THE INTERNATIONAL BANK OF AZERBAIJAN

Consolidated Condensed Interim Financial Information
For the Six Month Period Ended June 30, 2013

THE INTERNATIONAL BANK OF AZERBAIJAN

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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, 2013

Management is responsible for the preparation of the consolidated condensed interim financial information that presents fairly the consolidated financial position of the International Bank of Azerbaijan and its subsidiaries ("the Group") as at June 30, 2013, the consolidated results of its operations, cash flows and changes in equity for the six-month period ended June 30, 2013, 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, 2013 was approved by management on September 13, 2013:

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

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

September 13, 2013

Azərbaycan Beynəlxalq Bankı Açıq Səhmdar Cəmiyyəti * The International Bank of Azerbaijan Open Joint-Stock Company

Mr. Rashad Gasimov

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

September 13, 2013

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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, 2013, 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, 2013, 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, 2013, 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.

September 13, 2013
Baku, the Republic of Azerbaijan

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2013

(in thousands of Azerbaijan Manats)

	Note	June 30, 2013	December 31, 2012
ASSETS			
Cash and cash equivalents	3, 26	240,155	489,142
Mandatory cash balances with the National/Central Banks	26	15,416	14,665
Due from other banks	4	127,563	138,048
Loans and advances to customers	5, 26	6,025,109	5,255,151
Other debt securities		20,223	20,220
Financial assets at fair value through profit or loss		11,961	10,264
Available-for-sale investments		7,577	6,300
Investment in associates		585	575
Premises, equipment and intangible assets	6	208,524	179,817
Current income tax asset	26	3,132	4,623
Deferred income tax asset		14,675	22,369
Other financial and insurance assets	7	15,108	10,125
Other assets	8	23,669	22,566
TOTAL ASSETS		6,713,697	6,173,865
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to other banks	9, 26	1,357,055	1,199,805
Customer accounts	10, 26	3,224,604	3,104,140
Debt securities in issue	11	83,000	9,489
Other borrowed funds	12, 26	1,016,662	956,830
Current income tax liability	26	38	1,185
Deferred income tax liability		-	643
Other financial and insurance liabilities	13	48,874	82,408
Other liabilities	14	13,710	13,557
Subordinated debt	15, 26	499,135	389,571
TOTAL LIABILITIES		6,243,078	5,757,628
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	16	340,000	330,834
Cumulative translation reserve		(6,764)	(3,670)
Revaluation reserve for premises		44,312	28,244
Retained earnings		90,686	58,503
Total equity attributable to owners of the Bank		468,234	413,911
Non-controlling interest		2,385	2,326
Total equity		470,619	416,237
TOTAL LIABILITIES AND EQUITY		6,713,697	6,173,865

On behalf of the Board of Directors:

Mr. Jahangir Hajiyev

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

September 13, 2013

Mr. Rashad Gasimov

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

September 13, 2013

Azərbaycan Beynəlxalq Bankı Açıq Səhmdar Cəmiyyəti * The International Bank of Azerbaijan Open Joint-Stock Company

The notes on pages 8-42 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, 2013

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Note	Six month period ended June 30, 2013	Six month period ended June 30, 2012
Interest income	17, 26	224,526	158,006
Interest expense	17, 26	(164,032)	(106,138)
NET INTEREST INCOME		60,494	51,868
Initial recognition adjustment on interest bearing assets		(3,019)	(7,332)
Provision for impairment of due from other banks	4	895	(1,397)
Provision for impairment of loans and advances to customers	5, 26	(8,851)	(385)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		49,519	42,754
Fee and commission income	18, 26	49,810	41,731
Fee and commission expense	18, 26	(11,134)	(10,882)
Fair value gain on derivatives		9,308	1,083
Gains less losses from trading in foreign currencies		16,887	15,975
Foreign exchange translation gains less losses		(12,454)	(3,306)
Net income/(loss) on financial assets at fair value through profit or loss		47	(94)
Impairment of premises		-	(326)
Gross insurance premiums earned		7,729	5,908
Premiums ceded to reinsurers		(2,731)	(1,779)
Reversal of provision/(provision) for insurance reserves, net of reinsurance		740	(1,090)
Net claims incurred		(3,077)	(3,371)
Other income		464	308
Administrative and other operating expenses	19, 26	(68,155)	(58,489)
Share of loss of associates		(64)	(23)
PROFIT BEFORE INCOME TAX		36,889	28,399
Income tax expense	24	(5,531)	(5,341)
PROFIT FOR THE PERIOD		31,358	23,058
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss:			
Revaluation of premises		21,190	7,790
Income tax recorded directly in other comprehensive income		(4,238)	(1,369)
		16,952	6,421
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation reserve		(3,094)	(1,500)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		13,858	4,921
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		45,216	27,979
PROFIT IS ATTRIBUTABLE TO:			
Owners of the Bank		31,299	23,028
Non-controlling interest		59	30
PROFIT FOR THE PERIOD		31,358	23,058
TOTAL COMPREHENSIVE INCOME IS ATTRIBUTABLE TO:			
Owners of the Bank		45,157	27,949
Non-controlling interest		59	30
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		45,216	27,979
Earnings per share for profit attributable to the owners of the Bank:			
Basic (expressed in AZN per share)	20	0.02	0.02
Diluted (expressed in AZN per share)	20	0.02	0.02

On behalf of the Board of Directors:

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

September 13, 2013

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

September 13, 2013

The notes on pages 8-42 form an integral part of this consolidated condensed interim financial information.

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013

(in thousands of Azerbaijan Manats)

	Share capital	Cumulative translation reserve	Revaluation reserve for premises	Retained earnings	Total equity attributable to owners of the Bank	Non-controlling interest	Total equity
December 31, 2011	240,000	(4,289)	21,074	13,694	270,479	2,037	272,516
Other comprehensive 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
Other comprehensive income for the period	-	2,119	1,666	-	3,785	(36)	3,749
Profit for the period	-	-	-	20,864	20,864	295	21,159
Transfer to retained earnings	-	-	(565)	565	-	-	-
Issue of ordinary shares (Note 16)	40,797	-	-	-	40,797	-	40,797
December 31, 2012	330,834	(3,670)	28,244	58,503	413,911	2,326	416,237
Other comprehensive income for the period	-	(3,094)	16,952	-	13,858	-	13,858
Profit for the period	-	-	-	31,299	31,299	59	31,358
Transfer to retained earnings	-	-	(884)	884	-	-	-
Issue of ordinary shares (Note 16)	9,166	-	-	-	9,166	-	9,166
June 30, 2013	340,000	(6,764)	44,312	90,686	468,234	2,385	470,619

On behalf of the Board of Directors:

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

September 13, 2013

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

September 13, 2013

The notes on pages 8-42 form an integral part of this consolidated condensed interim financial information.

