

OJSC PASHA Bank
Interim Condensed Consolidated Financial Statements
30 June 2013
Together with Report on Review of Interim Condensed
Consolidated Financial Statements

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Board of Directors of OJSC PASHA Bank -

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Pasha Bank and its subsidiary, comprising the interim condensed consolidated statement of financial position as at 30 June 2013 and the related interim condensed consolidated statements of income, 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 consolidated 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 consolidated 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 consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Holdings (CIS) B.V.

28 August 2013

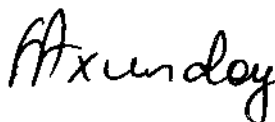
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION As at 30 June 2013

(Figures in Tables are in thousands of Azerbaijani manats)

	Notes	30 June 2013 (unaudited)	31 December 2012
Assets			
Cash and cash equivalents	4	70,281	68,526
Trading securities	5	28,447	14,180
Amounts due from credit institutions	6	16,381	14,960
Investment securities available-for-sale	7	199,050	323,699
Loans to banks	8	4,009	1,000
Loans to customers	9	315,420	274,141
Investment property	10	2,000	2,000
Property and equipment	11	11,185	8,900
Intangible assets	12	2,805	2,278
Other assets	13	9,992	11,391
Total assets		659,570	721,075
Liabilities			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds	14	33,485	35,045
Amounts due to customers	15	360,838	457,067
Amounts due to credit institutions	16	61,762	30,935
Current income tax liabilities		-	484
Deferred income tax liabilities		2,875	2,327
Provisions for guarantees and letters of credit	20	1,152	967
Other liabilities	13	5,731	5,902
Total liabilities		465,843	532,727
Equity			
Share capital	18	178,000	157,000
Retained earnings		16,153	31,178
Unrealised (losses)/gains on investment securities available-for-sale		(412)	181
Foreign currency translation reserve		(14)	(11)
Total equity		193,727	188,348
Total liabilities and equity		659,570	721,075

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

Farid Akhundov



Chairman of the Executive Board

Shahin Mammadov



Chief Financial Officer,
Member of the Executive Board

28 August 2013

The accompanying selected explanatory notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2013

(Figures in Tables are in thousands of Azerbaijani manats)

	<i>Notes</i>	<i>For the six months ended 30 June 2013 (unaudited)</i>	<i>For the six months ended 30 June 2012 (unaudited)</i>
Interest income			
Loans to customers		18,743	17,306
Investment securities available-for-sale		6,953	3,520
Amounts due from credit institutions		1,081	1,113
Trading securities		748	648
Loans to banks		70	153
Securities purchased under agreements to resell		52	125
		<u>27,647</u>	<u>22,865</u>
Interest expense			
Amounts due to customers		(4,762)	(5,841)
Amounts due to credit institutions		(952)	(595)
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds		(596)	(497)
		<u>(6,310)</u>	<u>(6,933)</u>
Net interest income		21,337	15,932
Provision for impairment losses on interest bearing assets	20	(7,574)	(6,679)
Net interest income after provision for impairment of interest bearing assets		13,763	9,253
Net fee and commission income	21	1,562	1,551
Net gains from trading securities		196	304
Net gains/(losses) from investment securities available-for-sale		67	(3)
Net gains/(losses) from foreign currencies:			
- dealing		2,838	1,872
- translation differences		(111)	123
Other income		61	23
Non-interest income		4,613	3,870
Personnel expenses	22	(5,489)	(3,180)
General and administrative expenses	22	(3,629)	(1,888)
Depreciation and amortisation	11,12	(1,074)	(501)
Provision for guarantees and letters of credit	20	(185)	(412)
Non-interest expenses		(10,377)	(5,981)
PROFIT BEFORE INCOME TAX EXPENSE		7,999	7,142
Income tax expense	17	(2,509)	(1,670)
NET PROFIT FOR THE PERIOD		5,490	5,472

The accompanying notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**For the six months ended 30 June 2013***(Figures in Tables are in thousands of Azerbaijani manats)*

	<i>Notes</i>	<i>For the six months ended 30 June 2013 (unaudited)</i>	<i>For the six months ended 30 June 2012 (unaudited)</i>
Net profit for the period		5,490	5,472
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Loss arising from investment securities available-for-sale during the period		(808)	(15)
Less: Reclassification adjustments for gain/(loss) included in the income statement		67	(3)
Net loss on investment securities available-for-sale		(741)	(18)
Income tax effect relating to unrealised losses on investment securities available-for-sale	17	148	2
Foreign currency translation difference		(3)	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		(596)	(16)
Total comprehensive income for the period		4,894	5,456

The accompanying notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2013

(Figures in Tables are in thousands of Azerbaijani manats)

