in Moscow, the Russian Federation ("IBA Moscow"). The share capital of IBA Moscow was established in the amount of EUR 10,000,000. IBA Moscow operates under a licence issued by the Central Bank of the Russian Federation ("the CBRF") on January 25, 2002. This licence allows IBA Moscow to carry out banking operations with legal entities in Russian Roubles and in foreign currencies. During the first two years after its registration due to Russian statutory requirements IBA Moscow was restricted from attracting deposits from individuals. On December 1, 2004, IBA Moscow obtained a licence from the CBRF allowing it to provide a full range of banking services to individuals. On May 20, 2013, IBA Moscow obtained a licence from the CBRF allowing it provide full range of operations with precious metals. IBA Moscow's principal activity is represented by commercial banking operations. IBA Moscow has been a member of the Deposit Insurance Agency of the Russian Federation since December 2, 2004. IBA Moscow's registered office is located at the following address: Tverskaya 6, Bldg 2, Moscow, 105062, the Russian Federation.

Based on the decision of Supervisory Board of the Group dated December 30, 2006 and May 18, 2011, the share capital of IBA Moscow was increased by EUR 4 million and AZN 10 million, respectively, during the years ended December 31, 2007 and year ended December 31, 2011, respectively.

On February 5, 2002, the Group registered its fully-owned subsidiary International Insurance Company ("Insurance Subsidiary") at the Ministry of Justice of the Republic of Azerbaijan. The Insurance Subsidiary operates under an insurance licence issued by the Ministry of Finance of the Republic of Azerbaijan on October 15, 2009. The Insurance Subsidiary is licensed to perform a total of 33 types of insurance activities. The insurance business underwritten by the Company includes medical, auto, marine third party liability, marine hull, property, casualty, life, personal insurance, insurance banking risks, mandatory fire insurance, insurance of liability for non-performance of obligations and reinsurance.The registered office of the Insurance Subsidiary is located at 40C, J.Jabbarli Street, Baku, AZ 1065, the Republic of Azerbaijan.

Based on the decision of Supervisory Board of the Group dated May 1, 2014, the share capital of International Insurance Company was increased by AZN 6 million, during the period ended June 30, 2014.

Azericard Limited, which is 100% owned by the Bank, was established as a limited liability company on May 3, 1996. Azericard Limited was registered with the Ministry of Justice of the Republic of Azerbaijan on July 4, 1996 and commenced its operations in 1997. Azericard Limited is a member service provider for MasterCard and Visa International and acts as a clearing and authorisation centre for plastic card transactions in the Republic of Azerbaijan.

Azericard Limited is at present one of the biggest providers of authorisation of plastic cards operations and clearing services in the Republic of Azerbaijan. The registered office address of Azericard Limited is: 67 Nizami Street, AZ1005, Baku, the Republic of Azerbaijan.

On November 16, 2006, the Group registered its 75% owned subsidiary, International Bank of Azerbaijan Republic - Georgia ("IBA Georgia"), in Tbilisi, Georgia. The share capital of IBA Georgia was established in the amount of 12,000,000 Georgian Laris ("GL"), with the non-controlling interest in the amount of GL 3,000,000 paid-in equally by an Azerbaijani commercial bank and a resident individual of the Republic of Georgia. IBA Georgia started its operations under a license issued by the National Bank of Georgia ("the NBG") on February 5, 2007. IBA Georgia's registered office is located at the following address: 36 Khetagurovi Street, Tbilisi, Republic of Georgia. Based on the decision of the Supervisory Board of the Group dated May 18, 2011, the share capital of IBA Georgia was increased by AZN 3,750 thousand during the year ended December 31, 2011. Total increase in share capital was AZN 5,000 thousand, remaining part was paid by other shareholders of IBA Georgia.

This consolidated condensed interim financial information was authorized for issue on September 12, 2014 by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013, which were prepared in accordance with IFRS.

This consolidated condensed interim financial information has been prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future.

This consolidated condensed interim financial information includes comparative consolidated condensed interim statement of comprehensive income for the six months period ended June 30, 2013 and comparative consolidated condensed interim statement of financial position as at December 31, 2013.

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this consolidated condensed interim financial information as compared with the annual consolidated financial statements for the year ended December 31, 2013.

Interim period tax measurement

Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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.

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. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated condensed financial information 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 countries in which it operates and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at June 30, 2014 and December 31, 2013 the gross loans and receivables totaled AZN 8,057,315 thousand and AZN 7,331,332 thousand, respectively, and provision for loan impairment amounted to AZN 766,088 thousand and AZN 713,665 thousand, respectively.

Premises carried at revalued amounts

Premises are measured at revalued amounts. The date of the latest appraisal was June 30, 2013. The next revaluation is preliminary scheduled as at June 30, 2015. The carrying value of revalued property amounted to AZN 73,625 thousand and AZN 78,254 thousand as at June 30, 2014 and December 31, 2013, respectively.

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is more likely that the deferred tax assets will be fully realized. The carrying value of deferred tax assets amounted to AZN 6,747 thousand and AZN 9,469 thousand as at June 30, 2014 and December 31, 2013, respectively.

Other borrowed funds

Management has considered whether gains or losses should arise on initial recognition of loans from international financial institutions in the amount of AZN 1,517,584 thousand as at June 30, 2014 (December 31, 2013: AZN 1,219,963 thousand) and related lending. The Bank obtains long term financing from international financial institutions at interest rates, at which such institutions ordinarily lend in emerging markets and which may be lower than rates, at which the Bank could source the funds from local lenders. The amount of such borrowings as at June 30, 2014 was AZN 334,152 thousand (December 31, 2013: AZN 304,132 thousand). As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates.

As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market interest rates and no initial recognition of gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Loans at low interest rates

Management has considered the appropriate market interest rate for certain loans and advances where the contractual interest rate is 5.00% or lower. The amount of such loans as at June 30, 2014 was AZN 277,586 thousand (December 31, 2013: 5.00% or lower - AZN 211,744 thousand). Management have assessed that the contractual interest rates for these loans are equivalent to the alternative highest and best use of the funds provided under these loans, the majority of which are with government bodies and state-owned entities. Had management concluded that the interest rates for these borrowings were different to the highest and best use of the funds provided, then the carrying amounts in respect of these loans in the consolidated condensed interim financial information, and the amounts recorded within interest income and losses on the origination of loans, would have been different.

Tax legislation

Azerbaijani, Russian and Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 24.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The information on related party balances is disclosed in Note 26.

Capital Adequacy ratio

Capital Adequacy Ratio is calculated in accordance with the International Convergence of Capital Measurement and Capital Standards (July 1988, updated to November 2005) (or Basel Capital Accord) requirements. Such requirements are subject to interpretation and accordingly the appropriateness of the inclusion, exclusion, and/or classification of amounts included in the calculation of the Capital Adequacy Ratio requires management judgment, for example, whether the off-balance sheet commitments covered by blocked customer accounts would carry 0% risk for the purposes of calculating total risk-weighted assets. Currently, management believes that such off-balance sheet commitments carry 0% risk for the capital adequacy calculation purposes.

Liquidity mismatch

As disclosed in Note 22 to this consolidated condensed financial information, the Group has a cumulative negative liquidity gap up to twelve months as at June 30, 2014 and as at December 31, 2013. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, management believes that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Note 22.

