

**OJSC PASHA Bank**  
**Interim Condensed Financial Statements**

*30 June 2012*

*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, comprising the interim statement of financial position as at 30 June 2012 and the related interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended and 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.*

7 August 2012

**INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION****As at 30 June 2012***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	<i>30 June 2012 (unaudited)</i>	<i>31 December 2011</i>
<b>Assets</b>			
Cash and cash equivalents	4	28,634	35,105
Trading securities	5	22,825	24,736
Securities purchased under agreements to resell	6	-	26,932
Amounts due from credit institutions	7	47,208	24,684
Investment securities available-for-sale	8	225,888	209,307
Loans to banks	9	5,312	1,500
Loans to customers	10	281,390	234,004
Property and equipment	11	7,157	4,216
Investment property	12	2,000	2,000
Intangible assets	13	2,158	1,842
Current income tax assets		-	112
Other assets	14	7,500	9,442
<b>Total assets</b>		<b>630,072</b>	<b>573,880</b>
<b>Liabilities</b>			
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds	15	66,538	30,896
Amounts due to customers	16	360,237	371,499
Amounts due to credit institutions	17	21,909	14,107
Deferred income tax liabilities		795	758
Provision for guarantees and other commitments	21	1,816	1,404
Other liabilities	14	1,363	3,388
Amount reserved for increase in share capital		-	2,645
<b>Total liabilities</b>		<b>452,658</b>	<b>424,697</b>
<b>Equity</b>			
Share capital	19	157,000	123,475
Retained earnings		20,439	25,717
Net unrealised losses on investment securities available-for-sale		(25)	(9)
<b>Total equity</b>		<b>177,414</b>	<b>149,183</b>
<b>Total liabilities and equity</b>		<b>630,072</b>	<b>573,880</b>

**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

7 August 2012

*The accompanying selected explanatory notes on pages 6 to 24 are an integral part of these interim condensed financial statements.*

**INTERIM CONDENSED INCOME STATEMENT****For the six months ended 30 June 2012***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	<b>2012</b> <i>(6 months)</i> <i>(unaudited)</i>	<b>2011</b> <i>(6 months)</i> <i>(unaudited)</i>
<b>Interest income</b>			
Loans to customers		17,306	12,195
Investment securities		4,168	3,055
Amounts due from credit institutions		1,113	1,022
Guarantees and letters of credit		932	747
Loans to banks		153	312
Securities purchased under agreements to resell		125	68
		<b>23,797</b>	<b>17,399</b>
<b>Interest expense</b>			
Amounts due to customers		(5,841)	(5,776)
Amounts due to credit institutions		(595)	(320)
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds		(497)	(208)
Guarantees and letters of credit		(216)	(246)
		<b>(7,149)</b>	<b>(6,550)</b>
<b>Net interest income</b>		<b>16,648</b>	<b>10,849</b>
Provision for impairment losses on interest bearing assets (Provision)/reversal of provision for guarantees and other commitments		(6,679) (412)	(4,004) 1,582
<b>Impairment losses on interest bearing assets, and provisions for guarantees and other commitments</b>	21	<b>(7,091)</b>	<b>(2,422)</b>
<b>Net interest income after provision for impairment losses</b>		<b>9,557</b>	<b>8,427</b>
Net fee and commission income	22	1,177	796
Net gains/(losses) from trading securities		304	(242)
Net losses from investment securities available-for-sale		(3)	(442)
Net gains from foreign currencies:			
- dealing		1,530	1,395
- translation differences		123	2
Other income		23	2
<b>Non-interest income</b>		<b>3,154</b>	<b>1,511</b>
Personnel expenses	23	(3,180)	(2,565)
General and administrative expenses	23	(1,888)	(1,576)
Depreciation and amortisation	11,13	(501)	(423)
<b>Non-interest expenses</b>		<b>(5,569)</b>	<b>(4,564)</b>
<b>PROFIT BEFORE INCOME TAX EXPENSE</b>		<b>7,142</b>	<b>5,374</b>
Income tax expense	18	(1,670)	(302)
<b>NET PROFIT FOR THE PERIOD</b>		<b>5,472</b>	<b>5,072</b>

*The accompanying notes on pages 6 to 24 are an integral part of these interim condensed financial statements.*

**INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME****For the six months ended 30 June 2012***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Notes</i>	<i>2012 (6 months) (unaudited)</i>	<i>2011 (6 months) (unaudited)</i>
<b>Net profit for the period</b>		<b>5,472</b>	<b>5,072</b>
<b>Other comprehensive income</b>			
Unrealised losses on investment securities available-for-sale		(18)	-
Deferred tax effect	18	2	-
<b>Other comprehensive income for the period, net of tax</b>		<b>(16)</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>5,456</b>	<b>5,072</b>