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Unrealised (losses)/ gains on investment securities available- for-sale</i>	<i>Foreign currency translation reserve</i>	<i>Total equity</i>
As at 31 December 2011	123,475	25,717	(9)	-	149,183
Capitalization of net profit for the year 2011 to share capital (Note 18)	10,750	(10,750)	-	-	-
Additional issue of share capital (Note 18)	22,775	-	-	-	22,775
Total comprehensive income for the six months ended 30 June 2012 (unaudited)	-	5,472	(16)	-	5,456
As at 30 June 2012 (unaudited)	157,000	20,439	(25)	-	177,414
As at 31 December 2012	157,000	31,178	181	(11)	188,348
Dividends paid (Note 18)	-	(20,515)	-	-	(20,515)
Cash contribution for share capital increase (Note 18)	21,000	-	-	-	21,000
Total comprehensive income for the six months ended 30 June 2013 (unaudited)	-	5,490	(593)	(3)	4,894
As at 30 June 2013 (unaudited)	178,000	16,153	(412)	(14)	193,727

The accompanying notes on pages 6 to 25 are an integral part of these interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

(Figures in Tables are in thousands of Azerbaijani manats)

	<i>Notes</i>	<i>For the six months ended 30 June 2013 (unaudited)</i>	<i>For the six months ended 30 June 2012 (unaudited)</i>
Cash flows from operating activities			
Interest received		23,667	20,811
Interest paid		(6,084)	(6,030)
Fees and commissions received		2,884	2,053
Fees and commissions paid		(1,432)	(799)
Net realized gains/(losses) on sale of investment securities available-for-sale		67	(3)
Net realized losses from trading securities		(38)	(307)
Realised gains less losses from dealing in foreign currencies		2,838	1,872
Personnel expenses paid		(5,629)	(4,147)
General and administrative expenses paid		(6,811)	(1,764)
Other operating income received		62	14
Cash flows from operating activities before changes in operating assets and liabilities		9,524	11,700
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		(13,891)	2,509
Amounts due from credit institutions		(1,511)	(23,067)
Loans to banks		(3,000)	(3,800)
Loans to customers		(45,014)	(53,336)
Other assets		(341)	572
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds		(1,483)	35,328
Amounts due to customers		(96,274)	(9,578)
Amounts due to credit institutions		30,570	8,176
Other liabilities		3,083	27
Net cash used in operating activities before income tax		(118,337)	(31,469)
Income tax paid		(1,966)	(681)
Net cash used in operating activities		(120,303)	(32,150)
Cash flows from investing activities			
Proceeds from sale of securities purchased under agreements to resell		-	26,930
Proceeds from sale and redemption of investment securities available-for-sale		172,768	-
Purchases of investment securities available-for-sale		(49,111)	(16,635)
Purchase of property and equipment and intangible assets		(2,019)	(2,909)
Proceeds from sale of property and equipment		47	9
Net cash from investing activities		121,685	7,395
Cash flows from financing activities			
Issue of ordinary share capital	18	21,000	20,130
Dividends paid	18	(20,515)	(982)
Net cash from financing activities		485	19,148
Effect of exchange rates changes on cash and cash equivalents		(112)	(864)
Net increase/(decrease) in cash and cash equivalents		1,755	(6,471)
Cash and cash equivalents, beginning	4	68,526	35,105
Cash and cash equivalents, ending	4	70,281	28,634

The accompanying notes on pages 6 to 25 are an integral part of these interim condensed consolidated 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 number 250 issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) 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 private customers. The Bank also carries market maker service activities.

Legal address of the PASHA Bank Georgia JSC is 15 Rustaveli Street, Tbilisi, GE 0108, Georgia.

The Bank has three service points in Azerbaijan as at 30 June 2013 (31 December 2012: three), one representative office and one commercial bank in the Republic of Georgia.

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

On 17 December 2012, the Bank established PASHA Bank Georgia JSC, a wholly – owned subsidiary, which will be operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousands. On 17 January 2013 PASHA Bank Georgia JSC received a license for banking activities issued by the National Bank of Georgia (“NBG”). As at 31 December 2012 there was no commercial activity in the subsidiary.

As at 30 June 2013 and 31 December 2012 the following shareholders owned the outstanding shares of the Bank:

<i>Shareholders</i>	<u>30 June 2013 (%)</u>	<u>31 December 2012 (%)</u>
Pasha Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	<u>100</u>	<u>100</u>

The Bank is ultimately controlled by Mr. Arif Pashayev.

The Bank and its subsidiary (collectively, the “Bank”) were consolidated in these financial statements.

2. Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2013 have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”.

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

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

The interim condensed consolidated financial statements do not include all the information and disclosures required in the consolidated financial statements, and should be read in conjunction with the Bank’s annual consolidated financial statements as at 31 December 2012.

(Figures in Tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Reclassification

When preparing interim condensed consolidated financial statements for the six months ended 30 June 2013, some items in the financial statements for six months ended 30 June 2012 were reclassified to be in conformity with 30 June 2013 presentation.

- a) Interest income and expense on guarantees and letters of credit in the amount of AZN 932 thousands and AZN 216 thousands, respectively, have been reclassified to net fee and commission income. Accordingly, cash interest received and cash interest paid in interim condensed consolidated statement of cash flows in the amount of AZN 827 thousands and AZN 208 thousands, respectively, have been reclassified to fees and commissions received and fees and commission paid.
- b) Commission income and expense on currency conversion operations in the amount of AZN 344 thousands and AZN 2 thousands, respectively, have been reclassified to net gains from currency dealing. Accordingly, fees and commissions received and fees and commissions paid in interim condensed consolidated statement of cash flows in the amount of 344 thousands and 2 thousands, respectively, have been reclassified to realised gains less losses from dealing in foreign currencies.

