

**The International Bank of the Republic of  
Azerbaijan**

**Condensed Consolidated Interim Financial  
Information and Auditor's Report**

**30 June 2007**

## CONTENTS

Independent Auditor's Report .....	2
Condensed Consolidated Interim Financial Information	
Condensed Consolidated Interim Balance Sheet .....	3
Condensed Consolidated Interim Income Statement .....	4
Condensed Consolidated Interim Statement of Changes in Equity .....	5
Condensed Consolidated Interim Statement of Cash Flows .....	6
Notes to the Condensed Consolidated Interim Financial Information	
1 Introduction .....	7
2 Operating Environment of the Group .....	8
3 Basis of Preparation .....	9
4 Accounting Policies and Critical Accounting Estimates and Judgements .....	9
5 New Accounting Pronouncements .....	10
6 Cash and Cash Equivalents .....	11
7 Due from Other Banks .....	11
8 Loans and Advances to Customers .....	12
9 Investment Securities Held to Maturity .....	13
10 Investment in Associates and Joint Ventures .....	14
11 Premises, Equipment and Intangible Assets .....	14
12 Other Assets .....	15
13 Due to Other Banks .....	15
14 Customer Accounts .....	16
15 Other Borrowed Funds .....	17
16 Other Liabilities .....	18
17 Share Capital .....	19
18 Interest Income and Expense .....	20
19 Fee and Commission Income and Expense .....	20
20 Administrative and Other Operating Expenses .....	21
21 Dividends .....	21
22 Segment Analysis .....	22
23 Financial Risk Management .....	23
24 Contingencies and Commitments .....	32
25 Related Party Transactions .....	35
26 Principal Subsidiaries, Associates and Joint Ventures .....	37
27 Subsequent Events .....	38

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the International Bank of the Republic of Azerbaijan:

We have audited the accompanying consolidated condensed interim financial information of the International Bank of the Republic of Azerbaijan and its subsidiaries (the "Group") which comprise the consolidated condensed interim balance sheet as at 30 June 2007 and the consolidated condensed interim income statement, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows for the six-month period then ended and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on this condensed consolidated interim financial information based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the accompanying condensed consolidated interim financial information is prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

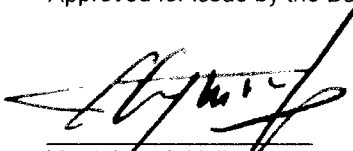
*PricewaterhouseCoopers Eastern Europe B.V. Azerbaijan branch*

Baku, Republic of Azerbaijan  
23 January 2008

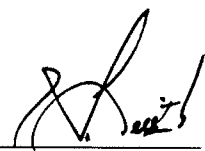
**The International Bank of the Republic of Azerbaijan**  
**Condensed Consolidated Interim Balance Sheet**

<i>In thousands of Azerbaijani Manats</i>	Note	30 June 2007	31 December 2006
<b>ASSETS</b>			
Cash and cash equivalents	6	325,489	457,382
Mandatory cash balances with the National/Central banks		126,570	115,454
Due from other banks	7	111,790	135,440
Loans and advances to customers	8	1,587,603	1,038,416
Investment securities held to maturity	9	12,837	-
Investment in associates and joint ventures	10	822	809
Deferred income tax asset		409	41
Premises, equipment and intangible assets	11	104,559	81,598
Other assets	12	20,650	18,292
Assets of disposal group	26	1,836	-
<b>TOTAL ASSETS</b>		<b>2,292,565</b>	<b>1,847,432</b>
<b>LIABILITIES</b>			
Due to other banks	13	47,131	173,380
Customer accounts	14	1,551,851	1,304,176
Debt securities in issue		40,323	40,969
Other borrowed funds	15	357,149	133,882
Current income tax liability		6,162	6,961
Deferred income tax liability		18,615	12,180
Other liabilities	16	67,787	34,646
Liabilities of disposal group	26	85	-
<b>TOTAL LIABILITIES</b>		<b>2,089,103</b>	<b>1,706,194</b>
<b>EQUITY</b>			
Share capital	17	82,147	59,319
Revaluation reserve for premises and equipment	11	31,852	17,444
Cumulative translation reserve		1,890	1,435
Retained earnings		86,065	61,512
<b>Net assets attributable to the Bank's equity holders</b>		<b>201,954</b>	<b>139,710</b>
<b>Minority interest</b>		<b>1,508</b>	<b>1,528</b>
<b>TOTAL EQUITY</b>		<b>203,462</b>	<b>141,238</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,292,565</b>	<b>1,847,432</b>

Approved for issue by the Board of Directors and signed on its behalf on 23 January 2008:

  
 Mr. Jahangir Hajiyev  
 Chairman of the Board of Directors



  
 Mr. Rovshan Ismaylov  
 Head of the Financial Management Department

**The International Bank of the Republic of Azerbaijan**  
**Condensed Consolidated Interim Income Statement**

<i>In thousands of Azerbaijani Manats</i>	Note	Six-Month Period Ended 30 June 2007	Six-Month Period Ended 30 June 2006
Interest income	18	79,619	49,305
Interest expense	18	(29,218)	(14,895)
<b>Net interest income</b>		<b>50,401</b>	<b>34,410</b>
Release of provision/(Provision for impairment) of due from other banks	7	764	(2,247)
Provision for impairment of loans to customers	8	(12,750)	(6,843)
<b>Net interest income after provision for impairment</b>		<b>38,415</b>	<b>25,320</b>
Foreign currency translation gains/(losses)		(1,044)	1,331
Gains less losses arising from trading in foreign currencies		10,499	8,657
Fee and commission income	19	36,048	26,432
Fee and commission expense	19	(2,061)	(1,891)
Losses on origination of assets/liabilities at rates below/above market		-	(136)
Gross insurance premiums written, net of premiums ceded		3,074	1,914
Increase of provision for unearned premiums, net of reinsurance		(683)	(476)
Net claims incurred		(882)	(559)
Other income		126	349
Administrative and other operating expenses	20	(40,101)	(39,581)
Share of profit of associates and joint ventures	10	13	56
<b>Profit before tax</b>		<b>43,404</b>	<b>21,416</b>
Income tax charge		(11,575)	(6,838)
<b>Profit for the period</b>		<b>31,829</b>	<b>14,578</b>
<b>Profit is attributable to:</b>			
Equity holders of the Bank		31,860	14,578
Minority interest		(31)	-
<b>Profit for the period</b>		<b>31,829</b>	<b>14,578</b>

*The International Bank of the Republic of Azerbaijan*  
*Condensed Consolidated Interim Statement of Changes in Equity*

	Note	Attributable to equity holders of the Bank			Minority interest	Total equity	
		Share Capital	Revaluation reserve for premises	Cumulative translation reserve			Retained earnings
<i>In thousands of Azerbaijani Manats</i>							
<b>Balance at 1 January 2006</b>		<b>24,820</b>	<b>18,092</b>	<b>987</b>	<b>39,604</b>	<b>-</b>	<b>83,503</b>
Premises and equipment							
- Realised revaluation reserve		-	(455)	-	455	-	-
Currency translation difference		-	-	476	-	-	476
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>(455)</b>	<b>476</b>	<b>455</b>	<b>-</b>	<b>476</b>
Profit for the period		-	-	-	14,578	-	14,578
<b>Total recognised income for the period</b>		<b>-</b>	<b>(455)</b>	<b>476</b>	<b>15,033</b>	<b>-</b>	<b>15,054</b>
Share issue	17	8,334	-	-	-	-	8,334
Dividends declared	21	-	-	-	(6,879)	-	(6,879)
<b>Balance at 30 June 2006</b>		<b>33,154</b>	<b>17,637</b>	<b>1,463</b>	<b>47,758</b>	<b>-</b>	<b>100,012</b>
Premises and equipment							
- Realised revaluation reserve		-	(193)	-	193	-	-
Currency translation differences		-	-	(28)	-	-	(28)
<b>Net income recognised directly in equity</b>		<b>-</b>	<b>(193)</b>	<b>(28)</b>	<b>193</b>	<b>-</b>	<b>(28)</b>
Profit for the period		-	-	-	23,073	-	23,073
<b>Total recognised income for the period</b>		<b>-</b>	<b>(193)</b>	<b>(28)</b>	<b>23,266</b>	<b>-</b>	<b>23,045</b>
Share issue	17	26,165	-	-	-	-	26,165
Business combinations		-	-	-	-	1,528	1,528
Dividends declared	21	-	-	-	(9,512)	-	(9,512)
<b>Balance at 31 December 2006</b>		<b>59,319</b>	<b>17,444</b>	<b>1,435</b>	<b>61,512</b>	<b>1,528</b>	<b>141,238</b>
Premises and equipment							
- Revaluation	11	-	18,734	-	-	-	18,734
- Realised revaluation reserve		-	(205)	-	205	-	-
Income tax recorded in equity		-	(4,121)	-	-	-	(4,121)
Currency translation differences		-	-	455	-	11	466
<b>Net income recognised directly in equity</b>		<b>59,319</b>	<b>31,852</b>	<b>1,890</b>	<b>61,717</b>	<b>1,539</b>	<b>156,317</b>
Profit for the period		-	-	-	31,860	(31)	31,829
<b>Total recognised income for the period</b>		<b>59,319</b>	<b>31,852</b>	<b>1,890</b>	<b>93,577</b>	<b>1,508</b>	<b>188,146</b>
Share issue	17	22,828	-	-	-	-	22,828
Dividends declared	21	-	-	-	(7,512)	-	(7,512)
<b>Balance at 30 June 2007</b>		<b>82,147</b>	<b>31,852</b>	<b>1,890</b>	<b>86,065</b>	<b>1,508</b>	<b>203,462</b>