*The accompanying notes on pages 6 to 24 are an integral part of these interim condensed financial statements.*

**INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY****For the six months ended 30 June 2012***(Figures in Tables are in thousands of Azerbaijani Manats)*

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Net unrealised losses on investment securities available- for-sale</i>	<i>Total equity</i>
<b>As at 31 December 2010</b>	<b>115,407</b>	<b>21,408</b>	-	<b>136,815</b>
Capitalization of net profit for the year 2010 to share capital (Note 19)	8,068	(8,068)	-	-
Total comprehensive income for the six months ended 30 June 2011 (unaudited)	-	5,072	-	5,072
<b>As at 30 June 2011 (unaudited)</b>	<b>123,475</b>	<b>18,412</b>	-	<b>141,887</b>
<b>As at 31 December 2011</b>	<b>123,475</b>	<b>25,717</b>	<b>(9)</b>	<b>149,183</b>
Capitalization of net profit for the year 2011 to share capital (Note 19)	10,750	(10,750)	-	-
Additional issue of share capital	22,775	-	-	22,775
Total comprehensive income for the six months ended 30 June 2012 (unaudited)	-	5,472	(16)	5,456
<b>As at 30 June 2012 (unaudited)</b>	<b>157,000</b>	<b>20,439</b>	<b>(25)</b>	<b>177,414</b>

*The accompanying notes on pages 6 to 24 are an integral part of these interim condensed financial statements.*

**INTERIM CONDENSED STATEMENT OF CASH FLOWS****For the six months ended 30 June 2012***(Figures in Tables are in thousands of Azerbaijani Manats)*

<i>Notes</i>	<b>2012</b> <i>(6 months)</i> <i>(unaudited)</i>	<b>2011</b> <i>(6 months)</i> <i>(unaudited)</i>
<b>Cash flows from operating activities</b>		
Interest received	21,638	17,655
Interest paid	(6,238)	(6,132)
Fees and commissions received	1,570	1,291
Fees and commissions paid	(593)	(495)
Net realized losses on sale of investment securities available-for-sale	(3)	(442)
Net realized losses from trading securities	(307)	-
Realised gains less losses from dealing in foreign currencies	1,530	1,395
Personnel expenses paid	(4,147)	(2,215)
General and administrative expenses paid	(1,764)	(1,514)
Other operating income received	14	2
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>	<b>11,700</b>	<b>9,545</b>
<i>Net (increase)/decrease in operating assets</i>		
Amounts due from credit institutions	(23,067)	(9,877)
Trading securities	2,509	(13,501)
Loans to banks	(3,800)	1,278
Loans to customers	(53,336)	(20,502)
Other assets	572	(388)
<i>Net increase/(decrease) in operating liabilities</i>		
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds	35,328	1,498
Amounts due to customers	(9,578)	(27,270)
Amounts due to credit institutions	8,176	8,175
Other liabilities	26	(2,267)
<b>Net cash used in operating activities before income tax</b>	<b>(31,470)</b>	<b>(53,309)</b>
Income tax paid	(681)	(1,095)
<b>Net cash used in operating activities</b>	<b>(32,151)</b>	<b>(54,404)</b>
<b>Cash flows from investing activities</b>		
Proceeds from securities purchased under agreements to resell	26,930	4,775
Net purchases and proceeds from sale and redemption of investment securities available-for-sale	(16,635)	(48,687)
Purchase and prepayments for property and equipment and intangible assets	(2,909)	(2,622)
Proceeds from sale of property and equipment	9	-
<b>Net cash from/(used in) investing activities</b>	<b>7,395</b>	<b>(46,534)</b>
<b>Cash flows from financing activities</b>		
Issue of ordinary share capital	19	20,131
Dividends paid	19	(982)
<b>Net cash from financing activities</b>	<b>19,149</b>	<b>-</b>
Effect of exchange rates changes on cash and cash equivalents	(864)	2
<b>Net decrease in cash and cash equivalents</b>	<b>(6,471)</b>	<b>(100,936)</b>
<b>Cash and cash equivalents, beginning</b>	<b>4</b>	<b>132,892</b>
<b>Cash and cash equivalents, ending</b>	<b>4</b>	<b>31,956</b>

*The accompanying notes on pages 6 to 24 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 private customers.

The Bank has two service points in Azerbaijan as of 30 June 2012 (31 December 2011: two) and one representative office in the Republic of Georgia.

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

As of 30 June 2012 and 31 December 2011, the following shareholders owned the outstanding shares of the Bank:

<b>Shareholder</b>	<b>30 June 2012</b> <i>(%)</i>	<b>31 December 2011</b> <i>(%)</i>
Pasha Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
<b>Total</b>	<b>100</b>	<b>100</b>

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 2012, 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 and trading securities.