New and revised Standards on consolidation and disclosures

The Group has applied retrospectively a package of five Standards listed below

- Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities
- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies

Key requirements of these five Standards are described below.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

These amendments do not have any effect on the Group's consolidated financial statements as the Bank is not an investment entity.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'. There is no effect of these amendments on the financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or cash-generating unit to periods in which an impairment loss has been recognized or reversed. In addition, they expand and clarify the disclosure requirements applicable when recoverable amount has been determined on the basis of fair value less costs of disposal. These amendments affect disclosures only and do not have any impact of interim condensed consolidated financial statements of the Group as no impairment loss was recognized or reversed during the reporting period.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

These amendments allow the continuation of hedge accounting when a derivative is novated to a clearing counterparty and certain conditions are met. There is no effect of these amendments on the Group's financial statements as the Group does not apply hedge accounting.

IFRIC 21 Levies

The interpretation is applicable to all payments imposed by governments under legislation, other than outflows that are within the scope of other standards (such as income taxes within the scope of IAS 12) and fines and penalties for breaches of legislation. The interpretation clarifies that a liability to pay a levy should only be recognised when an obligating event has occurred and provides guidance on how to determine whether a liability should be recognized progressively over specific period or in full at a specific date. The same principles should be applied in interim financial statements. There was no effect of the interpretation on these financial statements except for the change in Group's policy.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

3. RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at June 30, 2013 and for the period then ended to conform to the presentation as at June 30, 2014 and for the period then ended as current year presentation provides better view of the financial performance of the Group

	As previously reported June 30, 2013	**Reclassification amount** June 30, 2013	**As reclassified** June 30, 2013
Fee and commission income	49,810	(4,350)	45,460
Fee and commission expense	(11,134)	4,350	(6,784)

4. CASH AND CASH EQUIVALENTS

	June 30, 2014	**December 31, 2013**
Cash on hand	156,984	129,050
Cash balances with the National/Central banks (other than mandatory reserve deposit)	15,305	76,355
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	2,407	13,264
- Other countries	322,716	204,416
Total cash and cash equivalents	**497,412**	**423,085**

Included in cash balances with the Central/National banks (other than mandatory reserve deposits) are the balances on correspondent accounts of the Bank and its subsidiaries, IBA Moscow and IBA Georgia, with the CBAR, CBRF and NBG amounting to AZN 49 thousand, AZN 15,102 thousand and AZN 154 thousand as at June 30, 2014, respectively (December 31, 2013: AZN 41,782 thousand, AZN 34,320 thousand and AZN 253 thousand respectively).

The CBAR has granted permission to the Bank to reduce its mandatory reserves account by the amount of mortgage loans issued by the Bank and not refinanced by the Azerbaijan Mortgage Fund to date. The Bank is entitled to withdraw all funds on its correspondent account on any particular dates provided that the average daily balance for calendar month will be higher than the required mandatory reserve for that month.

As at June 30, 2014 overnight placements with other banks was AZN 117,645 thousand with interest rate 0.01% - 0.22% per annum (December 31, 2013: Nil).

5. DUE FROM OTHER BANKS

	June 30, 2014	December 31, 2013
Term placements with other banks	505,920	286,387
Less: Provision for impairment	(10,770)	(4,121)
Total due from other banks	**495,150**	**282,266**

Movements in the provision for loan impairment during the six months period ended June 30, 2014 are as follows:

	Provision for impairment as at January 1, 2014	Increase in provision for impairment during the period	Provision for impairment as at June 30, 2014
Due from other banks	4,121	6,649	10,770
Total	**4,121**	**6,649**	**10,770**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2013 are as follows:

	Provision for impairment as at January 1, 2013	Recovery of provision for impairment during the period between January 1, 2013 and June 30, 2013	Provision for impairment as at June 30, 2013	Increase in provision for impairment during the period between July 1, 2013 and December 31, 2013	Provision for impairment as at December 31, 2013
Due from other banks	4,590	(895)	3,695	426	4,121
Total	**4,590**	**(895)**	**3,695**	**426**	**4,121**

As at June 30, 2014 term placements with other banks include twenty six short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 313,776 thousand at annual interest rates of 0.0% and 8.0% respectively. Term placements mature from October 2014 to August 2016 (December 31, 2013: thirteen short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 144,448 thousand at annual interest rates of 0.0% and 8.0%, respectively. Term placements matured from January to October 2014).

The carrying value of each class of amounts due from other banks approximates fair value as at June 30, 2014 and December 31, 2013. As at June 30, 2014, the estimated fair value of due from other banks was AZN 495,150 thousand (December 31, 2013: AZN 282,266 thousand).

6. LOANS AND ADVANCES TO CUSTOMERS

	June 30, 2014	December 31, 2013
Corporate loans	7,167,037	6,497,854
State and public organisations	378	390
Loans to individuals – consumer loans	436,463	378,919
Loans to individuals – mortgage loans	178,982	162,549
Loans to individuals – employees	87,037	91,147
Loans to individuals – purchase of motor vehicles	72,996	89,025
Loans to individuals – other purposes	114,422	111,448
	8,057,315	7,331,332
Less: Provision for loan impairment	(766,088)	(713,665)
Total loans and advances to customers	**7,291,227**	**6,617,667**

Movements in the provision for loan impairment during the six-month period ended June 30, 2014 are as follows:

	Provision for loan impairment as at January 1, 2014	Increase in/ (recovery of) provision for impairment during the period	Effect of foreign currency exchange recognized	Provision for loan impairment as at June 30, 2014
Corporate loans	619,694	59,392	(3,500)	675,586
State and public organisations	207	36	(1)	242
Loans to individuals – consumer loans	69,275	(7,498)	(391)	61,386
Loans to individuals – mortgage loans	4,364	3,063	(25)	7,402
Loans to individuals – employees	2,756	42	(16)	2,782
Loans to individuals – purchase of motor vehicles	378	116	(2)	492
Loans to individuals – other purposes	16,991	1,303	(96)	18,198
Total	**713,665**	**56,454**	**(4,031)**	**766,088**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2013 are as follows:

	Provision for loan impairment as at January 1, 2013	Increase in/(recovery of) provision for impairment during the period between January 1, 2013 and June 30, 2013	Effect of foreign currency exchange recognized	Increase in/(recovery of) provision for impairment during the period between July 1, 2013 and December 31, 2013	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2013
Corporate loans	648,439	(50,548)	(4,836)	31,770	(5,131)	619,694
State and public organizations	3,606	(3,497)	(27)	126	(1)	207
Loans to individuals – consumer loans	44,069	32,419	(329)	(6,225)	(659)	69,275
Loans to individuals – mortgage loans	1,922	(1,207)	(14)	3,669	(6)	4,364
Loans to individuals – employees	3,393	1,770	(25)	(2,338)	(44)	2,756
Loans to individuals – purchase of motor vehicles	482	6,265	(4)	(6,307)	(58)	378
Loans to individuals – other purposes	5,341	23,649	(40)	(11,708)	(251)	16,991
Total	**707,252**	**8,851**	**(5,275)**	**8,987**	**(6,150)**	**713,665**

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

	June 30, 2014 Amount	%	December 31, 2013 Amount	%
Construction and real estate development	3,065,013	38.0	3,011,224	41.1
Trade and service	1,956,055	24.3	1,810,256	24.7
Manufacturing	1,643,091	20.4	1,209,091	16.5
Individuals	889,900	11.0	833,088	11.4
Railroad and other transportation	248,378	3.1	201,368	2.7
Oil and gas sector, power production and distribution	87,567	1.1	81,778	1.1
Air transportation	72,927	0.9	66,805	0.9
Communication	35,252	0.4	38,966	0.5
Leasing companies	14,897	0.2	30,160	0.4
State and public organisations*	378	0.1	390	0.0
Other	43,857	0.5	48,206	0.7
Total loans and advances to customers (before impairment)	**8,057,315**	**100.0**	**7,331,332**	**100.0**

(*) State and public organizations include ministries, the Treasury and other state bodies of the Republic of Azerbaijan, excluding profit making state and public organizations that are included in the respective categories.