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Bank's annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new Standards and Interpretations as at 1 January 2013, noted below:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Bank.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the interim condensed consolidated financial statements. The Bank provides these disclosures in Note 23.

Amendments to IAS 19 Employee Benefits

The IASB has published amendments to IAS 19 Employee Benefits, effective for annual periods beginning on or after 1 January 2013, which involve major changes to the accounting for employee benefits, including the removal of the option for deferred recognition of changes in pension plan assets and liabilities (known as the "corridor approach"). In addition, these amendments will limit the changes in the net pension asset (liability) recognised in profit or loss to net interest income (expense) and service costs. These amendments had no impact on the Bank's interim condensed consolidated financial position.

Amendments to IAS 1 Changes to the Presentation of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, revaluation of buildings). The amendment affects presentation only and has no impact on the Bank's interim condensed consolidated financial position or performance.

(Figures in Tables are in thousands of Azerbaijani manats)

3. Changes in accounting policies (continued)

Amendments to IFRS 7 Disclosures – Offsetting Financial assets and Financial Liabilities

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreements, irrespective of whether they are set off in accordance with IAS 32. These amendments had no impact on the Banks' interim condensed consolidated financial position or performance.

Amendment to IAS 32 Financial Instruments, Presentation: This amendment clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the interim condensed consolidated financial statements for the Bank.

Amendment to IAS 34 Interim Financial Reporting: The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The Bank does not provide this disclosure as segment information is not reported to the chief operating decision maker.

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30 June 2013</i> <i>(unaudited)</i>	<i>31 December</i> <i>2012</i>
Cash on hand	15,030	12,948
Current accounts with the CBAR and NBG	15,264	32,978
Current accounts with other credit institutions	18,583	22,600
Time deposits with credit institutions up to 90 days	21,404	-
Cash and cash equivalents	70,281	68,526

Current accounts with other credit institutions consist of interest bearing correspondent account balances with one resident bank in the amount of AZN 5,358 thousands (31 December 2012 – AZN 3,937 thousands) and non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 417 thousands (31 December 2012 – AZN 163 thousands) and AZN 12,808 thousands (31 December 2012 – AZN 18,500 thousands), respectively.

As at 30 June 2013, the Bank placed AZN 21,404 thousands (31 December 2012 – nil) in time deposits with three (31 December 2012 – nil) resident banks maturing through July 2013 and with effective annual interest rate of 4%-10% p.a.

(Figures in Tables are in thousands of Azerbaijani manats)

5. Trading securities

Trading securities comprise:

	<i>30 June 2013 (unaudited)</i>		<i>31 December 2012</i>	
	<i>Annual interest rate</i>	<i>Carrying value</i>	<i>Annual interest rate</i>	<i>Carrying value</i>
Corporate bonds issued by Unibank Commercial Bank OJSC	11.00%-14.00%	8,092	11.00%	2,155
Corporate bonds issued by Bakcell LTD	9.50%	7,990	9.50%	3,506
Corporate bonds issued by AGBank Commercial Bank OJSC	12.00%	5,041	-	-
Corporate bonds issued by "Unileasing" Leasing Company CJSC	9.50%	3,844	9.50%	4,915
Corporate bonds issued by Bank of Baku OJSC	12.00%	3,480	12.00%	3,604
Trading securities		28,447		14,180

As at 30 June 2013, the Bank carried market maker service activities and signed related agreements with five (31 December 2012 – four) local entities. As at 30 June 2013, the Bank had trading securities under these agreements amounting to AZN 28,447 thousands (31 December 2012 – AZN 14,180 thousands).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>30 June 2013 (unaudited)</i>	<i>31 December 2012</i>
Obligatory reserve with the CBAR and NBG	12,499	11,270
Time deposits	3,882	3,690
Amounts due from credit institutions	16,381	14,960

Credit institutions in the Republic of Azerbaijan and Republic of Georgia are required to maintain a non-interest earning cash deposit as obligatory reserve with the CBAR at 3% p.a. and interest earning cash deposit with NBG at 10% p.a. and at 15% p.a. (31 December 2012—the CBAR at 3% p.a. and NBG at 10% p.a. and 15% p.a.) of the previous month average of funds attracted from customers by the credit institution in local and foreign currencies, respectively. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

As at 30 June 2013, AZN 3,538 thousands or 91% of total time deposits (31 December 2012 – AZN 3,225 thousands or 87% of total time deposits) were placed on inter-bank deposits with two non-resident (31 December 2012 – two resident) commercial banks maturing through September 2014 (31 December 2012 – through 12 April 2013) and with effective interest rate of 6%-11% p.a. (31 December 2012 – 9%-12% p.a.).