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 2011.

(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 2011, except for the adoption of new Standards and Interpretations as of 1 January 2012, noted below:

#### Amendments to IFRS 7 "Financial Instruments: Disclosures"

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

#### Amendments to IAS 12 "Income Taxes" – Deferred tax: Recovery of underlying assets

In December 2010 the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. These amendments had no impact on the Bank's financial position.

### 4. Cash and cash equivalents

Cash and cash equivalents comprise:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December 2011</i>
Cash on hand	8,691	4,594
Current accounts with the Central Bank of the Republic of Azerbaijan	7,017	10,894
Current accounts with other credit institutions	9,059	13,870
Time deposits	3,867	5,747
<b>Cash and cash equivalents</b>	<b>28,634</b>	<b>35,105</b>

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 3,935 thousands (31 December 2011–AZN 8,818 thousands) and AZN 5,124 thousands (31 December 2011–AZN 5,052 thousands), respectively.

As of 30 June 2012 the Bank placed AZN 3,867 thousands (31 December 2011–AZN 5,747 thousands) in time deposit with one non-resident bank (31 December 2011–non-resident bank) maturing through July 2012 (31 December 2011–January 2012) and with effective annual interest rate of 0.21% (31 December 2011–0.1%).

Non-cash transaction performed by the Bank during 2012 is represented by capitalization of net profit for the year 2011 (2011–for the year 2010) to share capital in the amount AZN 10,750 thousands (2011–AZN 8,068 thousands).

(Figures in Tables are in thousands of Azerbaijani Manats)

## 5. Trading securities

Trading securities comprise:

	<i>30 June 2012 (unaudited)</i>		<i>31 December 2011</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	8.74%-11.00%	11,475	11.00%	9,784
Corporate bonds issued by Bakcell LTD	9.50%	7,675	9.50%	9,682
Eurobonds of Akbank TAS	5.13%	3,165	5.13%	3,010
Corporate bonds issued by "Unileasing" Leasing Company CJSC	10.00%	510	9.50%-10.00%	1,017
Equity securities held by Citadele Banka JSC, external asset manager	-	-	-	720
T-bills of Hellenic Republic	-	-	4.30%	523
<b>Trading securities</b>		<b>22,825</b>		<b>24,736</b>

In 2011 the Bank launched market maker service activities and signed related agreements with three local companies. As of 30 June 2012 the Bank had trading securities under these agreements amounting to AZN 19,660 thousands (31 December 2011–AZN 20,483 thousands).

## 6. Securities purchased under agreements to resell

As of 30 June 2012 the balance of short-term notes issued by the CBAR purchased under agreement to resell equals nil (31 December 2011–AZN 26,932 thousands).

## 7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<i>30 June 2012 (unaudited)</i>	<i>31 December 2011</i>
Time deposits	37,780	19,697
Obligatory reserve with the Central Bank of the Republic of Azerbaijan	9,928	4,983
Blocked deposits	-	4
	47,708	24,684
Less–Allowance for impairment (Note 21)	(500)	-
<b>Amounts due from credit institutions</b>	<b>47,208</b>	<b>24,684</b>

As of 30 June 2012, AZN 30,457 thousands or 81% of total time deposits (31 December 2011–AZN 16,353 thousands or 83% of total time deposits) was placed on inter-bank deposits with three local (31 December 2011–two local and one non resident) commercial banks maturing through October 2012 (31 December 2011–May 2012) and with effective annual interest rate of 3%-9.50% (31 December 2011–6%-12%).

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBA at 3% (31 December 2011–2%-3%) of the previous month average of funds attracted from customers by the credit institution in local and foreign currencies. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

(Figures in Tables are in thousands of Azerbaijani Manats)

## 8. Investment securities

Available-for-sale securities comprise:

	<i>30 June 2012 (unaudited)</i>		<i>31 December 2011</i>	
	<i>Carrying value</i>	<i>Nominal value</i>	<i>Carrying value</i>	<i>Nominal value</i>
Notes issued by the Azerbaijan Mortgage Fund	144,219	142,326	163,695	160,992
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	-	-	11,952	11,997
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	40,990	40,638	33,357	33,632
Notes issued by Baghlan Group FZCO	34,686	35,352	-	-
Notes issued by the Central Bank of the Republic of Azerbaijan	5,686	5,684	-	-
Corporate bonds issued by FinansLizing Open Joint Stock Company (OJSC)	307	303	303	303
<b>Investment securities available-for-sale</b>	<b>225,888</b>	<b>224,303</b>	<b>209,307</b>	<b>206,924</b>