Included in the gross amount of total loans and advances to customers as at June 30, 2014, are the loans granted to thirty companies amounting to AZN 3,427,496 thousand (December 31, 2013: to thirty companies amounting to AZN 3,111,458 thousand) and representing a concentration of 42.5% (December 31, 2013: 42.4%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2014, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 269,362 thousand (December 31, 2013: AZN 205,967 thousand) and representing 3.3% (December 31, 2013: 2.8%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2014, are the loans granted to fifteen borrowers amounting to AZN 228,976 thousand (December 31, 2013: fifteen borrowers, AZN 168,804 thousand) with interest rates being less than or equal to five per cent and representing 2.8% (December 31, 2013: 2.3%) of the total gross loan portfolio of the Group. The majority of these loans are transactions with related parties and as such disclosed in Note 26. No adjustments have been made to the contractual interest rates in relation to these amounts on initial recognition at fair value as the interest rates applicable are considered to represent the highest and best use of the funds provided given the alternative uses by the Bank of the funds extended under these agreements.

Included in the gross amount of total loans to individuals as at June 30, 2014 are outstanding balances drawn on credit cards of AZN 121,043 thousand (December 31, 2013: AZN 114,105 thousand).

The analysis by credit quality of loans outstanding as at June 30, 2014 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to Individuals - employees	Loans to individuals - purchase of motor vehicles	Loans to individuals - other purposes	Total
Current and not impaired								
Secured loans	5,872,187	-	152,701	134,047	78,873	62,696	14,544	6,315,048
Unsecured loans	603,772	31	209,824	34,961	2,466	91	41,052	892,197
Loans renegotiated in 2014	188,415	-	4,015	71	120	131	40	192,792
Total current and not impaired	**6,664,374**	**31**	**366,540**	**169,079**	**81,459**	**62,918**	**55,636**	**7,400,037**
Past due but not impaired								
- up to 90 days overdue	66,894	-	3,487	-	366	1,795	189	72,731
- 90 to 180 days overdue	121,122	-	847	-	-	1,776	473	124,218
- 180 to 360 days overdue	56,127	-	4,263	-	1	1,682	1,111	63,184
- over 360 days overdue	195,747	105	15,306	3,064	3,451	4,606	35,088	257,367
Total past due but not impaired	**439,890**	**105**	**23,903**	**3,064**	**3,818**	**9,859**	**36,861**	**517,500**
Impaired loans								
- up to 90 days overdue	26,794	242	27,665	6,839	1,760	57	12,625	75,982
- 90 to 180 days overdue	1,620	-	145	-	-	138	3	1,906
- 180 to 360 days overdue	6,668	-	4,937	-	-	19	5	11,629
- over 360 days overdue	25,741	-	8,917	-	-	5	9,292	43,955
Loans renegotiated in 2014	1,950	-	4,356	-	-	-	-	6,306
Total impaired loans	**62,773**	**242**	**46,020**	**6,839**	**1,760**	**219**	**21,925**	**139,778**
Less: provision for loan impairment	**(675,586)**	**(242)**	**(61,386)**	**(7,402)**	**(2,782)**	**(492)**	**(18,198)**	**(766,088)**
Total loans and advances to customers	**6,491,451**	**136**	**375,077**	**171,580**	**84,255**	**72,504**	**96,224**	**7,291,227**

The analysis by credit quality of loans outstanding as at December 31, 2013 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals - purchase of motor vehicles	Loans to individuals - employees	Loans to individuals - other purposes	Total
Current and not impaired								
Secured loans	5,147,297	-	94,462	124,717	76,654	75,151	13,733	5,532,014
Unsecured loans	457,655	-	152,486	34,535	201	3,475	34,610	682,962
Loans renegotiated in 2013	429,145	42	20,043	179	295	8,006	127	457,837
Total current and not impaired	**6,034,097**	**42**	**266,991**	**159,431**	**77,150**	**86,632**	**48,470**	**6,672,813**
Past due but not impaired								
- up to 90 days overdue	56,590	-	378	-	5,669	10	953	63,600
- 90 to 180 days overdue	46,210	-	2,791	-	895	-	667	50,563
- 180 to 360 days overdue	64,735	-	891	35	1,147	-	523	67,331
- over 360 days overdue	259,557	-	15,632	3,083	4,164	3,712	34,298	320,446
Total past due but not impaired	**427,092**	**-**	**19,692**	**3,118**	**11,875**	**3,722**	**36,441**	**501,940**
Impaired loans								
- up to 90 days overdue	28,396	243	57,038	-	-	680	15,730	102,087
- 90 to 180 days overdue	-	-	10,803	-	-	-	13	10,816
- 180 to 360 days overdue	864	-	320	-	-	8	980	2,172
- over 360 days overdue	2,795	105	12,284	-	-	105	9,814	25,103
Loans renegotiated in 2013	4,610	-	11,791	-	-	-	-	16,401
Total impaired loans	**36,665**	**348**	**92,236**	**-**	**-**	**793**	**26,537**	**156,579**
Less: provision for loan impairment	**(619,694)**	**(207)**	**(69,275)**	**(4,364)**	**(378)**	**(2,756)**	**(16,991)**	**(713,665)**
Total loans and advances to customers	**5,878,160**	**183**	**309,644**	**158,185**	**88,647**	**88,391**	**94,457**	**6,617,667**

In these consolidated financial statements prepared in accordance with IFRS, the Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan by the end of the reporting period. The Group's internal loan grading policy is to classify each loan as follows:

• Standard loans – Loans with the payments of both principal and interest are up-to-date in accordance with the agreed terms and provisions up to 10% against gross carrying amount.

• Sub-standard loans – Fully secured or expected loss is less than 50% of the unsecured amount and 10%-50% provisions against gross carrying amount.

• Doubtful loans – Indeterminable security value but expected to be significant with expected loss is 50% to less than 100% of the loan and 50%-100% provision against gross carrying amount.

• Loss (bad) loans – Loan recovery is assessed to be insignificant with no security available as alternative resource and 100% provision against gross carrying amount.

For the purposes of above table standard and sub-standard loans have been classified either as current and not impaired or past due but not impaired loans. Doubtful and loss (bad) loans have been classified as impaired loans.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due, but not impaired loans presented in the above table represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due, but not impaired is the whole balance of such loans, not only the individual instalments that are past due. The primary factors that the Group considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presented the above ageing analysis of loans that are impaired.

7. OTHER FINANCIAL AND INSURANCE ASSETS

	June 30, 2014	December 31, 2013
Amounts in the course of settlement and receivables for plastic cards transactions	14,584	12,355
Receivables from insurance policyholders	3,487	2,127
Other	1,234	473
Total other financial and insurance assets	**19,305**	**14,955**

Receivables for plastic cards transactions represent receivables from other local banks for cards produced, issued and serviced for them by Azericard, the card processing subsidiary, as well as net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

The carrying value of each class of other financial assets approximates fair value as at June 30, 2014 and December 31, 2013. As at June 30, 2014, the estimated fair value of other financial assets was AZN 19,305 thousand (December 31, 2013: AZN 14,955 thousand).

