THE INTERNATIONAL BANK OF AZERBAIJAN

Consolidated Condensed Interim Financial Information

For the Six-Month Period Ended June 30, 2012

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-MONTH PERIOD ENDED JUNE 30, 2012

Management is responsible for the preparation of the consolidated condensed interim financial information that presents fairly the consolidated condensed interim financial position of the International Bank of Azerbaijan and its subsidiaries ("the Group") as at June 30, 2012, the consolidated condensed interim results of its operations, cash flows and changes in equity for the six-month period ended June 30, 2012, 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-month period ended June 30, 2012 was approved by management on October 29, 2012:

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
October 29, 2012	October 29, 2012

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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, 2012, 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-month period ended June 30, 2012, 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, 2012, and its financial performance and its cash flows for the six-month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Deloitte & Touche.

October 29, 2012
Baku, the Republic of Azerbaijan

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2012

(in thousands of Azerbaijan Manats)

	Note	June 30, 2012	December 31, 2011
ASSETS			
Cash and cash equivalents	3, 25	538,090	391,381
Mandatory cash balances with the National/Central Banks	25	10,542	103,907
Due from other banks	4	144,292	101,665
Loans and advances to customers	5, 25	4,509,217	4,008,184
Other debt securities		20,011	-
Financial assets at fair value through profit or loss		7,014	5,857
Available-for-sale investments		1,668	4,051
Investment in associates		626	649
Premises, equipment and intangible assets	6	167,936	162,246
Current income tax asset	25	4,856	6,325
Deferred income tax asset		35,947	38,728
Other financial and insurance assets	7	11,963	4,674
Other assets	8	15,784	15,959
TOTAL ASSETS		5,467,946	4,843,626
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to other banks	9, 25	973,245	937,251
Customer accounts	10, 25	3,069,934	2,757,280
Debt securities in issue	11	15,428	7,370
Other borrowed funds	12, 25	788,286	755,870
Current income tax liability	25	5,354	963
Deferred income tax liability		15	2,145
Other financial and insurance liabilities	13	54,597	53,025
Other liabilities	14	7,388	7,067
Subordinated debt	15	203,167	50,139
TOTAL LIABILITIES		5,117,414	4,571,110
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	16	290,037	240,000
Cumulative translation reserve		(5,789)	(4,289)
Revaluation reserve for premises		27,143	21,074
Retained earnings		37,074	13,694
Total equity attributable to owners of the Bank		348,465	270,479
Non-controlling interest		2,067	2,037
Total equity		350,532	272,516
TOTAL LIABILITIES AND EQUITY		5,467,946	4,843,626

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

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

October 29, 2012

Mr. Rashad Gasimov

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

October 29, 2012

The notes on pages 8-34 form an integral part of this consolidated condensed interim financial information.

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Note	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Interest income	17, 25	158,006	149,466
Interest expense	17, 25	(106,138)	(97,063)
NET INTEREST INCOME		51,868	52,403
Initial recognition adjustment on interest bearing assets		(7,332)	(5,436)
Provision for impairment of due from other banks	4	(1,397)	(2,123)
Provision for impairment of loans and advances to customers	5, 25	(385)	(17,805)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		42,754	27,039
Fee and commission income	18, 25	41,731	38,112
Fee and commission expense	18, 25	(10,882)	(10,761)
Fair value gain on derivatives		1,083	1,085
Gains less losses from trading in foreign currencies		15,975	13,285
Foreign exchange translation gains less losses		(3,306)	(4,010)
Net (loss)/income on financial assets at fair value through profit or loss		(94)	16
Impairment of premises	6	(326)	(562)
Gross insurance premiums earned		5,908	5,566
Premiums ceded to reinsurers		(1,779)	(779)
(Reversal of provision)/provision for insurance reserves, net of reinsurance		(1,090)	27
Net claims incurred		(3,371)	(2,884)
Other income		308	114
Administrative and other operating expenses	19, 25	(58,489)	(50,913)
Share of loss of associates		(23)	(742)
PROFIT BEFORE INCOME TAX		28,399	14,593
Income tax expense	25	(5,341)	(8,254)
PROFIT FOR THE PERIOD		23,058	6,339
OTHER COMPREHENSIVE INCOME:			
Cumulative translation reserve		(1,500)	2,834
Revaluation of premises		7,790	1,758
Income tax recorded directly in other comprehensive income		(1,369)	(264)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		4,921	4,328
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		27,979	10,667
PROFIT IS ATTRIBUTABLE TO:			
Owners of the Bank		23,028	6,624
Non-controlling interest		30	(285)
PROFIT FOR THE PERIOD		23,058	6,339
TOTAL COMPREHENSIVE INCOME IS ATTRIBUTABLE TO:			
Owners of the Bank		27,949	10,952
Non-controlling interest		30	(285)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		27,979	10,667
Earnings per share for profit attributable to the owners of the Bank:			
Basic (expressed in AZN per share)	20	0.02	0.01
Diluted (expressed in AZN per share)	20	0.02	0.01

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

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

October 29, 2012

Mr. Rashad Gasimov

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

October 29, 2012

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THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

(in thousands of Azerbaijan Manats)

	Share capital	Cumulative translation reserve	Revaluation reserve for premises	(Accumulated deficit)/ retained earnings	Total equity attributable to owners of the Bank	Non-controlling interest	Total equity
December 31, 2010	240,000	(3,079)	19,939	(6,479)	250,381	1,130	251,511
Other comprehensive income for the period	-	2,834	1,494	-	4,328	-	4,328
Profit/(loss) for the period	-	-	-	6,624	6,624	(285)	6,339
Transfer to retained earnings	-	-	(332)	332	-	-	-
June 30, 2011	240,000	(245)	21,101	477	261,333	845	262,178
Other comprehensive (loss)/income for the period	-	(4,044)	313	-	(3,731)	(403)	(4,134)
Profit for the period	-	-	-	12,877	12,877	345	13,222
Transfer to retained earnings	-	-	(340)	340	-	-	-
Share capital increase in subsidiary	-	-	-	-	-	1,250	1,250
December 31, 2011	240,000	(4,289)	21,074	13,694	270,479	2,037	272,516
Other comprehensive (loss)/income for the period	-	(1,500)	6,421	-	4,921	-	4,921
Profit for the period	-	-	-	23,028	23,028	30	23,058
Transfer to retained earnings	-	-	(352)	352	-	-	-
Issue of ordinary shares (Note 16)	50,037	-	-	-	50,037	-	50,037
June 30, 2012	290,037	(5,789)	27,143	37,074	348,465	2,067	350,532