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013
(in thousands of Azerbaijan Manats)

	Note	Six month period ended June 30, 2013	Six month period ended June 30, 2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		207,227	133,279
Interest paid		(157,470)	(98,973)
Fees and commissions received		49,756	40,595
Fees and commissions paid		(10,866)	(11,405)
Insurance premiums received		7,729	4,155
Reinsurance premiums paid		(2,816)	(1,783)
Net claims paid		(3,083)	(3,371)
Income received from trading in foreign currencies		16,887	15,375
Other operating income received		432	308
Staff costs paid		(29,431)	(24,668)
Administrative and other operating expenses paid		(14,944)	(21,611)
Cash flows from operating activities before changes in operating assets and liabilities		63,421	31,901
Changes in operating assets and liabilities:			
Net decrease in mandatory cash balances with the Central/National Banks		(751)	93,365
Cash collected on behalf of a related party		136,333	76,779
Cash paid on behalf of a related party		(136,333)	(76,779)
Net decrease/(increase) in due from other banks		2,085	(40,427)
Net increase in loans and advances to customers		(772,356)	(499,014)
Net increase in financial assets at fair value through profit or loss		(1,711)	(1,251)
Net increase in other financial and insurance assets		(5,477)	(4,197)
Net (increase)/decrease in other assets		(415)	1,518
Net increase in due to other banks		162,049	45,318
Net increase in customer accounts		108,601	307,822
Net decrease in other financial and insurance liabilities		(32,093)	(634)
Net increase/(decrease) in other liabilities		1,784	(44)
Cash used in from operating activities before taxation		(474,863)	(65,643)
Income tax paid		(1,934)	(199)
Net cash used in from operating activities		(476,797)	(65,842)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for premises, equipment and intangible assets		(10,174)	(6,478)
Proceeds on sale of available-for-sale investments		-	2,383
Payments for available-for-sale investments		(3,690)	-
Net cash used in investing activities		(13,864)	(4,095)

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013
(in thousands of Azerbaijan Manats)

	Note	Six month period ended June 30, 2013	Six month period ended June 30, 2012
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		9,166	50,037
Payments for other debt securities		-	(20,011)
Proceeds from issue of debt securities in issue		72,308	10,004
Repayments of debt securities in issue		-	(2,001)
Proceeds from other borrowed funds		1,192,499	233,063
Repayment of other borrowed funds		(1,132,667)	(204,222)
Proceeds from subordinated debt		101,299	150,000
Net cash generated from financing activities		242,605	216,870
Effect of exchange rate changes on cash and cash equivalents		(931)	(224)
NET(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(248,987)	146,709
CASH AND CASH EQUIVALENTS, beginning of period	3	489,142	391,381
CASH AND CASH EQUIVALENTS, end of period	3	240,155	538,090

On behalf of the Board of Directors:

Səhmdar Cəmiyyəti Azərbaycan Beynəlxalq Bankı * Open Joint-Stock Company The International Bank of Azerbaijan

Mr. Jahangir Hajiyev

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

September 13, 2013

Mr. Rashad Gasimov

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

September 13, 2013

The notes on pages 8-42 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, 2013 the MoF held 50.20% (December 31, 2012: 51.6%) 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, 2013 and December 31, 2012 the Bank had 36 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 (%) 2013	2012	Type of operation
The International Bank of Azerbaijan	The Republic of Azerbaijan	Parent		Banking
Subsidiaries:				
IBA Moscow	Russian Federation	100.0	100.0	Banking
International Insurance Company	The Republic of Azerbaijan	100.0	100.0	Insurance
Azericard Limited	The Republic of Azerbaijan	100.0	100.0	Plastic cards
IBA Georgia	The Republic of Georgia	75.0	75.0	Banking
Associates:				
Joint Leasing	The Republic of Azerbaijan	47.6	47.6	Leasing
Baku Inter-Bank Currency Exchange	The Republic of Azerbaijan	20.0	20.0	Currency exchange

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

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

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

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

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

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

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

This consolidated condensed interim financial information was authorized for issue on September 13, 2013 by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2012, 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, 2012 and comparative consolidated condensed interim statement of financial position as at December 31, 2012.

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, 2012.

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, 2013 and December 31, 2012 the gross loans and receivables totaled AZN 6,735,937 thousand and AZN 5,962,403 thousand, respectively, and provision for loan impairment amounted to AZN 710,828 thousand and AZN 707,252 thousand, respectively.

Premises carried at revalued amounts

Premises are measured at revalued amounts. The date of the latest appraisal was June 30, 2013. The next revaluation is preliminary scheduled as at June 30, 2014. The carrying value of revalued property amounted to AZN 76,448 thousand and AZN 60,411 thousand as at June 30, 2013 and December 31, 2012, 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 14,675 thousand and AZN 22,369 thousand as at June 30, 2013 and December 31, 2012, respectively.

Other borrowed funds

Management has considered whether gains or losses should arise on initial recognition of loans from international financial institutions in the amount of AZN 1,016,662 thousand as at June 30, 2013 (December 31, 2011: AZN 956,830 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, 2013 was AZN 292,712 thousand (December 31, 2012: AZN 260,685 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 4.75% or lower. The amount of such loans as at June 30, 2013 was AZN 148,711 thousand (December 31, 2012: contractual interest rate is 5.00% or lower: AZN 165,539 thousand). Management have assessed that the contractual interest rates for these loans are equivalent to the alternative highest and best use of the funds provided under these loans, the majority of which are with government bodies and state-owned entities. Had management concluded that the interest rates for these borrowings were different to the highest and best use of the funds provided, then the carrying amounts in respect of these loans in the consolidated condensed interim financial information, and the amounts recorded within interest income and losses on the origination of loans, would have been different.

Tax legislation

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

Initial recognition of related party transactions

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

Capital Adequacy ratio

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

Liquidity mismatch

As disclosed in Note 22 to this consolidated condensed financial information, the Group has a cumulative negative liquidity gap up to twelve months as at June 30, 2013 and as at December 31, 2012. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, management believes that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Note 22.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

The Group has applied retrospectively a package of five Standards on consolidation, joint arrangements, associates and disclosures, including IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interest in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*.

Key requirements of these five Standards are described below.

IFRS 10 *Consolidated Financial Statements* replaced the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* is withdrawn. Under IFRS 10 *Consolidated Financial Statements*, there is only one basis for consolidation, that is, control. In addition, IFRS 10 *Consolidated Financial Statements* includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 *Consolidated Financial Statements* to deal with complex scenarios.

The Group has to assess whether the consolidation conclusion under IFRS 10 *Consolidated Financial Statements* differs from IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at January 1, 2013.

If the consolidation conclusion under IFRS 10 *Consolidated Financial Statements* differs from IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at January 1, 2013, the immediately preceding comparative period (i.e. financial period beginning January 1, 2012) is restated to be consistent with the accounting conclusion under IFRS 10 *Consolidated Financial Statements*, unless impracticable. Any difference between IFRS 10 *Consolidated Financial Statements* carrying amounts and previous carrying amounts on January 1, 2012 is adjusted to equity.

