

OJSC PASHA Bank
Interim Condensed Financial Statements

30 June 2011
Together with Report on Review of Interim Condensed
Financial Statements

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Report on Review of Interim Condensed Financial Statements

To the Shareholders and Board of Directors of OJSC PASHA Bank

Introduction

We have reviewed the accompanying interim condensed financial statements of OJSC Pasha Bank (the "Bank") as at 30 June 2011, comprising of the interim condensed statement of financial position as at 30 June 2011 and the related interim condensed statements of comprehensive income, changes in equity and cash flows for the six months then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Holdings (CIS) B.V.

05 August 2011

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

(Figures in Tables are in thousands of Azerbaijani Manats)

	<i>Notes</i>	<i>30 June 2011 (unaudited)</i>	<i>31 December 2010</i>
Assets			
Cash and cash equivalents	4	31,956	132,892
Trading securities	5	14,290	897
Securities purchased under agreements to resell	6	1,000	5,775
Amounts due from credit institutions	7	32,634	22,676
Investment securities available-for-sale	8	199,054	149,400
Investment securities held to maturity	8	-	506
Loans to banks	9	3,019	4,379
Loans to customers	10	203,507	187,868
Property and equipment	11	4,036	3,549
Intangible assets	12	1,761	1,607
Income tax receivable		220	-
Other assets	13	4,711	2,755
Total assets		496,188	512,304
Liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	14	25,507	24,007
Amounts due to customers	15	311,588	338,599
Amounts due to credit institutions	16	15,135	6,786
Current income tax liability		-	573
Provision for guarantees and other commitments	18, 19	-	1,582
Other liabilities	13	2,071	3,942
Total liabilities		354,301	375,489
Equity			
Share capital	17	123,475	115,407
Retained earnings		18,412	21,408
Total equity		141,887	136,815
Total liabilities and equity		496,188	512,304

Signed and authorised for release on behalf of the Management Board of the Bank:

Farid Akhundov



Chairman of the Executive Board

Shahin Mammadov



Chief Financial Officer

05 August 2011



The accompanying selected explanatory notes on pages 6 to 22 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME**For the six months ended 30 June 2011***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	2011 <i>(6 months)</i> <i>(unaudited)</i>	2010 <i>(6 months)</i> <i>(unaudited)</i>
Interest income			
Loans to customers		12,195	9,817
Investment securities		3,055	1,789
Amounts due from credit institutions		1,022	3,597
Guarantees and letters of credit		747	581
Loans to banks		312	259
Other		68	7
		<u>17,399</u>	<u>16,050</u>
Interest expense			
Amounts due to customers		(5,776)	(3,288)
Amounts due to credit institutions		(320)	-
Guarantees and letters of credit		(246)	(210)
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies		(208)	(176)
		<u>(6,550)</u>	<u>(3,674)</u>
Net interest income		10,849	12,376
Provision for impairment losses on interest bearing assets		(4,004)	(1,927)
Provision for guarantees and other commitments		1,582	(447)
Provision for impairment losses on interest bearing assets, guarantees and other commitments	19	<u>(2,422)</u>	<u>(2,374)</u>
Net interest income after provision for impairment losses		8,427	10,002
Net fee and commission income	20	796	676
Net unrealized losses from trading securities		(242)	(148)
Net (losses)/gains on sale of trading securities and investment securities available-for-sale		(442)	162
Net gains from foreign currencies:			
- dealing		1,395	2,013
- translation differences		2	42
Other income		2	-
Non-interest income		<u>1,511</u>	<u>2,745</u>
Personnel expenses	21	(2,565)	(2,485)
General and administrative expenses	21	(1,576)	(1,289)
Depreciation and amortisation	11, 12	(423)	(325)
Operating expenses		<u>(4,564)</u>	<u>(4,099)</u>
PROFIT BEFORE INCOME TAX EXPENSE		5,374	8,648
Income tax expense		(302)	(108)
NET PROFIT FOR THE PERIOD		<u>5,072</u>	<u>8,540</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>5,072</u>	<u>8,540</u>

The accompanying selected explanatory notes on pages 6 to 22 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**For the six months ended 30 June 2011***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total equity</i>
As at 31 December 2009	100,000	26,570	126,570
Capitalization of net profit for the year 2009 to share capital (Note 17)	15,407	(15,407)	-
Total comprehensive income for the six months ended 30 June 2010 (unaudited)	-	8,540	8,540
As at 30 June 2010 (unaudited)	115,407	19,703	135,110
As at 31 December 2010	115,407	21,408	136,815
Capitalization of net profit for the year 2010 to share capital (Note 17)	8,068	(8,068)	-
Total comprehensive income for the six months ended 30 June 2011 (unaudited)	-	5,072	5,072
As at 30 June 2011 (unaudited)	123,475	18,412	141,887