**The International Bank of the Republic of Azerbaijan**  
**Condensed Consolidated Interim Statement of Cash Flows**

	Note	Six-Month Period Ended 30 June 2007	Six-Month Period Ended 30 June 2006
<i>In thousands of Azerbaijani Manats</i>			
<b>Cash flows from operating activities</b>			
Interest received		74,910	38,774
Interest paid		(25,976)	(13,355)
Income received from trading in foreign currencies		10,499	8,657
Fees and commissions received		36,048	22,247
Fees and commissions paid		(2,061)	(2,576)
Insurance premiums received, net		1,509	878
Other operating income received		126	303
Administrative and other operating expenses paid		(32,279)	(23,219)
Income tax paid		(10,383)	(1,994)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>52,393</b>	<b>29,715</b>
<b>Changes in operating assets and liabilities</b>			
Net increase in mandatory cash balances with the National /Central banks		(11,116)	(19,571)
Net decrease/(increase) in due from other banks		25,353	(268,012)
Net increase in loans and advances to customers		(557,172)	(29,939)
Net increase in investment securities held to maturity		(12,837)	(3,817)
Net increase in other assets		(2,358)	(279)
Net (decrease)/increase in due to other banks		(126,249)	1,111
Net increase in customer accounts		245,345	157,906
Net decrease in debt securities in issue		-	(3,389)
Net increase in other liabilities		33,140	24,087
<b>Net cash used in operating activities</b>		<b>(353,501)</b>	<b>(112,188)</b>
<b>Cash flows from investing activities</b>			
Acquisition of premises and equipment		(11,806)	(13,152)
Acquisition of intangible assets		(448)	(2,790)
Proceeds from disposal of investments in associates and joint ventures		-	55
<b>Net cash used in investing activities</b>		<b>(12,254)</b>	<b>(15,887)</b>
<b>Cash flows from financing activities</b>			
Proceeds from other borrowed funds		223,598	5,703
Repayment of other borrowed funds		(1,242)	(1,371)
Issuance of ordinary shares	17	22,828	8,334
Dividends paid	21	(10,087)	(2,702)
<b>Net cash provided from financing activities</b>		<b>235,097</b>	<b>9,964</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(1,235)</b>	<b>1,807</b>
<b>Net decrease in cash and cash equivalents for the period</b>		<b>(131,893)</b>	<b>(116,304)</b>
Cash and cash equivalents at the beginning of the period		457,382	258,370
<b>Cash and cash equivalents at the end of the period</b>	<b>6</b>	<b>325,489</b>	<b>142,066</b>

## **1 Introduction**

This condensed consolidated interim financial information for the six-month period ended 30 June 2007 for the International Bank of the Republic of Azerbaijan (the "Bank") and its subsidiaries (together referred to as the "Group") has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting".

**Principal activity.** The International Bank of the Republic of Azerbaijan was incorporated in 1991 as a fully state-owned bank and is domiciled in the Republic of Azerbaijan. On 28 October 1992, the Bank became a joint-stock commercial bank and the Ministry of Finance of the Republic of Azerbaijan ("MoF") became the major shareholder of the Bank. At 30 June 2007, the MoF held 42.78% (31 December 2006: 33.85%) of the total paid-in share capital of the Bank with a preferential right to further purchase shares to bring its ownership up to 50.2% of the share capital of the Bank. Refer to Note 17.

The Bank was registered in the Republic of Azerbaijan to provide commercial banking services and has been operating under a full banking licence granted by the National Bank of the Republic of Azerbaijan ("NBAR") on 30 December 1992. On 1 March 2005, a Presidential Decree, which outlined the process for privatisation of the state shareholding in the Bank's share capital, was enacted. Based on the provisions of this Decree, the government will have to reduce gradually its share in the Bank's share capital either by selling its existing shares or by issuing additional shares in the open market, including international financial markets.

The Bank's head office is located in 67 Nizami Street, Baku, AZ1001, Azerbaijan. The Bank has 36 branches and 104 points of service in the Republic of Azerbaijan (31 December 2006: 36 branches, 121 points of service). The Group had 1,672 employees at 30 June 2007 (31 December 2006 : 1,595 employees) of which 1,342 employees are employed by the Bank; 89-by the International Insurance Company; 51-by Azericard Limited, 178-by the Group's fully owned banking subsidiary in the Russian Federation and 12-by International Bank of Azerbaijan-Georgia (31 December 2006: 1,318-employed by the Bank; 86-by International Insurance Company; 45 by Azericard Limited, 141-by the Group's fully owned banking subsidiary in the Russia Federation and 5-by International Bank of Azerbaijan-Georgia).

On 24 January 2002, the Group registered its fully-owned subsidiary, International Bank of Azerbaijan Republic-Moscow, in Moscow, the Russian Federation ("IBAR Moscow"). The share capital of IBAR Moscow was established in the amount of EUR 10,000,000. It is a commercial bank in the form of a limited liability company. IBAR Moscow started its operations under a licence issued by the Central Bank of the Russian Federation ("the CBRF") on 25 January 2002. This licence allows IBAR Moscow to carry out banking operations with legal entities in Russian Roubles and in foreign currencies. During the first two years after its registration due to Russian statutory requirements IBAR Moscow was restricted from attracting deposits from individuals. On 1 December 2004, IBAR Moscow received a licence from the CBRF allowing it to provide a full range of banking services to individuals. IBAR Moscow's principal activity is represented by commercial banking operations. IBAR Moscow has been a member of Deposit Insurance Agency of the Russian Federation since 2 December 2004. IBAR Moscow's registered office is located at the following address: Tverskaya 6, Bldg 2, Moscow, 105,062, Russian Federation. IBAR Moscow opened a branch in Saint Petersburg, Russian Federation on 28 May 2003 and in Yekaterinburg on 25 August 2005. Based on the decision of Supervisory Board of the Group dated 30 December 2006, the share capital of IBAR Moscow was increased by EUR 4 million to EUR 14 million during the six-month period ended 30 June 2007.

On 5 February 2002, the Group registered its fully-owned subsidiary International Insurance Company ("Insurance Subsidiary") at the Ministry of Justice of the Republic of Azerbaijan. The Insurance Subsidiary operates under an insurance licence Number AB 029205 issued by the Ministry of Finance of the Republic of Azerbaijan on 1 April 2002 and addendum to the above licence issued on 16 August 2002. Based on the decision dated 24 December 2004 of the Supervisory Board of the Group to increase the share capital of the Insurance Subsidiary, the share capital of the Insurance Subsidiary was increased by AZN 4,000 thousand to AZN 8,800 thousand during the year ended 31 December 2005.

The activity of the Insurance Subsidiary includes medical, marine third party liability, marine hull, property, casualty, life, personal insurance, insurance of banking risks and reinsurance. During 2004, the insurance subsidiary received additional licences on mandatory fire insurance and on insurance of liability for non-performance of obligations. The official address of the Insurance Subsidiary is: J. Jabbarli Street 46, Baku, AZ 1009, the Republic of Azerbaijan.

On 7 October 2002, the Group's Insurance Subsidiary established a captive reinsurance company, Inter Protect Re AG. It was registered in Zurich, Switzerland.

On 18 July 2007, the Group sold 100% of its interest in Inter Protect Re AG to a non-resident individual in an arms-length transaction. Refer to Note 26.

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



**1 Introduction (Continued)**

Azericard Limited is at present one of the biggest providers of authorisation of plastic cards operations and clearing services in the Republic of Azerbaijan. The registered office address of Azericard Limited is: Nizami Street, 67, AZ1001, Baku, the Republic of Azerbaijan.

On 18 June 1999, the Group established a leasing subsidiary "Azerileasing" with the charter capital of AZN 369 thousand. On 29 July 2004, the Group increased the share capital of its leasing subsidiary by contributing an additional AZN 331 thousand. As a result, the share capital of the leasing subsidiary was AZN 700 thousand at 30 June 2007 (31 December 2006: AZN 700 thousand).

In October 2006, the Group signed an agreement for the sale of 52.4% of its interest in the share capital of "Azerileasing" to an unrelated British based entity in an arms-length transaction. Refer to Note 26. On 14 June 2007, the new charter of "Azerileasing" was registered at Ministry of Justice of Azerbaijan Republic, where the change in shareholding structure of the company was stipulated and the legal name of the company was changed to "Joint Leasing Company" Closed Joint-Stock Company.

On 16 November 2006, the Group registered its 75% owned subsidiary, International Bank of Azerbaijan Republic-Georgia ("IBAR Georgia"), in Tbilisi, Georgia. The share capital of IBAR Georgia was established in the amount of 12,000,000 Georgian Lari ("GL"), with the minority interest in the amount of GL 3,000,000 paid-in by a Georgian bank. IBAR Georgia started its operations under a license issued by the National Bank of Georgia ("the NBG") on 7 February 2007. IBAR Georgia's registered office is located at the following address: 36 Khetagurovi str., Tbilisi, Republic of Georgia. Refer to Note 26.

A full list of subsidiaries, associates and joint ventures of the Group is included within this condensed consolidated interim financial information. Refer to Note 26.

**Registered address and place of business.** The Bank's registered address is:

67 Nizami Street,  
AZ1005, Baku  
Republic of Azerbaijan

**Presentation currency.** This condensed consolidated interim financial information is presented in thousands of Azerbaijani Manats ("AZN thousands").

At 30 June 2007, the principal rate of exchange used for translating foreign currency monetary balances was USD 1 = AZN 0.8558 (31 December 2006: USD 1 = AZN 0.8714).

**2 Operating Environment of the Group**

The Republic of Azerbaijan displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Republic of Azerbaijan, restrictive currency controls, relatively high inflation and economic growth. The banking sector in the Republic of Azerbaijan is sensitive to adverse fluctuations in confidence and economic conditions. The Azerbaijani economy occasionally experiences falls in confidence in the banking sector accompanied by reductions in liquidity. Management is unable to predict economic trends and developments in the banking sector and what effect, if any, a deterioration in the liquidity of or confidence in the Azerbaijani banking system could have on the consolidated financial position of the Group.

The tax, currency and customs legislation within the Republic of Azerbaijan is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by banks currently operating in the Republic of Azerbaijan. The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

### 3 Basis of Preparation

This condensed consolidated interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The interim condensed consolidated financial report should be read in conjunction with the annual consolidated financial statements of the Group for the year ended 31 December 2006.

**Going concern.** Management have prepared this condensed consolidated interim financial information on a going concern basis. In making this judgement management have considered the current favourable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to foreign financial resources as required. As disclosed in Note 23 to this condensed consolidated interim financial information, the Group has a cumulative liquidity gap up to twelve months as at 30 June 2007. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, management believe that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Note 23. Management's ongoing discussions with its current lenders have reaffirmed management's view that the borrowings subjected to covenant agreements as detailed in Notes 15 and 24 will not in practice require repayment prior to the contractual dates.

### 4 Accounting Policies and Critical Accounting Estimates and Judgements

The accounting policies and methods of computation applied in the presentation of this condensed consolidated interim financial information are consistent with those disclosed in the annual consolidated financial statements of the Group for the year ended 31 December 2006.