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

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

October 29, 2012

Mr. Rashad Gasimov

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

October 29, 2012

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THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012
(in thousands of Azerbaijan Manats)

	Note	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		133,279	153,710
Interest paid		(98,973)	(116,315)
Fees and commissions received		40,595	40,612
Fees and commissions paid		(11,405)	(11,485)
Insurance premiums received		4,155	4,333
Reinsurance premiums paid		(1,783)	(826)
Net claims paid		(3,371)	(2,884)
Income received from trading in foreign currencies		15,375	14,577
Other operating income received		308	114
Staff costs paid		(24,668)	(20,866)
Administrative and other operating expenses paid		(21,611)	(21,672)
Cash flows from operating activities before changes in operating assets and liabilities		31,901	39,298
Changes in operating assets and liabilities:			
Net decrease in mandatory cash balances with the Central/National Banks		93,365	3,303
Cash collected on behalf of a related party		76,779	558,641
Cash paid on behalf of a related party		(76,779)	(558,641)
Net (increase)/decrease in due from other banks		(40,427)	23,944
Net increase in loans and advances to customers		(499,014)	(371,464)
Net (increase)/decrease in financial assets at fair value through profit or loss		(1,251)	2
Net increase in other financial and insurance assets		(4,197)	(11,254)
Net decrease/(increase) in other assets		1,518	(3,214)
Net increase in due to other banks		45,318	2,290
Net increase in customer accounts		307,822	421,803
Net (decrease)/increase in other financial and insurance liabilities		(634)	16,423
Net decrease in other liabilities		(44)	(1,428)
Cash (used in)/generated from operating activities before taxation		(65,643)	119,703
Income tax paid		(199)	(6,905)
Net cash (used in)/generated from operating activities		(65,842)	112,798
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for premises, equipment and intangible assets		(6,478)	(8,402)
Proceeds on sale of available-for-sale investments		2,383	-
Payments for available-for-sale investments		-	(85)
Net cash used in investing activities		(4,095)	(8,487)

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (CONTINUED) FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

(in thousands of Azerbaijan Manats)

	Note	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		50,037	-
Payments for other debt securities		(20,011)	-
Proceeds from issue of debt securities in issue		10,004	1,072
Repayments of debt securities in issue		(2,001)	(73)
Proceeds from other borrowed funds		233,063	745,912
Repayment of other borrowed funds		(204,222)	(762,213)
Proceeds from subordinated debt		150,000	-
Repayment of subordinated debt		-	(16,664)
Net cash generated from/(used in) financing activities		216,870	(31,966)
Effect of exchange rate changes on cash and cash equivalents		(224)	(316)
NET INCREASE IN CASH AND CASH EQUIVALENTS		146,709	72,029
CASH AND CASH EQUIVALENTS, beginning of period	3	391,381	677,830
CASH AND CASH EQUIVALENTS, end of period	3	538,090	749,859

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

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

October 29, 2012

Mr. Rashad Gasimov

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

October 29, 2012

The notes on pages 8-34 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, 2012 the MoF held 50.20% (December 31, 2011: 50.20%) 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, 2012 and December 31, 2011 the Bank had 37 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 (%) 2012	2011	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. 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.

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 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 October 29, 2012 by the Board of Directors.

2. SUMMARY OF 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, 2011, 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-month period ended June 30, 2011 and comparative consolidated condensed interim statement of financial position as at December 31, 2011.

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, 2011.

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, 2012 and December 31, 2011 the gross loans and receivables totaled AZN 5,196,765 thousand and AZN 4,697,693 thousand, respectively, and provision for loan impairment amounted to AZN 687,548 thousand and AZN 689,509 thousand, respectively.

Premises carried at revalued amounts

Premises are measured at revalued amounts. The date of the latest appraisal was June 30, 2012. The next revaluation is preliminary scheduled as at June 30, 2014. The carrying value of revalued property amounted to AZN 51,352 thousand and AZN 48,634 thousand as at June 30, 2012 and December 31, 2011, 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 35,947 thousand and AZN 38,728 thousand as at June 30, 2012 and December 31, 2011, 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 788,286 thousand as at June 30, 2012 (December 31, 2011: AZN 755,870 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, 2012 was AZN 292,712 thousand (December 31, 2011: AZN 215,307 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 eight per cent or lower. The amount of such loans as at June 30, 2012 was AZN 764,896 thousand (December 31, 2011: AZN 408,462 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.

Loans to customers engaged in long-term real estate development projects

Included in the Group loans and advances as at June 30, 2012, are loans and advances outstanding in the amount of AZN 492,706 thousand to a number of companies operating in the Russian Federation engaged in long-term real estate development projects (December 31, 2011: AZN 477,274 thousand). As at June 30, 2012, the Group had AZN 162,586 thousand of provision for impairment against these loans based on the assumption that additional long-term funding would be available to complete these projects (December 31, 2011: AZN 194,873 thousand). As of the date of this audit opinion, the management of the Group believes that the necessary financial resources will be available to finance these long-term projects through to completion.

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 25.

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, 2012 and as at December 31, 2011. 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. Management's ongoing discussions with its current lenders have reaffirmed management's view that the borrowings subjected to covenants as detailed in Note 12, 15 and 24 will not in practice require repayment prior to the contractual dates.

3. CASH AND CASH EQUIVALENTS

	June 30, 2012	December 31, 2011
Cash on hand	125,593	137,361
Cash balances with the Central/National banks (other than mandatory reserve deposits)	37,296	42,099
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	16,408	2,766
- Other countries	358,793	209,155
Total cash and cash equivalents	**538,090**	**391,381**

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 nil thousand, AZN 36,989 thousand and AZN 307 thousand as at June 30, 2012 (December 31, 2011: AZN 26,427 thousand, AZN 14,443 thousand and AZN 1,229 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 use all funds on its correspondent account provided that the average daily balance for 30 days period will be eventually higher than the required mandatory reserve.