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

	<i>30 June 2012 (unaudited)</i>		<i>31 December 2011</i>	
	<i>%</i>	<i>Maturity</i>	<i>%</i>	<i>Maturity</i>
Notes issued by the Azerbaijan Mortgage Fund	3.00%-3.25%	May 2016- January 2022	3.00%-3.25%	May 2016- December 2019
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	-	-	2.50%-2.99%	February 2012-May 2012
Treasury bills issued by the Ministry of Finance of the Republic of Azerbaijan	4.00%	July 2012- June 2013	3.98%-7.00%	March 2012- December 2012
Notes issued by Baghlan Group FZCO	14.75%	June 2015	-	-
Notes issued by the Central Bank of the Republic of Azerbaijan	1.35%-1.40%	July 12	-	-
Corporate bonds issued by FinansLizing Open Joint Stock Company (OJSC)	15.00%	December 2012	15.00%	December 2012

## 9. Loans to banks

As of 30 June 2012 the Bank had outstanding amount of AZN 5,312 thousands (31 December 2011—AZN 1,500 thousands) of unsecured loans denominated in Azerbaijani Manat, issued to three (31 December 2011—one) resident commercial banks with contractual maturity through May 2013 (31 December 2011—April 2012) and annual interest rate of 6.5%-12% (31 December 2011—11%).

(Figures in Tables are in thousands of Azerbaijani Manats)

## 10. Loans to customers

Loans to customers comprise:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Legal entities	282,751	241,970
Individuals	17,583	4,799
<b>Loans to customers (gross)</b>	<b>300,334</b>	<b>246,769</b>
Less—Allowance for impairment (Note 21)	(18,944)	(12,765)
<b>Loans to customers (net)</b>	<b>281,390</b>	<b>234,004</b>

Loans are made within Azerbaijan in the following industry sectors:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Trade and services	117,247	111,430
Manufacturing	67,713	60,450
Construction	52,134	37,417
Hotel business	20,485	20,057
Individuals	17,583	4,799
Transport and telecommunication	12,598	5,336
Agriculture and food processing	6,997	6,861
Leasing	5,007	-
Energy	208	255
Other	362	164
<b>Total loans (gross)</b>	<b>300,334</b>	<b>246,769</b>

As of 30 June 2012, the Bank granted loans to 10 customers (31 December 2011—8 customers) totalling AZN 155,600 thousands (31 December 2011—AZN 131,660 thousands), which individually exceeded 5% of the Bank's equity.

(Figures in Tables are in thousands of Azerbaijani Manats)

## 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>
<b>Cost</b>								
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
31 December 2011	2,151	1,521	1,191	926	35	108	-	5,932
Additions	-	689	272	-	41	-	2,307	3,309
Disposals	-	-	-	(21)	-	-	-	(21)
Transfers	2,307	-	-	-	-	-	(2,307)	-
30 June 2012 (unaudited)	4,458	2,210	1,463	905	76	108	-	9,220
<b>Accumulated depreciation</b>								
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)
31 December 2011	-	(709)	(635)	(312)	(21)	(39)	-	(1,716)
Depreciation charge	(26)	(112)	(112)	(105)	(4)	(9)	-	(368)
Disposals	-	-	-	21	-	-	-	21
30 June 2012 (unaudited)	(26)	(821)	(747)	(396)	(25)	(48)	-	(2,063)
<b>Net book value:</b>								
30 June 2011 (unaudited)	2,151	683	600	507	18	77	-	4,036
30 June 2012 (unaudited)	4,432	1,389	716	509	51	60	-	7,157
31 December 2011	2,151	812	556	614	14	69	-	4,216

(Figures in Tables are in thousands of Azerbaijani Manats)

## 12. Investment property

In 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 of 30 June 2012 the fair value of this investment property amounted to AZN 1,918 thousands (31 December 2011–AZN 1,920 thousands).

## 13. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
<b>Cost</b>			
<b>31 December 2010</b>	<b>376</b>	<b>1,410</b>	<b>1,786</b>
Additions	142	118	260
Disposals	(2)	-	(2)
<b>30 June 2011 (unaudited)</b>	<b>516</b>	<b>1,528</b>	<b>2,044</b>
<b>31 December 2011</b>	<b>400</b>	<b>1,846</b>	<b>2,246</b>
Additions	88	361	449
<b>30 June 2012 (unaudited)</b>	<b>488</b>	<b>2,207</b>	<b>2,695</b>
<b>Accumulated amortization</b>			
<b>31 December 2010</b>	<b>(70)</b>	<b>(109)</b>	<b>(179)</b>
Amortisation charge	(31)	(75)	(106)
Disposals	2	-	2
<b>30 June 2011 (unaudited)</b>	<b>(99)</b>	<b>(184)</b>	<b>(283)</b>
<b>31 December 2011</b>	<b>(131)</b>	<b>(273)</b>	<b>(404)</b>
Amortisation charge	(33)	(100)	(133)
Disposals	-	-	-
<b>30 June 2012 (unaudited)</b>	<b>(164)</b>	<b>(373)</b>	<b>(537)</b>
<b>Net book value:</b>			
<b>30 June 2011 (unaudited)</b>	<b>417</b>	<b>1,344</b>	<b>1,761</b>
<b>30 June 2012 (unaudited)</b>	<b>324</b>	<b>1,834</b>	<b>2,158</b>
<b>31 December 2011</b>	<b>269</b>	<b>1,573</b>	<b>1,842</b>