The accompanying selected explanatory notes on pages 6 to 22 are an integral part of these interim condensed financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS**For the six months ended 30 June 2011***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	2011 (6 months) (unaudited)	2010 (6 months) (unaudited)
Cash flows from operating activities			
Interest received		17,655	14,824
Interest paid		(6,132)	(3,699)
Fees and commissions received		1,291	967
Fees and commissions paid		(495)	(291)
Net losses on sale of investment securities available-for-sale		(442)	-
Net realised gains from dealing in foreign currencies		1,395	2,013
Other income received		2	-
Personnel expenses paid		(2,215)	(2,485)
General and administrative expenses paid		(1,514)	(1,289)
Cash flows from operating activities before changes in operating assets and liabilities		9,545	10,040
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(9,877)	4,939
Trading securities		(13,501)	192
Loans to banks		1,278	(2,524)
Loans to customers		(20,502)	(59,793)
Other assets		(388)	(2,027)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies		1,498	10,588
Amounts due to customers		(27,270)	15,007
Amounts due to credit institutions		8,175	-
Other liabilities		(2,267)	(25)
Cash used in operating activities before income taxes		(53,309)	(23,603)
Income tax paid		(1,095)	(108)
Net cash used in operating activities		(54,404)	(23,711)
Cash flows/(outflows) from investing activities			
Net proceeds from sale and redemption of investment securities		(48,687)	3,037
Securities purchased under agreements to resell		4,775	499
Purchase of property and equipment and intangible assets		(2,622)	(816)
Net cash (used in)/from investing activities		(46,534)	2,720
Net cash flow from financing activities		-	-
Effect of exchange rates changes on cash and cash equivalents		2	42
Net decrease in cash and cash equivalents		(100,936)	(20,949)
Cash and cash equivalents, beginning	4	132,892	50,456
Cash and cash equivalents, ending	4	31,956	29,507

The accompanying selected explanatory notes on pages 6 to 22 are an integral part of these interim condensed financial statements.

(Figures in Tables are in thousands of Azerbaijani Manats)

1. Principal activities

OJSC PASHA Bank (the “Bank”) was formed on 18 June 2007 as an open joint stock company under the laws of the Republic of Azerbaijan. The Bank operates under a banking licence issued by the Central Bank of the Republic of Azerbaijan (“CBA”) on 28 November 2007.

The Bank accepts deposits from the public and extends credit, transfers payments, exchanges currencies and provides other banking services to its commercial and retail customers.

The Bank has 2 service points in Azerbaijan as of 30 June 2011 and 31 December 2010.

The Bank’s registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

As of 30 June 2011 and 31 December 2010 the following shareholders owned the outstanding shares:

Shareholder	<u>30 June 2011 (%)</u> <i>(unaudited)</i>	<u>31 December 2010</u> <i>(%)</i>
Pasha Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	100	100

The Bank is ultimately controlled by Mr. Arif Pashayev.

2. Basis of preparation

General

These interim condensed financial statements for the six months ended 30 June 2011 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

The Bank is required to maintain their records and prepare their financial statements for regulatory purposes in Azerbaijani Manat in accordance with International Financial Reporting Standards (“IFRS”). These interim condensed financial statements are prepared under the historical cost convention except for the measurement at fair value of investment securities available for sale.

These interim condensed financial statements are presented in thousands of Azerbaijani Manats (“AZN”) unless otherwise indicated. Transactions in currencies other than the AZN are treated as transactions in foreign currencies.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank’s annual financial statements as at 31 December 2010.

(Figures in Tables are in thousands of Azerbaijani Manats)

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2010, except for the adoption of new Standards and Interpretations as of 1 January 2011, noted below:

Amendments to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment had no impact on the Bank's financial statements.

IAS 24 "Related party disclosures" (Revised)

The revised IAS 24, issued in November 2009, simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. Previously, an entity controlled or significantly influenced by a government was required to disclose information about all transactions with other entities controlled or significantly influenced by the same government. The revised standard requires disclosure about these transactions only if they are individually or collectively significant. The revised IAS 24 is effective for annual periods beginning on or after 1 January 2011. The disclosure of transactions with related parties prepared in accordance the new version of IAS 24 is presented in the Note 23.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

IFRIC Interpretation 19 was issued in November 2009 and is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies the accounting when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. IFRIC 19 did not have any material impact on the Bank's financial statements.