As at June 30, 2012 overnight placements with other banks was AZN 142,968 thousand with interest rate ranging between 0.22% and 3.00% per annum (December 31, 2011: overnight placements with other banks was AZN 89,705 thousand with interest rate ranging between 0.01% and 0.25% per annum).

4. DUE FROM OTHER BANKS

	June 30, 2012	December 31, 2011
Term placements with other banks	149,418	105,394
Less: Provision for impairment	(5,126)	(3,729)
Total due from other banks	**144,292**	**101,665**

Movements in the provision for loan impairment during the six-month period ended June 30, 2012 are as follows:

	Provision for impairment as at January 1, 2012	Increase in provision for impairment during the period	Provision for impairment as at June 30, 2012
Due from other banks	3,729	1,397	5,126
Total	**3,729**	**1,397**	**5,126**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2011 are as follows:

	Provision for impairment as at January 1, 2011	Increase in provision for impairment during the period between January 1, 2011 and June 30, 2011	Provision for impairment as at June 30, 2011	Recovery of provision for impairment during the period between July 1, 2011 and December 31, 2011	Provision for impairment as at December 31, 2011
Due from other banks	3,135	2,123	5,258	(1,529)	3,729
Total	**3,135**	**2,123**	5,258	**(1,529)**	**3,729**

As at June 30, 2012 term placements with other banks include three short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 89,330 thousand at annual interest rates of 0.0%, 1.65% and 0.7%, respectively. Term placements mature in January 2013, October 2012 and July 2012 (December 31, 2011: two short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 80,787 thousand at annual interest rates of 0.0% and 1.65%, respectively. Term placements matured in January and April 2012).

The carrying value of each class of amounts due from other banks approximates fair value as at June 30, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of due from other banks was AZN 144,292 thousand (December 31, 2011: AZN 101,665 thousand).

5. LOANS AND ADVANCES TO CUSTOMERS

	June 30, 2012	December 31, 2011
Corporate loans	4,634,849	4,178,051
State and public organisations	18,355	10,935
Loans to individuals – consumer loans	284,738	269,351
Loans to individuals – purchase of motor vehicles	85,326	85,478
Loans to individuals – mortgage loans	66,209	26,904
Loans to individuals – employees	43,910	59,523
Loans to individuals – other purposes	63,378	67,451
	5,196,765	4,697,693
Less: Provision for loan impairment	(687,548)	(689,509)
Total loans and advances to customers	**4,509,217**	**4,008,184**

Movements in the provision for loan impairment during the six-month period ended June 30, 2012 are as follows:

	Provision for loan impairment as at January 1, 2012	(Recovery of)/ increase in provision for impairment during the period	Effect of foreign currency exchange recognized	Provision for loan impairment as at June 30, 2012
Corporate loans	625,414	(6,065)	22,129	641,478
State and public organisations	108	-	(1)	107
Loans to individuals – consumer loans	26,006	(705)	2,573	27,874
Loans to individuals – purchase of motor vehicles	878	(20)	74	932
Loans to individuals – employees	16,479	5,561	(20,289)	1,751
Loans to individuals – mortgage loans	2,791	51	(185)	2,657
Loans to individuals – other purposes	17,833	1,563	(6,647)	12,749
Total	**689,509**	**385**	**(2,346)**	**687,548**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2011 are as follows:

	Provision for loan impairment as at January 1, 2011	Increase in/(recovery of) provision for impairment during the period between January 1, 2011 and June 30, 2011	Effect of foreign currency exchange recognized	Increase in/(recovery of) provision for impairment during the period between July 1, 2011 and December 31, 2011	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2011
Corporate loans	585,072	26,472	2,732	15,963	(4,825)	625,414
State and public organizations	4,488	(3,869)	(399)	(738)	626	108
Loans to individuals – consumer loans	44,246	(13,661)	(1,410)	(5,525)	2,356	26,006
Loans to individuals – purchase of motor vehicles	3,370	(2,217)	(229)	(404)	358	878
Loans to individuals – employees	3,867	9,591	990	3,675	(1,644)	16,479
Loans to individuals – mortgage loans	2,801	(838)	(87)	827	88	2,791
Loans to individuals – other purposes	10,656	2,327	240	5,222	(612)	17,833
Total	**654,500**	**17,805**	**1,837**	**19,020**	**(3,653)**	**689,509**

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

	June 30, 2012 Amount	%	December 31, 2011 Amount	%
Trade and service	1,802,643	34.7	1,703,531	36.3
Construction and real estate development	1,573,701	30.3	1,396,916	29.7
Manufacturing	834,158	16.0	683,173	14.6
Individuals	543,561	10.5	508,707	10.8
Railroad and other transportation	180,847	3.5	145,257	3.1
Oil and gas sector, power production and distribution	73,119	1.4	78,396	1.7
Air transportation	48,964	0.9	47,027	1.0
Leasing companies	28,471	0.5	27,559	0.6
State and public organisations*	18,354	0.4	10,935	0.2
Communication	14,465	0.3	19,427	0.4
Other	78,482	1.5	76,765	1.6
Total loans and advances to customers (before impairment)	**5,196,765**	**100.0**	**4,697,693**	**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, 2012, are the loans granted to twenty companies amounting to AZN 1,578,230 thousand (December 31, 2011: to twenty companies amounting to AZN 1,397,449 thousand) and representing a concentration of 30.4% (December 31, 2011: 29.7%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2012, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 234,375 thousand (December 31, 2011: AZN 239,462 thousand) and representing 4.5% (December 31, 2011: 5.1%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2012, are the loans granted to fifteen borrowers amounting to AZN 436,674 thousand (December 31, 2011: fifteen borrowers, AZN 317,131 thousand) with interest rates being less than or equal to eight per cent and representing 8.4% (December 31, 2011: 6.8%) 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 25. 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, 2012 are outstanding balances drawn on credit cards of AZN 97,607 thousand (December 31, 2011: AZN 84,806 thousand).

6. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

As at June 30, 2012 the premises owned by the Group carried at revalued amounts are based on an independent appraiser's report. As at June 30, 2012 the carrying value of these buildings totaled AZN 51,352 thousand (December 31, 2011: AZN 48,634 thousand). As at June 30, 2012, the carrying amount of premises would have been 18,116 AZN thousand (December 31, 2011: AZN 23,223 thousand) had the assets been carried at cost less depreciation. As a result of the valuation, the net carrying amount of buildings increased by AZN 7,464 thousand, representing a revaluation increase of AZN 7,790 thousand and a revaluation decrease of AZN 326 thousand. A revaluation increase of AZN 6,421 thousand, net of deferred tax of AZN 1,369 thousand, was shown through the revaluation reserve and an impairment of AZN 326 thousand was charged through profit and loss statement for the six-month period ended June 30, 2012, respectively (June 30, 2011: as a result of the valuation, the net carrying amount of buildings increased by AZN 1,196 thousand, representing a revaluation increase of AZN 1,758 thousand and a revaluation decrease of AZN 562 thousand. A revaluation increase of AZN 1,494 thousand, net of deferred tax of AZN 264 thousand, was shown through the revaluation reserve and an impairment of AZN 562 thousand was charged through profit and loss statement for the six-month period ended June 30, 2011, respectively).

Buildings owned by the Group were revalued by independent appraisers as at June 30, 2012. The following methods were used for the estimation of their fair value: discounted cash flow method (income approach) and method of sales comparison (comparative approach).

Included in the premises and equipment as at June 30, 2012 are office, computer equipment and furniture, vehicles and other assets with a cost of 65,828 AZN thousand (December 31, 2011: AZN 62,506 thousand) which have been fully depreciated but were still in use by the Group as at June 30, 2012.

Also included under premises, equipment and intangible assets is construction in progress which mainly consists of construction and refurbishment of branch premises as well as payments made by the Group to contractors for the purposes of construction of its new office building on land purchased by the Group in the centre of Baku. Upon completion, assets are transferred to premises and equipment, appropriately.

Intangible assets include software and licenses.

7. OTHER FINANCIAL AND INSURANCE ASSETS

	June 30, 2012	December 31, 2011
Amounts in the course of settlement and receivables for plastic cards transactions	9,093	3,747
Receivables from insurance policyholders	1,095	504
Currency swap agreements	1,083	-
Other	692	423
Total other financial and insurance assets	**11,963**	**4,674**

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.

During the six-month period ended June 30, 2012, the Group entered into currency swap agreements with non-resident banks, whereby the Group sold EUR and GBP and bought USD at the transaction date and agreed to buy back the initially sold amount of EUR and GBP at a predetermined future date by paying USD at the predetermined foreign exchange rate. As at June 30, 2012, the Group had six outstanding currency swap agreements representing derivative financial instruments. The fair value of these derivative financial instruments was AZN 1,083 thousand as at June 30, 2012.

The carrying value of each class of other financial assets approximates fair value as at June 30, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of other financial assets was AZN 11,963 thousand (December 31, 2011: AZN 4,674 thousand).

8. OTHER ASSETS

	June 30, 2012	December 31, 2011
Advances for purchase of intangible assets and equipment	7,581	6,736
Prepaid expenses	2,812	2,532
Deferred expenses for plastic cards	1,685	914
Deferred acquisition costs on insurance premiums written	1,293	1,459
Prepaid insurance	434	442
Taxes receivable, other than income tax	411	790
Other	1,568	3,086
Total other assets	**15,784**	**15,959**
Current	10,393	9,268
Non-current	5,391	6,691
Total other assets	**15,784**	**15,959**

Included in the advances for purchase of intangible assets and equipment as at June 30, 2012 and December 31, 2011 are prepayments for office furniture and other assets for new Head Office building in the centre of Baku.

9. DUE TO OTHER BANKS

	June 30, 2012	December 31, 2011
Short-term placements of other banks	661,181	602,411
Overdraft with the CBAR	275,601	82,170
Correspondent accounts and overnight placements of other banks	36,463	252,670
Total due to other banks	**973,245**	**937,251**

Included in due to other banks as at June 30, 2012 are four short-term placements amounting to EUR 323,000 thousand or AZN 319,382 thousand. These short-term placements bear market interest rates with maturities in March 2013 (December 31, 2011: four short-term placements amounting to EUR 323,000 thousand or AZN 328,749 thousand and correspondent account amounting EUR 239,088 thousand or AZN 243,344 thousand, USD 930 thousand or AZN 731 thousand and XAU 697 or AZN 839 thousand of non-resident banks).

The carrying value of each class of due to other banks approximates fair value as at June 30, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of due to other banks was AZN 973,245 thousand (December 31, 2011: AZN 937,251 thousand).

The information on related party balances is disclosed in Note 25.

10. CUSTOMER ACCOUNTS

	June 30, 2012	December 31, 2011
State and public organisations		
- Current/settlement accounts	722,757	557,918
- Term deposits	360,722	312,287
- Restricted customer deposits	325,906	256,657
	1,409,385	1,126,862
Other legal entities		
- Current/settlement accounts	333,157	377,134
- Term deposits	125,309	132,378
- Restricted customer deposits	48,060	55,106
	506,526	564,618
Individuals		
- Current/demand accounts	232,530	237,386
- Term deposits	921,493	828,414
	1,154,023	1,065,800
Total customer accounts	**3,069,934**	**2,757,280**

As at June 30, 2012, the Group had significant concentration of customer accounts attracted from one customer – a state organisation in the oil industry totalling AZN 769,572 thousand, and from one government body of AZN 392,814 thousand, or 37.9% of total customer accounts in aggregate (December 31, 2011: one customer – a state organisation in oil industry totalling AZN 702,912 thousand, and from one government body of AZN 250,902 thousand, or 34.6% 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 348,802 thousand. The interest rates on these deposits are 2.85% and 70% of overnight interest rate as per Reuters agency which is 0.18% as at June 30, 2012 (December 31, 2011: deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 301,303 thousand. The interest rates on these deposits are 2.85% and 70% of overnight interest rate as per Reuters agency which is 0.18% as at December 31, 2011).