Judgements made by management in the process of applying the accounting policies were consistent with the judgements disclosed in the annual consolidated financial statements for the year ended 31 December 2006.

In addition to the judgements disclosed in the annual consolidated financial statements for the year ended 31 December 2006, management has considered whether gains or losses should arise on the initial recognition of loans from governmental and international financial institutions and related lending. The Bank obtains long term financing from international financial institutions at interest rates, at which such institutions ordinarily lend in emerging markets and which may be lower than rates, at which the Bank could source the funds from local lenders. As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates. As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market interest rates and no initial recognition gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Further, management have considered the appropriate market interest rate for certain loans and advances where the contractual interest rate is eight per cent or lower. As disclosed in Note 8 and Note 25, management have assessed that the contractual interest rates for these loans are equivalent to the alternative highest and best use of the funds provided under these loans, the majority of which are with Government bodies and state-owned entities. Had management concluded that the interest rates for these borrowings were different to the highest and best use of the funds provided, then the carrying amounts in respect of these loans in the financial statements, and the amounts recorded within interest income and losses on the origination of loans, would have been different.

Other than as described above, management has not identified new areas of judgement. Critical estimates, as disclosed in the most recent annual financial statements, have not resulted in a material adjustment to the Group's consolidated assets, income or profit during the interim period ended 30 June 2007.

Certain new IFRSs became effective for the Group from 1 January 2007 as follows:

**IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007).** The IFRS introduces new disclosures to improve the information about financial instruments including information on quantitative aspects of risk exposures and the methods of risk management. The new quantitative disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management personnel. Qualitative and quantitative disclosures cover exposure to credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. IFRS 7 replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of Bank's and its subsidiary's capital, and how it manages capital. As this interim report contains only condensed consolidated financial information in accordance with IAS 34, the new disclosures will be made to the full extent in the annual consolidated financial statements of the Group for the year ended 31 December 2007.

#### **4 Accounting Policies and Critical Accounting Estimates and Judgements (Continued)**

**Other new standards or interpretations.** The Group has adopted the following other new standards or interpretations, which became effective from 1 January 2007:

- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007);
- IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006); or
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The effect of adoption of IFRICs 7 to 10 on the Group's consolidated interim financial position at 30 June 2007 and 31 December 2006 and on the consolidated results of its operations for the periods ended 30 June 2007 and 30 June 2006 was not significant.

**Interim period measurement.** Income tax expense is recognised in this condensed consolidated interim financial information based on management's best estimate of the effective annual income tax rate expected for the full financial year. Costs that occur unevenly during the financial year are anticipated or deferred in the interim period only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

#### **5 New Accounting Pronouncements**

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods and which the Group has not early adopted:

**IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009).** The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its consolidated financial statements, but to have no impact on the recognition or measurement of specific transactions and balances.

**IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).** The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. Management is currently assessing what impact the Standard will have on segment disclosures in the Group's condensed consolidated financial information. Management is currently assessing what effect, if any, IFRS 8 will have on the Group's consolidated financial statements.

**IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009).** The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised Standard applies prospectively to borrowing costs relating to qualifying assets, for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended Standard on its consolidated financial statements.

**Other new standards or interpretations.** The Group has not early adopted the following other new standards or interpretations:

- IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007);
- IFRIC 12, *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008);
- IFRIC 13, *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008); and
- IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning on or after 1 January 2008).

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**6 Cash and Cash Equivalents**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Cash on hand	66,455	86,068
Cash balances with the National/Central banks (other than mandatory reserve deposits)	72,819	337,616
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	15,138	4,712
- Other countries	171,077	28,986
<b>Total cash and cash equivalents</b>	<b>325,489</b>	<b>457,382</b>

Included in cash balances with National/Central banks (other than mandatory reserve deposits) are the balances on correspondent accounts of the Bank and its subsidiaries, IBAR Moscow and IBAR Georgia, with the NBAR, CBRF and NBG amounting to AZN 64,613 thousand, AZN 3,673 thousand and AZN 4,533 thousand as at 30 June 2007 (31 December 2006: AZN 332,743 thousand, AZN 4,873 thousand and nil), respectively.

Overnight placements with other banks include AZN 160,945 thousand as at 30 June 2007 (31 December 2006: AZN 18,548 thousand) placed with foreign banks at annual interest rates of 4.1% to 5.4% per annum with maturities in July 2007 (31 December 2006: 3.80% to 4.20% per annum, with maturities in January 2007).

Geographical, currency, maturity and interest rate analyses of cash and cash equivalents are disclosed in Note 23. The information on related party balances is provided in Note 25.

**7 Due from Other Banks**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Current term placements with other banks	103,184	88,434
Promissory notes of Russian banks	7,326	-
Notes of the National Bank of Azerbaijan	-	48,511
Overdue placements with other banks	5,680	3,212
Debentures of resident banks	264	1,281
Accrued interest income	1,350	780
Less: Provision for impairment of due from other banks	(6,014)	(6,778)
<b>Total due from other banks</b>	<b>111,790</b>	<b>135,440</b>

At 30 June 2007, current term placements with other banks include two short-term foreign currency denominated placements with a non-resident bank in the total amount equivalent to AZN 52,313 thousand at annual interest rates of 3.80% and 5.25%, respectively and with maturities in July 2007 (31 December 2006: short-term EUR denominated placements with non-resident banks, which amounted to equivalent of AZN 11,471 thousand with annual interest rate of 7% and with maturities in January 2007).

Promissory notes of Russian banks represent short-term promissory notes of commercial banks in Russia purchased by IBAR Moscow. These promissory notes are denominated in Russian Roubles, bear an average interest rate of 8.4% per annum with maturities in August 2007-April 2008.

Notes of the NBAR outstanding as at 31 December 2006 represented short-term government securities issued by the NBAR at Baku Stock Exchange purchased by the Group at a discount. These notes had an average effective interest rate of 13.84 % per annum and matured in January 2007.

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**7 Due from Other Banks (Continued)**

The movement in the provision for impairment of due from other banks is, as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Provision for impairment of due from other banks at 1 January</b>	<b>6,778</b>	<b>6,198</b>
(Recovery of)/Provision for impairment of due from other banks during the period	(764)	1,939
Due from other banks written off during the period as uncollectible	-	(1,359)
<b>Provision for impairment of due from other banks at 30 June</b>	<b>6,014</b>	<b>6,778</b>

As at 30 June 2007, the estimated fair value of due from other banks was AZN 111,790 thousand (31 December 2006: AZN 135,440 thousand).

Geographical, currency, maturity and interest rate analyses of due from other banks are disclosed in Note 23. The information on related party balances is provided in Note 25.

**8 Loans and Advances to Customers**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Corporate loans	1,485,673	890,848
State and public organisations	24,541	102,092
Loans to individuals – consumer loans	86,025	55,622
Loans to individuals – purchase of motor vehicles	30,449	30,586
Loans to individuals – employees	19,770	22,946
Mortgage loans	7,248	11,380
Loans to individuals - other purposes	56,174	34,469
Less: Provision for loan impairment	(122,277)	(109,527)
<b>Total loans and advances to customers</b>	<b>1,587,603</b>	<b>1,038,416</b>

The movements in the provisions for impairment of loans and advances to customers and for uncollectible lease receivables are, as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>Provision for loan impairment at 1 January</b>	<b>109,527</b>	<b>81,653</b>
Provision for loan impairment during the period	12,750	29,214
Provision on loans(leases) of subsidiary sold	-	(1,340)
<b>Provision for loan impairment at 30 June</b>	<b>122,277</b>	<b>109,527</b>

Included in the gross amount of total loans and advances to customers as at 30 June 2007, are the loans granted to twenty companies amounting to AZN 881,938 thousand (31 December 2006: twenty companies amounting to AZN 557,386 thousand) and representing a significant concentration of 51.6% (31 December 2006: 48.6%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at 30 June 2007, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 551,230 thousand (31 December 2006: AZN 219,014 thousand) and representing 32.2% (31 December 2006: 19.1%) of the total loan portfolio of the Group.

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**8 Loans and Advances to Customers (Continued)**

The economic sector risk concentrations within the customer loan portfolio are, as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>		<b>31 December 2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Construction	294,898	17.2	220,937	19.2
Oil and gas	292,573	17.1	-	-
Manufacturing	282,264	16.5	280,883	24.5
Trade	267,254	15.6	110,737	9.6
Individuals	199,666	11.7	155,003	13.5
Railroad and other transportation	150,135	8.8	159,295	13.9
Power production and distribution	80,022	4.7	13,956	1.2
Leasing	52,183	3.2	31,647	2.8
Air transportation	29,526	1.7	52,587	4.6
State and public organisations*	24,541	1.4	102,092	8.9
Communication	18,538	1.1	19,642	1.7
Investment companies	2,438	0.1	-	-
Other	15,842	0.9	1,164	0.1
<b>Total loans and advances to customers (before impairment)</b>	<b>1,709,880</b>	<b>100.0</b>	<b>1,147,943</b>	<b>100.0</b>

(\* ) State and public organisations include ministries, the Treasury and other state bodies of the Republic of Azerbaijan, excluding profit making state and public organisations that are included in the respective categories.

As at 30 June 2007, included in loans issued to state and public organisations is the amount of AZN 20,233 thousand (31 December 2006: AZN 18,074 thousand), which represents non-interest bearing one-day overdrafts on current accounts of the State Budget of the Republic of Azerbaijan with the Group.

Included in the gross amount of total loans and advances to customers as at 30 June 2007, are the loans granted to twelve companies amounting to AZN 366,738 thousand (31 December 2006: ten borrowers, AZN 73,397 thousand) with interest rates being less than or equal to eight per cent and representing a significant concentration of 23% (31 December 2006: 6%) of the total gross loan portfolio of the Group. The majority of these loans are transactions with related parties and as such disclosed in Note 25. No adjustments have been made to the contractual interest rates in relation to these amounts on initial recognition at fair value as the interest rates applicable are considered to represent the highest and best use of the funds provided given the alternative uses by the Bank of the funds extended under these agreements.

Included in the total amount of loans to individuals as at 30 June 2007 are outstanding balances drawn on credit cards of AZN 9,178 thousand (31 December 2006: AZN 10,965 thousand).

At 30 June 2007, the estimated fair value of loans and advances to customers was AZN 1,587,603 thousand (31 December 2006: AZN 1,038,416 thousand).