Improvements to IFRSs

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

- IFRS 3 Business combinations: limits the scope of the measurement choices that only the components of NCI that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets, in the event of liquidation, shall be measured either at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. The amendments to IFRS 3 have no impact on financial statements of the Bank.
- IFRS 7 Financial instruments: Disclosures; introduces the amendments to quantitative and credit risk disclosures. The additional requirements will be introduced in the annual financial statements.
- IAS 34 Interim Financial Reporting: adds disclosure requirements about the circumstances affecting fair values and classification of financial instruments, about transfers of financial instruments between levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. Disclosure on transfers of financial instruments between levels of the fair value hierarchy is presented in the Note 22, disclosure on contingent liabilities is presented in the Note 18.

Amendments to IFRS 1, IAS 1, IAS 27 and IFRIC 13 have no impact on the accounting policies, financial position or performance of the Bank.

(Figures in Tables are in thousands of Azerbaijani Manats)

4. Cash and cash equivalents

	<u>30 June 2011</u> <i>(unaudited)</i>	<u>31 December 2010</u>
Cash on hand	6,659	5,611
Current accounts with the Central Bank of the Republic of Azerbaijan	7,816	78,458
Current accounts with other credit institutions	6,551	19,348
Time deposits	10,930	29,475
Cash and cash equivalents	<u>31,956</u>	<u>132,892</u>

Current accounts with other credit institutions consist of non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 2,270 thousands (31 December 2010–AZN 18,719 thousands) and AZN 4,281 thousands (31 December 2010–AZN 629 thousands).

As of 30 June 2011 the Bank placed AZN 10,930 thousands (31 December 2010–AZN 29,475 thousands) in time deposits with resident and non-resident banks maturing through 15 September 2011 (31 December 2010–22 February 2011), and with effective annual interest rate of 3.50%-7.25% (31 December 2010–0.3%-15.0%).

Non-cash transaction performed by the Bank during 2011 is represented by capitalization of net profit for the year 2010 to share capital in the amount AZN 8,068 thousands (2010–AZN 15,407 thousands).

5. Trading securities

Trading securities comprise:

	<u>30 June 2011 (unaudited)</u>		<u>31 December 2010</u>	
	%	Carrying value	%	Carrying value
Corporate bonds issued by "Unileasing"				
Leasing Company CJSC	9.50%–10.00%	7,029		-
T-bills of Hellenic Republic	3.90%–4.30%	3,262		-
Eurobonds of Akbank TAS	5.13%	3,106		-
Equity securities held by Citadele Banka JSC, external asset manager		893		897
Trading securities		<u>14,290</u>		<u>897</u>

The Bank placed investments in US Dollars with an external asset manager and appointed it as its agent and delegated it to manage the investment and reinvestment of certain monies and assets. It also entered into a Custodian Agreement with the same external asset manager to serve as the Custodian of the investment portfolios. The funds and assets are held by the Custodian, which monitors portfolios and is provided by the Bank the authority to release or deliver securities of the portfolio, register securities, and conduct transactions based on the asset manager's requests on buy/sell decisions. The Custodian provides the Bank a monthly report of all monies received in respect of the portfolio or paid out of the portfolio. The assets placed with the external manager can be recalled by the Bank upon 20 days' written notice in advance.

The external asset manager, acting as an agent, have complete discretion but within the set of investment guidelines prescribed by the Bank, for the account of the Bank to buy, sell, retain, exchange or otherwise deal in investments and other assets, make deposits, subscribe to issues and offers for sale, and accept placements, underwritings and sub-underwritings, of any investments, advise on or execute transactions in unregulated collective investment schemes, effect transactions on all markets, negotiate and execute counterparty and account opening documentation, take all day to day decisions and otherwise act as the external manager judge appropriate in relation to the management of the funds.

Trading equity securities are corporate US dollar, Euro and Norwegian Crone denominated corporate shares traded internationally, and were held and managed by the Bank's external asset manager. As of 30 June 2011 trading securities amounted to AZN 893 thousands (31 December 2010 – AZN 897 thousands).

(Figures in Tables are in thousands of Azerbaijani Manats)

6. Securities purchased under agreements to resell

As of 30 June 2011 the Bank had entered into agreements with to resell short-term notes issued by the CBA with total fair value of AZN 1,000 thousands (31 December 2010–AZN 5,775 thousands) to a resident credit institution.

7. Amounts due from credit institutions

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Time deposits	31,190	19,947
Obligatory reserve with the Central Bank of the Republic of Azerbaijan	1,442	836
Blocked deposits	2	1,893
Amounts due from credit institutions	32,634	22,676

As of 30 June 2011, AZN 22,310 thousands (72% of total time deposits) (31 December 2010– AZN 13,075 thousands) was placed on inter-bank deposits with four (31 December 2010– three) local and foreign commercial banks maturing through 6 December 2011 (31 December 2010–20 September 2011) and with effective annual interest rate 5.50%-9% (31 December 2010–7%-19%).