Included in the current and settlement accounts of state and public organisations as at June 30, 2012 are balances on current interest bearing accounts of state-owned enterprises and government bodies of AZN 36,442 thousand (December 31, 2011: AZN 56,444 thousand). Interest rates on these accounts vary from 0.5% to 1.0% per annum (December 31, 2011: 0.5% to 1.0% per annum).

Restricted customer deposits amounting to AZN 373,966 thousand as at June 30, 2012 (December 31, 2011: AZN 311,763 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, 2012 and December 31, 2011 is disclosed in Note 24.

Economic sector concentrations within customer accounts are as follows:

	June 30, 2012		**December 31, 2011**	
	Amount	**%**	**Amount**	**%**
Individuals	1,154,023	37.6	1,065,800	38.7
Energy	871,497	28.4	769,801	27.9
State and public organisations*	589,060	19.2	356,176	12.9
Trade and services	281,215	9.2	286,249	10.4
Manufacturing	67,014	2.2	89,333	3.2
Transportation and communication	40,885	1.3	38,642	1.4
Construction	39,544	1.2	138,232	5.0
Other	26,696	0.9	13,047	0.5
Total customer accounts	**3,069,934**	**100.0**	**2,757,280**	**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, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of customer accounts was AZN 3,069,934 thousand (December 31, 2011: AZN 2,757,280 thousand).

The information on related party balances is disclosed in Note 25.

11. DEBT SECURITIES IN ISSUE

	June 30, 2012	**December 31, 2011**
Deposit certificates	15,428	7,370
Total debt securities in issue	**15,428**	**7,370**

As at June 30, 2012, deposit certificates denominated in USD in the amount of AZN 14,558 thousand bear interest rates ranging between 10.0%-25.0% per annum and have maturities of one, two, three, nine and ten years and deposit certificates denominated in AZN in the amount of AZN 870 thousand bear an interest rate of 25% per annum and have maturities of nine and ten years (December 31, 2011: USD denominated amounting to AZN 6,663 thousand bear interest rates ranging between 8.0%-25.0% per annum and have maturities of one, two, three and ten years and deposit certificates denominated in AZN in the amount of AZN 707 thousand bear an interest rate of 25.0% per annum and have maturities of ten years). 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 fair value as at June 30, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of debt securities in issue was AZN 15,428 thousand (December 31, 2011: AZN 7,370 thousand).

12. OTHER BORROWED FUNDS

	June 30, 2012	December 31, 2011
Syndicated loan maturing on July 23, 2013	78,560	76,637
Term borrowings from government organisations:		
- National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	78,108	41,501
Term borrowings from other financial institutions	614,091	623,539
Accrued interest payable	17,527	14,193
Total other borrowed funds	**788,286**	**755,870**

Syndicated borrowings

On July 23, 2010, the Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 100,000 thousand. The borrowing facility is repayable on July 23, 2013.

Term borrowings from government organizations

As at June 30, 2012 included in term borrowings from government organizations are loans from the National Fund for Support of Entrepreneurship amounting to AZN 78,108 thousand. These borrowings have an annual rate of 1% and maturity period from 1.5 to 10 years (December 31, 2011: borrowings from National Fund for Support of Entrepreneurship amounting to AZN 41,501 thousand, which has been borrowed with an annual rate of 1% and maturity periods of 1 to 7 years).

Term borrowings from other financial institutions

Included in term borrowings from other financial institutions are funds attracted from twenty nine foreign banks and financial institutions. The amounts drawn down under credit agreements signed with these banks amounted to USD 557,902 thousand or AZN 438,288 thousand, EUR 176,754 thousand or AZN 174,774 thousand (December 31, 2011: funds attracted from twenty eight foreign banks and financial institutions with amount of USD 549,153 thousand or AZN 431,909 thousand and EUR 183,006 thousand or AZN 186,264 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. Management believes that the Bank was in compliance with all financial covenants stipulated in borrowing agreements, except for those detailed in Note 24.

Market interest rates for the borrowings range between 1.2% to 8.9% per annum for the six-month period ended June 30, 2012 (ranging between 1% to 8.9% per annum for the year ended December 31, 2011). 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, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of other borrowed funds was AZN 788,286 thousand (December 31, 2011: AZN 755,870 thousand).

The information on related party balances is disclosed in Note 25.

13. OTHER FINANCIAL AND INSURANCE LIABILITIES

Other financial and insurance liabilities comprise the following:

	June 30, 2012	December 31, 2011
Items in course of settlement	37,352	37,134
Insurance reserves, net	9,860	8,191
Sundry creditors	5,953	4,979
Insurance premiums and broker commissions payable	1,078	1,101
Payables to employees	354	206
Payables on currency SWAP agreements	-	1,414
Total other financial and insurance liabilities	**54,597**	**53,025**

During the year ended December 31, 2011, the Group entered into currency swap agreements with non-resident banks, whereby the Group sold EUR and GBP and bought USD at the transaction date and agreed to buy back the initially sold amount of EUR and GBP at a predetermined future date by paying USD at the predetermined foreign exchange rate. As at December 31, 2011, the Group had six outstanding currency swap agreements representing derivative financial instruments. The fair value of these derivative financial instruments was AZN 1,414 thousand as at December 31, 2011.

The carrying value of each class of other financial and insurance liabilities approximates fair value as at June 30, 2012 and December 31, 2011. As at June 30, 2012, the estimated fair value of other financial and insurance liabilities was AZN 54,597 thousand (December 31, 2011: AZN 53,025 thousand).

14. OTHER LIABILITIES

Other liabilities comprise the following:

	June 30, 2012	December 31, 2011
Deferred revenue on plastic cards operations	6,724	6,378
Deferred commissions on insurance operations	40	21
Other	624	668
Total other liabilities	**7,388**	**7,067**
Current	6,764	6,645
Non-current	624	422
Total other liabilities	**7,388**	**7,067**

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.

15. SUBORDINATED DEBT

	June 30, 2012	December 31, 2011
Subordinated debt from the CBAR	150,000	-
Credit Linked Notes issued by Rubrika Finance Company Limited	49,493	49,549
Accrued interest payable	3,674	590
Total subordinated debt	**203,167**	**50,139**

On February 21, 2012, the Bank signed subordinated debt agreement with the Central Bank of the Republic of Azerbaijan for a total amount of AZN 150,000 thousand. The subordinated debt bears an annual fixed interest rate of 6.0%.The subordinated debt matures on February 21, 2017.