For investees that will be consolidated under both IFRS 10 *Consolidated Financial Statements* and the previous guidance in IAS 27 *Consolidated and Separate Financial Statements*/SIC 12 *Consolidation – Special Purpose Entities* as at 1 January 2013, or investees that will be unconsolidated under both sets of guidance as at January 1, 2013, no adjustment to previous accounting has been made.

The Group assessed that adoption of IFRS 10 *Consolidated Financial Statements* did not result in any change in the consolidation status of its subsidiaries.

IFRS 11 *Joint Arrangements* replaced IAS 31 *Interests in Joint Ventures*. IFRS 11 *Joint Arrangements* deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* is withdrawn. Under IFRS 11 *Joint Arrangements*, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In addition, joint ventures under IFRS 11 *Joint Arrangements* are required to be accounted for using the equity method of accounting.

Application of the Amendments to IFRS 11 *Joint Arrangements* did not result in changes to the Group's interim condensed consolidated financial statements.

IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities.

Application of IFRS 12 *Disclosure of Interests in Other Entities* resulted in more extensive disclosures in the interim condensed consolidated financial statements.

IFRS 13 *Fair Value Measurement*

IFRS 13 *Fair Value Measurement* establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 *Fair Value Measurement* is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures amount fair value measurements, except in specified circumstances. Application of IFRS 13 *Fair Value Measurement* resulted in more extensive disclosures in the interim condensed consolidated financial statements (see Note 25).

IAS 19 (as revised in 2011) *Employee Benefits*

The amendments to IAS 19 *Employee Benefits* change the accounting for defined benefit plans and termination benefits and a definition of short-term benefits.

The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 *Employee Benefits* and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 *Employee Benefits* are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

Application of the Amendments to IAS 19 *Employee Benefits* did not result in significant changes to the Group's interim condensed consolidated financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* "Presentation of Items of Other Comprehensive Income"

The Group has applied the amendments to IAS 1 *Presentation of Financial Statements* "Presentation of Items of Other Comprehensive Income". The amendments require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Several other amendments including amended IFRS 7 *Financial Instruments: Disclosures* "Disclosures – Offsetting Financial Assets and Financial Liabilities" and amendments resulting from "Annual Improvements to IFRSs" (2009-2011 cycle) were applied for the first time in these interim condensed consolidated financial statements. Application of these amendments did not result in significant changes to the Group's financial position or results of operations.

Amendments to IFRS 7 *Financial Instruments: Disclosures* – "Disclosures – Offsetting Financial Assets and Financial Liabilities"

The amendments to IFRS 7 *Financial Instruments: Disclosures* require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The disclosures are provided retrospectively for all comparative periods. Application of these amendments did not result in significant changes to the Group's financial position or results of operations.

Amendments to IFRSs – "Annual Improvements to IFRSs" (2009-2011 cycle)

The Annual Improvements to IFRSs 2009-2011 Cycle include a number of amendments to various IFRSs as follows:

Amendments to IAS 1 *Presentation of Financial Statements* clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

Amendments to IAS 32 *Financial Instruments: Presentation* clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*.

Amendments to IAS 16 *Property Plant and Equipment* clarify that major spare parts and servicing equipment that meet the definition of property plant and equipment are not inventory.

Amendments to IAS 34 *Interim Financial Reporting* align the disclosure requirements for total segment assets with total segment liabilities in interim financial statements and also align certain interim disclosures with annual disclosures.

3. CASH AND CASH EQUIVALENTS

	June 30, 2013	December 31, 2012
Cash on hand	99,242	136,694
Cash balances with the Central/National banks (other than mandatory reserve deposits)	103,382	73,014
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	4,436	39,718
- Other countries	33,095	239,716
Total cash and cash equivalents	**240,155**	**489,142**

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 43,982 thousand, AZN 59,202 thousand and AZN 198 thousand as at June 30, 2013 (December 31, 2012: AZN 52,563 thousand, AZN 20,167 thousand and AZN 284 thousand), respectively.

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

As at June 30, 2013 overnight placements with other banks was nil (December 31, 2012: overnight placements with other banks was AZN 39,250 thousand with interest rate 0.16% per annum).

4. DUE FROM OTHER BANKS

	June 30, 2013	December 31, 2012
Term placements with other banks	131,258	142,638
Less: Provision for impairment	(3,695)	(4,590)
Total due from other banks	**127,563**	**138,048**

Movements in the provision for loan impairment during the six month period ended June 30, 2013 are as follows:

	Provision for impairment as at January 1, 2013	Recovery of provision for impairment during the period	Provision for impairment as at June 30, 2013
Due from other banks	4,590	(895)	3,695
Total	**4,590**	**(895)**	**3,695**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2012 are as follows:

	Provision for impairment as at January 1, 2012	Increase in provision for impairment during the period between January 1, 2012 and June 30, 2012	Provision for impairment as at June 30, 2012	Recovery of provision for impairment during the period between July 1, 2012 and December 31, 2012	Provision for impairment as at December 31, 2012
Due from other banks	3,729	1,397	5,126	(536)	4,590
Total	**3,729**	**1,397**	**5,126**	**(536)**	**4,590**

As at June 30, 2013 term placements with other banks include two short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 86,352 thousand at annual interest rates of 0.0% and 1.4% respectively. Term placements mature in January 2014 and October 2013 (December 31, 2012: two short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 87,272 thousand at annual interest rates of 0.0% and 1.5%, respectively. Term placements matured in January and April 2013).

The carrying value of each class of amounts due from other banks approximates fair value as at June 30, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of due from other banks was AZN 127,563 thousand (December 31, 2012: AZN 138,048 thousand).

5. LOANS AND ADVANCES TO CUSTOMERS

	June 30, 2013	December 31, 2012
Corporate loans	5,953,059	5,296,976
State and public organisations	24,633	5,433
Loans to individuals – consumer loans	344,073	320,234
Loans to individuals – purchase of motor vehicles	89,677	86,674
Loans to individuals – mortgage loans	133,716	120,011
Loans to individuals – employees	77,183	77,386
Loans to individuals – other purposes	113,596	55,689
	6,735,937	5,962,403
Less: Provision for loan impairment	(710,828)	(707,252)
Total loans and advances to customers	**6,025,109**	**5,255,151**

Movements in the provision for loan impairment during the six-month period ended June 30, 2013 are as follows:

	Provision for loan impairment as at January 1, 2013	(Recovery of)/ increase in provision for impairment during the period	Effect of foreign currency exchange recognized	Provision for loan impairment as at June 30, 2013
Corporate loans	648,439	(50,548)	(4,836)	593,055
State and public organisations	3,606	(3,497)	(27)	82
Loans to individuals – consumer loans	44,069	32,419	(329)	76,159
Loans to individuals – purchase of motor vehicles	482	6,265	(4)	6,743
Loans to individuals – employees	3,393	1,770	(25)	5,138
Loans to individuals – mortgage loans	1,922	(1,207)	(14)	701
Loans to individuals – other purposes	5,341	23,649	(40)	28,950
Total	**707,252**	**8,851**	**(5,275)**	**710,828**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2012 are as follows:

	Provision for loan impairment as at January 1, 2012	Increase in/(recovery of) provision for impairment during the period between January 1, 2012 and June 30, 2012	Effect of foreign currency exchange recognized	Increase in/(recovery of) provision for impairment during the period between July 1, 2012 and December 31, 2012	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2012
Corporate loans	625,414	(6,065)	22,129	26,492	(19,531)	648,439
State and public organizations	108	-	(1)	3,485	14	3,606
Loans to individuals – consumer loans	26,006	(705)	2,573	18,614	(2,419)	44,069
Loans to individuals – purchase of motor vehicles	878	(20)	74	(378)	(72)	482
Loans to individuals – employees	16,479	5,561	(20,289)	(18,659)	20,301	3,393
Loans to individuals – mortgage loans	2,791	51	(185)	(927)	192	1,922
Loans to individuals – other purposes	17,833	1,563	(6,647)	(14,074)	6,666	5,341
Total	**689,509**	**385**	**(2,346)**	**14,553**	**5,151**	**707,252**

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

	June 30, 2013		December 31, 2012	
	Amount	%	Amount	%
Trade and service	2,851,208	42.3	2,051,762	34.4
Construction and real estate development	1,571,749	23.3	1,796,139	30.1
Manufacturing	1,065,476	15.8	965,606	16.2
Individuals	758,245	11.3	659,994	11.1
Railroad and other transportation	182,899	2.7	188,378	3.2
Oil and gas sector, power production and distribution	108,442	1.6	64,667	1.1
Air transportation	78,542	1.2	77,908	1.3
Leasing companies	28,469	0.4	29,100	0.5
State and public organisations*	24,126	0.4	23,816	0.4
Communication	26,362	0.4	14,144	0.2
Other	40,619	0.6	90,889	1.5
Total loans and advances to customers (before impairment)	**6,736,137**	**100.0**	**5,962,403**	**100**

(*) 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, 2013, are the loans granted to thirty companies amounting to AZN 2,735,724 thousand (December 31, 2012: to thirty companies amounting to AZN 2,255,960 thousand) and representing a concentration of 40.6% (December 31, 2012: 37.8%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2013, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 166,489 thousand (December 31, 2012: AZN 256,782 thousand) and representing 2.5% (December 31, 2012: 4.3%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2013, are the loans granted to fifteen borrowers amounting to AZN 235,733 thousand (December 31, 2012: fifteen borrowers, AZN 147,318 thousand) with interest rates being less than or equal to five per cent and representing 3.5% (December 31, 2012: 2.5%) of the total gross loan portfolio of the Group. The majority of these loans are transactions with related parties and as such disclosed in Note 26. No adjustments have been made to the contractual interest rates in relation to these amounts on initial recognition at fair value as the interest rates applicable are considered to represent the highest and best use of the funds provided given the alternative uses by the Bank of the funds extended under these agreements.

Included in the gross amount of total loans to individuals as at June 30, 2013 are outstanding balances drawn on credit cards of AZN 88,558 thousand (December 31, 2012: AZN 94,520 thousand).

6. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

As at June 30, 2013 the premises owned by the Group carried at revalued amounts are based on an independent appraiser's report. As at June 30, 2013 the carrying value of these buildings totaled AZN 76,448 thousand (December 31, 2012: AZN 60,411 thousand). As at June 30, 2013, the carrying amount of premises would have been 23,932 AZN thousand (December 31, 2012: 22,874 AZN 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 20,991 thousand, representing a revaluation increase. A revaluation increase of AZN 16,952 thousand, net of deferred tax of AZN 4,238 thousand was shown through the revaluation reserve (June 30, 2012: 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).

Buildings owned by the Group were revalued by independent appraisers as at June 30, 2013.
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, 2013 are office, computer equipment and furniture, vehicles and other assets with a cost of 65,828 AZN thousand (December 31, 2012: 60,982 AZN thousand) which have been fully depreciated but were still in use by the Group as at June 30, 2013.

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, 2013	December 31, 2012
Amounts in the course of settlement and receivables for plastic cards transactions	11,786	7,574
Receivables from insurance policyholders	2,425	1,878
Currency swap agreements	-	257
Other	897	416
Total other financial and insurance assets	**15,108**	**10,125**

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

The carrying value of each class of other financial assets approximates fair value as at June 30, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of other financial assets was AZN 15,108 thousand (December 31, 2012: AZN 10,125 thousand).

8. OTHER ASSETS

	June 30, 2013	December 31, 2012
Advances for purchase of intangible assets and equipment	12,234	6,030
Prepaid expenses	5,875	8,655
Deferred expenses for plastic cards	1,566	2,133
Deferred acquisition costs on insurance premiums written	1,504	1,253
Prepaid insurance	514	2,576
Taxes receivable, other than income tax	164	352
Other	1,812	1,567
Total other assets	**23,669**	**22,566**
Current	9,795	14,685
Non-current	13,874	7,881
Total other assets	**23,669**	**22,566**

Included in the advances for purchase of intangible assets and equipment as at June 30, 2013 and December 31, 2012 are prepayments for office furniture and other assets for the new Head Office building in the centre of Baku.

9. DUE TO OTHER BANKS

	June 30, 2013	December 31, 2012
Short-term placements of other banks	909,224	738,738
Overdraft with the CBAR	118,765	122,374
Correspondent accounts and overnight placements of other banks	329,066	338,693
Total due to other banks	**1,357,055**	**1,199,805**

Included in due to other banks as at June 30, 2013 are four short-term placements amounting to EUR 323,000 thousand or AZN 331,140 thousand and correspondent accounts amounting to EUR 246,959 thousand or AZN 253,182, and USD 2,079 thousand or AZN 1,631 thousand of non-resident banks. These short-term placements bear market interest rates with maturities in 2013 (December 31, 2012: four short-term placements amounting to EUR 323,000 thousand or AZN 335,177 thousand and correspondent accounts amounting to EUR 268,740 thousand or AZN 278,871 thousand, and USD 2,079 thousand or AZN 1,632 thousand of non-resident banks).

The carrying value of each class of due to other banks approximates fair value as at June 30, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of due to other banks was AZN 1,357,055 thousand (December 31, 2012: AZN 1,199,805 thousand). Refer to Note 25.

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

10. CUSTOMER ACCOUNTS

	June 30, 2013	December 31, 2012
State and public organisations		
- Current/settlement accounts	505,359	352,425
- Term deposits	317,199	555,022
- Restricted customer deposits	248,058	177,347
	1,070,616	1,084,794
Other legal entities		
- Current/settlement accounts	350,916	375,018
- Term deposits	152,275	168,691
- Restricted customer deposits	17,070	25,273
	520,261	568,982
Individuals		
- Current/demand accounts	255,176	273,144
- Term deposits	1,378,551	1,177,220
	1,633,727	1,450,364
Total customer accounts	**3,224,604**	**3,104,140**

As at June 30, 2013, the Group had significant concentration of customer accounts attracted from one customer – a state organisation in the oil industry totalling AZN 750,818 thousand, and from one government body of AZN 287,234 thousand, or 32.2% of total customer accounts in aggregate (December 31, 2012: one customer – a state organisation in the oil industry totalling AZN 740,075 thousand, and from one government body of AZN 261,135 thousand, or 36.5% 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 285,243 thousand. The interest rates on these deposits are 2.85% and 70% of overnight interest rate as per Reuters agency which is 0.15% as at June 30, 2013 (December 31, 2012: deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 80,000 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, 2012).