*(Figures in Tables are in thousands of Azerbaijani manats)***7. Investment securities available-for-sale**

Investment securities available-for-sale comprises:

	30 June 2013 (unaudited)		31 December 2012	
	Carrying value	Nominal value	Carrying value	Nominal value
Notes issued by the Azerbaijan Mortgage Fund	106,033	105,047	181,988	179,267
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	58,703	58,145	77,311	76,680
Notes issued by Baghlan Group FZCO	28,562	28,248	36,320	35,325
Certificates of deposit issued by NBG	5,087	5,122	-	-
Corporate bonds issued by FinansLizing Open Joint Stock Company	412	400	-	-
Corporate Bonds issued by TBC Kredit	253	250	-	-
Notes issued by the CBAR	-	-	28,080	28,104
Investment securities available-for-sale	199,050	197,212	323,699	319,376

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

	30 June 2013 (unaudited)		31 December 2012	
	%	Maturity	%	Maturity
Notes issued by Azerbaijan Mortgage Fund	3.00%	May 2016- August 2018	3.0% - 3.25%	May 2016 November 2022
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	4.00-5.00%	July 2013- July 2015	4.0% - 5.00%	June 2013 July 2015
Notes issued by Baghlan Group FZCO	14.75%	June 2015	14.75%	June 2015
Certificates of Deposit issued by National Bank of Georgia	5.15%-5.90%	July 2013 October 2013	-	-
Corporate bonds issued by FinansLizing Open Joint Stock Company	14.00%	January 2015	-	-
Corporate Bonds issued by TBC Kredit	7.00%	April 2016	-	-
Notes issued by the CBAR	-	-	1.66% - 2.65%	January 2013

8. Loans to banks

As at 30 June 2013, the Bank had outstanding amount of AZN 4,009 thousands (31 December 2012 – AZN 1,000 thousands) of unsecured loan denominated in Azerbaijani manat, issued to three (31 December 2012 – one) resident commercial banks with contractual maturity through July 2013 (31 December 2012 – February 2013) and annual interest rate of 4.50%-10.50% (31 December 2012 – 10.50%).

9. Loans to customers

Loans to customers comprise:

	30 June 2013 (unaudited)	31 December 2012
Legal entities	322,121	262,616
Individuals	9,569	20,221
Loans to customers (gross)	331,690	282,837
Less – Allowance for impairment (Note 20)	(16,270)	(8,696)
Loans to customers (net)	315,420	274,141

(Figures in Tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	<i>Corporate lending 30 June 2013</i>	<i>Individual lending 30 June 2013</i>	<i>Total 30 June 2013</i>
Individual impairment	(13,458)	(535)	(13,993)
Collective impairment	(2,177)	(100)	(2,277)
	<u>(15,635)</u>	<u>(635)</u>	<u>(16,270)</u>
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	114,443	1,128	115,571
	<i>Corporate lending 31 December 2012</i>	<i>Individual lending 31 December 2012</i>	<i>Total 31 December 2012</i>
Individual impairment	(6,069)	(478)	(6,547)
Collective impairment	(1,997)	(152)	(2,149)
	<u>(8,066)</u>	<u>(630)</u>	<u>(8,696)</u>
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	25,891	570	26,461

Loans are made in the following industry sectors:

	<i>30 June 2013 (unaudited)</i>	<i>31 December 2012</i>
Trade and services	158,483	130,646
Manufacturing	76,190	62,611
Construction	46,362	34,960
Agriculture and food processing	17,357	15,862
Transport and telecommunication	12,389	12,698
Individuals	9,569	20,221
Non banking credit organizations	5,994	474
Leasing	5,007	5,014
Energy	271	312
Other	68	39
Total loans (gross)	<u>331,690</u>	<u>282,837</u>

As at 30 June 2013, the Bank granted loans to 9 customers (31 December 2012 – 6 customers) totalling AZN 190,031 thousands (31 December 2012 – AZN 104,683 thousands), which individually exceeded 5% of the Bank's equity.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For commercial lending, charges over real estate properties, inventory and trade receivables,
- ▶ For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Figures in Tables are in thousands of Azerbaijani manats)

10. Investment property

During 2011 the Bank acquired land for the amount of AZN 2,000 thousands as investment property which is held for long-term appreciation in value. As at 30 June 2013, the fair value of this investment property amounted to AZN 2,042 thousands (31 December 2012 – AZN 1,997 thousands).

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 improvements</i>	<i>Construction in progress</i>	<i>Total</i>
Cost								
31 December 2011	2,151	1,521	1,191	926	35	108	-	5,932
Additions (unaudited)	-	689	272	-	41	-	2,307	3,309
Disposals (unaudited)	-	-	-	(21)	-	-	-	(21)
Transfers (unaudited)	2,307	-	-	-	-	-	(2,307)	-
30 June 2012 (unaudited)	4,458	2,210	1,463	905	76	108	-	9,220
31 December 2012	4,458	3,465	1,726	992	293	681	-	11,615
Additions (unaudited)	-	859	1,078	195	195	905	-	3,232
Disposals (unaudited)	-	(6)	(15)	(147)	-	-	-	(168)
30 June 2013 (unaudited)	4,458	4,318	2,789	1,040	488	1,586	-	14,679
Accumulated depreciation								
31 December 2011	-	(709)	(635)	(312)	(21)	(39)	-	(1,716)
Depreciation charge (unaudited)	(26)	(112)	(112)	(105)	(4)	(9)	-	(368)
Disposals (unaudited)	-	-	-	21	-	-	-	21
30 June 2012 (unaudited)	(26)	(821)	(747)	(396)	(25)	(48)	-	(2,063)
31 December 2012	(120)	(1,082)	(890)	(502)	(43)	(78)	-	(2,715)
Depreciation charge (unaudited)	(102)	(381)	(191)	(115)	(34)	(77)	-	(900)
Disposals (unaudited)	-	1	4	116	-	-	-	121
30 June 2013 (unaudited)	(222)	(1,462)	(1,077)	(501)	(77)	(155)	-	(3,494)
Net book value:								
30 June 2012 (unaudited)	4,432	1,389	716	509	51	60	-	7,157
31 December 2012	4,338	2,383	836	490	250	603	-	8,900
30 June 2013 (unaudited)	4,236	2,856	1,712	539	411	1,431	-	11,185