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA at 2% and 3% (31 December 2010–0.5%) of the previous month average of funds attracted from customers by the credit institution in local and foreign currency, respectively. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

Blocked deposits as of 31 December 2010 relate to letters of credit issued by the Bank and blocked in a non-resident bank.

8. Investment securities

Available-for-sale securities comprise:

	<i>30 June 2011 (unaudited)</i>		<i>31 December 2010</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Notes issued by the Azerbaijan Mortgage Fund	91,442	90,629	34,737	34,668
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	46,803	46,953	47,428	47,681
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	42,416	42,269	62,239	62,573
Notes issued by the Central Bank of the Republic of Azerbaijan	17,985	18,000	4,996	5,001
Corporate bonds issued by FinansLizing Open Joint Stock Company	303	303	-	-
Corporate bonds issued by Azel Close Joint Stock Company	105	98	-	-
Investment securities available-for-sale	199,054	198,252	149,400	149,923

(Figures in Tables are in thousands of Azerbaijani Manats)

8. Investment securities (continued)

Nominal interest rates per annum and maturities of these securities are as follows:

	<i>30 June 2011 (unaudited)</i>		<i>31 December 2010</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Notes issued by Azerbaijan Mortgage Fund	3.0%-3.25%	May 2016– December 2017	3.0%	May 2016
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	1.29%–2.99%	July 2011– December 2011	1.46%–2.99%	January 2011– May 2011
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	3.75%–7.00%	August 2011– June 2012	3.75%–6.9%	January 2011– June 2012
Notes issued by the Central Bank of the Republic of Azerbaijan	1.7%–3.50%	July 2011	1.99%–2.2%	January 2011
Corporate bonds issued by Finanslizing Open Joint Stock Company	15%	December 2012	15%	December 2012
Corporate bonds issued by Azel Closed Joint Stock Company	14%	July 2011	14%	July 2011

Held to maturity securities comprise:

	<i>30 June 2011 (unaudited)</i>	<i>31 December 2010</i>
Corporate bonds issued by FinansLizing Open Joint Stock Company	-	303
Corporate bonds issued by Azel Closed Joint Stock Company	-	213
	-	516
Less–Allowance for impairment (Note 19)	-	(10)
Held to maturity securities	-	506

Reclassifications

During 2011 the Bank reclassified corporate bonds issued by OJSC FinansLizing in the amount of AZN 303 thousands and corporate bonds issued by CJSC Azel in the amount of AZN 105 thousands out of held to maturity category to available-for-sale. No fair value gain or loss has been recognized on the reclassified assets as the fair value of these assets approximated the carrying value at the time of reclassification. Corporate bonds issued by OJSC FinansLizing are AZN–denominated coupon bonds with annual interest rate of 15.0%. Bonds mature on 18 December 2012. The interest on these securities is repaid monthly. Corporate bonds issued by CJSC Azel are US denominated coupon bonds with annual interest rate of 14.0%. Bonds mature on 15 July 2011. The principal and interest on these securities is repaid semi-annually.

9. Loans to banks

As of 30 June 2011 the Bank had outstanding amount of AZN 3,019 thousands (31 December 2010–AZN 4,379 thousands) unsecured loans denominated in Azerbaijani Manat, issued to two resident commercial banks (31 December 2010–two) with contractual maturities through August 2011 and May 2012 (2009– April 2011 and May 2012) and annual interest rate of 7%-16% (31 December 2010–16%).

10. Loans to customers

	<i>30 June 2011 (unaudited)</i>	<i>31 December 2010</i>
Legal entities	210,834	191,497
Individuals	4,900	4,584
Loans to customers (gross)	215,734	196,081
Less – Allowance for impairment (Note 19)	(12,227)	(8,213)
Loans to customers (net)	203,507	187,868

(Figures in Tables are in thousands of Azerbaijani Manats)

10. Loans to customers (continued)

Loans are made within the Republic of Azerbaijan in the following industry sectors:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Trade and services	88,426	85,324
Manufacturing	52,199	39,961
Construction	38,371	35,180
Hotel business	20,082	20,049
Transport and telecommunication	5,995	3,630
Individuals	4,900	4,584
Agriculture and food processing	3,863	3,855
Leasing	1,496	3,338
Energy	237	-
Other	165	160
Total loans (gross)	215,734	196,081

As of 30 June 2011, the Bank granted loans to 10 customers (31 December 2010–10 customers) totalling AZN 134,710 thousands (31 December 2010–AZN 139,103 thousands), which individually exceeded 5% of the Bank's equity.