Included in the current and settlement accounts of state and public organisations as at June 30, 2013 are balances on current interest bearing accounts of state-owned enterprises and government bodies of AZN 95,895 thousand (December 31, 2012: AZN 94,224 thousand). Interest rates on these accounts vary from 0.5% to 1.0% per annum (December 31, 2012: 0.5% to 1.0% per annum).

Restricted customer deposits amounting to AZN 265,128 thousand as at June 30, 2013 (December 31, 2012: AZN 202,620 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, 2013 and December 31, 2012 is disclosed in Note 24.

Economic sector concentrations within customer accounts are as follows:

	June 30, 2013		December 31, 2012	
	Amount	**%**	**Amount**	**%**
Individuals	1,633,727	50.7	1,459,291	47.0
Energy	824,868	25.5	806,475	26.0
State and public organisations*	321,568	10.0	261,135	8.4
Trade and services	228,399	7.1	412,453	13.3
Manufacturing	79,878	2.5	52,922	1.7
Transportation and communication	41,435	1.3	33,646	1.1
Construction	53,759	1.7	36,503	1.2
Other	40,970	1.2	41,715	1.3
Total customer accounts	**3,224,604**	**100.0**	**3,104,140**	**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, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of customer accounts was AZN 3,224,604 thousand (December 31, 2012: AZN 3,104,140 thousand).

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

11. DEBT SECURITIES IN ISSUE

	June 30, 2013	December 31, 2012
Deposit certificates	83,000	9,489
Total debt securities in issue	**83,000**	**9,489**

As at June 30, 2013, deposit certificates denominated in USD in the amount of AZN 6,943 thousand bear interest rates ranging between 10.0%-25.0% per annum and have maturities of one, two, three, nine and ten years. Deposit certificates denominated in AZN in the amount of AZN 1,921 thousand bear an interest rate of 25% per annum and have maturities of ten years. Deposit certificates denominated in RUR in the amount of AZN 72,360 thousand bear interest rates ranging between 7%-12.4% and have maturities of seven months, one year and three years. Deposit certificates denominated in EUR in the amount of AZN 259 thousands bear interest rates of 4.8% per annum and have maturity of one year (December 31, 2012: USD denominated amounting to AZN 6,620 thousand bear interest rates ranging between 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 1,825 thousand bear an interest rate of 25.0% per annum and have maturities of ten years and deposit certificates denominated in RUR in the amount of AZN 1,044 thousand bear interest rates ranging between 2%-10% per annum and have maturities of one, nine months and one year). These certificates of deposit state as a condition that interest is paid each year only if certificates are held for the full period of that calendar year.

The carrying value of each class of debt securities in issue approximates fair value as at June 30, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of debt securities in issue was AZN 83,000 thousand (December 31, 2012: AZN 9,489 thousand).

12. OTHER BORROWED FUNDS

	June 30, 2013	December 31, 2012
Syndicated loan maturing on July 23, 2013	32,476	54,950
Syndicated loan maturing on April 14, 2014	100,747	-
Term borrowings from government organisations:		
- National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	171,357	120,132
Term borrowings from other financial institutions	699,735	767,695
Accrued interest payable	12,347	14,053
Total other borrowed funds	**1,016,662**	**956,830**

Syndicated borrowings

On April 15, 2013, the Bank signed a facility agreement with foreign banks led by one of the major foreign banks in the amount of USD 37,500 thousand and EUR 69,000 thousand. The borrowing facility is repayable on July 14, 2014.

Term borrowings from government organizations

As at June 30, 2013 included in term borrowings from government organizations are loans from the National Fund for Support of Entrepreneurship amounting to AZN 171,357 thousand. These borrowings have an annual rate of 1% and maturity period from 2 to 10 years (December 31, 2012: borrowings from National Fund for Support of Entrepreneurship amounting to AZN 120,132 thousand, which has been borrowed with an annual rate of 1% and maturity periods of 1 to 10 years).

Term borrowings from other financial institutions

Included in term borrowings from other financial institutions are funds attracted from twenty five foreign banks and financial institutions. The amounts drawn down under credit agreements signed with these banks amounted to USD 650,671 thousand or AZN 510,452 thousand, EUR 182,537 thousand or AZN 187,137 thousand (December 31, 2012: funds attracted from twenty six foreign banks and financial institutions with amount of USD 503,163 thousand or AZN 394,983 thousand and EUR 180,422 thousand or AZN 187,224 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. Bank was in compliance with all financial covenants stipulated in borrowing agreements.

Market interest rates for the borrowings range between 0.9% to 10% per annum for the six-month period ended June 30, 2013 (ranging between 1.0% to 8.9% per annum for the year ended December 31, 2012). 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, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of other borrowed funds was AZN 1,016,662 thousand (December 31, 2012: AZN 956,830 thousand). Refer to Note 25.

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

13. OTHER FINANCIAL AND INSURANCE LIABILITIES

Other financial and insurance liabilities comprise the following:

	June 30, 2013	**December 31, 2012**
Items in course of settlement	20,897	48,047
Insurance reserves, net	16,244	8,631
Sundry creditors	7,498	23,349
Insurance premiums and broker commissions payable	2,850	1,822
Payables to employees	1,385	559
Total other financial and insurance liabilities	**48,874**	**82,408**

The carrying value of each class of other financial and insurance liabilities approximates fair value as at June 30, 2013 and December 31, 2012. As at June 30, 2013, the estimated fair value of other financial and insurance liabilities was AZN 48,874 thousand (December 31, 2012: AZN 82,408 thousand).

14. OTHER LIABILITIES

Other liabilities comprise the following:

	June 30, 2013	December 31, 2012
Deferred revenue on plastic cards operations	6,667	5,624
Taxes payable other than income tax	2,094	4,772
Deferred commissions on insurance operations	254	95
Other	4,695	3,066
Total other liabilities	**13,710**	**13,557**
Current	11,362	8,690
Non-current	2,348	4,867
Total other liabilities	**13,710**	**13,557**

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, 2013	December 31, 2012
Subordinated debt from the CBAR	350,000	250,000
Subordinated debt from non-resident financial institutions	139,719	138,239
Accrued interest payable	9,416	1,332
Total subordinated debt	**499,135**	**389,571**

On February 21, 2012, the Bank signed AZN 150,000 thousand subordinated loan agreement with the Central Bank of Azerbaijan Republic, which is treated as Tier II Capital as per capital requirements described in Note 23 and as Tier 1 Capital as per statutory capital requirements of CBAR. This loan is to be repaid in 5 years. On December 5, 2012 the Bank signed subordinated loan agreement with the Central Bank of Azerbaijan Republic in the amount of AZN 100,000 thousand. On June 28, 2013 Bank signed another subordinated loan agreement with the Central Bank of Azerbaijan Republic in the amount of AZN 100,000 thousand. Both loans are to be repaid in 7 years.