On May 8, 2007, the Bank a signed Subordinated Facility Agreement with Rubrika Finance Company Limited, legal entity registered in Dublin, for an issue of Credit Linked Notes on the Cayman Islands Stock Exchange to institutional investors from Europe and the United States of America for a total amount of USD 100,000 thousand for general corporate lending purposes. The debt bears annual fixed interest rate of 8.40%.The Credit Linked Notes mature on May 10, 2017. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreement. The Bank breached some of these covenants as at June 30, 2012. As the "Event of Default" clause of the loan agreement does not refer to breach of covenants, management has not classified the outstanding amount of the subordinated debt as on demand. Management believes that subordinated debt will not be required to be repaid prior to the contractual maturity date as set out in the agreement.

Interest rates on subordinated debts are at market rates. Market interest rate for these subordinated debts is 6.09% per annum. The repayment of the Bank's subordinated debt ranks after all other creditors in case of liquidation of the Bank.

As at June 30, 2012, the estimated fair value of subordinated debt was AZN 203,167 thousand (December 31, 2011: AZN 50,139 thousand).

16. SHARE CAPITAL

On March 28, 2012 the shareholders of the Bank decided to increase the share capital by AZN 100,000 thousand by issue of 416,666,675 ordinary shares. On May 14, 2012 the Bank issued 416,666,675 shares. As at June 30, 2012 and December 31, 2011 the authorized share capital consisted of 1,416,666,675 and 1,000,000,000 ordinary shares with par value of AZN 0.24 each, each share carries one vote. As at June 30, 2012 and December 31, 2011, shares issued and outstanding consisted of 1,416,666,675 and 1,000,000,000 shares, respectively.

As at June 30, 2012 and December 31, 2011 the number of fully paid ordinary shares in issue was 1,208,485,829 and 1,000,000,000, respectively.

As at June 30, 2012 and December 31, 2011 the Ministry of Finance of the Republic of Azerbaijan held 50.2% of shares issued and outstanding. As at June 30, 2012 and December 31, 2011 the MoF paid all subscribed shares and held 58.8% and 50.2% of the total paid-in share capital of the Bank, respectively.

As at June 30, 2012, the Group's employees held 4.64% of the total share capital of the Bank, or 56,062 thousand ordinary shares with a par value of AZN 13,455 thousand (December 31, 2011: 5.63% or 56,303 thousand ordinary shares with a par value of AZN 13,513 thousand).

17. INTEREST INCOME AND EXPENSE

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	115,724	110,067
- interest income on impaired financial assets	42,282	39,399
Total interest income	158,006	149,466
Interest income on financial assets recorded at amortized cost comprises:		
Loans and advances to customers	141,258	133,369
Interest income on contingencies	15,229	13,220
Due from other banks and correspondent accounts	1,199	2,877
Interest income on other debt securities	320	-
Total interest income	158,006	149,466
Interest expense comprises:		
Due to other banks and other borrowed funds	47,416	53,710
Savings deposits of individuals and deposit certificates	47,416	37,756
Subordinated debt	6,217	2,124
Term deposits of legal entities	5,089	3,473
Total interest expense	106,138	97,063
Net interest income	**51,868**	**52,403**

For information on related party transactions, see Note 25.

18. FEE AND COMMISSION INCOME AND EXPENSE

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Fee and commission income		
- Plastic cards operations	18,944	17,641
- Transactions with foreign currencies and securities	11,063	9,483
- Settlement transactions	5,041	5,407
- Cash transactions	3,675	2,695
- Guarantees issued	1,070	692
- Letters of credit issued	662	715
- Servicing intermediary loans	169	187
- Other	1,107	1,292
Total fee and commission income	**41,731**	**38,112**
Fee and commission expense		
- Plastic cards operations	4,713	4,911
- Settlement transactions	4,684	3,617
- Policy acquisition costs on insurance operations	804	1,325
- Cash transactions	365	458
- Other	316	450
Total fee and commission expense	**10,882**	**10,761**
Net fee and commission income	**30,849**	**27,351**

19. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Staff costs	24,816	21,138
Depreciation of premises and equipment	5,998	5,826
Charity and financial aid	4,145	3,996
Advertising and marketing services	3,321	2,750
Professional services	3,066	1,077
Customs duties and other taxes other than on income	3,063	4,807
Rent	2,851	2,813
Security	1,788	1,751
Maintenance of premises and equipment	1,637	1,103
Purchase of plastic cards	1,589	354
Amortisation of software and other intangible assets	1,409	683
Communication	1,164	1,082
Fees paid to Deposit Insurance Fund	901	1,656
Stationery, books, printing and other supplies	676	510
Software related expenses	417	387
Business trip expenses	356	383
Property insurance	343	211
Training	280	207
Transportation of valuables	26	26
Other	643	153
Total administrative and other operating expenses	**58,489**	**50,913**

Included in staff costs are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan of AZN 2,613 thousand (six-month period ended June 30, 2011: AZN 2,930 thousand). In addition, AZN 445 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, 2011: AZN 338 thousand).

Included in charity and financial aid expenses incurred during the six-month period ended June 30, 2012 are AZN 3,600 thousand paid to "Inter" professional football club (six-month period ended June 30, 2011: 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, 2012	Six-month period ended June 30, 2011
Profit for the period attributable to ordinary shareholders for the purpose of basic earnings per share	23,028	6,624
Profit for the period attributable to ordinary shareholders for the purpose of diluted earnings per share	23,163	6,624
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,028,947	1,000,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,076,366	1,000,000
Basic earnings per ordinary share (expressed in AZN per share)	**0.02**	**0.01**
Diluted earnings per ordinary share (expressed in AZN per share)	**0.02**	**0.01**

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 month periods ended June 30, 2012 and 2011 is set out below:

	Banking	Insurance	Card processing	Total Group
Six-month period ended June 30, 2012				
Total revenue	221,097	5,505	6,681	233,283
Inter-segment revenue	(8,498)	(171)	(2,787)	(11,456)
Revenue from external customers	212,599	5,334	3,894	221,827
Adjusted profit before income tax	36,125	(2,424)	2,128	35,829
Six-month period ended June 30, 2011				
Total revenue	207,077	7,600	5,972	220,649
Inter-segment revenue	(10,666)	(591)	(1,721)	(12,978)
Revenue from external customers	196,411	7,009	4,251	207,671
Adjusted loss before income tax	18,397	386	3,061	21,844
Total assets reported				
June 30, 2012	5,439,349	13,904	14,693	5,467,946
December 31, 2011	4,813,704	14,406	15,516	4,843,626

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Adjusted profit before income tax for reportable segments	**35,829**	**21,844**
Depreciation	(5,998)	(5,826)
Amortisation	(1,409)	(683)
Share of post-tax loss of associates	(23)	(742)
Profit before income tax	**28,399**	**14,593**

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, 2012	December 31, 2011
Total segment assets	5,431,999	4,804,898
Deferred income tax assets	35,947	38,728
Total assets	**5,467,946**	**4,843,626**

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, 2012:

	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	538,090	-	-	-	538,090
Mandatory cash balances with the National/Central banks	10,542	-	-	-	10,542
Due from other banks	12,494	53,566	77,197	1,035	144,292
Loans and advances to customers	861,481	699,979	819,446	2,128,311	4,509,217
Other debt securities	-	-	-	20,011	20,011
Financial assets at fair value through profit or loss	7,014	-	-	-	7,014
Available-for-sale investments	-	-	1,642	26	1,668
Other financial and insurance assets	11,013	403	132	415	11,963
TOTAL FINANCIAL ASSETS	**1,440,634**	**753,948**	**898,417**	**2,149,798**	**5,242,797**
FINANCIAL LIABILITIES:					
Due to other banks	322,944	87,589	562,663	49	973,245
Customer accounts	2,058,466	351,909	400,576	258,983	3,069,934
Debt securities in issue	1,333	365	7,567	6,163	15,428
Other borrowed funds	329,243	243,533	56,994	158,516	788,286
Other financial and insurance liabilities	43,661	631	1,077	559	45,928
Subordinated debt	-	-	-	203,167	203,167
TOTAL FINANCIAL LIABILITIES	**2,755,647**	**684,027**	**1,028,877**	**627,437**	**5,095,988**
NET LIQUIDITY GAP AS AT JUNE 30, 2012	**(1,315,013)**	**69,921**	**(130,460)**	**1,522,361**	
CUMULATIVE LIQUIDITY GAP AS AT JUNE 30, 2012	**(1,315,013)**	**(1,245,092)**	**(1,375,552)**	**146,809**	

The analysis of carrying values of assets and liabilities by contractual maturities may be summarized as follows as at December 31, 2011:

	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	391,381	-	-	-	391,381
Mandatory cash balances with the National/Central banks	103,907	-	-	-	103,907
Due from other banks	76,780	21,224	2,246	1,415	101,665
Loans and advances to customers	467,538	838,738	1,102,185	1,599,723	4,008,184
Financial assets at fair value through profit or loss	-	-	1,228	4,629	5,857
Available-for-sale investments	-	1,573	2,478	-	4,051
Other financial and insurance assets	4,415	259	-	-	4,674
TOTAL FINANCIAL ASSETS	**1,044,021**	**861,794**	**1,108,137**	**1,605,767**	**4,619,719**
FINANCIAL LIABILITIES:					
Due to other banks	386,838	361,564	134,914	53,935	937,251
Customer accounts	1,540,031	392,441	334,741	490,067	2,757,280
Debt securities in issue	185	1,706	487	4,992	7,370
Other borrowed funds	366,110	258,626	66,658	64,476	755,870
Other financial and insurance liabilities	39,384	5,136	1,099	508	46,127
Subordinated debt	-	-	-	50,139	50,139
TOTAL FINANCIAL LIABILITIES	**2,332,548**	**1,019,473**	**537,899**	**664,117**	**4,554,037**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2011	**(1,288,527)**	**(157,679)**	**570,238**	**941,650**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2011	**(1,288,527)**	**(1,446,206)**	**(875,968)**	**65,682**	

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.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

As set out in Note 24, included in the above analysis of maturities, total borrowings of AZN 329,189 thousand (December 31, 2011: AZN 344,750 thousand) are included as "on demand" due to breaches of certain covenants imposed in those borrowing agreements as at June 30, 2012. The contractual maturity dates are set out in Note 12 for the individual term borrowings and in Note 15 for the subordinated debt of the Group.

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 the minimum level of total statutory capital of AZN 10,000 thousand (December 31, 2011: 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, 2011: 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, 2011: 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 Basle 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, 2012	December 31, 2011
Tier 1 capital		
Share capital	290,037	240,000
Retained earnings	37,074	13,694
Non-controlling interest	2,067	2,037
Less: intangible assets	(4,824)	(5,860)
Total qualifying Tier 1 capital	**324,354**	**249,871**
Tier 2 capital		
Reserves (1.25% of total risk-weighted assets)	67,289	63,077
Revaluation reserve for premises	27,143	21,074
Subordinated debt (restricted to 50% of Tier 1 capital)	162,177	50,139
Total qualifying Tier 2 capital limited to 100% of Tier 1 capital	**256,609**	**134,290**
Less: investments in equity shares	(626)	(649)
Total regulatory capital	**580,337**	**383,512**
Risk-weighted assets:		
On-balance sheet	4,507,442	4,009,597
Off-balance sheet	875,691	1,036,549
Total risk-weighted assets	**5,383,133**	**5,046,146**
Capital Ratios:		
Tier 1 capital	6.03%	4.95%
Total capital	10.78%	7.60%

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 2012 and 2011, except as stated in Note 24.

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. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Azerbaijan and the Azerbaijan's economy in general.

Laws and regulations affecting businesses in Azerbaijan continue to change rapidly. Tax, currency and customs legislation within Azerbaijan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Azerbaijan. The future economic direction of Azerbaijan is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the Azerbaijan's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Azerbaijan produces and exports large volumes of oil and gas, Azerbaijan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2012 and 2011.

Compliance with covenants – The Bank is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including, growth in the cost of borrowings and declaration of default. The Bank did not achieve full compliance with all statutory ratios neither as at June 30, 2012 nor as at December 31, 2011.