11. Property and equipment

The movements in property and equipment were as follows:

	<i>Buildings</i>	<i>Furniture and fixtures</i>	<i>Computers and other equipment</i>	<i>Vehicles</i>	<i>Other equipment</i>	<i>Leasehold improve- ments</i>	<i>Total</i>
Cost							
31 December 2009	-	851	710	298	33	98	1,990
Additions	-	22	141	128	3	10	304
30 June 2010 (unaudited)	-	873	851	426	36	108	2,294
31 December 2010	2,151	1,100	868	426	37	108	4,690
Additions	-	186	243	375	-	-	804
30 June 2011 (unaudited)	2,151	1,286	1,111	801	37	108	5,494
Accumulated depreciation							
31 December 2009	-	(256)	(193)	(125)	(9)	(7)	(590)
Depreciation charge	-	(108)	(96)	(48)	(2)	(8)	(262)
30 June 2010 (unaudited)	-	(364)	(289)	(173)	(11)	(15)	(852)
31 December 2010	-	(478)	(398)	(227)	(15)	(23)	(1,141)
Depreciation charge	-	(125)	(113)	(67)	(4)	(8)	(317)
30 June 2011 (unaudited)	-	(603)	(511)	(294)	(19)	(31)	(1,458)
Net book value:							
30 June 2010 (unaudited)	-	509	562	253	25	93	1,442
30 June 2011 (unaudited)	2,151	683	600	507	18	77	4,036
31 December 2010	2,151	622	470	199	22	85	3,549

(Figures in Tables are in thousands of Azerbaijani Manats)

12. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Installations in progress</i>	<i>Total</i>
Cost				
31 December 2009	288	200	283	771
Additions	66	845	-	911
Disposals	(3)	-	-	(3)
Transfers	-	283	(283)	-
30 June 2010 (unaudited)	351	1,328	-	1,679
31 December 2010	376	1,410	-	1,786
Additions	142	118	-	260
Disposals	(2)	-	-	(2)
30 June 2011 (unaudited)	516	1,528	-	2,044
Accumulated amortization				
31 December 2009	(45)	(14)	-	(59)
Amortisation charge	(16)	(48)	-	(64)
Disposals	3	-	-	3
30 June 2010 (unaudited)	(58)	(62)	-	(120)
31 December 2010	(70)	(109)	-	(179)
Amortisation charge	(31)	(75)	-	(106)
Disposals	2	-	-	2
30 June 2011 (unaudited)	(99)	(184)	-	(283)
Net book value:				
30 June 2010 (unaudited)	293	1,266	-	1,559
30 June 2011 (unaudited)	417	1,344	-	1,761
31 December 2010	306	1,301	-	1,607

(Figures in Tables are in thousands of Azerbaijani Manats)

13. Other assets and liabilities

Other assets comprise:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Other financial assets		
Accrued interest receivable on guarantees and letters of credit	137	127
Settlements on money transfers	118	32
	<u>255</u>	<u>159</u>
Other non-financial assets		
Prepayments for acquisition of property, equipment and intangible assets	3,793	2,235
Deferred expenses	474	321
Other	189	40
	<u>4,456</u>	<u>2,596</u>
Other assets	<u>4,711</u>	<u>2,755</u>

As of 30 June 2011 prepayments for the purchase of property, equipment and intangible assets of AZN 3,793 thousands (31 December 2010–AZN 2,235 thousands), related to premises for the Bank's new branches located in Baku and regions of the Republic of Azerbaijan.

Other liabilities comprise:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Other financial liabilities		
Dividends payable (Note 17)	981	981
Payables on social security costs	179	25
Payable to employees	64	113
Payables for professional services	47	64
Accrued interest payables on letters of credit	19	36
Accrued expenses	14	14
Settlements on money transfer	11	36
	<u>1,315</u>	<u>1,269</u>
Other non-financial liabilities		
Accrued staff bonuses	750	1,500
Taxes, other than income tax	6	1,124
Deferred income	-	49
	<u>756</u>	<u>2,673</u>
Other liabilities	<u>2,071</u>	<u>3,942</u>

(Figures in Tables are in thousands of Azerbaijani Manats)

14. Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies

Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies comprise:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Loans from the National Fund for Support of Entrepreneurship	14,636	13,635
Loans from the Central Bank of the Republic of Azerbaijan	10,000	10,000
Amount due to Azerbaijan Mortgage Fund	868	369
Correspondent accounts with other banks	3	3
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government agencies	25,507	24,007

As of 30 June 2010 and 31 December 2010 the Bank had loans from the Central Bank of the Republic of Azerbaijan amounting to AZN 10,000 thousands, maturing through 2012 and bearing interest of 2.5% p.a.