8. OTHER ASSETS

	June 30, 2014	December 31, 2013
Advances for purchase of intangible assets and equipment	17,283	14,572
Prepaid expenses	10,833	6,754
Collateral repossessed	7,792	3,160
Deferred expenses for plastic cards	1,933	670
Deferred acquisition costs on insurance premiums written	1,243	1,356
Prepaid insurance	1,006	2,382
Taxes receivable, other than income tax	268	297
Other	2,035	1,022
Total other assets	**42,393**	**30,213**
Current	17,990	13,917
Non-current	24,403	16,296
Total other assets	**42,393**	**30,213**

Included in the advances for purchase of intangible assets and equipment as at June 30, 2014 and December 31, 2013 are prepayments for office furniture and other assets for the new Head Office building in the centre of Baku.

9. DUE TO OTHER BANKS

	June 30, 2014	December 31, 2013
Short-term placements of other banks	1,353,889	1,286,183
Correspondent accounts and overnight placements of other banks	210,242	305,009
Overdraft with CBAR	194,823	202,173
Total due to other banks	**1,758,954**	**1,793,365**

Included in due to other banks as at June 30, 2014 are four short-term placements amounting to EUR 323,000 thousand or AZN 345,642 thousand and correspondent accounts amounting to EUR 108,047 thousand or AZN 115,621 and USD 2,079 thousand or AZN 1,631 thousand of non-resident banks. These short-term placements bear market interest rates with maturities in 2014 (December 31, 2013: four short-term placements amounting to EUR 323,000 thousand or AZN 348,194 thousand and correspondent accounts amounting to EUR 162,278 thousand or AZN 174,882 thousand, and USD 2,079 thousand or AZN 1,631 thousand of non-resident banks).

The carrying value of each class of due to other banks approximates fair value as at June 30, 2014 and December 31, 2013. As at June 30, 2014, the estimated fair value of due to other banks was AZN 1,758,954 thousand (December 31, 2013: AZN 1,793,365 thousand). Refer to Note 25.

Liquidity analyses of due to banks are disclosed in Note 22. The information on related party balances is disclosed in Note 26.

10. CUSTOMER ACCOUNTS

	June 30, 2014	December 31, 2013
State and public organisations		
- Current/settlement accounts	574,681	619,172
- Term deposits	333,495	232,409
- Restricted customer deposits	223,758	138,981
	1,131,934	990,562
Other legal entities		
- Current/settlement accounts	578,047	492,872
- Term deposits	190,883	163,258
- Restricted customer deposits	11,972	14,186
	780 902	670 316
Individuals		
- Current/demand accounts	328,139	289,203
- Term deposits	1,467,732	1,550,773
	1,795,871	1,839,976
Total customer accounts	**3,708,707**	**3,500,854**

As at June 30, 2014, the Group had significant concentration of customer accounts attracted from one customer – a state organisation in the oil industry totalling AZN 411,416 thousand, and from one government body of AZN 276,917 thousand, or 18.6% of total customer accounts in aggregate (December 31, 2013: one customer – a state organisation in the oil industry totalling AZN 598,920 thousand, and from one government body of AZN 227,425 thousand, or 23.6% of total customer accounts in aggregate).

Included in term deposits of state and public organizations are deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 156,417 thousand. The interest rate on these deposits are 0.11% per annum as at June 30, 2014 (December 31, 2013: deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 221,776 thousand. The interest rates on these deposits are 0.11% per annum as at December 31, 2013).

Included in the current and settlement accounts of state and public organisations as at June 30, 2014 are balances on current interest bearing accounts of state-owned enterprises and government bodies of AZN 86,719 thousand (December 31, 2013: AZN 67,172 thousand). Interest rates on these accounts vary from 0.1% to 1.5% per annum (December 31, 2013: 0.5% to 1.0% per annum).

Restricted customer deposits amounting to AZN 235,729 thousand as at June 30, 2014 (December 31, 2013: AZN 153,167 thousand) represent balances on customer accounts held by the Group as collateral for irrevocable commitments under import letters of credit issued by the Group on behalf of its customers. The information on letters of credit and guarantees outstanding as at June 30, 2014 and December 31, 2013 is disclosed in Note 24.

Economic sector concentrations within customer accounts are as follows:

	June 30, 2014		December 31, 2013	
	Amount	**%**	**Amount**	**%**
Individuals	1,795,871	48.4	1,839,976	52.6
Energy	707,997	19.1	667,035	19.1
Trade and services	415,203	11.2	311,070	8.9
State and public organisations*	350,492	9.5	342,219	9.8
Transportation and communication	138,223	3.7	50,817	1.5
Construction	107,168	2.9	142,292	4.1
Manufacturing	93,104	2.5	78,078	2.2
Other	100,649	2.7	69,367	1.8
Total customer accounts	**3,708,707**	**100.0**	**3,500,854**	**100.0**

(*) State and public organisations comprise ministries, Treasury, municipalities and other state bodies of the Republic of Azerbaijan, excluding profit making state and public organisations that are included in the respective categories.

The carrying value of each class of customer accounts approximates fair value as at June 30, 2014 and December 31, 2013. As at June 30, 2014, the estimated fair value of customer accounts was AZN 3,708,707 thousand (December 31, 2013: AZN 3,500,854 thousand).

The information on related party balances is disclosed in Note 26.

11. DEBT SECURITIES IN ISSUE

	June 30, 2014	December 31, 2013
Eurobonds	392,150	-
Deposit certificates	79,974	85,126
Total debt securities in issue	**472,124**	**85,126**

On June 9, 2014, the Bank has issued USD 500,000 thousand Eurobonds due in 2019 with interest rate of 5.63% per annum. Interest on these bonds is payable semi-annually. Bonds are admitted to trading on the regulated market of the Irish Stock Exchange PLC or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area.

As at June 30, 2014, deposit certificates denominated in USD in the amount of AZN 7,133 thousand bear interest rates ranging between 8.0% - 25.0% per annum and have maturities of two, three, eight, nine and ten years, deposit certificates denominated in AZN in the amount of AZN 1,859 thousand bear interest rate of 25.0% per annum and have maturities of eight, nine and ten years and deposit certificates denominated in RUR in the amount of AZN 70,982 thousand bear interest rates ranging between 2.0% - 10.75% per annum and have maturity of one year (December 31, 2013: deposit certificates denominated in USD in the amount of AZN 8,004 thousand bear interest rates ranging between 8.0% - 25.0% per annum and have maturities of one, two, three and ten years, deposit certificates denominated in AZN in the amount of AZN 2,527 thousand bear interest rate of 25.0% per annum and have maturities of one, two, three and ten years, deposit certificates denominated in EUR in the amount of AZN 281 thousand bear interest rate of 4.8% per annum and have maturity of one year and deposit certificates denominated in RUR in the amount of AZN 74,314 thousand bear interest rates ranging between 9.0% - 12.4% per annum and have maturity of one year). These certificates of deposit state as a condition that interest is paid each year only if certificates are held for the full period of that calendar year.

The carrying value of each class of debt securities in issue approximates its fair value as at June 30, 2014 and December 31 2013. As at June 30, 2014, the estimated fair value of debt securities in issue was AZN 472,124 thousand (December 31, 2013: AZN 85,126 thousand).