*(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>Total</i>
Cost			
31 December 2011	400	1,846	2,246
Additions (unaudited)	88	361	449
30 June 2012 (unaudited)	488	2,207	2,695
31 December 2012	772	2,165	2,937
Additions (unaudited)	221	482	703
Disposals (unaudited)	(11)	-	(11)
30 June 2013 (unaudited)	982	2,647	3,629
Accumulated amortization			
31 December 2011	(131)	(273)	(404)
Amortisation charge (unaudited)	(33)	(100)	(133)
30 June 2012 (unaudited)	(164)	(373)	(537)
31 December 2012	(124)	(535)	(659)
Amortisation charge (unaudited)	(59)	(115)	(174)
Disposals (unaudited)	9	-	9
30 June 2013 (unaudited)	(174)	(650)	(824)
Net book value:			
30 June 2012 (unaudited)	324	1,834	2,158
31 December 2012	648	1,630	2,278
30 June 2013 (unaudited)	808	1,997	2,805

*(Figures in Tables are in thousands of Azerbaijani manats)***13. Other assets and liabilities**

Other assets comprise:

	<i>30 June 2013</i> <i>(unaudited)</i>	<i>31 December</i> <i>2012</i>
Other financial assets		
Settlements on money transfers	438	123
Accrued interest receivable on guarantees and letters of credit	255	119
	<u>693</u>	<u>242</u>
Other non-financial assets		
Deferred expenses	5,670	5,911
Prepayments for acquisition of property, equipment and intangible assets	2,962	4,878
Taxes, other than income tax	68	-
Other	599	360
	<u>9,299</u>	<u>11,149</u>
Other assets	<u>9,992</u>	<u>11,391</u>

As at 30 June 2013, deferred expenses of AZN 4,625 thousands (2012 – AZN 5,161 thousands), related to prepayment for the rent of the service point located in Baku.

As at 30 June 2013, prepayments for the purchase of property, equipment and intangible assets of AZN 2,962 thousands (31 December 2012 – AZN 4,878 thousands) were related to premises for the Bank's new service points.

Other liabilities comprise:

	<i>30 June 2013</i> <i>(unaudited)</i>	<i>31 December</i> <i>2012</i>
Other financial liabilities		
Settlements on money transfer	3,742	372
Payables for professional services	221	259
Accrued expenses	99	3,282
Accrued commission payables on letters of credit	19	17
Payables on social security costs	-	58
Other	64	1
	<u>4,145</u>	<u>3,989</u>
Other non-financial liabilities		
Payable to employees	1,348	1,430
Deferred income	236	394
Taxes, other than income tax	-	89
Other	2	-
	<u>1,586</u>	<u>1,913</u>
Other liabilities	<u>5,731</u>	<u>5,902</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 funds**

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

	<i>30 June 2013 (unaudited)</i>	<i>31 December 2012</i>
Loans from the National Fund for Support of Entrepreneurship	31,005	28,753
Amount due to Azerbaijan Mortgage Fund	1,631	1,478
Short-term deposits from banks	833	4,277
Correspondent accounts with other banks	16	2
Loans from the CBAR	-	535
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds	33,485	35,045

As at 30 June 2013, the Bank had loans received from the National Fund for Support of Entrepreneurship amounting to AZN 31,005 thousands (31 December 2012 – AZN 28,753 thousands), maturing through May 2023 (31 December 2012 – through February 2022), and bearing annual 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. The loans have been granted to local entrepreneurs at 6%-7% p.a. (31 December 2012 – 6%-7% p.a.).

As at 30 June 2013, the Bank had loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 1,631 thousands (31 December 2012 – AZN 1,478 thousands), maturing through August 2037 (31 December 2012 – through May 2037) and bearing annual interest rate of 4.0% p.a. (31 December 2012 – 4% p.a.).

As at 30 June 2013, the Bank received short-term funds from one (31 December 2012 – one) non-resident commercial bank comprising AZN 833 thousands (31 December 2012 – AZN 4,277 thousands) maturing through 02 May 2014 (31 December 2012 – 21 January 2013) and with effective annual interest rate of 5.00% p.a. (31 December 2012 – 0.65% p.a.).

As at 31 December 2012, the Bank had a loan from the CBAR amounting to AZN 535 thousands maturing in February 2013 and with bearing annual interest rate of 6.00% p.a. The Bank repaid the loan at maturity to the CBAR.