As of 30 June 2011 the Bank had eight loans (31 December 2010—seven loans) from the National Fund for Support of Entrepreneurship amounting to AZN 14,636 thousands (31 December 2010—AZN 13,635 thousands), maturing through 2016 (31 December 2010—2015) and bearing interest rate of 1.0% p.a. The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program.

As of 30 June 2011 the Bank had twenty (31 December 2010—eight) loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 868 thousands (31 December 2010—AZN 369 thousands), maturing through the year 2035 and bearing interest rate of 4.0% p.a.

15. Amounts due to customers

The amounts due to customers include the following:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Demand deposits	169,863	191,519
Time deposits	141,725	147,080
Amounts due to customers	311,588	338,599
Held as security against guarantees	-	967

An analysis of customer accounts by economic sector follows:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Investment holding companies	141,953	181,762
Individuals	135,263	102,226
Construction	15,716	22,342
Trade and services	12,749	17,043
Manufacturing	2,670	2,256
Insurance	2,014	7,356
Transport and communication	1,135	205
Agriculture	6	4
Energy	3	5,178
Other	79	227
Amounts due to customers	311,588	338,599

(Figures in Tables are in thousands of Azerbaijani Manats)

15. Amounts due to customers (continued)

As of 30 June 2011 customer deposits included balances with five largest customers amounting to AZN 254,052 thousands (31 December 2010–AZN 257,909 thousands). These deposits comprise significant concentration of approximately 82% (31 December 2010–76%) of the total customer deposits portfolio.

As of 31 December 2010 time deposits amounting to AZN 967 thousands were held as security against guarantees issued (Note 18).

16. Amounts due to credit institutions

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Commerzbank Aktiengesellschaft	7,595	4,162
Raiffeisen Bank International Aktiengesellschaft	4,640	1,330
Landesbank Baden-Württemberg	2,900	1,294
Amounts due to credit institutions	15,135	6,786

As of 30 June 2011 amounts due to credit institutions included balances with 3 foreign banks amounting to AZN 15,135 thousands (31 December 2010 –AZN 6,786 thousands), maturing through 2012 (31 December 2010–2011) and bearing interest rate of 3.54%–6.76% p.a. (31 December 2010–2.72%–5.96% p.a.). These borrowings are for trade finance of import operations (letters of credit) of the customers of the Bank.

17. Equity

The share capital of the Bank was contributed by the shareholders in AZN and they are entitled to dividends and any capital distribution in AZN. On 24 December 2010, the shareholders of the Bank declared dividends of AZN 981 thousands from the 2010 net profit of the Bank and was accrued accordingly as of 31 December 2010. These dividends were not paid to the shareholders of the Bank as of 30 June 2011.

On 19 January 2011 the shareholders decided to increase the share capital by AZN 8,068 thousands from AZN 115,407 thousands to AZN 123,475 thousands through capitalization of the profit earned for the year ended 31 December 2010. In 2010 share capital was increased by AZN 15,407 thousands from AZN 100,000 thousands to AZN 115,407 thousands through capitalization of the profit earned, for the year ended 31 December 2009.

As of 30 June 2011 the Bank authorized, issued and fully paid capital amounted to AZN 123,475 thousands (31 December 2010–AZN 115,407 thousands) and comprised 10,000 ordinary shares with a par value of AZN 12,347.47 per share (31 December 2010–AZN 11,540.71). Each share entitles one vote to the shareholder.

18. Commitments and contingencies

Operating environment

As an emerging market, Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy. However, there have been a number of developments that positively affect the overall investment climate of the country.

While operations in Azerbaijan may involve risks that are not typically associated with those in developed markets (including the risk that the Azerbaijani Manat is not freely convertible outside of the country and undeveloped debt and equity markets), over the last few years the Azerbaijani government has made progress in implementing the reforms necessary to create banking, judicial, taxation and regulatory systems. This includes the adoption of a new body of legislation including new Tax Code, new Civil and Customs Codes, procedural laws and securities regulations. In management's view, these steps contribute to mitigate the risks of doing business in Azerbaijan.

(Figures in Tables are in thousands of Azerbaijani Manats)

18. Commitments and contingencies (continued)

Operating environment (continued)

The existing tendency aimed at the overall improvement of the business environment is expected to persist. The future stability of the Azerbaijani economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. However, the Azerbaijan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, deterioration of liquidity in the banking sector, and tighter credit conditions within Azerbaijan. The Azerbaijan Government has introduced a range of stabilization measures aimed at ensuring solvency and providing liquidity and supporting refinancing of foreign debt for Azerbaijan banks and companies.