12. OTHER BORROWED FUNDS

	June 30, 2014	December 31, 2013
Syndicated loan maturing on April 8, 2015	125,742	-
Syndicated loan maturing on January 14, 2015	72,068	94,532
Syndicated loan maturing on April 14, 2014	-	103,801
Term borrowings from government organisations:		
- National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	193,247	171,273
Term borrowings from other financial institutions	1,126,527	850,357
Total other borrowed funds	**1,517,584**	**1,219,963**

Syndicated borrowings

On April 15, 2013, Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 37,500 thousand and EUR 69,000 thousand, with interest rates of 3.11% and 3.09% per annum, respectively. The borrowing facilities were repayable on April 14, 2014.

On July 16, 2013, Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 120,500 thousand, with interest rate of 3.65% per annum. The borrowing facilities are repayable on January 14, 2015.

On April 15, 2014, Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 48,750 thousand and EUR 81,000 thousand, with interest rates of 2.37% and 3.18% per annum, respectively. The borrowing facilities are repayable on April 8, 2015.

Term borrowings from government organizations

As at June 30, 2014 loans from National Fund for Support of Entrepreneurship amounting to AZN 193,247 thousand has been borrowed with annual rate of 1% and maturity period from 2 to 10 years (December 31, 2013: borrowings from National Fund for Support of Entrepreneurship amounting to AZN 171,273 thousand, which has been borrowed with the annual rate of 1% and maturity period from 1 year to 10 years).

Term borrowings from other financial institutions

Included in term borrowings from other financial institutions are funds attracted from twenty five foreign banks and financial institutions. The amounts drawn down under credit agreements signed with these banks amounted to USD 1,162,396 thousand or AZN 911,784 thousand and EUR 185,656 thousand or AZN 198,675 thousand (December 31, 2013: funds attracted from twenty six foreign banks and financial institutions with amount of USD 811,906 thousand or AZN 636,940 thousand and EUR 181,939 thousand or AZN 196,130 thousand).

The Bank is obliged to comply with certain financial covenants stipulated by some aforementioned borrowing agreements within syndicated borrowings and term borrowings from other financial institutions. As at June 30, 2014 the Bank was in compliance with all financial covenants stipulated in borrowing agreements (December 31, 2013: Bank was in compliance with all financial covenants stipulated in borrowing agreements).

Market interest rates for the borrowings range between 1.2% to 9.9% per annum for the six months period ended June 30, 2014 (ranging between 1.0% to 9.9% per annum for the year ended December 31, 2013). All borrowings that belong to other borrowed funds category bear market interest rates.

The carrying value of each class of other borrowed funds approximates fair value as at June 30, 2014 and December 31, 2013. As at June 30, 2014, the estimated fair value of other borrowed funds was AZN 1,517,584 thousand (December 31, 2013: AZN 1,219,963 thousand).

The information on related party balances is disclosed in Note 26.

13. OTHER FINANCIAL AND INSURANCE LIABILITIES

Other financial and insurance liabilities comprise the following:

	June 30, 2014	December 31, 2013
Items in course of settlement	34,405	13,280
Payables to shareholders	16,657	7,750
Sundry creditors	9,138	9,170
Insurance reserves, net	8,482	8,392
Payables to employees	5,557	3,842
Insurance premiums and broker commissions payable	1,666	1,701
Payables on currency swap agreements	881	4,602
Total other financial and insurance liabilities	**76,786**	**48,737**

The carrying value of each class of other financial and insurance liabilities approximates fair value as at June 30, 2014 and December 31, 2013. As at June 30, 2014, the estimated fair value of other financial and insurance liabilities was AZN 76,786 thousand (December 31, 2013: AZN 48,737 thousand).

14. OTHER LIABILITIES

Other liabilities comprise the following:

	June 30, 2014	December 31, 2013
Deferred revenue on plastic cards operations	6,569	6,478
Taxes payable other than income tax	5,729	4,852
Provision on off-balance sheet liabilities	5,939	3,367
Deferred commissions on insurance operations	46	134
Other	1,647	3,261
Total other liabilities	**19,930**	**18,092**
Current	14,155	13,106
Non-current	5,775	4,986
Total other liabilities	**19,930**	**18,092**

Deferred revenue on plastic cards operations represents the unearned portion of revenue related to fees charged for the annual maintenance of plastic card accounts. These fees are charged upon the issuance of cards and amortised over their respective term.

The movements in provision on off-balance sheet liabilities were as follows:

	Provision on off-balance sheet liabilities
December 31, 2012	1,491
Provision charge for the period	-
June 30, 2013	1,491
Provision charge for the period	1,876
December 31, 2013	3,367
Provision charge for the period	2,572
June 30, 2014	**5,939**

15. SUBORDINATED DEBT

	June 30, 2014	December 31, 2013
Subordinated debt from the CBAR	360,675	350,000
Subordinated debt from non-resident financial institutions	64,969	64,023
Total subordinated debt	**425,644**	**414,023**

On February 21, 2012, the Bank signed AZN 150,000 thousand subordinated loan agreement with the Central Bank of Azerbaijan Republic, which is treated as Tier II Capital as per capital requirements described in Note 23. This loan is to be repaid in 5 years. On December 4, 2012 the Bank signed subordinated loan agreement with the Central Bank of Azerbaijan Republic in the amount of AZN 100,000 thousand repayable in 7 years. On June 28, 2013 Bank signed another subordinated loan agreement with the Central Bank of Azerbaijan Republic in the amount of AZN 100,000 thousand. One loan is repayable in 5 years and two others are repayable in 7 years.

In September 2012, the Bank attracted a subordinated loan agreement from an Investment Fund on the back of private placement for a total amount of USD 100,000 thousand. The loan bears a fixed interest rate and was repaid in 2013. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreement.

Interest rates on subordinated debts are at market rates. Market interest rate for these subordinated debts is 5-7% per annum. The repayment of the Bank's subordinated debt ranks after all other creditors in case of the liquidation of the Bank.

As at June 30, 2014, the estimated fair value of subordinated debt was AZN 425,644 thousand (December 31, 2013: AZN 414,023 thousand). Refer to Note 25.

16. SHARE CAPITAL

	Number of paid-in and outstanding shares (in thousands)	Ordinary Shares	Total
As at December 31, 2012	1,378,475	330,834	330,834
Increase in par value of shares	-	27,570	27,570
New shares paid-in	448,593	116,634	116,634
As at December 31, 2013	1,827,068	475,038	475,038
New shares paid-in	339,450	88,257	88,257
As at June 30, 2014	2,166,518	563,295	563,295

As at June 30, 2014 and December 31, 2013 the authorized share capital consisted of 2,166,518 thousand and 1,827,068 thousand ordinary shares with par value of AZN 0.26 each (December 31, 2013: AZN 0.26 each), each share carries one vote. As at June 30, 2014 and December 31, 2013, shares issued and outstanding consisted of 806,845 thousand and 1,409,231 thousand shares, respectively.

As at June 30, 2014 and December 31, 2013 the number of fully paid ordinary shares in issue was 2,166,518 thousand and 1,827,068 thousand, respectively.

As at June 30, 2014 and December 31, 2013 the Ministry of Finance of the Republic of Azerbaijan ("MoF") paid all subscribed shares and held 50.65% and 60.06% of the total paid-in share capital of the Bank, respectively.

As at June 30, 2014, the Group's employees held 4.85% of the total share capital of the Bank, or 105,076 thousand ordinary shares with a par value of AZN 26,334 thousand (December 31, 2013: 4.64% or 84,826 thousand ordinary shares with a par value of AZN 22,055 thousand).