15. Amounts due to customers

The amounts due to customers include the following:

	<i>30 June 2013 (unaudited)</i>	<i>31 December 2012</i>
Demand deposits	238,631	263,209
Time deposits	122,207	193,858
Amounts due to customers	360,838	457,067
Held as security against guarantees issued and letters of credit	151	120

(Figures in Tables are in thousands of Azerbaijani manats)

15. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	<i>30 June 2013</i> <i>(unaudited)</i>	<i>31 December</i> <i>2012</i>
Individuals	197,556	279,085
Investment holding companies	91,321	119,636
Trade and services	24,492	27,958
Insurance	18,515	7,461
Public organizations	5,445	3,919
Mining	4,188	-
Transport and communication	4,158	2,779
Construction	3,683	10,008
Manufacturing	3,208	2,235
Non banking credit organizations	2,443	-
Hotel business	1,751	-
Agriculture	120	536
Energy	-	1
Other	3,958	3,449
Amounts due to customers	360,838	457,067

As at 30 June 2013, customer deposits included balances with five largest customers comprised AZN 260,231 thousands or 72% of the total customer deposits portfolio (31 December 2012 – AZN 347,917 thousands or 76% of the total customer deposits portfolio).

As at 30 June 2013, time deposits amounting to AZN 151 thousands (31 December 2012 – AZN 120 thousands) were held as security against letters of credit and guarantees issued (Note 19).

16. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<i>30 June 2013</i> <i>(unaudited)</i>	<i>31 December</i> <i>2012</i>
Commerzbank Aktiengesellschaft	33,278	19,389
Raiffeisen Bank International Aktiengesellschaft	17,128	7,748
FBME	4,353	-
Baltikums Bank AS	3,957	-
Landesbank Baden-Württemberg	2,602	3,798
UBI BANCA (UNIONE DI BANCHE ITALIANE) S.C.P.A.	444	-
Amounts due to credit institutions	61,762	30,935

As at 30 June 2013, amounts due to credit institutions included balances with four (31 December 2012 – three) foreign banks amounting to AZN 37,815 thousands (31 December 2012 – AZN 30,935 thousands), maturing through March 2017 (31 December 2012 – through April 2021) and bearing annual interest rate of 1.90%-13.70% p.a. (31 December 2012–1.91%-6.76% p.a.). These unsecured borrowings are for trade finance of import operations (letters of credit) of the customers of the Bank.

As at 30 June 2013, remaining balance of amounts due to credit institutions included also the syndicated trade-related term loan with four foreign banks amounting to AZN 23,947 thousands (31 December 2012 – nil), with original maturity of April 2014 and bearing annual interest rate of 3.94%.

(Figures in Tables are in thousands of Azerbaijani manats)

16. Amounts due to credit institutions (continued)

Financial covenants

In accordance with the contractual terms of the syndicated trade-related term loan, the Bank is required to maintain certain financial ratios, particularly with regard to its total amount of shareholders' equity, capital adequacy, lending exposures, related party exposure, amount of guarantees given and liquidity.

As at 30 June 2013, the Bank was in technical breach of lending exposures. Subsequently, the Bank obtained a conditional waiver from lenders subject to fulfilment of requirements of action plan provided to the CBAR and lenders. As a result, there was no impact on these interim condensed consolidated financial statements.

17. Taxation

The corporate income tax expense comprises:

	<u>2013 (6 months)</u> <i>(unaudited)</i>	<u>2012 (6 months)</u> <i>(unaudited)</i>
Current tax charge	(1,812)	(1,631)
Deferred tax charge	(549)	(37)
Less: deferred tax recognised directly in other comprehensive income	(148)	(2)
Income tax expense	<u>(2,509)</u>	<u>(1,670)</u>

18. Equity

On 1 February 2012, the shareholders decided to increase the share capital by AZN 10,750 thousands through capitalization of the profit earned for the year ended 31 December 2011 and by AZN 2,645 thousands amount reserved for increase in share capital.

On 17 April 2012, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting of AZN 20,130 thousands. Increase of share capital was finalized on 29 June 2012. As a result the share capital was increased from AZN 123,475 thousands to AZN 157,000 thousands.

On 4 February 2013, the shareholders of the Bank declared dividends totalling AZN 20,515 thousands. The dividends were paid to the shareholders of the Bank on 9 April 2013.

On 18 February 2013, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting to AZN 21,000 thousands. Increase of share capital was finalized on 14 June 2013. The increase was carried out by converting 10,000 shares with a par value of AZN 15,700.00 per share into an equal number of shares with a par value of AZN 17,800.00 per share.

As at 30 June 2013, the Bank authorized, issued and fully paid capital amounted to AZN 178,000 thousands (31 December 2012 – AZN 157,000 thousands) comprising of 10,000 ordinary shares with a par value of AZN 17,800.00 per share (31 December 2012 – AZN 15,700.00). Each share entitles one vote to the shareholder.

19. 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.

(Figures in Tables are in thousands of Azerbaijani manats)

19. Commitments and contingencies (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 global financial crisis 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 preceding the year of review.