While management believes it is taking appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Bank.

Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within the Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review.

Management believes that its interpretation of the relevant legislation as of 30 June 2011 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

Financial commitments and contingencies

The Bank provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

(Figures in Tables are in thousands of Azerbaijani Manats)

18. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

Financial commitments and contingencies comprise:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Credit-related commitments		
Guarantees issued	20,977	19,958
Unused credit lines	14,563	6,759
Letters of credit	9,221	10,372
	44,761	37,089
Operating lease commitments		
Not later than 1 year	479	337
Later than 1 year but not later than 5 years	1,133	1,352
Later than 5 years	525	599
	2,137	2,288
Less – Provisions (Note 19)	-	(1,582)
Commitments and contingencies (before deducting collateral)	46,898	37,795
Less – Cash held as security against letters of credit and guarantees (Note 15)	-	(967)
Commitments and contingencies	46,898	36,828

19. Provision for impairment losses on interest bearing assets, guarantees and other commitments

The movements in allowance for impairment losses on interest bearing assets and provision for guarantees and other commitments were as follows:

	Corporate lending	Individuals lending	Loans to customers	Investment securities held to maturity	Guarantees and other commitments	Total allowances and provisions
At 1 January 2010	(2,208)	(352)	(2,560)	(14)	(781)	(3,355)
(Charge)/reversal for the period	(1,901)	(28)	(1,929)	2	(447)	(2,374)
At 30 June 2010 (unaudited)	(4,109)	(380)	(4,489)	(12)	(1,228)	(5,729)
At 1 January 2011	(7,836)	(377)	(8,213)	(10)	(1,582)	(9,805)
(Charge)/reversal for the period	(4,084)	70	(4,014)	10	1,582	(2,422)
At 30 June 2011 (unaudited)	(11,920)	(307)	(12,227)	-	-	(12,227)

(Figures in Tables are in thousands of Azerbaijani Manats)

20. Net fee and commission income

Net fee and commission income comprises:

	<i>2011 (6 months)</i> <i>(unaudited)</i>	<i>2010 (6 months)</i> <i>(unaudited)</i>
Currency conversion operations	515	338
Settlements operations	350	382
Cash operations	230	157
Servicing plastic card operations	112	28
Guarantees and letters of credit	47	32
Other	37	30
Fee and commission income	1,291	967
Securities operations	(191)	(129)
Servicing plastic card operations	(131)	(15)
Settlements operations	(110)	(101)
Guarantees and letters of credit	(41)	(23)
Currency conversion operations	(11)	(14)
Cash operations	(6)	(4)
Other	(5)	(5)
Fee and commission expense	(495)	(291)
Net fee and commission income	796	676

21. Personnel, general and administrative expenses

Personnel expenses comprise:

	<i>2011 (6 months)</i> <i>(unaudited)</i>	<i>2010 (6 months)</i> <i>(unaudited)</i>
Salaries and bonuses	(1,833)	(1,935)
Social security costs	(488)	(427)
Personnel trainings and other employee benefits	(244)	(123)
Personnel expenses	(2,565)	(2,485)

(Figures in Tables are in thousands of Azerbaijani Manats)

21. Personnel, general and administrative expenses (continued)

General and administrative expenses comprise:

	<i>2011 (6 months)</i> <i>(unaudited)</i>	<i>2010 (6 months)</i> <i>(unaudited)</i>
Charity and sponsorship expenses	(331)	(400)
Professional services	(279)	(362)
Transportation and business trip expenses	(180)	(144)
Software costs	(174)	(80)
Advertising costs	(116)	(36)
Operating leases	(113)	(56)
Taxes, other than income tax	(72)	(45)
Insurance	(70)	(40)
Communications	(46)	(27)
Security expenses	(43)	(25)
Utilities	(29)	(17)
Stationery	(27)	(12)
Repair and maintenance	(22)	(26)
Membership fees	(11)	(8)
Printing expenses	(6)	(6)
Other expenses	(57)	(5)
General and administrative expenses	(1,576)	(1,289)

22. Fair values of financial instruments

Financial instruments recorded at fair value

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

<i>At 30 June 2011 (unaudited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>Financial assets</i>				
Trading securities	14,290	-	-	14,290
Investment securities available-for-sale	199,054	-	-	199,054
	213,344	-	-	213,344
<i>At 31 December 2010</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<i>Financial assets</i>				
Trading securities	897	-	-	897
Investment securities available-for-sale	149,400	-	-	149,400
	150,297	-	-	150,297