17. INTEREST INCOME AND EXPENSE

	Six months period ended June 30, 2014	Six months period ended June 30, 2013
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	319,053	210,520
- interest income on impaired financial assets	8,964	14,006
Total interest income	328,017	224,526
Interest income on financial assets recorded at amortized cost comprises:		
Loans and advances to customers	315,044	218,572
Due from other banks and correspondent accounts	9,600	4,708
Interest income on other debt securities	3,373	1,246
Total interest income	328,017	224,526
Interest expense comprises:		
Due to other banks and other borrowed funds	89,108	79,958
Customer accounts	77,479	71,127
Subordinated debt	12,390	11,998
Debt securities issued	5,224	949
Total interest expense	184,201	164,032
Net interest income	**143,816**	**60,494**

For information on related party transactions, see Note 26.

18. FEE AND COMMISSION INCOME AND EXPENSE

	Six months period ended June 30, 2014	Six months period ended June 30, 2013
Fee and commission income		
- Plastic cards operations	19,509	18,680
- Transactions with foreign currencies and securities	11,226	14,187
- Settlement transactions	6,784	6,198
- Cash transactions	4,919	3,721
- Guarantees issued	2,100	674
- Letters of credit issued	748	760
- Servicing intermediary loans	126	325
- Other	2,550	915
Total fee and commission income	**47,962**	**45,460**
Fee and commission expense		
- Settlement transactions	2,760	4,687
- Cash transactions	1,681	336
- Plastic cards operations	1,339	733
- Policy acquisition costs on insurance operations	694	690
- Other	184	338
Total fee and commission expense	**6,658**	**6,784**
Net fee and commission income	**41,304**	**38,676**

19. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Six months period ended June 30, 2014	Six months period ended June 30, 2013
Staff costs	31,740	29,431
Depreciation of premises and equipment	7,427	7,567
Charity and financial aid	4,411	4,235
Customs duties and other taxes other than on income	3,756	4,458
Advertising and marketing services	3,596	3,082
Rent	2,821	2,974
Professional services	2,750	1,955
Fees paid to Deposit Insurance Fund	2,611	2,026
External labour and guarding	1,999	1,851
Maintenance of premises and equipment	1,607	1,592
Software related expenses	1,255	882
Amortisation of software and other intangible assets	1,221	976
Communication	1,136	1,149
Insurance expense	1,097	665
Purchase of plastic cards	921	605
Stationery, books, printing and other supplies	703	690
Business trip expenses	503	420
Training	469	361
Tax penalties	1	625
Transportation of valuables	-	45
Other	2,735	2,566
Total administrative and other operating expenses	**72,759**	**68,155**

Included in staff costs are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan of AZN 5,509 thousand (six-month period ended June 30, 2013: AZN 4,133 thousand). In addition, AZN 240 thousand was collected by the Group as a deduction to employee salaries and paid to the State Social Protection Fund on their behalf (six-month period ended June 30, 2013: AZN 501 thousand).

Included in charity and financial aid expenses incurred during the six-month period ended June 30, 2014 are AZN 3,800 thousand paid to "Inter" professional football club (six-month period ended June 30, 2013: AZN 3,600 thousand).

Rental expenses are related to the lease of the Group's branch buildings in Baku and in the regions of the Republic of Azerbaijan, exchange offices and costs associated with ATMs installed, for example, in department stores and hotels.

20. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in calculation of basic and diluted earnings per share are as follows:

	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
Profit for the period attributable to ordinary shareholders for the purpose of basic earnings per share	40,802	31,299
Profit for the period attributable to ordinary shareholders for the purpose of diluted earnings per share	40,802	31,299
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,998,441	1,396,055
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,000,784	1,396,055
Basic earnings per ordinary share (expressed in AZN per share)	**0.02**	**0.02**
Diluted earnings per ordinary share (expressed in AZN per share)	**0.02**	**0.02**

21. SEGMENT ANALYSIS

The Group discloses information to enable users of its consolidated condensed interim financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 "Operating segments" and other standards that require special disclosures in the form of segmental reporting.

IFRS 8 defines an operating segment as follows. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Group's reportable segments under IFRS 8 are therefore as follows:

- Banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages, direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products for retail and corporate customers.
- Insurance – representing the activities carried out by the Group's insurance subsidiary.
- Card processing – representing the activities carried out by the Group's card processing subsidiary.

The Chairman of the Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as impairment of premises. Other information provided to the Chairman of the Board of Directors is measured in a manner consistent with that in this financial information, except that segment assets reported to the Chairman of the Board of Directors exclude deferred income tax assets which is managed on a central basis. These are part of the reconciliation to total consolidated interim statement financial position assets.
Segment information for the reportable segments of the Group for the six months period ended June 30, 2014 is set out below:

Six-month period ended June 30, 2014	**Banking**	**Insurance**	**Card processing**	**Total Group**
Total revenue	383,388	7,420	10,209	401,017
Inter-segment revenue	(9,341)	(13)	(8,342)	(17,696)
Revenue from external customers	374,047	7,407	1,867	383,321
Adjusted profit before income tax	60,437	454	3,364	64,255

Segment information for the reportable segments of the Group for the six months period ended June 30, 2013 is set out below:

Six-month period ended June 30, 2013	**Banking**	**Insurance**	**Card processing**	**Total Group**
Total revenue	290,700	8,926	10,501	310,127
Inter-segment revenue	(6,803)	(22)	(7,496)	(14,321)
Revenue from external customers	283,897	8,904	3,005	295,806
Adjusted profit before income tax	38,571	659	6,266	45,496

Segment information for the reportable segment assets and liabilities of the Group for the six months period ended June 30, 2014 and the year ended December 31, 2013 is set out below:

	Banking	Insurance	Card processing	Total Group
Total assets reported				
June 30, 2014	8,657,089	23,140	19,002	8,699,231
December 31, 2013	7,636,211	16,555	18,983	7,671,749
Total liabilities reported				
June 30, 2014	7,968,464	10,806	459	7,979,729
December 31, 2013	7,068,973	10,757	807	7,080,537

	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
Adjusted profit before income tax for reportable segments	**64,255**	**45,496**
Depreciation	(7,427)	(7,567)
Amortisation	(1,221)	(976)
Share of post-tax loss of associates	(48)	(64)
Profit before income tax	**55,559**	**36,889**

The adjustments are attributable to the following:

- The Group does not allocate depreciation and amortisation to the segments.
- The Group does not allocate share of profit of associates to segments.

Reportable segments' assets are reconciled to total assets as follows:

	June 30, 2014	December 31, 2013
Total segment assets	8,699,231	7,671,749
Deferred income tax assets	6,747	9,469
Total assets	**8,705,978**	**7,681,218**

Reportable segments' liabilities are reconciled to total assets as follows:

	June 30, 2014	December 31, 2013
Total segment liabilities	7,979,729	7,080,537
Deferred income tax liabilities	18,025	7,103
Total liabilities	**7,997,754**	**7,087,640**

The Group applies an asymmetric approach regarding the allocation of non-current assets and related depreciation charges between segments, whereby the Group allocates non-current assets between segments whereas does not allocate related depreciation charges.

The adjustments are attributable to the following:

- Deferred income tax assets are not calculated for the purpose of internal management reporting.