Geographical, currency, maturity and interest rate analyses of loans and advances to customers are disclosed in Note 23. The information on related party balances is provided in Note 25.

**9 Investment Securities Held to Maturity**

<i>In thousands of Azerbaijan Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Promissory notes	12,837	-
<b>Total investment securities held to maturity</b>	<b>12,837</b>	<b>-</b>

On 13 June 2007 the Bank signed an agreement with the SGA Societe Generale Acceptance N.V, registered in Netherlands Antilles, on purchasing fifty products under the name "Emerald Dual Income" with the nominal amount of AZN 4,279 thousands (USD 5,000,000) with a maturity dated 19 June 2012. At maturity, the investor is guaranteed to receive 100% of the capital initially invested. In addition to that, the Group is entitled to receive an annual coupon interest linked to the so-called "Emerald Basket Performance".

**9 Investment Securities Held to Maturity (Continued)**

On 5 March 2007, the Group signed a contract to purchase 5 Year Structured Product Investment (“SPI”) Notes from Forsyth Multi-Strategy Fund under the guarantee of JP Morgan Chase Bank. N.A. Forsyth Multi-Strategy Fund is an open-ended hedge fund of funds, listed in Dublin, which provides an actively managed portfolio of highly diversified hedge strategies. The total amount of SPI notes is AZN 8,558 thousands (USD 10,000,000, denominated USD 100,000 per note) with maturity of 5 years. At maturity the Group receives guaranteed 100% of the initial outlaid capital. In addition to that, the Group is entitled to receive an annual interest which, is linked to the performance of Forsyth Multi-Strategy Fund.

**10 Investment in Associates and Joint Ventures**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Investment in Baku Inter-Bank Currency Exchange (BICE)	822	809
<b>Total investments in associates and joint ventures</b>	<b>822</b>	<b>809</b>

At 30 June 2007, the Group held 20% interest in BICE.

In October 2006, the Group signed an agreement for the sale of 52.4% of its interest in the share capital of “Azerileasing”. Management believes that terms and conditions of this contract constitute those of an ordinary arms-length contract with an unrelated party. As a result of this transaction, Azerileasing became an associate of the Group. On 14 June 2007, the new charter of “Azerileasing” was registered at Ministry of Justice of Azerbaijan Republic, where the change in shareholding structure of the company was stipulated and the legal name of the company was changed to “Joint Leasing Company” Closed Joint-Stock Company. As at 30 June 2007, the net liabilities of Azerileasing amounted to AZN 2,627 thousand (31 December 2006: AZN 857 thousand). The carrying value of the Group’s interest in Azerileasing was nil on the date of recognition as an associate and at 30 June 2007.

**11 Premises, Equipment and Intangible Assets**

Premises were independently valued as at 30 June 2007. The valuation was carried out by an independent firm of valuers, DTZ Debenham Tie Leung. The basis used for the appraisal was market value. Fair values were estimated, using appropriate valuation techniques under the assumption that observable prices in an active market for the premises of characteristics and locations similar to those of the Group’s premises do not differ significantly from, and, therefore, are a good indication of the fair value of the Group’s premises.

Included in the carrying amount of premises and equipment as at 30 June 2007 is 31,852 AZN thousand (31 December 2006: AZN 17,444 thousand) representing a revaluation surplus relating to premises of the Group. During the six-month period ended 30 June 2007, the Group recorded additional revaluation surplus relating to the premises of AZN 18,734 thousand.

**12 Other Assets**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Amounts in the course of settlement	4,382	1,453
Prepaid expenses	3,885	2,253
Receivables for plastic cards transactions	2,901	3,067
Policyholder receivables	2,222	1,751
Deferred expenses for plastic cards	1,459	2,165
Deferred acquisition costs on insurance premiums written	690	582
Advances for purchases of intangible assets and equipment	622	3,576
Prepaid insurance	-	100
Other	4,489	3,345
<b>Total other assets</b>	<b>20,650</b>	<b>18,292</b>

Prepaid expenses balances as at 30 June 2007 include prepaid rentals and other administrative expenses of AZN 1,496 thousand for operation of representative offices of IBA in Dubai, London and New York and advance payment of AZN 736 thousand for the purchase of plastic cards by the Bank from local and foreign suppliers (31 December 2006: prepaid expenses balances included AZN 1,191 thousand of advance payments for the purchase of plastic cards).

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

Geographical, currency, maturity and interest rate analyses of other assets are disclosed in Note 23. The relevant information on related party balances is disclosed in Note 25.

**13 Due to Other Banks**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Correspondent accounts and overnight placements of other banks	46,911	173,159
Blocked accounts of resident banks in relation to plastic cards operations	220	221
<b>Total due to other banks</b>	<b>47,131</b>	<b>173,380</b>

Included in the closing balance of correspondent accounts of other banks as at 30 June 2007 is a short-term placement of a non-resident bank with the Bank amounting to AZN 15,404 thousand at an interest rate of 5.60% per annum and with maturity in July 2007 (31 December 2006: short-term placements of non-resident banks with the Bank at fixed annual rates ranging between 5.45%-7.35% per annum and with maturities in January-February 2007, amounting to AZN 128,096 thousand). Also included in the closing balance of correspondent accounts of other banks as at 30 June 2007 are balances on non-interest bearing correspondent accounts of resident banks with the Bank.

As at 30 June 2007, the estimated fair value of due to other banks was AZN 47,131 thousand (31 December 2006: AZN 173,380 thousand).

Geographical, currency, maturity and interest rate analyses of due to other banks are disclosed in Note 23. The relevant information on related party balances is disclosed in Note 25.



**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**14 Customer Accounts**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
<b>State and public organisations</b>		
- Current/settlement accounts	448,864	431,136
- Term deposits	351,921	288,053
- Restricted customer deposits	86	85
<b>Other legal entities</b>		
- Current/settlement accounts	184,809	245,397
- Term deposits	15,858	16,167
- Restricted customer deposits	194,430	92,432
<b>Individuals</b>		
- Current/demand accounts	156,775	70,951
- Term deposits	199,108	159,955
<b>Total customer accounts</b>	<b>1,551,851</b>	<b>1,304,176</b>

As at 30 June 2007, the Group had significant concentration of customer accounts attracted from one customer - state organisation involved in the oil industry totalling to AZN 443,698 thousand and government body of AZN 102,531 thousand or 35.2% of total customer accounts in aggregate (31 December 2006: AZN 443,230 thousand and AZN 195,560 thousand or 49.0%, respectively).

Included in term deposits of state and public organisations are call deposits of a state organisation involved in the oil industry sector of the Republic of Azerbaijan of AZN 328,070 thousand (31 December 2006: AZN 265,777 thousand) and of government bodies of AZN 1,175 thousand (31 December 2006: AZN 1,168 thousand). The average interest rates on these call deposits were 0.5% and 1.5% per annum, respectively (31 December 2006: 0.5% and 1.5% per annum).

Included in the current and settlement accounts of state and public organisations as at 30 June 2007 are balances on current interest bearing accounts of state-owned enterprises and government bodies of AZN 108,420 thousand (31 December 2006: AZN 24,315 thousand). Interest rates on these accounts vary from 0.5% to 3.5% per annum (31 December 2006: 0.5% to 2.5% per annum).

Restricted customer deposits amounting to AZN 194,516 thousand as at 30 June 2007 (31 December 2006: AZN 92,517 thousand) represent balances on customer accounts held by the Group as collateral for irrevocable commitments under import letters of credit and guarantees issued by the Group on behalf of its customers. The information on letters of credit and guarantees outstanding as at 30 June 2007 and 31 December 2006 is disclosed in Note 24.

The economic sector concentrations within customer accounts are, as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>		<b>31 December 2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Energy	808,460	52.1	547,829	42.0
Individuals	355,883	22.9	230,906	17.7
State and public organisations, except energy sector*	167,271	10.8	147,479	11.3
Trade and services	92,003	5.9	141,085	10.8
Manufacturing	30,082	1.9	77,957	6.0
Construction	21,675	1.4	93,271	7.2
Transportation and communication	19,562	1.3	25,165	1.9
Other	56,915	3.7	40,484	3.1
<b>Total customer accounts</b>	<b>1,551,851</b>	<b>100.0</b>	<b>1,304,176</b>	<b>100.0</b>

(\*) State and public organisations comprise ministries, Treasury, municipalities and other state bodies of the Republic of Azerbaijan.

As at 30 June 2007, the estimated fair value of customer accounts was AZN 1,551,851 thousand (31 December 2006: AZN 1,304,176 thousand).

Geographical, currency, maturity and interest rate analyses of customer accounts are disclosed in Note 23. The information on related party balances is disclosed in Note 25.

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**15 Other Borrowed Funds**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Syndicated borrowings:		
- Syndicated borrowing agreement signed on 10 November 2006	112,525	114,978
- Syndicated borrowing agreement signed on 13 June 2007	119,995	-
Credit Linked Notes issued by Rubrika Finance Company Limited	86,598	-
Societe Generale	13,226	827
Black Sea Trade and Development Bank (BSTDB)	11,034	10,241
Rabobank	7,586	4,065
Islamic Development Corporation (IDC)	3,536	3,771
Nova Ljubljanska Banka	2,649	-
<b>Total other borrowed funds</b>	<b>357,149</b>	<b>133,882</b>

The balance of funds attracted under syndicated borrowings as at 30 June 2007 represent the funds attracted under a syndicated borrowing agreement signed on 10 November 2006 with foreign banks led by one of major German banks in the total amount of USD 130,000,000 for the Group's financing of large energy projects carried out by the government of the Republic of Azerbaijan. The borrowing facility bears an annual interest rate of LIBOR plus 0.9% and initial maturity was 10 November 2007. As disclosed in Note 27, the maturity of the borrowing was extended till 31 October 2008 according to the Supplemental Deed between the parties dated 2 November 2007. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreement. As at 30 June 2007, Management of the Bank believes that the Bank was in compliance with those covenants.

On 13 June 2007, Bank signed another syndicated borrowing agreement with foreign banks led by one of major German banks in the amount of USD 140,000,000. The borrowing facility bears an annual interest rate of LIBOR plus 0.7% and is repayable in one full installment to be made on 13 June 2008. Bank will utilise amounts borrowed under this agreement for its general corporate lending purposes. As at 30 June 2007, the Bank had fully drawn down the facility available under the above borrowing agreement. The Bank is obliged to comply with certain financial covenants stipulated by the aforementioned borrowing agreements. As at 30 June 2007, Management of the Bank believes that the Bank was in compliance with those covenants.