(Figures in Tables are in thousands of Azerbaijani Manats)

23. Related party disclosures

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or 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. Related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the end of the period, and related expense and income for the period are as follows:

	30 June 2011 (unaudited)					31 December 2010				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Loans outstanding at 1 January, gross	-	21,327	236	-	21,563	-	2,350	113	-	2,463
Loans issued during the period	14	931	233	-	1,178	-	21,371	528	-	21,899
Loan repayments during the period	-	(795)	(171)	-	(966)	-	(2,479)	(407)	-	(2,886)
Interest accrual	-	83	2	-	85	-	85	2	-	87
Loans outstanding at reporting period, gross	<u>14</u>	<u>21,546</u>	<u>300</u>	<u>-</u>	<u>21,860</u>	<u>-</u>	<u>21,327</u>	<u>236</u>	<u>-</u>	<u>21,563</u>
Less: allowance for impairment at reporting period	-	(104)	(1)	-	(105)	-	(102)	(1)	-	(103)
Loans outstanding at reporting period, net	14	21,442	299	-	21,755	-	21,225	235	-	21,460
Deposits at 1 January	52,701	6,800	301	50,691	110,493	14,310	100	317	37,881	52,608
Deposits received during the reporting period	43,231	8,595	-	27,506	79,332	52,523	6,800	303	77,564	137,190
Deposits repaid during reporting period	(53,308)	(7,568)	(4)	(33,790)	(94,670)	(14,132)	(100)	(319)	(64,754)	(79,305)
Deposits outstanding at reporting period	42,624	7,827	297	44,407	95,155	52,701	6,800	301	50,691	110,493
Current accounts at the end of reporting period	10,032	27,275	55	69,348	106,710	16,010	49,408	31	30,262	95,711
Guarantees issued	-	6,531	-	-	6,531	-	6,152	-	-	6,152
Letters of credit issued	-	934	-	-	934	-	948	-	-	948
Unused credit lines	83	625	86	5	799	-	321	-	-	321

(Figures in Tables are in thousands of Azerbaijani Manats)

23. Related party disclosures (continued)

	<i>For the six months ended</i>									
	<i>30 June 2011 (unaudited)</i>					<i>30 June 2010 (unaudited)</i>				
	<i>Entities under common control</i>		<i>Key management personnel</i>			<i>Entities under common control</i>		<i>Key management personnel</i>		
<i>Parent</i>	<i>control</i>	<i>personnel</i>	<i>Other</i>	<i>Total</i>	<i>Parent</i>	<i>control</i>	<i>personnel</i>	<i>Other</i>	<i>Total</i>	
Interest income										
on loans to customers	-	1,193	12	-	1,205	-	644	9	-	653
Interest expense										
on amounts due to customers	(2,004)	(189)	(14)	(1,614)	(3,821)	(787)	(5)	(15)	(1,443)	(2,250)
Fee and commission income	4	300	-	1	305	17	244	-	-	261
General and administrative expenses	-	(16)	-	(35)	(51)	-	(17)	-	(30)	(47)

Compensation of key management personnel was comprised of the following:

	<i>2011 (6 months) (unaudited)</i>	<i>2010 (6 months) (unaudited)</i>
Salaries and bonuses	919	802
Social security costs	202	176
Key management personnel compensation	1,121	978

24. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established the CBA and the Basel Capital Accord 1988 in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Capital adequacy ratio under CBA requirements

The CBA requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets. As of 30 June 2011 and 31 December 2010, the Bank's capital adequacy ratio on this basis was as follows:

	<i>30 June 2011 (unaudited)</i>	<i>31 December 2010</i>
Tier 1 capital	132,284	124,216
Tier 2 capital	5,809	11,436
Less deductions from capital	(1,761)	(1,607)
Total capital	136,332	134,045
Risk-weighted assets	305,917	269,457
Capital adequacy ratio	45%	50%

(Figures in Tables are in thousands of Azerbaijani Manats)

24. Capital adequacy (continued)

Capital adequacy ratio under Basel Capital Accord 1988

The Bank's capital adequacy ratio, computed in accordance with the Basel Capital Accord 1988 which requires a minimum of 8% on Tier 1 and Total capital, with subsequent amendments including the amendment to incorporate market risks, as of 30 June 2011 and 31 December 2010, comprised:

	<i>30 June 2011</i> <i>(unaudited)</i>	<i>31 December 2010</i>
Tier 1 capital	141,887	136,815
Tier 2 capital	-	-
Total capital	141,887	136,815
Risk-weighted assets	251,815	222,371
Tier 1 capital ratio	56%	62%
Total capital ratio	56%	62%