22. FINANCIAL RISK MANAGEMENT

The analysis of carrying values of assets and liabilities by contractual maturities may be summarized as follows as at June 30, 2014:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	497,412	-	-	-	497,412
Mandatory cash balances with the National/Central banks	10,309	-	-	-	10,309
Due from other banks	200,475	74,335	139,754	80,586	495,150
Loans and advances to customers	649,272	938,803	1,006,542	4,696,610	7,291,227
Financial assets at fair value through profit or loss	201	1,641	2,643	17,896	22,381
Other debt securities	-	-	-	43,226	43,226
Available-for-sale investments	24	-	-	4,372	4,396
Other financial and insurance assets	10,948	7,017	1,340	-	19,305
TOTAL FINANCIAL ASSETS	**1,368,641**	**1,021,796**	**1,150,279**	**4,842,690**	**8,383,406**
FINANCIAL LIABILITIES:					
Due to other banks	300,278	1,003,318	408,317	47,041	1,758,954
Customer accounts	1,879,330	524,302	880,953	424,122	3,708,707
Debt securities in issue	152	226	2,150	469,596	472,124
Other borrowed funds	2,618	219,939	307,489	987,538	1,517,584
Other financial and insurance liabilities	61,344	10,725	-	4,717	76,786
Subordinated debt	-	-	2,181	423,463	425,644
TOTAL FINANCIAL LIABILITIES	**2,243,722**	**1,758,510**	**1,601,090**	**2,356,477**	**7,959,799**
NET LIQUIDITY GAP AS AT JUNE 30, 2014	**(875,081)**	**(736,714)**	**(450,811)**	**2,486,213**	
CUMULATIVE LIQUIDITY GAP AS AT JUNE 30, 2014	**(875,081)**	**(1,611,795)**	**(2,062,606)**	**423,607**	

The analysis of carrying values of assets and liabilities by contractual maturities may be summarized as follows as at December 31, 2013:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	423,085	-	-	-	423,085
Mandatory cash balances with the National/Central banks	15,555	-	-	-	15,555
Due from other banks	131,487	110,479	-	40,300	282,266
Loans and advances to customers	671,652	709,586	966,851	4,269,578	6,617,667
Financial assets at fair value through profit or loss	22,588	-	-	-	22,588
Other debt securities	11	-	-	22,811	22,822
Available-for-sale investments	-	-	-	10,338	10,338
Other financial and insurance assets	13,038	1,909	8	-	14,955
TOTAL FINANCIAL ASSETS	**1,277,416**	**821,974**	**966,859**	**4,343,027**	**7,409,276**
FINANCIAL LIABILITIES:					
Due to other banks	436,492	918,629	399,722	38,522	1,793,365
Customer accounts	1,701,109	499,795	659,064	640,886	3,500,854
Debt securities in issue	2,950	3,189	179	78,808	85,126
Other borrowed funds	43,156	111,792	66,968	998,047	1,219,963
Other financial and insurance liabilities	29,829	10,257	889	7,762	48,737
Subordinated debt	-	2,317	-	411,706	414,023
TOTAL FINANCIAL LIABILITIES	**2,213,536**	**1,545,979**	**1,126,822**	**2,168,181**	**7,062,068**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2013	**(936,120)**	**(724,005)**	**(159,963)**	**2,167,296**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2013	**(936,120)**	**(1,660,125)**	**(1,820,088)**	**347,208**	

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

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Civil Code of the Republic of Azerbaijan, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to a certain portion of accrued interest.

During July and August 2014 customer accounts and due to other banks amounting to AZN 539,005 thousand and included into "Up to 1 month" or "From 1 to 6 months" categories have been already prolonged for periods up to 12 months.

23. MANAGEMENT OF CAPITAL

The objectives of management when managing the Group's capital are (i) to comply with the capital requirements set by the CBAR, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I of at least 8%. Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Head of Audit Committee, Bank's Finance Director, First Deputy of Chairman of the Board, Head of Internal Audit Department and Head of Accounting and Control Department. The other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBAR banks have to: (a) hold a minimum level of total statutory capital of AZN 10,000 thousand (December 31, 2013: AZN 10,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% (December 31, 2013: 12%) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the "Tier-1 capital ratio") at or above the prescribed minimum of 6% (December 31, 2013: 6%).

Under the current capital requirements set by the CBRF, banks have to (i) comply with the capital requirements set by the Central Bank of the Russian Federation, (ii) safeguard the Bank's ability to continue as a going concern and (iii) maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel I of at least 8%.

The Group and the Bank are also subject to requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998). The composition of the Group's capital calculated in accordance with Basel I, based on the consolidated financial statements of the Group, is as follows:

	June 30, 2014	December 31, 2013
Tier 1 capital		
Share capital	563,295	475,038
Retained earnings	102,587	75,810
Non-controlling interest	2,762	2,821
Less: intangible assets	(8,641)	(7,548)
Total qualifying Tier 1 capital	**660,003**	**546,121**
Tier 2 capital		
Reserves (1.25% of total risk-weighted assets)	106,164	94,666
Revaluation reserve for premises	42,876	43,503
Subordinated debt (restricted to 50% of Tier 1 capital)	330,002	272,767
Total qualifying Tier 2 capital limited to 100% of Tier 1 capital	**479,042**	**410,936**
Less: investments in equity shares	(440)	(489)
Total regulatory capital	**1,138,605**	**956,568**
Risk-weighted assets:		
On-balance sheet	7,276,453	6,631,360
Off-balance sheet	1,216,630	945,505
Total risk-weighted assets	**8,493,083**	**7,576,865**
Capital Ratios:		
Tier 1 capital	7.77%	7.21%
Total capital	13.41%	12.62%

As an integral part of the Bank's capital management procedures the Finance Director performs regular monitoring of compliance with the externally imposed capital requirements and the monitoring reports are reviewed and approved by Head of Audit Committee, Chairman of the Board of Directors and the Head of Internal Audit Department. The Group and the Bank have complied with all externally imposed capital requirements throughout 2013 and 2013, except as stated in Note 23.

24. CONTINGENCIES AND COMMITMENTS

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 this consolidated condensed interim financial information.

Taxation – Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated condensed interim financial information.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. In the case of criminal investigation statute of limitation may be extended up to seven years based on the court decision.

Operating environment – Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Azerbaijan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

Compliance with covenants – The Bank is subject to certain covenants related primarily to its term borrowings and subordinated debts. Non-compliance with such covenants may result in negative consequences for the Group including, growth in the cost of borrowings and timing of repayment of existing facilities. The Bank has not breached any of these covenants as at June 30, 2014 and December 30, 2013.

As at June 30, 2014 the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital requirements (December 31, 2013: the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital requirements). Refer to Note 23.

The Bank did not achieve full compliance with certain statutory ratios neither as at June 30, 2014 nor as at December 31, 2013. As a result of this non-compliance the Bank provided to CBAR an action plan on how these breaches are going to be rectified. The plan contains a complete list of measures that would rectify current breaches and will bring IBAR into full compliance with all CBAR statutory requirements by December 31, 2015.

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

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

Outstanding credit related commitments are, as follows:

	June 30, 2014	December 31, 2013
Guarantees issued	1,285,075	1,168,409
Import letters of credit	471,634	400,046
Commitments to extend credit and undrawn credit lines	52,579	159,488
Total credit related commitments	**1,809,288**	**1,727,943**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at June 30, 2014, the Group had a significant concentration of import letters of credit of AZN 456,587 thousand issued to 20 entities or 96.8% of total import letters of credit (December 31, 2013: import letters of credit of AZN 589,933 thousand issued to 20 entities or 93.7% of total import letters of credit). As at June 30, 2014, the Group also had a significant concentration of guarantees of AZN 1,204,146 thousand issued to 20 entities or 93.7% of total guarantees issued (December 31, 2013: guarantees of AZN 1,101,350 thousand issued to 20 entities or 94.0% of total guarantees).