On 10 May 2007, the Group signed Subordinated Facility Agreement with Rubrika Finance Company Limited, registered in Dublin, for an issue of Credit Linked Notes on the Cayman Islands Stock Exchange to institutional investors from Europe and the United States of America for a total amount of USD 100,000,000 for general corporate purposes. The Credit Linked Notes have an interest rate of 8.4% per annum and mature on 10 May 2017. The Bank is obliged to comply with one financial covenant stipulated by the aforementioned borrowing agreement. As at 30 June 2007, Management of the Bank believes that the Bank was in compliance with that covenant.

On 22 June 2005, the Group signed a general buyer credit agreement with Societe Generale for obtaining funds not exceeding EUR 30,000 thousand at EURIBOR plus 0.7% per annum for the financing of commercial contracts entered into by local companies. The agreement was in force for a period of two years with an option of automatic renewal for one additional year. This option was used by the Group to extend the term of the general buyer credit agreement for another year in June, 2007. Each draw down made under the agreement is repayable in eight equal semi-annual installments, starting from the date of the respective draw down. This credit line is designated to finance Azerbaijani companies, which purchase French equipment. As at 30 June 2007, the amount drawn down on this credit line was AZN 13,140 thousand or EUR 11,424 thousand (31 December 2006: AZN 827 thousand or EUR 715 thousand).

On 21 January 2002, the Group signed an agreement with the Black Sea Trade and Development Bank (registered in Thessaloniki, Greece) for a multiple buyer revolving credit facility in the amount of USD 6,500 thousand. The amount drawn down on this revolving facility net of repayments as at 30 June 2007 amounted to AZN 5,087 thousand or USD 5,944 thousand (31 December 2006: AZN 4,292 thousand or USD 4,925 thousand) and is used for the financing of various projects related to the manufacturing and transportation sectors of the Republic of Azerbaijan. The borrowing facility bears an annual interest rate of LIBOR plus 5%.

On 21 June 2005, the Group signed a Loan Agreement with the Black Sea Trade and Development Bank for the purpose of funding the construction of a glass factory in Azerbaijan of AZN 5,741 thousand or EUR 5,000 thousand. The interest rate for the loan is LIBOR plus 5% per annum. The loan will be repaid in semi-annual instalments, commencing 18 months after the date of first disbursement and ending on the expiry of 60 months after the date of first disbursement.

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**15 Other Borrowed Funds (Continued)**

The Group is obliged to comply with certain financial covenants stipulated by the borrowing agreements signed with the Black Sea Trade and Development Bank. At 30 June 2007, management believes that the Group was in compliance with those covenants, except for the restrictions set out in relation to the maximum amount of loans issued to related entities. While the Group does not anticipate these loans will be repaid as a result of these breaches, the outstanding amounts related to these borrowings at 30 June 2007 have been classified within the "Demand and up to 1 month" category in the liquidity table to reflect the potential impact of the breaches. Refer to Note 23.

In addition, certain other of the Group's other borrowing agreements include cross-default clauses impacting these agreements where the Group is not in compliance with covenants specified in any of its other borrowing agreements. While the Group does not anticipate that these loans will be repaid as a result of these breaches, the outstanding amounts related to these borrowings as at 30 June 2007 have been classified within the "Demand and up to 1 month" category in the liquidity table to reflect the potential impact of the breaches. Refer to Note 23.

On 11 August 2006, the Group signed an agreement with the Cooperative Centrale Raiffeisen-Boerenleenbank B.A. ("Rabobank"), registered in Netherlands, for the credit line of EUR 5,330 thousand for the period of five years at EURIBOR plus 0.85% per annum for financing of the investment project in the Republic of Azerbaijan. As at 30 June 2007, the amount drawn down on this credit line comprised AZN 7,468 thousand or EUR 6,493 thousand (31 December 2006: AZN 4,013 thousand or EUR 3,498 thousand) and is used for financing of the project related to manufacturing sector in the Republic of Azerbaijan. The loan will be repaid in ten equal semi-annual installments.

On 12 April 2004, the Group signed a Line of Financing Agreement with the Islamic Development Corporation (a member of Islamic Development Bank Group, an international financial institution with head-quarters in Jeddah, Saudi Arabia) for a credit line of USD 4,500 thousand for a period of seven years at a market interest rate for financing of various investment projects in the Republic of Azerbaijan. As at 30 June 2007, the amount drawn down on this credit line was AZN 3,486 thousand or USD 4,074 thousand (31 December 2006: AZN 3,582 thousand or USD 4,111) and was used for the purposes of financing a project in the manufacturing sector of Azerbaijan.

On 29 November 2006, the Group signed Loan Agreement with Nova Ljubljanska Banka, registered in Slovenia, for export of goods and services, not exceeding USD 3,000 thousand for a period of 36 months at LIBOR+3.5% per annum. As at 30 June 2007, the Bank had fully drawn down funds under this loan agreement.

As at 30 June 2007, the estimated fair value of other borrowed funds was AZN 357,149 thousand (31 December 2006: AZN 133,882 thousand).

Geographical, currency, maturity and interest rate analysis of other borrowed funds are disclosed in Note 23.

**16 Other Liabilities**

<i>In thousands of Azerbaijani Manats</i>	Note	30 June 2007	31 December 2006
Items in course of settlement		50,449	18,343
Insurance reserves		4,084	3,432
Deferred revenue on plastic cards operations		3,928	3,857
Dividends payable to shareholders	21	2,290	4,865
Plastic cards creditors		1,080	1,579
Insurance premiums and broker commissions payable		917	1,008
Deferred ceding commissions on insurance operations		75	75
Trade creditors		-	58
Other liabilities		4,864	1,429
<b>Total other liabilities</b>		<b>67,787</b>	<b>34,646</b>

Items in the course of settlement include AZN 42,369 thousand, which represent the fund transfers in the course of processing. These amounts were settled two to three days after the balance sheet date.

Deferred revenue on plastic cards operations represents the unearned portion of revenue related to fees charged for the annual maintenance of plastic card accounts. This fee is charged upon the issuance of cards and amortised over their respective term. Included in deferred revenue on plastic cards operations as at 30 June 2007 is AZN 2,239 thousand (31 December 2006: AZN 3,857 thousand) representing the deferral of revenue arising from the servicing of plastic cards issued by the Bank to Azerbaijani pensioners in accordance with the contract signed by the Bank with the State Social Security Fund of the Republic of Azerbaijan on 23 January 2004. Refer to Note 19.

Geographical, currency and maturity analyses of other liabilities are disclosed in Note 23. The information on related party balances is disclosed in Note 25.

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**17 Share Capital**

The authorised, issued and paid-in share capital of the Bank as at 30 June 2007 and at 31 December 2006 is as follows:

<i>In thousands of AZN except for number of shares</i>	<b>Number of paid-in shares</b>	<b>Ordinary shares</b>	<b>Total</b>
<b>At 1 January 2006</b>	<b>124,100</b>	<b>24,820</b>	<b>24,820</b>
New shares issued	172,495	34,499	34,499
<b>At 31 December 2006</b>	<b>296,595</b>	<b>59,319</b>	<b>59,319</b>
New shares issued	114,140	22,828	22,828
<b>At 30 June 2007</b>	<b>410,735</b>	<b>82,147</b>	<b>82,147</b>

All ordinary shares have a nominal value of AZN 0.2 per share (31 December 2006: AZN 0.2 per share) and rank equally. Each share carries one vote.

In 2006, the Bank issued additional shares to increase its share capital to AZN 100,000 thousand. This issue granted a right to existing shareholders to purchase these shares at the nominal face value of AZN 0.2 per share. As at 30 June 2007, not all shareholders exercised this right and out of AZN 100,000 thousand of authorised share capital of the Bank only AZN 82,147 thousand was paid in. Therefore, the par value of the Bank's issued paid-in share capital is AZN 82,147 thousand as at 30 June 2007 (31 December 2006: AZN 59,319 thousand). Management do not consider that the Bank has a financial asset representing the remaining issued shares until such time as payment has been made for those shares, since the Bank has no right to demand that all the issued shares are subscribed for by the existing shareholders.

As at 30 June 2007, Ministry of Finance of the Republic of Azerbaijan ("MoF") held 42.78% of the total paid-in share capital of the Bank (31 December 2006: 33.85% of the total paid-in share capital of the Bank). Management believes that MoF retained control of the Bank as at 30 June 2007 even though its economic interest had been diluted as at 30 June 2007 since it had not yet paid for its allocated shares as at this date. The MoF subsequently exercised its rights to pay for all of its allocated shares, which increased its economic interest in the Bank's share capital to 50.20% as at 18 November 2007. Refer to Note 27.

As at 30 June 2007, the Group's employees held 7.55% of the total share capital of the Bank, or 31,010 ordinary shares with a par value of AZN 6,202 thousand (31 December 2006: 8.89%, or 26,365 ordinary shares with a par value of AZN 5,273 thousand, respectively). Refer to Note 25.

Subsequent to 30 June 2007, the remaining AZN 17,853 thousand of additional shares were subscribed for and paid-in by 18 November 2007. Refer to Note 27.

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**18 Interest Income and Expense**

<i>In thousands of Azerbaijani Manats</i>	<b>Six-Month Period Ended 30 June 2007</b>	<b>Six-Month Period Ended 30 June 2006</b>
<b>Interest income</b>		
Loans and advances to customers	74,991	40,870
Due from other banks and correspondent accounts	4,628	8,435
<b>Total interest income</b>	<b>79,619</b>	<b>49,305</b>
<b>Interest expense</b>		
Savings deposits of individuals and deposit certificates	10,769	6,515
Deposits from banks and other borrowed funds	10,628	2,584
Term deposits of legal entities	6,426	4,434
Debt securities in issue	1,395	1,362
<b>Total interest expense</b>	<b>29,218</b>	<b>14,895</b>
<b>Net interest income</b>	<b>50,401</b>	<b>34,410</b>

**19 Fee and Commission Income and Expense**

<i>In thousands of Azerbaijani Manats</i>	<b>Six-Month Period Ended 30 June 2007</b>	<b>Six-Month Period Ended 30 June 2006</b>
<b>Fee and commission income</b>		
- Plastic cards operations	9,659	7,077
- Transactions with foreign currencies and securities	9,098	5,393
- Cash transactions	5,408	4,656
- Settlement transactions	4,689	3,344
- Letters of credit issued	3,407	2,070
- Guarantees issued	3,135	3,225
- Servicing intermediary loans	140	84
- Other	512	583
<b>Total fee and commission income</b>	<b>36,048</b>	<b>26,432</b>
<b>Fee and commission expense</b>		
- Plastic cards operations	714	868
- Settlement transactions	609	596
- Policy acquisition costs on insurance operations	543	210
- Other	195	217
<b>Total fee and commission expense</b>	<b>2,061</b>	<b>1,891</b>
<b>Net fee and commission income</b>	<b>33,987</b>	<b>24,541</b>

Included in fee and commission income on plastic cards operations is AZN 1,421 thousand (six-month period ended 30 June 2006: AZN 649 thousand) representing commission income arising from servicing plastic cards issued by the Group to Azerbaijani pensioners in accordance with the contract signed on 23 January 2004 with the State Social Security Fund of the Republic of Azerbaijan. These plastic cards were issued within the project for implementation of the retirement benefits payment system through plastic cards in the largest local cities arranged by the Group under the abovementioned contract with the State Social Security Fund of the Republic of Azerbaijan. Refer to Note 16.