In September 2012, the Bank attracted a subordinated loan agreement from an Investment Fund on the back of private placement for a total amount of USD 100,000 thousand. The loan bears a fixed interest rate and is to be repaid in 6 years. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreement.

Interest rates on subordinated debts are at market rates. Market interest rate for these subordinated debts is 5-6% per annum. The repayment of the Bank's subordinated debt ranks after all other creditors in case of the liquidation of the Bank.

As at June 30, 2013, the estimated fair value of subordinated debt was AZN 499,135 thousand (December 31, 2012: AZN 389,571 thousand). Refer to Note 25.

16. SHARE CAPITAL

	Number of paid-in and outstanding shares (in thousands)	Ordinary Shares	Total
As at December 31, 2011	1,000,000	240,000	240,000
New shares paid-in	378,475	90,834	90,834
As at December 31, 2012	1,378,475	330,834	330,834
New shares paid-in	38,191	9,166	9,166
As at June 30, 2013	1,416,666	340,000	340,000

As at June 30, 2013 and December 31, 2012 the authorized share capital consisted of 1,416,666,675 and 1,378,475,000 ordinary shares with par value of AZN 0.24 each, each share carries one vote. As at June 30, 2013 and December 31, 2012, shares issued and outstanding consisted of 1,416,666,675 and 1,378,475,000 shares, respectively.

As at June 30, 2013 and December 31, 2012 the number of fully paid ordinary shares in issue was 1,416,666,675 and 1,378,475,000, respectively.

As at June 30, 2013 and December 31, 2012 the Ministry of Finance of the Republic of Azerbaijan held 50.2% of shares issued and outstanding. As at June 30, 2013 and December 31, 2012 the MoF paid all subscribed shares and held 50.2% and 51.6% of the total paid-in share capital of the Bank, respectively.

As at June 30, 2013, the Group’s employees held 5.66% of the total share capital of the Bank, or 80,223 thousand ordinary shares with a par value of AZN 19,253 thousand (December 31, 2012: 5.82% or 80,223 thousand ordinary shares with a par value of AZN 19,253 thousand).

17. INTEREST INCOME AND EXPENSE

	Six month period ended June 30, 2013	Six month period ended June 30, 2012
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	162,156	115,724
- interest income on impaired financial assets	62,370	42,282
Total interest income	224,526	158,006
Interest income on financial assets recorded at amortized cost comprises:		
Loans and advances to customers	201,261	141,258
Interest income on contingencies	17,311	15,229
Due from other banks and correspondent accounts	4,708	1,199
Interest income on other debt securities	1,246	320
Total interest income	224,526	158,006
Interest expense comprises:		
Due to other banks and other borrowed funds	79,958	47,416
Savings deposits of individuals and deposit certificates	67,383	47,416
Subordinated debt	11,998	6,217
Term deposits of legal entities	4,693	5,089
Total interest expense	164,032	106,138
Net interest income	**60,494**	**51,868**

For information on related party transactions, see Note 26.

18. FEE AND COMMISSION INCOME AND EXPENSE

	Six month period ended June 30, 2013	Six month period ended June 30, 2012
Fee and commission income		
- Plastic cards operations	23,030	18,944
- Transactions with foreign currencies and securities	14,187	11,063
- Settlement transactions	6,198	5,041
- Cash transactions	3,721	3,675
- Letters of credit issued	760	662
- Guarantees issued	674	1,070
- Servicing intermediary loans	325	169
- Other	915	1,107
Total fee and commission income	**49,810**	**41,731**
Fee and commission expense		
- Plastic cards operations	5,083	4,713
- Settlement transactions	4,687	4,684
- Policy acquisition costs on insurance operations	690	804
- Cash transactions	336	365
- Other	338	316
Total fee and commission expense	**11,134**	**10,882**
Net fee and commission income	**38,676**	**30,849**

19. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Six month period ended June 30, 2013	Six month period ended June 30, 2012
Staff costs	29,431	24,816
Depreciation of premises and equipment	7,567	5,998
Customs duties and other taxes other than on income	4,458	3,063
Charity and financial aid	4,235	4,145
Advertising and marketing services	3,082	3,321
Rent	2,974	2,851
Fees paid to Deposit Insurance Fund	2,026	901
Professional services	1,955	3,066
Security	1,851	1,788
Maintenance of premises and equipment	1,592	1,637
Communication	1,149	1,164
Amortisation of software and other intangible assets	976	1,409
Software related expenses	882	417
Stationery, books, printing and other supplies	690	676
Property insurance	665	343
Tax penalties	625	-
Purchase of plastic cards	605	1,589
Business trip expenses	420	356
Training	361	280
Transportation of valuables	45	26
Other	2,566	643
Total administrative and other operating expenses	**68,155**	**58,489**

Included in staff costs are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan of AZN 4,133 thousand (six-month period ended June 30, 2012: AZN 2,613 thousand). In addition, AZN 501 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, 2012: AZN 445 thousand).

Included in charity and financial aid expenses incurred during the six-month period ended June 30, 2013 are AZN 3,600 thousand paid to "Inter" professional football club (six-month period ended June 30, 2012: 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, 2013	Six-month period ended June 30, 2012
Profit for the period attributable to ordinary shareholders for the purpose of basic earnings per share	31,299	23,028
Profit for the period attributable to ordinary shareholders for the purpose of diluted earnings per share	31,299	23,163
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,396,055	1,028,947
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,396,055	1,076,366
Basic earnings per ordinary share (expressed in AZN per share)	**0.02**	**0.02**
Diluted earnings per ordinary share (expressed in AZN per share)	**0.02**	**0.02**

21. SEGMENT ANALYSIS

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

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

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

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

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

The Chairman of the Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as impairment of premises. Other information provided to the Chairman of the Board of Directors is measured in a manner consistent with that in this financial information, except that segment assets reported to the Chairman of the Board of Directors exclude deferred income tax assets which is managed on a central basis. These are part of the reconciliation to total consolidated interim statement financial position assets. Segment information for the reportable segments of the Group for the six month period ended June 30, 2013 is set out below:

Six-month period ended June 30, 2013	**Banking**	**Insurance**	**Card processing**	**Total Group**
Total revenue	290,700	8,926	10,501	310,127
Inter-segment revenue	(6,803)	(22)	(3,146)	(9,971)
Revenue from external customers	283,897	8,904	7,355	300,156
Adjusted profit before income tax	38,571	659	6,266	45,496

Segment information for the reportable segments of the Group for the six month period ended June 30, 2012 is set out below:

Six-month period ended June 30, 2012	**Banking**	**Insurance**	**Card processing**	**Total Group**
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 loss before income tax	36,125	(2,424)	2,128	35,829

Segment information for the reportable segment assets and liabilities of the Group for the six month period ended June 30, 2013 and the year ended December 31, 2012 is set out below:

Total assets reported	Banking	Insurance	Card processing	Total Group
June 30, 2013	6,659,303	17,165	22,554	6,699,022
December 31, 2012	6,117,031	15,879	18,586	6,151,496
Total liabilities reported				
June 30, 2013	6,228,430	10,666	3,982	6,243,078
December 31, 2012	5,743,478	9,835	3,672	5,756,985

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Adjusted profit before income tax for reportable segments	**45,496**	**35,829**
Depreciation	(7,567)	(5,998)
Amortisation	(976)	(1,409)
Share of post-tax loss of associates	(64)	(23)
Profit before income tax	**36,889**	**28,399**

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, 2013	December 31, 2012
Total segment assets	6,699,022	6,151,496
Deferred income tax assets	14,675	22,369
Total assets	**6,713,697**	**6,173,865**

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

	June 30, 2013	December 31, 2012
Total segment liabilities	6,243,078	5,756,985
Deferred income tax liabilities	-	643
Total liabilities	**6,243,078**	**5,757,628**

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, 2013:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	240,155	-	-	-	240,155
Mandatory cash balances with the National/Central banks	15,416	-	-	-	15,416
Due from other banks	36,619	16,745	72,516	1,683	127,563
Loans and advances to customers	739,757	1,149,734	950,476	3,185,142	6,025,109
Other debt securities	-	20,223	-	-	20,223
Financial assets at fair value through profit or loss	11,961	-	-	-	11,961
Available-for-sale investments	21	-	-	7,556	7,577
Other financial and insurance assets	14,128	980	-	-	15,108
TOTAL FINANCIAL ASSETS	**1,058,057**	**1,187,682**	**1,022,992**	**3,194,381**	**6,463,112**
FINANCIAL LIABILITIES:					
Due to other banks	439,073	686,772	210,961	20,249	1,357,055
Customer accounts	1,354,743	545,062	783,996	540,803	3,224,604
Debt securities in issue	-	1,146	75,196	6,658	83,000
Other borrowed funds	14,318	261,761	160,074	580,509	1,016,662
Other financial and insurance liabilities	41,958	970	3,999	1,947	48,874
Subordinated debt	79,653	-	-	419,482	499,135
TOTAL FINANCIAL LIABILITIES	**1,929,745**	**1,495,711**	**1,234,226**	**1,569,648**	**6,229,330**
NET LIQUIDITY GAP AS AT JUNE 30, 2013	**(871,688)**	**(308,029)**	**(211,234)**	**1,624,733**	
CUMULATIVE LIQUIDITY GAP AS AT JUNE 30, 2013	**(871,688)**	**(1,179,717)**	**(1,390,951)**	**233,782**	

The analysis of carrying values of assets and liabilities by contractual maturities may be summarized as follows as at December 31, 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	489,142	-	-	-	489,142
Mandatory cash balances with the National/Central banks	14,665	-	-	-	14,665
Due from other banks	87,491	29,152	19,545	1,860	138,048
Loans and advances to customers	520,328	737,721	910,638	3,086,464	5,255,151
Other debt securities	-	-	20,220	-	20,220
Financial assets at fair value through profit or loss	10,264	-		-	10,264
Available-for-sale investments	5,925	-	-	375	6,300
Other financial and insurance assets	8,937	288	206	694	10,125
TOTAL FINANCIAL ASSETS	**1,136,752**	**767,161**	**950,609**	**3,089,393**	**5,943,915**
FINANCIAL LIABILITIES:					
Due to other banks	549,863	489,660	160,282	-	1,199,805
Customer accounts	1,136,073	403,513	558,003	1,006,551	3,104,140
Debt securities in issue	562	278	2,543	6,106	9,489
Other borrowed funds	83,442	169,486	375,014	328,888	956,830
Other financial and insurance liabilities	56,292	26,116	-	-	82,408
Subordinated debt	1,782	-	-	387,789	389,571
TOTAL FINANCIAL LIABILITIES	**1,828,014**	**1,089,053**	**1,095,842**	**1,729,334**	**5,742,243**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2012	**(691,262)**	**(321,892)**	**(145,233)**	**1,360,059**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2012	**(691,262)**	**(1,013,154)**	**(1,158,387)**	**201,672**	

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.

23. MANAGEMENT OF CAPITAL

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

Under the current capital requirements set by the CBAR banks have to: (a) hold a minimum level of total statutory capital of AZN 10,000 thousand (December 31, 2012: 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, 2012: 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, 2012: 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%.

As at June 30, 2013, the Bank has complied with all capital requirements imposed by CBAR (The Bank has complied with all capital requirements imposed by CBAR at December 31, 2012).

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

	June 30, 2013	December 31, 2012
Tier 1 capital		
Share capital	340,000	330,834
Retained earnings	90,686	58,503
Non-controlling interest	2,385	2,326
Less: intangible assets	(5,630)	(5,295)
Total qualifying Tier 1 capital	**427,441**	**386,368**
Tier 2 capital		
Reserves (1.25% of total risk-weighted assets)	83,447	71,440
Revaluation reserve for premises	44,312	28,244
Subordinated debt (restricted to 50% of Tier 1 capital)	213,721	193,184
Total qualifying Tier 2 capital limited to 100% of Tier 1 capital	**341,480**	**292,868**
Less: investments in equity shares	(585)	(575)
Total regulatory capital	**768,336**	**678,661**
Risk-weighted assets:		
On-balance sheet	6,013,232	5,257,262
Off-balance sheet	662,539	457,918
Total risk-weighted assets	**6,675,771**	**5,715,180**
Capital Ratios:		
Tier 1 capital	6.40%	6.76%
Total capital	11.52%	11.87%

As an integral part of the Bank's capital management procedures the Finance Director performs regular monitoring of compliance with the externally imposed capital requirements and the monitoring reports are reviewed and approved by Head of Audit Committee, Chairman of the Board of Directors and the Head of Internal Audit Department. The Group and the Bank have complied with all externally imposed capital requirements throughout 2013 and 2012.

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 – 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 largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory and political developments.

The global financial turmoil that has negatively affected Azerbaijan's financial and capital markets in 2009 and 2010 has receded and Azerbaijan's economy returned to growth in 2011 and 2012. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices 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 that fluctuated significantly during 2012 and 2011.

Compliance with covenants – The Bank is subject to certain covenants related primarily to its term borrowings and subordinated debts. Non-compliance with such covenants may result in negative consequences for the Group including, growth in the cost of borrowings and timing of repayment of existing facilities. The Bank has not breached any of these covenants as at June 30, 2013 and December 31, 2012.

As at June 30, 2013 the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital requirements (December 31, 2012: the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital requirements). Refer to Note 23.

The Bank did not achieve full compliance with certain statutory ratios neither as at June 30, 2013 nor as at December 31, 2012. As a result of this non-compliance the Bank provided to CBAR an action plan on how these breaches are going to be rectified. The plan contains a complete list of measures that would rectify current breaches and will bring IBAR into full compliance with all CBAR statutory requirements by December 31, 2015."