As at June 30, 2014, credit related commitments of AZN 235,730 thousand (December 31, 2013: AZN 153,167 thousand) are secured by blocked customer deposits. Refer to Note 10.

Intermediary loans – As at June 30, 2014, the Group had borrowed funds amounting to AZN 744,698 thousand (December 31, 2013: AZN 744,698 thousand) on behalf of the Government of the Republic of Azerbaijan from certain financial institutions and state organizations for the purposes of providing intermediary loans to state-owned enterprises and government bodies of the Republic of Azerbaijan. The loan agreements signed between the Group and these financial institutions and state organizations are secured by unconditional letters of guarantee of the Government of the Republic of Azerbaijan, whereby the Government acts as the primary obligor in relation to these borrowings or secured by customer deposits of the borrowing state organization. As a result, the Group acts as a loan-servicing agent for the Government of the Republic of Azerbaijan by transferring collected principal and interest payments to financial institutions and state organizations and earns commission income on servicing these intermediary loans.

As the Group does not receive any interest margin and does not bear the risks for these intermediary loans, the Group has recorded these intermediary loans on off-balance sheet accounts. Similarly funds received by the Group to finance these intermediary loans in the corresponding amounts have also been recorded on off balance sheet accounts.

Funds borrowed by the Group for the purposes of providing intermediary loans are as follows:

	June 30, 2013	December 31, 2013
Funds borrowed from CBAR and given to two state organizations	744,698	744,698
Total funds borrowed for the purposes of providing intermediary loans and transferred to off-balance sheet accounts	**744,698**	**744,698**

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides an analysis of financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets/ financial liabilities	Fair value as at		Fair value hierar-chy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
	June 30, 2014	December 31, 2013				
1) Non-derivative financial assets at fair value through profit or loss	22,381	22,588	Level 1	Quoted bid prices in an active market.	N/A	N/A
2) Available-for-sale investments	4,396	10,338	Level 1	Quoted bid prices in an active market.	N/A	N/A
3) Currency forward agreements	(881)	(4,602)	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
4) Buildings	147,748	78,254	Level 2	Valuation using market approach.	N/A	N/A

There were no transfers between Level 1 and 2 in the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	June 30, 2014		December 31, 2013	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash equivalents	497,412	497,412	423,085	423,085
Mandatory cash balances with the National/Central banks	10,309	10,309	15,555	15,555
Due from other banks	495,150	495,150	282,266	282,266
Loans and advances to customers	7,291,227	7,291,227	6,617,667	6,617,667
Other debt securities	43,226	43,226	22,822	22,822
Other financial and insurance assets	19,305	19,305	14,955	14,955
Due to other banks	1,758,954	1,758,954	1,793,365	1,793,365
Customer accounts	3,708,707	3,708,707	3,500,854	3,500,854
Debt securities in issue	472,124	472,889	85,126	85,126
Other borrowed funds	1,517,584	1,517,584	1,219,963	1,219,963
Other financial and insurance liabilities	75,905	75,905	44,135	44,135
Subordinated debt	425,644	425,644	414,023	414,023

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	-	497,412	-	497,412
Mandatory cash balances with the National/Central banks	-	10,309	-	10,309
Due from other banks	-	495,150	-	495,150
Loans and advances to customers	-	7,291,227	-	7,291,227
Other debt securities	-	43,226	-	43,226
Other financial and insurance assets	-	19,305	-	19,305
Due to other banks	-	1,758,954	-	1,758,954
Customer accounts	-	3,708,707	-	3,708,707
Debt securities in issue	-	472,124	-	472,124
Other borrowed funds	-	1,517,584	-	1,517,584
Other financial and insurance liabilities	-	76,786	-	76,786
Subordinated debt	-	425,644	-	425,644

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties

26. RELATED PARTY TRANSACTIONS

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

As at June 30, 2014, the outstanding balances with related parties were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	49	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	22,618	484	269,362	14,897
Provisions for loan impairment	(44)	(41)	(23,454)	-
Investment in associates	-	-	-	440
Current income tax asset	-	-	5,346	-
Due to other banks				
Correspondent accounts of other banks	-	-	194,823	-
Customer accounts				
Current/settlement accounts	-	37	798,439	59
Term deposits (contractual interest rate: 0.18 - 9% p.a.)	55,593	66	333,495	-
Subordinated debt	-	-	360,675	-

The income and expense items with related parties for the six months period ended June 30, 2014 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	45	-	13,186	3,819
Interest expense	-	-	(89)	-
Provision for impairment of loans and advances to customers	273	15	671	73
Fee and commission income	4	-	-	-
Staff costs	-	(350)	-	-
Share of loss of associates	-	-	-	(48)
Income tax expense	-	-	(10,895)	-

As at June 30, 2014, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities	Associates
Guarantees issued	346,569	18,576
Commitments to extend credit and undrawn credit lines	5,714	-

As at December 31, 2013, the outstanding balances with shareholders are substantially all with the Parent.

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	41,782	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	22,944	598	205,967	22,713
Provision for loan impairment	(317)	(82)	(24,125)	(73)
Investment in associates	-	-	-	489
Current income tax asset	-	-	9,469	-
Due to other banks				
Correspondent accounts of other banks	-	-	222,306	-
Customer accounts				
Current/settlement accounts	-	57	758,153	2,000
Term deposits (contractual interest rate: 0.8 - 9% p.a.)	-	20	232,409	1,914
Current income tax liability	-	-	377	-
Subordinated debt	-	-	350,000	-

The income and expense items with related parties for the six months period ended June 30, 2013 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	1,014	11	7,754	815
Interest expense	-	-	(5,584)	(511)
Provision for impairment of loans and advances to customers	(2,472)	-	(184)	-
Fee and commission income	-	-	12,084	5
Staff costs	-	425	-	-
Administrative and other operating expenses	-	-	(149)	-
Share of loss of associates	-	-	-	(64)
Income tax expense	-	-	(7,661)	-

As at December 31, 2013, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities
Guarantees issued	95,556
Import letters of credit	613
Commitments to extend credit and undrawn credit lines	18,864

The Group is controlled by the Government of the Republic of Azerbaijan. Therefore, in accordance with IAS 24 transactions with the Government, the Ministry of Finance of the Republic of Azerbaijan and state-owned companies of the Republic of Azerbaijan are included in the above related party balances and transactions.

During the six-month period ended June 30, 2014, the total remuneration of members of the Board of Directors and key management personnel of the Group including discretionary compensation amounted to AZN 350 thousand (the six-month period ended June 30, 2013: AZN 343 thousand) and comprised of:

	Six-month period ended June 30, 2014	Six-month period ended June 30, 2013
Short-term benefits:		
- salaries	261	296
- performance bonuses	89	47
Total	**350**	**343**

27. SUBSEQUENT EVENTS

On August 12, 2014 the Bank increased amount of the facility agreement with Credit Suisse from USD 145,000 thousand to USD 200,000 thousand with maturity in August 2019.

On July 31, 2014 the Bank increased share capital of IBA Moscow by AZN 28,000 thousand.

During July and August 2014 19,380 thousand of issued shares in amount of AZN 5,039 thousand have been paid up by existing shareholders at the price of AZN 0.26 per share.