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

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**20 Administrative and Other Operating Expenses**

<i>In thousands of Azerbaijani Manats</i>	<b>Six-Month Period Ended 30 June 2007</b>	<b>Six-Month Period Ended 30 June 2006</b>
Staff costs	13,783	10,796
Depreciation of premises and equipment	7,369	6,135
Charity and financial aid	2,588	699
Purchase of plastic cards	2,211	685
Advertising and marketing services	2,165	1,784
Premises, equipment and investment property maintenance	1,623	529
Customs duties and other taxes other than on income	1,434	1,020
Rent	1,399	1,359
Transportation of valuables	1,110	976
Communication	836	799
External labor and guarding	776	442
Stationery, books, printing and other supplies	685	509
Business trip	610	232
Amortisation of software and other intangible assets	453	2,996
Property insurance	301	196
Training	134	591
Software maintenance	122	337
Other	2,502	9,496
<b>Total administrative and other operating expenses</b>	<b>40,101</b>	<b>39,581</b>

Included in staff costs are obligatory payments to the Social Security Fund and other funds of the Republic of Azerbaijan of AZN 2,374 thousand (six-month period ended 30 June 2006: AZN 1,896 thousand).

Staff costs include payroll and other employee benefits of the Bank of AZN 10,880 thousand (six-month period ended 30 June 2006: AZN 8,750 thousand); IBAR Moscow of AZN 1,817 thousand (six-month period ended 30 June 2006: AZN 990 thousand); IBAR Georgia of AZN 60 thousand (six-month period ended 30 June 2006: nil); the Insurance Subsidiary of AZN 561 thousand (six-month period ended 30 June 2006: AZN 379 thousand); Azericard Limited of AZN 465 thousand (six-month period ended 30 June 2006: AZN 290 thousand); Azerileasing of nil (six-month period ended 30 June 2006: AZN 33 thousand) and "Inter" professional football club of nil (six-month period ended 30 June 2006: AZN 354 thousand).

Included in charity and financial aid expenses incurred during the period are AZN 1,500 thousand paid to "Inter" professional football club.

Included in amortisation of software and other intangible assets in six-month period ended 30 June 2006 are AZN 2,718 thousand of amortization charge for the transfer rights of "Inter" professional football club.

Rental expenses are related to the lease of the Group's branch buildings in Baku and in the regions of the Republic of Azerbaijan, exchange offices and costs associated with ATMs installed, for example, in department stores and hotels.

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

**21 Dividends**

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>	<b>30 June 2006</b>
<b>Dividends payable at the beginning of the period</b>	<b>4,865</b>	<b>6,577</b>	<b>2,400</b>
Dividends declared during the period	7,512	9,512	6,879
Dividends paid during the period	(10,087)	(11,224)	(2,702)
<b>Dividends payable at the end of the period</b>	<b>2,290</b>	<b>4,865</b>	<b>6,577</b>

All dividends are declared in respect of ordinary shares and paid in Azerbaijani Manats by the Bank.

Dividends are declared at quarter-ends and paid in the following quarter to the shareholders of the Bank in accordance with their shareholding percentage in the issued and paid share capital as at the end of the quarter.

## 22 Segment Analysis

The Group's format for reporting segment information is business segments.

The Group is organised on a basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages; and
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, and foreign currency products.

There are no material items of income or expense between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balances sheet, but excluding taxation.

The Group's lines of business and operations in countries outside of Republic of Azerbaijan are not considered significant for separate analysis or disclosure within this note.

Segment information for the main reportable business segments of the Group for the six-month periods ended 30 June 2007 and 30 June 2006 is set out below:

<i>In thousands of Azerbaijani Manats</i>	Retail banking		Corporate banking		Total	
	2007	2006	2007	2006	2007	2006
External revenues	23,829	13,559	102,337	70,835	126,166	84,394
Revenues from other segments	581	307	2,493	1,607	3,074	1,914
<b>Total revenues</b>	<b>24,410</b>	<b>13,866</b>	<b>104,830</b>	<b>72,442</b>	<b>129,240</b>	<b>86,308</b>
<b>Total revenues comprise:</b>						
- Interest income	15,037	7,921	64,582	41,384	79,619	49,305
- Fee and commission income	6,809	4,247	29,239	22,185	36,048	26,432
- Gains less losses from trading in foreign currencies	1,983	1,391	8,516	7,266	10,499	8,657
- Gross insurance premiums written, net of premiums ceded	581	307	2,493	1,607	3,074	1,914
<b>Total revenues</b>	<b>24,410</b>	<b>13,866</b>	<b>104,830</b>	<b>72,442</b>	<b>129,240</b>	<b>86,308</b>
<b>Segment result</b>	<b>18,336</b>	<b>10,659</b>	<b>78,743</b>	<b>58,304</b>	<b>97,079</b>	<b>68,963</b>
Unallocated costs					(53,688)	(47,603)
Share of after tax results of associates					13	56
<b>Profit before tax</b>					<b>43,404</b>	<b>21,416</b>
Income tax expense					(11,575)	(6,838)
<b>Profit for the period</b>					<b>31,829</b>	<b>14,578</b>
<b>Other segment items</b>						
Capital expenditure	2,154	2,561	9,250	13,381	11,404	15,942
Depreciation and amortisation expense	1,477	1,467	6,345	7,664	7,822	9,131
Other non-cash expenses	2,590	1,345	11,123	7,026	13,713	8,371

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**22 Segment Analysis (Continued)**

Information about segment assets and liabilities of the Group at 30 June 2007 and 31 December 2006 is given in the following table:

<i>In thousands of Azerbaijani Manats</i>	Retail banking		Corporate banking		Total	
	30 June 2007	31 December 2006	30 June 2007	31 December 2006	30 June 2007	31 December 2006
Assets of disposal group	-	-	1,836	-	1,836	-
Other segment assets	408,780	280,620	1,755,509	1,466,072	2,164,289	1,746,692
<b>Total segment assets</b>	<b>408,780</b>	<b>280,620</b>	<b>1,757,345</b>	<b>1,466,072</b>	<b>2,166,125</b>	<b>1,746,692</b>
Investments in associates	-	-	-	-	822	809
Current and deferred tax assets	-	-	-	-	409	41
Other unallocated assets	-	-	-	-	125,209	99,890
<b>Total assets</b>	<b>408,780</b>	<b>280,620</b>	<b>1,757,345</b>	<b>1,466,072</b>	<b>2,292,565</b>	<b>1,847,432</b>
Liabilities of disposal group	-	-	85	-	85	-
Other segment liabilities	377,080	265,472	1,619,374	1,386,934	1,996,454	1,652,406
<b>Total segment liabilities</b>	<b>377,080</b>	<b>265,472</b>	<b>1,619,459</b>	<b>1,386,934</b>	<b>1,996,539</b>	<b>1,652,406</b>
Current and deferred tax liability	-	-	-	-	24,777	19,141
Other unallocated liabilities	-	-	-	-	67,787	34,647
<b>Total liabilities</b>	<b>377,080</b>	<b>265,472</b>	<b>1,619,459</b>	<b>1,386,934</b>	<b>2,089,103</b>	<b>1,706,194</b>

**23 Financial Risk Management**

The risk management function within the Group is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

**Credit risk.** The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay all amounts in full when due. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, borrower and industry sector are approved regularly by the Board of Directors.

The Group's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the consolidated balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.



*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**23 Financial Risk Management (Continued)**

**Market risk.** The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

**Geographical risk.** The geographical concentration of the Group's assets and liabilities as at 30 June 2007 is set out below:

<i>In thousands of Azerbaijani Manats</i>	<b>Republic of Azerbaijan</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	141,368	176,988	7,133	325,489
Mandatory cash balances with the National/Central banks	123,802	-	2,768	126,570
Due from other banks	26,480	52,378	32,932	111,790
Loans and advances to customers	1,467,818	-	119,785	1,587,603
Investment securities held to maturity	-	12,837	-	12,837
Investment in associates and joint ventures	822	-	-	822
Deferred income tax asset	409	-	-	409
Premises, equipment and intangible assets	89,308	-	15,251	104,559
Other assets	19,572	351	727	20,650
Assets of disposal group	-	1,836	-	1,836
<b>Total assets</b>	<b>1,869,579</b>	<b>244,390</b>	<b>178,596</b>	<b>2,292,565</b>
<b>Liabilities</b>				
Due to other banks	30,521	15,404	1,206	47,131
Customer accounts	1,507,974	-	43,877	1,551,851
Debt securities in issue	40,323	-	-	40,323
Other borrowed funds	-	353,613	3,536	357,149
Current income tax liability	6,162	-	-	6,162
Deferred income tax liability	16,350	-	2,265	18,615
Other liabilities	65,756	783	1,248	67,787
Liabilities of disposal group	-	85	-	85
<b>Total liabilities</b>	<b>1,667,086</b>	<b>369,885</b>	<b>52,132</b>	<b>2,089,103</b>
<b>Net balance sheet position</b>	<b>202,493</b>	<b>(125,495)</b>	<b>126,464</b>	<b>203,462</b>
<b>Credit related commitments (Note 24)</b>	<b>1,833,688</b>	<b>-</b>	<b>448,274</b>	<b>2,281,962</b>

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**23 Financial Risk Management (Continued)**

The geographical concentration of the Group's assets and liabilities as at 31 December 2006 is set out below:

<i>In thousands of Azerbaijani Manats</i>	<b>Republic of Azerbaijan</b>	<b>OECD</b>	<b>Non OECD</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	412,814	25,389	19,179	457,382
Mandatory cash balances with the National/Central banks	112,600	-	2,854	115,454
Due from other banks	92,451	11,485	31,504	135,440
Loans and advances to customers	919,096	-	119,320	1,038,416
Investment securities held to maturity	-	-	-	-
Investment in associates and joint ventures	809	-	-	809
Deferred income tax asset	41	-	-	41
Premises, equipment and intangible assets	73,825	-	7,773	81,598
Other assets	14,356	262	3,674	18,292
<b>Total assets</b>	<b>1,625,992</b>	<b>37,136</b>	<b>184,304</b>	<b>1,847,432</b>
<b>Liabilities</b>				
Due to other banks	1,860	141,169	30,351	173,380
Customer accounts	1,282,584	-	21,592	1,304,176
Debt securities in issue	40,969	-	-	40,969
Other borrowed funds	-	130,111	3,772	133,882
Current income tax liability	6,916	-	45	6,961
Deferred income tax liability	11,519	-	661	12,180
Other liabilities	33,495	857	294	34,646
<b>Total liabilities</b>	<b>1,377,343</b>	<b>272,137</b>	<b>56,714</b>	<b>1,706,194</b>
<b>Net balance sheet position</b>	<b>248,649</b>	<b>(235,001)</b>	<b>127,590</b>	<b>141,238</b>
<b>Credit related commitments (Note 24)</b>	<b>1,374,308</b>	<b>-</b>	<b>14,166</b>	<b>1,388,474</b>

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**23 Financial Risk Management (Continued)**

**Currency risk.** The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its consolidated financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Group's exposure to foreign currency exchange rate risk as at 30 June 2007:

<i>In thousands of Azerbaijani Manats</i>	AZN	USD	Euro	RUR	Other	Non-monetary	Total
<b>Assets</b>							
Cash and cash equivalents	41,458	243,020	2,080	6,500	32,431	-	325,489
Mandatory cash balances with the National/Central banks	-	126,570	-	-	-	-	126,570
Due from other banks	8,662	62,650	13,808	26,670	-	-	111,790
Loans and advances to customers	487,943	1,007,248	62,307	30,105	-	-	1,587,603
Investment securities held to maturity	-	12,837	-	-	-	-	12,837
Investment in associates and joint ventures	822	-	-	-	-	-	822
Deferred income tax asset	409	-	-	-	-	-	409
Premises, equipment and intangible assets	-	-	-	-	-	104,559	104,559
Other assets	13,383	4,286	2,307	-	674	-	20,650
Assets of disposal group	-	-	-	-	1,836	-	1,836
<b>Total assets</b>	<b>552,677</b>	<b>1,456,611</b>	<b>80,502</b>	<b>63,275</b>	<b>34,941</b>	<b>104,559</b>	<b>2,292,565</b>
<b>Liabilities</b>							
Due to other banks	36,248	717	10,104	57	5	-	47,131
Customer accounts	414,660	1,035,310	62,271	33,485	6,125	-	1,551,851
Debt securities in issue	-	40,323	-	-	-	-	40,323
Other borrowed funds	-	329,878	27,271	-	-	-	357,149
Current income tax liability	6,162	-	-	-	-	-	6,162
Deferred income tax liability	16,350	-	-	2,265	-	-	18,615
Other liabilities	48,915	16,697	1,045	-	1,130	-	67,787
Liabilities of disposal groups	-	-	-	-	85	-	85
<b>Total liabilities</b>	<b>522,335</b>	<b>1,422,925</b>	<b>100,691</b>	<b>35,807</b>	<b>7,345</b>	<b>-</b>	<b>2,089,103</b>
<b>Net balance sheet position</b>	<b>30,342</b>	<b>33,686</b>	<b>(20,189)</b>	<b>27,468</b>	<b>27,596</b>	<b>104,559</b>	<b>203,462</b>

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**23 Financial Risk Management (Continued)**

As at 31 December 2006, the Group had the following positions in currencies:

<i>In thousands of Azerbaijani Manats</i>	AZN	USD	Euro	RUR	Other	Non-monetary	Total
<b>Assets</b>							
Cash and cash equivalents	95,326	351,315	5,804	3,239	1,698	-	457,382
Mandatory cash balances with the National/Central banks	14,427	100,370	-	657	-	-	115,454
Due from other banks	52,226	71,103	11,476	-	635	-	135,440
Loans and advances to customers	282,830	699,325	38,096	18,165	-	-	1,038,416
Investment securities held to maturity	-	-	-	-	-	-	-
Investment in associates and joint ventures	809	-	-	-	-	-	809
Deferred income tax asset	41	-	-	-	-	-	41
Premises, equipment and intangible assets	-	-	-	-	-	81,598	81,598
Other assets	10,806	5,117	1,172	196	99	902	18,292
<b>Total assets</b>	<b>456,465</b>	<b>1,227,230</b>	<b>56,548</b>	<b>22,257</b>	<b>2,432</b>	<b>82,500</b>	<b>1,847,432</b>
<b>Liabilities</b>							
Due to other banks	59	162,638	68	10,599	16	-	173,380
Customer accounts	338,560	895,829	46,891	21,592	1,304	-	1,304,176
Debt securities in issue	8	40,961	-	-	-	-	40,969
Other borrowed funds	-	122,490	11,392	-	-	-	133,882
Current income tax liability	6,916	-	-	45	-	-	6,961
Deferred income tax liability	11,519	-	-	661	-	-	12,180
Other liabilities	22,159	10,508	1,731	207	41	-	34,646
<b>Total liabilities</b>	<b>379,221</b>	<b>1,232,426</b>	<b>60,082</b>	<b>33,104</b>	<b>1,361</b>	<b>-</b>	<b>1,706,194</b>
<b>Net balance sheet position</b>	<b>77,244</b>	<b>(5,196)</b>	<b>(3,534)</b>	<b>(10,847)</b>	<b>1,071</b>	<b>82,500</b>	<b>141,238</b>

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream of the borrower, the appreciation of foreign currencies against the Azerbaijani Manat may adversely affect the borrowers' repayment ability and, therefore, increases the likelihood of future loan losses.

**Liquidity risk.** Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees and from margin and other calls on cash settled derivative instruments. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Asset/Liability Committee of the Group.

The table below shows assets and liabilities at 30 June 2007 by their remaining contractual maturity, unless there is evidence that any of the assets are impaired and will be settled after their contractual maturity dates, in which case the expected date of settlement of the assets is used. Some of the assets and liabilities, however, may be of a longer term nature; for example, loans are frequently renewed and, accordingly, short term loans can have longer term duration.

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**23 Financial Risk Management (Continued)**

Overdue liabilities, such as term deposits not withdrawn by the Group's customers, are classified within the "demand and less than 1 month" column. Overdue assets are allocated based on their expected maturity. Certain assets, for example, available for sale equity securities and non-current assets held for sale (or disposal groups), are assumed to mature on the expected date, on which the assets will be realised. (Mandatory cash balances with the NBAR, CBRF and the NBG are included within the same categories as the majority of liabilities, to which these balances relate).

The liquidity position of the Group as at 30 June 2007 is set out below:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
<b>Assets</b>					
Cash and cash equivalents	325,489	-	-	-	325,489
Mandatory cash balances with the National/Central banks	83,536	5,063	31,643	6,328	126,570
Due from other banks	80,602	12,253	7,253	11,682	111,790
Loans and advances to customers	235,151	211,787	215,344	925,321	1,587,603
Investment securities held to maturity	-	-	-	12,837	12,837
Investment in associates and joint ventures	-	-	-	822	822
Deferred income tax asset	-	-	-	409	409
Premises, equipment and intangible assets	-	-	-	104,559	104,559
Other assets	5,371	8,281	1,515	5,483	20,650
Assets of disposal group	1,836	-	-	-	1,836
<b>Total assets</b>	<b>731,985</b>	<b>237,384</b>	<b>255,755</b>	<b>1,067,441</b>	<b>2,292,565</b>
<b>Liabilities</b>					
Due to other banks	20,111	22,747	4,273	-	47,131
Customer accounts	1,026,215	67,086	379,623	78,927	1,551,851
Debt securities in issue	440	2,680	904	36,299	40,323
Other borrowed funds	248,391	-	-	108,758	357,149
Current income tax liability	-	6,162	-	-	6,162
Deferred income tax liability	-	-	-	18,615	18,615
Other liabilities	52,341	8,251	1,569	5,626	67,787
Liabilities of disposal group	85	-	-	-	85
<b>Total liabilities</b>	<b>1,347,583</b>	<b>106,926</b>	<b>386,369</b>	<b>248,225</b>	<b>2,089,103</b>
<b>Net liquidity gap</b>	<b>(615,598)</b>	<b>130,458</b>	<b>(130,614)</b>	<b>819,216</b>	<b>203,462</b>
<b>Cumulative liquidity gap at 30 June 2007</b>	<b>(615,598)</b>	<b>(485,140)</b>	<b>(615,754)</b>	<b>203,462</b>	

Other borrowed funds classified as due on "Demand and up to 1 month" include certain amounts that have been reclassified from their contractual settlement dates as detailed in Note 24.

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**23 Financial Risk Management (Continued)**

The liquidity position of the Group as at 31 December 2006 is set as below:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
<b>Assets</b>					
Cash and cash equivalents	457,382	-	-	-	457,382
Mandatory cash balances with the National/Central banks	81,350	1,374	1,025	31,705	115,454
Due from other banks	107,957	8,220	14,075	5,188	135,440
Loans and advances to customers	36,380	206,599	285,779	509,658	1,038,416
Investment securities held to maturity	-	-	-	-	-
Investment in associates and joint ventures	-	-	-	809	809
Deferred income tax asset	-	-	-	41	41
Premises, equipment and intangible assets	-	-	-	81,598	81,598
Other assets	3,773	3,011	4,363	7,145	18,292
<b>Total assets</b>	<b>686,842</b>	<b>219,204</b>	<b>305,242</b>	<b>636,144</b>	<b>1,847,432</b>
<b>Liabilities</b>					
Due to other banks	130,852	-	5,728	36,800	173,380
Customer accounts	918,940	15,519	11,581	358,136	1,304,176
Debt securities in issue	1,729	1,970	8,289	28,981	40,969
Other borrowed funds	129,284	827	-	3,771	133,882
Current income tax liability	-	6,961	-	-	6,961
Deferred income tax liability	-	-	-	12,180	12,180
Other liabilities	8,052	4,859	1,998	19,737	34,646
<b>Total liabilities</b>	<b>1,188,857</b>	<b>30,136</b>	<b>27,596</b>	<b>459,605</b>	<b>1,706,194</b>
<b>Net liquidity gap</b>	<b>(502,015)</b>	<b>189,068</b>	<b>277,646</b>	<b>176,539</b>	<b>141,238</b>
<b>Cumulative liquidity gap at 31 December 2006</b>	<b>(502,015)</b>	<b>(312,947)</b>	<b>(35,301)</b>	<b>141,238</b>	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the Management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Management considers that the economic growth underpinned by rapidly rising oil and gas production and prices, current favourable macroeconomic environment for financial institutions operating in Azerbaijan, positive cash flows, the profitability of operations and access to financial resources as required significantly decrease the risk of losses arising from current liquidity mismatches.