(Figures in Tables are in thousands of Azerbaijani Manats)

#### 14. Other assets and liabilities

Other assets comprise:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
<b>Other financial assets</b>		
Settlements on money transfers	193	206
Accrued interest receivable on guarantees and letters of credit	180	75
	<u>373</u>	<u>281</u>
<b>Other non-financial assets</b>		
Prepayments for acquisition of property, equipment and intangible assets	5,369	6,217
Deferred expenses	664	418
Receivable from the Ministry of Taxes	430	2,467
Other	664	59
	<u>7,127</u>	<u>9,161</u>
<b>Other assets</b>	<u><b>7,500</b></u>	<u><b>9,442</b></u>

As of 30 June 2012 prepayments for the purchase of property, equipment and intangible assets of AZN 5,369 thousands (31 December 2011–AZN 6,217 thousands), related to premises for the Bank's new branches located in Baku and regions of the Republic of Azerbaijan.

Other liabilities comprise:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
<b>Other financial liabilities</b>		
Payable to employees	132	195
Payables on social security costs	141	43
Payables for intangible assets	102	-
Payables for professional services	47	56
Accrued expenses	34	20
Settlements on money transfer	24	72
Accrued interest payables on letters of credit	20	12
Other	-	1
Dividends payable (Note 19)	-	982
	<u>500</u>	<u>1,381</u>
<b>Other non-financial liabilities</b>		
Accrued staff bonuses	512	1,525
Deferred income	350	482
Other	1	-
	<u>863</u>	<u>2,007</u>
<b>Other liabilities</b>	<u><b>1,363</b></u>	<u><b>3,388</b></u>



(Figures in Tables are in thousands of Azerbaijani Manats)

## 15. 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:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Loans from the National Fund for Support of Entrepreneurship	25,669	19,971
Short-term deposits from banks	24,411	-
Loans from the Central Bank of the Republic of Azerbaijan	10,152	10,000
Short term loans from resident banks	5,005	-
Amount due to Azerbaijan Mortgage Fund	1,297	921
Correspondent accounts with other banks	4	4
<b>Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds</b>	<b><u>66,538</u></b>	<b><u>30,896</u></b>

As of 30 June 2012, the Bank had nineteen loans (31 December 2011–fourteen loans) from the National Fund for Support of Entrepreneurship amounting to AZN 25,669 thousands (31 December 2011–AZN 19,971 thousands), maturing through 2022 (31 December 2011–through 2016), and bearing annual interest rate of 1.0%. 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% annual interest rate (31 December 2011–6%-7% p.a.) with maturities through February 2022 (31 December 2011–December 2016).

As of 30 June 2012 the Bank had loans from the Central Bank of the Republic of Azerbaijan amounting to AZN 10,152 thousands (31 December 2011–AZN 10,000 thousands), maturing through February 2013 (31 December 2011–December 2012) and bearing annual interest rate of 6.00% (31 December 2011–2.5%-6.00%)

As of 30 June 2012 the Bank had thirty one loans (31 December 2011–twenty two loans) refinanced from the Azerbaijan Mortgage Fund amounting to AZN 1,297 thousands (31 December 2011–AZN 921 thousands), maturing through 2037 (31 December 2011–through 2036) and bearing annual interest rate of 4.0%.

## 16. Amounts due to customers

The amounts due to customers include the following:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Time deposits	190,909	165,874
Demand deposits	169,328	205,625
<b>Amounts due to customers</b>	<b><u>360,237</u></b>	<b><u>371,499</u></b>
<b>Held as security against guarantees and letters of credit</b>	<b>87</b>	<b>56</b>

(Figures in Tables are in thousands of Azerbaijani Manats)

## 16. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Individuals	184,653	170,341
Investment holding companies	124,162	125,897
Trade and services	21,772	28,847
Construction	9,468	38,218
Insurance	8,281	2,414
Manufacturing	4,247	2,873
Public organizations	2,835	-
Transport and communication	1,371	511
Agriculture	332	684
Energy	1	32
Other	3,115	1,682
<b>Amounts due to customers</b>	<b><u>360,237</u></b>	<b><u>371,499</u></b>

As of 30 June 2012 customer deposits included balances with five largest customers amounting to AZN 287,267 thousands (31 December 2011–AZN 262,902 thousands). These deposits comprise significant concentration of approximately 80% (31 December 2011–71%) of the total customer deposits portfolio.