Management believes that its interpretation of the relevant legislation as at 30 June 2013 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)

19. Commitments and contingencies (continued)

Financial commitments and contingencies comprise:

	<i>30 June 2013 (unaudited)</i>	<i>31 December 2012</i>
Credit-related commitments		
Unused credit lines	45,894	36,582
Guarantees issued	45,257	54,794
Letters of credit	19,946	15,919
	<u>111,097</u>	<u>107,295</u>
Operating lease commitments		
Not later than 1 year	725	279
Later than 1 year but not later than 5 years	1,722	1,415
Later than 5 years	225	300
	<u>2,672</u>	<u>1,994</u>
Commitments and contingencies (before deducting provisions and collateral)	113,769	109,289
Less – Provisions (Note 20)	(1,152)	(967)
Commitments and contingencies (before deducting collateral)	112,617	108,322
Less – Cash held as security against guarantees issued and letters of credit (Note 15)	(151)	(120)
Commitments and contingencies	<u>112,466</u>	<u>108,202</u>

Other commitments

In accordance with the contractual terms of the syndicated trade-related term loan Bank is required to obtain the approval of the lenders before acquiring any assets or other property at any time other than in the ordinary course of business.

20. Impairment losses on interest bearing assets and provision for guarantees and letters of credit

The movements in allowance for impairment losses on interest bearing assets and provisions for guarantees and letters of credit were as follows:

	<i>6 month ended 30 June 2013 (unaudited)</i>					<i>Total allowances and provisions</i>
	<i>Corporate lending</i>	<i>Individual lending</i>	<i>Total loans to customers</i>	<i>Amounts due from credit institutions</i>	<i>Guarantees and letters of credit</i>	
At 1 January 2013	(8,066)	(630)	(8,696)	-	(967)	(9,663)
Charge for the period	(7,569)	(5)	(7,574)	-	(185)	(7,759)
At 30 June 2013 (unaudited)	<u>(15,635)</u>	<u>(635)</u>	<u>(16,270)</u>	<u>-</u>	<u>(1,152)</u>	<u>(17,422)</u>
	<i>6 month ended 30 June 2012 (unaudited)</i>					<i>Total allowances and provisions</i>
	<i>Corporate lending</i>	<i>Individual lending</i>	<i>Total loans to customers</i>	<i>Amounts due from credit institutions</i>	<i>Guarantees and letters of credit</i>	
At 1 January 2012	(12,341)	(424)	(12,765)	-	(1,404)	(14,169)
Charge for the period	(6,075)	(104)	(6,179)	(500)	(412)	(7,091)
At 30 June 2012 (unaudited)	<u>(18,416)</u>	<u>(528)</u>	<u>(18,944)</u>	<u>(500)</u>	<u>(1,816)</u>	<u>(21,260)</u>

Allowance for impairment of assets is deducted from the carrying amount of the related assets. Provision for guarantees and letters of credit is recorded in liabilities.

*(Figures in Tables are in thousands of Azerbaijani manats)***21. Net fee and commission income**

Net fee and commission income comprise:

	<i>2013 (6 months)</i> <i>(unaudited)</i>	<i>2012 (6 months)</i> <i>(unaudited)</i>
Guarantees and letters of credit	1,168	971
Settlements operations	575	455
Servicing plastic card operations	503	294
Underwriting and market maker operations	405	-
Cash operations	356	416
Securities operations	-	221
Other	13	1
Fee and commission income	3,020	2,358
Servicing plastic card operations	(732)	(284)
Guarantees and letters of credit	(323)	(293)
Settlements operations	(266)	(141)
Securities operations	(51)	(84)
Other	(86)	(5)
Fee and commission expense	(1,458)	(807)
Net fee and commission income	1,562	1,551

*(Figures in Tables are in thousands of Azerbaijani manats)***22. Personnel, general and administrative expenses**

Personnel expenses comprise:

	<i>2013 (6 months)</i> <i>(unaudited)</i>	<i>2012 (6 months)</i> <i>(unaudited)</i>
Salaries and bonuses	(3,991)	(2,116)
Social security costs	(823)	(470)
Other employee related expenses	(675)	(594)
Total personnel expenses	(5,489)	(3,180)

General and administrative expenses comprise:

	<i>2013 (6 months)</i> <i>(unaudited)</i>	<i>2012 (6 months)</i> <i>(unaudited)</i>
Operating leases	(1,036)	(234)
Professional services	(793)	(409)
Advertising costs	(360)	(117)
Charity and sponsorship	(284)	(270)
Software cost	(216)	(275)
Utilities	(173)	(25)
Transportation and business trip expenses	(151)	(116)
Insurance	(113)	(97)
Security expenses	(77)	(50)
Communications	(61)	(47)
Stationery	(44)	(64)
Repair and maintenance	(36)	(25)
Taxes, other than income tax	(30)	(18)
Membership fees	(15)	(15)
Printing expenses	(11)	(11)
Other expenses	(229)	(115)
Total general and administrative expenses	(3,629)	(1,888)

(Figures in Tables are in thousands of Azerbaijani manats)

23. Fair values of financial instruments

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 2013 (unaudited)</i>	<i>Recurring fair value measurement</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Financial assets				
Trading securities	28,447	-	-	28,447
Investment securities available-for-sale	193,963	5,087	-	199,050
	<u>222,410</u>	<u>5,087</u>	<u>-</u>	<u>227,497</u>
<i>At 31 December 2012</i>	<i>Recurring fair value measurement</i>			<i>Total</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	
Financial assets				
Trading securities	14,180	-	-	14,180
Investment securities available-for-sale	323,699	-	-	323,699
	<u>337,879</u>	<u>-</u>	<u>-</u>	<u>337,879</u>

Recurring fair value measurements

The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

During the six months ended 30 June 2013 there were no reclassifications between the levels of the fair value hierarchy.