As a result of cross-default clauses being included in certain other of the Group's borrowing, the agreements provide for these other lenders to have the right to declare some or all of their loans repayable on demand.

As at June 30, 2012 the Group and the Bank has complied with all externally imposed capital requirements as per Basel I (December 31, 2011: Tier-1: 4.95% and total adequacy capital ratio 7.60%. The Group was not in compliance with these covenants as at December 31, 2011). Refer to Note 23.

As set out in Note 22, total borrowings of AZN 329,189 thousand (December 31, 2011: AZN 344,750 thousand) are included as "on demand" due to breaches of certain covenants imposed in those borrowing agreements as at June 30, 2012.

The CBAR has a right to impose monetary penalties on the Bank and in case of repeated and continued breaches it may ultimately withdraw the banking license of the Bank if the Bank does not achieve full compliance with the statutory ratios.

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, 2012	**December 31, 2011**
Import letters of credit	799,874	559,640
Guarantees issued	875,882	770,675
Commitments to extend credit and undrawn credit lines	153,654	97,725
Total credit related commitments	**1,829,410**	**1,428,040**

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, 2012, the Group had a significant concentration of import letters of credit of AZN 738,606 thousand issued to 20 entities or 92.3% of total import letters of credit (December 31, 2011: import letters of credit of AZN 531,534 thousand issued to 20 entities or 95.0% of total import letters of credit). As at June 30, 2012, the Group also had a significant concentration of guarantees of AZN 750,222 thousand issued to 20 entities or 85.7% of total guarantees issued (December 31, 2011: guarantees of AZN 697,005 thousand issued to 20 entities or 90.4% of total guarantees).

As at June 30, 2012, credit related commitments of AZN 373,924 thousand (December 31, 2011: AZN 293,766 thousand) are secured by blocked customer deposits. Refer to Note 10.

Intermediary loans – As at June 30, 2012, the Group had borrowed funds amounting to AZN 779,698 thousand (December 31, 2011: AZN 869,698 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, 2012	December 31, 2011
Funds borrowed from CBAR and given to two state organizations	779,698	869,698
Total funds borrowed for the purposes of providing intermediary loans and transferred to off-balance sheet accounts	**779,698**	**869,698**

25. 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, 2012, the outstanding balances with related parties were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Mandatory cash balances with the CBAR	-	-	159	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	15,595	166	235,259	-
Provisions for loan impairment	(2,079)	(21)	(65,679)	-
Current income tax asset	-	-	3,118	-
Due to other banks				
Correspondent accounts of other banks	1,149	-	36,463	-
Customer accounts				
Current/settlement accounts	-	37	622,457	990
Term deposits (contractual interest rate: 0.18 - 9% p.a.)	-	1	359,199	-
Other borrowed funds (contractual interest rate: 1% p.a.)	-	-	78,108	-
Current income tax liability	-	-	5,137	-
Subordinated debt	-	-	153,250	-

The income and expense items with related parties for the six-month period ended June 30, 2012 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
Insurance related commission expense	-	-	(3)	-
Staff costs	-	425	-	-
Administrative and other operating expenses	-	-	(149)	-
Current income tax expense	-	-	(12,180)	-

As at June 30, 2012, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities
Import letters of credit	1,037
Guarantees issued	317,485
Commitments to extend credit and undrawn credit lines	34,453

As at December 31, 2011, the outstanding balances with shareholders are substantially all with the Parent.

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	26,427	-
Mandatory cash balances with the CBAR	-	-	94,423	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	22,430	247	259,563	22,130
Provision for loan impairment	(481)	(5)	(78,349)	(5,327)
Current income tax asset	-	-	1,177	-
Due to other banks				
Correspondent accounts of other banks	1,825	-	82,170	-
Customer accounts				
Current/settlement accounts	-	23	545,685	-
Term deposits (contractual interest rate: 2 - 7% p.a.)	-	21	311,990	-
Other borrowed funds (contractual interest rate: 1% p.a.)	-	-	45,582	-

The income and expense items with related parties for the six-month period ended June 30, 2011 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	1,240	-	12,319	556
Interest expense	-	-	(7,211)	-
Provision for impairment of loans and advances to customers	(4,133)	-	(3,380)	-
Fee and commission income	-	-	10,188	18
Staff costs	-	(291)	-	-
Administrative and other operating expenses	-	-	(806)	-
Current income tax expense	-	-	(2,779)	-

As at December 31, 2011, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities
Guarantees issued	442,215
Import letters of credit	276,731
Commitments to extend credit and undrawn credit lines	12,140

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, 2012, the total remuneration of members of the Board of Directors and key management personnel of the Group including discretionary compensation amounted to AZN 425 thousand (the six-month period ended June 30, 2011: AZN 291 thousand) and comprised of:

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011
Short-term benefits:		
- salaries	271	206
- performance bonuses	154	85
Total	**425**	**291**

26. SUBSEQUENT EVENTS

During the period from July 7, 2012 to September 25, 2012 the Bank attracted five deposits from one non-resident bank totaling USD 12,962 thousand which mature in June 2013.

On July 7, 2012 and September 17, 2012 the Bank attracted two deposits from one non-resident bank totaling EUR 7,450 thousand which mature on January 1, 2013 and December 17, 2012, respectively.

On July 19, 2012 the Bank attracted one deposit from one non-resident bank totaling USD 50,000 thousand which matures on July 19, 2013.

On August 1, 2012 the Bank attracted seven loans from one non-resident bank totaling USD 145,000 thousand which mature between 2014 - 2017.

During the period from August 31, 2012 to September 27, 2012 the Bank attracted subordinated debt from one non-resident bank totaling USD 125,000 thousand which matures in 2018.

On September 4, 2012 and October 11, 2012 the Bank attracted two deposits from one non-resident bank totaling USD 10,000 thousand which mature on March 3, 2013 and April 11, 2013, respectively.

During the period from September 24, 2012 to October 11, 2012 the Bank attracted three deposits from two resident banks totaling EUR 7,600 and AZN 20,418 thousand which mature in in November and December 2012, respectively.

On October 3, 2012 the Bank attracted one deposit from one non-resident bank totaling USD 20,000 thousand which matures on November 2, 2012.