As at 30 June 2012 time deposits amounting to AZN 87 thousands (31 December 2011–AZN 56 thousands) were held as security against guarantees and letters of credit issued (Note 20).

## 17. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Commerzbank Aktiengesellschaft	12,064	7,814
Raiffeisen Bank International Aktiengesellschaft	6,866	3,302
Landesbank Baden-Württemberg	2,979	2,991
<b>Amounts due to credit institutions</b>	<b><u>21,909</u></b>	<b><u>14,107</u></b>

As of 30 June 2012 amounts due to credit institutions included balances with 3 foreign banks (31 December 2011–3 foreign banks) amounting to AZN 21,909 thousands (31 December 2011–AZN 14,107 thousands), maturing through 2013 (31 December 2011–through 2012) and bearing interest rate of 2.34%–7.09% p.a (31 December 2011–3.64%–6.94% p.a.) These unsecured borrowings are for trade finance of import operations (letters of credit) of the customers of the Bank.

(Figures in Tables are in thousands of Azerbaijani Manats)

## 18. Taxation

The corporate income tax expense comprises:

	<u>2012 (6 months)</u> <u>(unaudited)</u>	<u>2011 (6 months)</u> <u>(unaudited)</u>
Current tax charge	(1,631)	(302)
Deferred tax charge	(39)	-
<b>Income tax expense</b>	<b><u>(1,670)</u></b>	<b><u>(302)</u></b>

Deferred tax related to items credited to other comprehensive income during the year is as follows:

	<u>2012 (6 months)</u> <u>(unaudited)</u>	<u>2011 (6 months)</u> <u>(unaudited)</u>
Net losses on investment securities available-for-sale	2	-
<b>Income tax charged to the other comprehensive income</b>	<b><u>2</u></b>	<b><u>-</u></b>

## 19. 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 5 December 2011, the shareholders of the Bank declared dividends of AZN 982 thousands from the 2011 net profit of the Bank and this amount was accrued accordingly as of 31 December 2011. The dividends were paid to the shareholders of the Bank on 1 May 2012.

As of 31 December 2011, amount reserved for increase in share capital amounted to AZN 2,645 thousands. During prior year the Tax Authorities applied 10% dividend tax to the amounts of capitalized profit (under the assumption that the profit is initially distributed as a dividend and subsequently capitalized) for all commercial banks in the Republic of Azerbaijan. The Bank has deducted and paid to tax authorities 10% of dividend tax for 2009 and 2010 in the amounts of AZN 1,541 thousands and AZN 1,104 thousands, respectively. However, during 2011 the Constitutional Court of the Republic of Azerbaijan has found application of this dividend tax unlawful and cancelled it. Based on this, the Bank prepared and sent revised withholding tax declaration and recognized this amount as tax receivable (which is being used for settlement of tax obligations of the Bank) with a corresponding credit to amount reserved for increase in share capital. The shareholders of bank made decision to use these amounts for share capital increase together with the 90% portion of current year statutory profit.

In 2011 share capital was increased 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.

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 2,644 thousands amount reserved for increase in share capital. As a result the share capital was increased from AZN 123,475 thousands to AZN 136,869 thousands.

On 17 April 2012, the shareholders of the bank have decided to increase share capital of the bank by additional cash contribution amounting of AZN 20,131 thousands. Increase of share capital has been finalized on 29 June 2012. The increase was carried out by converting 10,000 shares with a par value of AZN 13,686.94 into an equal number of shares with a par value of AZN 15,700.00.

As of 30 June 2012, the Bank authorized, issued and fully paid capital amounted to AZN 157,000 thousands (31 December 2011–AZN 123,475 thousands) and comprised 10,000 ordinary shares with a par value of AZN 15,700.00 per share (31 December 2011–AZN 12,347.47). Each share entitles one vote to the shareholder.

*(Figures in Tables are in thousands of Azerbaijani Manats)*

## 20. 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.

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 proceeding the year of review.