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

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

Outstanding credit related commitments are, as follows:

	June 30, 2013	**December 31, 2012**
Import letters of credit	443,384	332,783
Guarantees issued	1,163,004	743,453
Commitments to extend credit and undrawn credit lines	144,338	172,383
Total credit related commitments	**1,750,726**	**1,248,619**

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, 2013, the Group had a significant concentration of import letters of credit of AZN 438,696 thousand issued to 20 entities or 98.9% of total import letters of credit (December 31, 2012: import letters of credit of AZN 305,538 thousand issued to 20 entities or 91.8% of total import letters of credit). As at June 30, 2013, the Group also had a significant concentration of guarantees of AZN 1,004,796 thousand issued to 20 entities or 86.4% of total guarantees issued (December 31, 2012: guarantees of AZN 643,619 thousand issued to 20 entities or 86.5% of total guarantees).

As at June 30, 2013, credit related commitments of AZN 265,128 thousand (December 31, 2012: AZN 202,620 thousand) are secured by blocked customer deposits. Refer to Note 10.

Intermediary loans – As at June 30, 2013, the Group had borrowed funds amounting to AZN 744,698 thousand (December 31, 2012: AZN 744,698 thousand) on behalf of the Government of the Republic of Azerbaijan from certain financial institutions and state organizations for the purposes of providing intermediary loans to state-owned enterprises and government bodies of the Republic of Azerbaijan. The loan agreements signed between the Group and these financial institutions and state organizations are secured by unconditional letters of guarantee of the Government of the Republic of Azerbaijan, whereby the Government acts as the primary obligor in relation to these borrowings or secured by customer deposits of the borrowing state organization. As a result, the Group acts as a loan-servicing agent for the Government of the Republic of Azerbaijan by transferring collected principal and interest payments to financial institutions and state organizations and earns commission income on servicing these intermediary loans.

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

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

	June 30, 2013	**December 31, 2012**
Funds borrowed from CBAR and given to two state organizations	744,698	744,698
Total funds borrowed for the purposes of providing intermediary loans and transferred to off-balance sheet accounts	**744,698**	**744,698**

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale.

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- Unquoted equities and debt securities classified as available-for-sale are valued using models that use both observable and unobservable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.
- As there is no active secondary market in the Republic of Azerbaijan, the Russian Federation and the Republic of Georgia for due from banks, loans and advances to customers, due to banks, customer accounts, debt securities issued, subordinated debt, other borrowed funds and other financial assets and liabilities, there is no reliable market value available for these portfolios.
- For financial assets and liabilities that have a short term maturity (less than 3 months), it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a maturity.
- For due from banks and due to banks at variable rates management believes that carrying rate may be assumed to be fair value.
- For due from banks, loans and advances to customers, due to banks, customer accounts and debt securities issued at fixed rates fair value has been estimated by reference to the market rates available at the balance sheet date for similar instruments of maturity equal to the remaining fixed period.

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The Group's IFRS department performs the valuations of financial assets and liabilities required for financial reporting purposes. This department reports directly to the chief financial officer (CFO). Discussions of valuation processes and results are held between the CFO and the valuation team at least once every half a year, in line with the Group's reporting dates.

The Group engages external independent valuers to determine the fair value of the Group's properties as at June 30 of every financial year.

Level 2 fair values of premises have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	June 30, 2013		
	Level 1	**Level 2**	**Total**
Financial assets at FVTPL			
Derivative financial assets	-	-	-
Non-derivative financial assets held for trading	11,961	-	11,961
Available-for-sale financial assets	7,577	-	7,577
Premises	-	76,448	76,448
Total	**19,538**	**76,448**	**95,986**

	December 31, 2012		
	Level 1	**Level 2**	**Total**
Financial assets at FVTPL			
Derivative financial assets	257	-	257
Non-derivative financial assets held for trading	10,264	-	10,264
Available-for-sale financial assets	6,300	-	6,300
Premises	-	60,411	60,411
Total	**16,821**	**60,411**	**77,232**

There were no transfers between Levels 1 and 2 in the period. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Except as detailed below, management of the Group considers that the fair value of financial assets and liabilities approximates their carrying value:

	June 30, 2013		December 31, 2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Due from other banks	130,656	127,563	138,384	138,048

26. RELATED PARTY TRANSACTIONS

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

As at June 30, 2013, the outstanding balances with related parties were as follows:

	Shareholders	**Management**	**Government bodies and state-owned entities**	**Associates**
Cash and cash equivalents	-	-	90,208	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	23,540	334	194,102	22,975
Provisions for loan impairment	(13,648)	(180)	(91,102)	-
Current income tax asset	-	-	3,132	-
Due to other banks				
Correspondent accounts of other banks	-	-	118,765	-
Customer accounts				
Current/settlement accounts	-	16	564,007	-
Term deposits (contractual interest rate: 0.18 - 9% p.a.)	-	1,742	406,240	-
Other borrowed funds (contractual interest rate: 1% p.a.)	-	-	171,398	-
Current income tax liability	-	-	1,185	-
Subordinated debt	-	-	357,675	-

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

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	1,499	-	13,199	1,550
Interest expense	-	-	(1,990)	-
Provision for impairment of loans and advances to customers	(12,708)	(161)	(21,514)	7,418
Fee and commission income	3	-	-	-
Staff costs	-	343	-	-
Current income tax expense	-	-	(190)	-

As at June 30, 2013, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities
Guarantees issued	347,075
Commitments to extend credit and undrawn credit lines	40,608

As at December 31, 2012, the outstanding balances with shareholders are substantially all with the Parent.

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	52,563	-
Mandatory cash balances with the CBAR	-	-	14,665	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	23,001	332	284,674	24,466
Provision for loan impairment	(940)	(19)	(69,588)	(7,418)
Current income tax asset	-	-	4,623	-
Due to other banks				
Correspondent accounts of other banks	-	-	492,506	-
Customer accounts				
Current/settlement accounts	-	-	364,876	-
Term deposits (contractual interest rate: 2 - 7% p.a.)	-	67	62,803	-
Current income tax liability	-	-	38	-
Subordinated debt	-	-	250,000	-

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
Staff costs	-	425	-	-
Administrative and other operating expenses	-	-	(149)	-
Current income tax expense	-	-	(12,180)	-

As at December 31, 2012, other rights and obligations with related parties were as follows:

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

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

During the six-month period ended June 30, 2013, the total remuneration of members of the Board of Directors and key management personnel of the Group including discretionary compensation amounted to AZN 343 thousand (the six-month period ended June 30, 2012: AZN 425 thousand) and comprised of:

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Short-term benefits:		
- salaries	296	271
- performance bonuses	47	154
Total	**343**	**425**

27. SUBSEQUENT EVENTS

On July 16, 2013 the Bank attracted syndicated loan totaling USD 120,500 thousand which matures in January 2015.

On July 29, 2013 the Bank has increased the par value of each share in issue from AZN 0.24 to AZN 0.26 that resulted in increase of total share capital by AZN 28,333 thousand.