(Figures in Tables are in thousands of Azerbaijani manats)

23. Fair values of financial instruments (continued)

	<i>Carrying value 30 June 2013 (unaudited)</i>	<i>Fair value 30 June 2013 (unaudited)</i>	<i>Unrecognized gain/(loss) 30 June 2013 (unaudited)</i>	<i>Carrying value 31 December 2012</i>	<i>Fair value 31 December 2012</i>	<i>Unrecognized gain/(loss) 31 December 2012</i>
Financial assets						
Cash and cash equivalents	70,281	70,281	-	68,526	68,526	-
Amounts due from credit institutions	16,381	16,381	-	14,960	14,960	-
Loans to banks	4,009	4,009	-	1,000	1,000	-
Loans to customers	315,420	315,420	-	274,141	274,141	-
Investment property	2,000	2,042	42	2,000	1,997	(3)
Financial liabilities						
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds	33,485	33,485	-	35,045	35,045	-
Amounts due to customers	360,838	360,838	-	457,067	457,067	-
Amounts due to credit institutions	61,762	61,762	-	30,935	30,935	-
Total unrecognized change in unrealised fair value			42			(3)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

24. 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 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.

(Figures in Tables are in thousands of Azerbaijani manats)

24. Related party disclosures (continued)

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

	30 June 2013 (unaudited)					31 December 2012				
	Entities under common control		Key management personnel		Other	Total	Entities under common control		Key management personnel	
	Parent	control	personnel	Other			Parent	control	personnel	Other
Loans, gross	25	8,680	772	-	9,477	23	8,872	475	-	9,370
Less: allowance for impairment	-	(72)	(4)	-	(76)	-	(64)	(3)	-	(67)
Loans, net	25	8,608	768	-	9,401	23	8,808	472	-	9,303
Deposits	17,702	11,374	274	56,350	85,700	47,618	5,230	374	91,941	145,163
Current accounts	7,725	58,305	222	115,537	181,789	7,139	54,841	219	166,900	229,099
Guarantees issued	-	38	-	-	38	-	36	-	-	36
Unused credit lines	70	5,105	65	10	5,250	71	6,139	118	15	6,343

The income and expense arising from related party transactions are as follows:

	For the six months ended										
	30 June 2013 (unaudited)					30 June 2012 (unaudited)					
	Entities under common control		Key management personnel		Other related parties	Total	Entities under common control		Key management personnel		Other related parties
Parent	control	personnel	Other	Parent			control	personnel	Other		
Interest income on loans	1	477	31	-	509	1	1,170	17	-	1,188	
Interest expense on deposits	(1,256)	(540)	(17)	(1,703)	(3,516)	(1,942)	(159)	(17)	(1,860)	(3,978)	
Fee and commission income	7	322	-	2	331	13	260	-	1	274	
General and administrative expenses	-	(1,167)	-	(35)	(1,202)	-	(364)	-	(35)	(399)	

Compensation of key management personnel was comprised of the following:

	6 months ended 30 June 2013 (unaudited)	6 months ended 30 June 2012 (unaudited)
Salaries and other benefits	(1,372)	(1,081)
Social security costs	(241)	(238)
Total key management compensation	(1,613)	(1,319)

(Figures in Tables are in thousands of Azerbaijani manats)

25. 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 by the CBAR.

The Bank had complied in full with capital requirements imposed by the CBAR and NBG during six months ended 30 June 2013.

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.

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets for regulatory capital. As at 30 June 2013 and 31 December 2012 the Bank’s capital adequacy ratio on this basis was as follows:

	<i>30 June 2013 (unaudited)</i>	<i>31 December 2012</i>
Tier 1 capital	178,000	165,809
Tier 2 capital	10,154	18,403
Less: Deductions from capital	<u>(18,962)</u>	<u>(18,893)</u>
Total regulatory capital	<u>169,912</u>	<u>165,319</u>
Risk-weighted assets	<u>538,813</u>	<u>490,752</u>
Capital adequacy ratio	31%	34%

NBG capital adequacy ratio

NBG requires banks to maintain a minimum total capital adequacy ratio of 12% of risk-weighted assets for regulatory capital. As at 30 June 2013, the Bank’s subsidiary’s capital adequacy ratio was 221%.

26. Events after the end of the interim period

On 25 June 2013, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting to AZN 50,000 thousands. Increase of share capital has been finalized on 30 July 2013 and as the result the Bank authorized, issued and fully paid capital amounted to AZN 228,000 thousands comprising of 10,000 ordinary shares with a par value of AZN 22,800.00 per share. Each share entitles one vote to the shareholder.

In July 2013 the Bank has resolved to make an investment and acquire a bank registered under the legislation of the foreign country, which shall become the Bank’s subsidiary upon completion and formalization of the acquisition process.