Management believes that its interpretation of the relevant legislation as of 30 June 2012 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)

## 20. Commitments and contingencies (continued)

Financial commitments and contingencies comprise:

	<i>30 June 2012</i> <i>(unaudited)</i>	<i>31 December 2011</i>
<b>Credit-related commitments</b>		
Guarantees issued	56,228	16,526
Unused credit lines	11,675	27,061
Letters of credit	10,266	13,056
	<b>78,169</b>	<b>56,643</b>
<b>Operating lease commitments</b>		
Not later than 1 year	364	276
Later than 1 year but not later than 5 years	818	983
Later than 5 years	525	600
	<b>1,707</b>	<b>1,859</b>
Less-Provisions (Note 21)	(1,816)	(1,404)
<b>Commitments and contingencies (before deducting collateral)</b>	<b>78,060</b>	<b>57,098</b>
Less-Cash held as security against guarantees and letters of credit (Note 16)	(87)	(56)
<b>Commitments and contingencies</b>	<b>77,973</b>	<b>57,042</b>

## 21. Impairment losses on interest bearing assets and provision for guarantees and other commitments

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 2012 (unaudited)</i>						
	<i>Corporate lending</i>	<i>Individual lending</i>	<i>Total loans to customers</i>	<i>Investment securities held to maturity</i>	<i>Amounts due from credit institutions</i>	<i>Guarantees and other commitments</i>	<i>Total allowances and provisions</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)	<b>(18,416)</b>	<b>(528)</b>	<b>(18,944)</b>	<b>-</b>	<b>(500)</b>	<b>(1,816)</b>	<b>(21,260)</b>

  

	<i>6 month ended 30 June 2011 (unaudited)</i>						
	<i>Corporate lending</i>	<i>Individual lending</i>	<i>Total loans to customers</i>	<i>Investment securities held to maturity</i>	<i>Amounts due from credit institutions</i>	<i>Guarantees and other commitments</i>	<i>Total allowances and provisions</i>
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)	<b>(11,920)</b>	<b>(307)</b>	<b>(12,227)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,227)</b>

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

(Figures in Tables are in thousands of Azerbaijani Manats)

## 22. Net fee and commission income

Net fee and commission income comprise:

	<i>2012 (6 months)</i> <i>(unaudited)</i>	<i>2011 (6 months)</i> <i>(unaudited)</i>
Settlements operations	455	350
Cash operations	416	230
Currency conversion operations	344	515
Servicing plastic card operations	294	112
Securities operations	221	-
Guarantees and commitments	39	47
Other	1	37
<b>Fee and commission income</b>	<b>1,770</b>	<b>1,291</b>
Servicing plastic card operations	(284)	(131)
Settlements operations	(141)	(110)
Securities operations	(84)	(191)
Guarantees and commitments	(77)	(41)
Currency conversion operations	(2)	(11)
Cash operations	-	(6)
Other	(5)	(5)
<b>Fee and commission expense</b>	<b>(593)</b>	<b>(495)</b>
<b>Net fee and commission income</b>	<b>1,177</b>	<b>796</b>

(Figures in Tables are in thousands of Azerbaijani Manats)

### 23. Personnel, general and administrative expenses

Personnel expenses comprise:

	<i>2012 (6 months)</i> <i>(unaudited)</i>	<i>2011 (6 months)</i> <i>(unaudited)</i>
Salaries and bonuses	2,116	1,833
Social security costs	470	488
Other employee related expenses	594	244
<b>Total personnel expenses</b>	<b>3,180</b>	<b>2,565</b>

General and administrative expenses comprise:

	<i>2012 (6 months)</i> <i>(unaudited)</i>	<i>2011 (6 months)</i> <i>(unaudited)</i>
Professional services	(409)	(279)
Software cost	(275)	(174)
Charity and sponsorship	(270)	(331)
Operating leases	(234)	(113)
Advertising costs	(117)	(116)
Transportation and business trip expenses	(116)	(180)
Insurance	(97)	(70)
Stationery	(64)	(27)
Security expenses	(50)	(43)
Communications	(47)	(46)
Repair and maintenance	(25)	(22)
Utilities	(25)	(29)
Taxes, other than income tax	(18)	(72)
Membership fees	(15)	(11)
Printing expenses	(11)	(6)
Other expenses	(115)	(57)
<b>Total general and administrative expenses</b>	<b>(1,888)</b>	<b>(1,576)</b>

(Figures in Tables are in thousands of Azerbaijani Manats)

## 24. 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: 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 2012 (unaudited)</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Financial assets</b>				
Trading securities	22,825	-	-	22,825
Investment securities available-for-sale	225,888	-	-	225,888
	<b>248,713</b>	<b>-</b>	<b>-</b>	<b>248,713</b>
<i>At 31 December 2011</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
<b>Financial assets</b>				
Trading securities	24,213	523	-	24,736
Investment securities available-for-sale	209,307	-	-	209,307
	<b>233,520</b>	<b>523</b>	<b>-</b>	<b>234,043</b>

### *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.



(Figures in Tables are in thousands of Azerbaijani Manats)

## 24. Fair values of financial instruments (continued)

	<i>Carrying value 30 June 2012 (unaudited)</i>	<i>Fair value 30 June 2012 (unaudited)</i>	<i>Unrecognized gain/(loss) 30 June 2012 (unaudited)</i>	<i>Carrying Value 31 December 2011</i>	<i>Fair Value 31 December 2011</i>	<i>Unrecognized gain/(loss) 31 December 2011</i>
<b>Financial assets</b>						
Cash and cash equivalents	28,634	28,634	-	35,105	35,105	-
Amounts due from credit institutions	47,208	47,208	-	24,684	24,684	-
Loans to banks	5,312	5,312	-	1,500	1,500	-
Loans to customers	281,390	281,390	-	234,004	234,004	-
Investment property	2,000	1,918	(82)	2,000	1,920	(80)
<b>Financial liabilities</b>						
Amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds	66,538	66,538	-	30,896	30,896	-
Amounts due to customers	360,237	360,237	-	371,499	371,499	-
Amounts due to credit institutions	21,909	21,909	-	14,107	14,107	-
<b>Total unrecognised change in unrealised fair value</b>			<b>(82)</b>			<b>(80)</b>

*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 and variable rate financial instruments*

For quoted debt instruments the fair values are determined based on quoted market prices. 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.

## 25. 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)

## 25. 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:

	<i>30 June 2012 (unaudited)</i>					<i>31 December 2011</i>				
	<i>Entities under common control</i>		<i>Key management personnel</i>		<i>Total</i>	<i>Entities under common control</i>		<i>Key management personnel</i>		<i>Total</i>
	<i>Parent</i>	<i>control</i>	<i>personnel</i>	<i>Other</i>		<i>Parent</i>	<i>control</i>	<i>personnel</i>	<i>Other</i>	
Loans, gross	17	22,001	358	-	<b>22,376</b>	16	21,989	304	-	<b>22,309</b>
Less: allowance for impairment	-	(146)	(4)	-	<b>(150)</b>	-	(192)	(5)	-	<b>(197)</b>
Loans, net	17	21,855	354	-	<b>22,226</b>	16	21,797	299	-	<b>22,112</b>
Deposits	47,777	3,020	377	101,175	<b>152,349</b>	47,560	7,000	375	62,593	<b>117,528</b>
Current accounts	6,459	52,112	73	71,633	<b>130,277</b>	5,339	61,162	77	84,363	<b>150,941</b>
Guarantees issued	-	35	-	-	<b>35</b>	-	32	-	-	<b>32</b>
Unused credit lines	74	721	91	15	<b>901</b>	75	340	100	15	<b>530</b>

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

	<i>For the six months ended</i>										
	<i>30 June 2012 (unaudited)</i>					<i>30 June 2011 (unaudited)</i>					
	<i>Entities under common control</i>		<i>Key management personnel</i>		<i>Other related parties</i>	<i>Total</i>	<i>Entities under common control</i>		<i>Key management personnel</i>		<i>Other related parties</i>
<i>Parent</i>	<i>control</i>	<i>personnel</i>	<i>Other</i>	<i>Parent</i>			<i>control</i>	<i>personnel</i>	<i>Other</i>		
Interest income on loans	1	1,170	17	-	<b>1,188</b>	-	1,193	12	-	<b>1,205</b>	
Interest expense on deposits	(1,942)	(159)	(17)	(1,860)	<b>(3,978)</b>	(2,004)	(189)	(14)	(1,614)	<b>(3,821)</b>	
Fee and commission income	13	260	-	1	<b>274</b>	4	300	-	1	<b>305</b>	
General and administrative expenses	-	(364)	-	(35)	<b>(399)</b>	-	(16)	-	(35)	<b>(51)</b>	

	<i>2012 (6 months) (unaudited)</i>	<i>2011 (6 months) (unaudited)</i>
Salaries and other benefits	(1,081)	(909)
Social security costs	(238)	(202)
<b>Total key management compensation</b>	<b>(1,319)</b>	<b>(1,111)</b>

(Figures in Tables are in thousands of Azerbaijani Manats)

## 26. 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 CBA 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.

### *CBA capital adequacy ratio*

The CBA requires banks to maintain a minimum capital adequacy ratio of 12% of risk-weighted assets. As of 30 June 2012 and 31 December 2011 the Bank's capital adequacy ratio on this basis was as follows:

	<u>30 June 2012</u> <i>(unaudited)</i>	<u>31 December 2011</u>
Tier 1 capital	165,808	131,301
Tier 2 capital	12,508	15,944
Less: Deductions from capital	(2,157)	(1,841)
<b>Total regulatory capital</b>	<b>176,159</b>	<b>145,404</b>
<b>Risk-weighted assets</b>	<b>487,126</b>	<b>337,840</b>
Capital adequacy ratio	36%	43%