Management believes that in spite of a substantial portion of customers accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijani Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**23 Financial Risk Management (Continued)**

**Interest rate risk.** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The table below summarises the Group's exposure to interest rate risks as at 30 June 2007. Included in the table are the Group's consolidated assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

<i>In thousands of Azerbaijani Manats</i>	<b>Demand and less than 1 month</b>	<b>From 1 to 6 months</b>	<b>From 6 to 12 months</b>	<b>More than 1 year</b>	<b>Non- monetary</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	325,489	-	-	-	-	325,489
Mandatory cash balances with the National/Central banks	83,535	5,063	31,643	6,329	-	126,570
Due from other banks	80,602	12,253	7,253	11,682	-	111,790
Loans and advances to customers	235,151	211,787	221,340	919,325	-	1,587,603
Investment securities held to maturity	-	-	-	12,837	-	12,837
Investment in associates and joint ventures	-	-	-	-	822	822
Deferred income tax asset	-	-	-	-	409	409
Premises, equipment and intangible assets	-	-	-	-	104,559	104,559
Other assets	-	-	-	-	20,650	20,650
Assets of disposal group	1,836	-	-	-	-	1,836
<b>Total assets</b>	<b>726,613</b>	<b>229,103</b>	<b>260,236</b>	<b>950,173</b>	<b>126,440</b>	<b>2,292,565</b>
<b>Liabilities</b>						
Due to other banks	20,111	22,747	4,273	-	-	47,131
Customer accounts	1,026,215	67,086	379,623	78,927	-	1,551,851
Debt securities in issue	439	2,681	904	36,299	-	40,323
Other borrowed funds	248,391	23,178	85,580	-	-	357,149
Current income tax liability	-	6,162	-	-	-	6,162
Deferred income tax liability	-	-	-	-	18,615	18,615
Other liabilities	54,736	-	-	-	13,051	67,787
Assets of disposal group	85	-	-	-	-	85
<b>Total liabilities</b>	<b>1,349,977</b>	<b>121,854</b>	<b>470,380</b>	<b>115,226</b>	<b>31,666</b>	<b>2,089,103</b>
<b>Net sensitivity gap</b>	<b>(623,364)</b>	<b>107,249</b>	<b>(210,144)</b>	<b>834,947</b>	<b>94,774</b>	<b>203,462</b>

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**23 Financial Risk Management (Continued)**

The following table summarises the Group's exposure to interest rate risks as at 31 December 2006 by showing consolidated assets and liabilities in categories based on the earlier of contractual repricing or maturity dates:

<i>In thousands of Azerbaijani Manats</i>	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	More than 1 year	Non- monetary	Total
<b>Assets</b>						
Cash and cash equivalents	457,382	-	-	-	-	457,382
Mandatory cash balances with the National/Central banks	81,350	1,374	1,025	31,705	-	115,454
Due from other banks	107,957	8,220	14,075	5,188	-	135,440
Loans and advances to customers	110,583	206,599	322,860	398,374	-	1,038,416
Investment securities held to maturity	-	-	-	-	-	-
Investment in associates and joint ventures	-	-	-	-	809	809
Deferred income tax asset	-	-	-	-	41	41
Premises, equipment and intangible assets	-	-	-	-	81,598	81,598
Other assets	-	-	-	-	18,292	18,292
<b>Total assets</b>	<b>757,272</b>	<b>216,193</b>	<b>337,960</b>	<b>435,267</b>	<b>100,740</b>	<b>1,847,432</b>
<b>Liabilities</b>						
Due to other banks	130,852	-	5,728	36,800	-	173,380
Customer accounts	918,940	15,519	11,581	358,136	-	1,304,176
Debt securities in issue	1,729	1,970	8,289	28,981	-	40,969
Other borrowed funds	129,284	827	-	3,771	-	133,882
Current income tax liability	-	-	-	-	6,961	6,961
Deferred income tax liability	-	-	-	-	12,180	12,180
Other liabilities	-	-	-	-	34,646	34,646
<b>Total liabilities</b>	<b>1,180,805</b>	<b>18,316</b>	<b>25,598</b>	<b>427,688</b>	<b>53,787</b>	<b>1,706,194</b>
<b>Net sensitivity gap</b>	<b>(423,533)</b>	<b>197,877</b>	<b>312,362</b>	<b>7,579</b>	<b>46,953</b>	<b>141,238</b>

The Group is exposed to cash flow interest rate risk, principally through assets and liabilities, for which interest rates are reset as market rates change. Such assets and liabilities are primarily presented in the above table as being repriced in the short-term. The Group is exposed to fair value interest rate risk as a result of assets and liabilities at fixed interest rates; these are primarily presented in the above table as being re-priced in the long-term. In practice, interest rates that are contractually fixed on both assets and liabilities are usually renegotiated to reflect current market conditions.

The Board of Directors monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. In the absence of any available hedging instruments, the Group normally seeks to match its interest rate positions.

The table below summarises the effective interest rates by major currencies for major debt instruments. The analysis has been prepared based on period-end effective rates used for amortisation of the respective assets/liabilities.

<i>In % p.a.</i>	30 June 2007					31 December 2006				
	USD	AZN	Euro	RUR	Other	USD	AZN	Euro	RUR	Other
<b>Assets</b>										
Cash and cash equivalents	5.0	-	4.1	-	-	3.7	-	-	0.7	-
Due from resident banks	13.3	13.0	-	-	-	15.1	14.0	-	3.5	-
Due from non resident banks	4.7	-	3.8	2.8	-	5.1	-	7.0	7.8	-
Loans and advances to customers										
– individuals	19.0	15.6	16.6	15.8	-	19.5	15.2	13.7	15.6	-
Loans and advances to customers										
– corporate	12.4	11.5	9.0	15.2	-	13.7	14.1	8.2	15.4	-



23 Financial Risk Management (Continued)

In % p.a.	30 June 2007					31 December 2006				
	USD	AZN	Euro	RUR	Other	USD	AZN	Euro	RUR	Other
<b>Liabilities</b>										
Customer accounts – corporate	5.0	6.0	4.6	6.8	-	3.9	5.4	1.8	7.2	6.0
Customer accounts – individuals	12.1	11.6	9.6	9.4	8.9	10.9	10.5	8.9	10.1	8.0
Due to other banks	5.6	-	-	-	-	6.7	-	-	-	-
Debt securities in issue	15.0	9.0	-	-	-	15.0	9.0	-	-	-
Other borrowed funds	6.9	-	7.6	-	-	8.0	-	8.5	-	-

The sign “-” in the table above means that the Group does not have the respective assets or liabilities in corresponding currency.

24 Contingencies and Commitments

**Legal proceedings.** From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice the Management is of the opinion that no material losses will be incurred in respect of claims and, accordingly, no provision has been made in this condensed consolidated interim financial information at 30 June 2007 and 31 December 2006 respectively.

**Tax legislation.** 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.

The Azerbaijani tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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. Under certain circumstances reviews may cover longer periods.

Management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency legislation and customs positions will be sustained. Accordingly, at 30 June 2007 no provision for potential tax liabilities was recorded (31 December 2006: no provision).

In accordance with Article 18 of the Tax Code of the Republic of Azerbaijan effective from 1 January 2002, tax authorities can make transfer-pricing adjustments and impose additional tax liabilities in respect of transactions between inter-related entities, which are carried out at non-market prices, and all transactions, where the price differs from the market price by more than 30%.

**Capital expenditure commitments.** At 30 June 2007, the Group has contractual capital expenditure commitments towards a local construction company in respect of the Bank’s new administrative building totalling AZN 15,473 thousand (31 December 2006: AZN 15,473 thousand).

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

**Operating lease commitments.** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are, as follows:

In thousands of Azerbaijani Manats	30 June 2007	31 December 2006
Not later than 1 year	536	327
Later than 1 year and not later than 5 years	327	175
Later than 5 years	277	148
<b>Total operating lease commitments</b>	<b>1,140</b>	<b>650</b>

**24 Contingencies and Commitments (Continued)**

**Compliance with covenants.** The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including growth in the cost of borrowings and the timing of repayment of existing facilities. Management believes that during the period the Group has complied with the covenants that were in force, except for the restrictions that limits the maximum exposure of the Bank to (i) any single party which is a related party to the Bank, to ten per cent of the Bank's equity (excluding any single party which is the Government of the Republic of Azerbaijan, or an entity, in which the majority of the shares or interest are owned by the Government of the Republic of Azerbaijan) and (ii) a ratio of the aggregate exposure to parties that are related parties to the Bank to twenty five per cent of the Bank's equity.

As at 30 June 2007, as disclosed in this condensed consolidated interim financial information, the exposure of the Group to a single party that was a related party comprised 23% (31 December 2006: 31%) and the ratio of aggregate exposure to parties that are related parties to the Group's equity was 91% (31 December 2006: 136%). As a result, the Group was not in compliance with these covenants as at 30 June 2007 and 31 December, and at certain other times during the reporting periods then ended. As a result of cross-default clauses being included in certain other of the Group's borrowing agreements, the agreements provide for these other lenders to have the right to declare some or all of their loans repayable on demand.

The total borrowings affected by the breach of these covenants comprised AZN 247,488 thousand as at 30 June 2007 (31 December 2006: AZN 128,990). In accordance with those agreements, where covenants are breached or are affected by cross-default clauses, provision is made for the borrowings to become due and/or repayable on demand. Accordingly, the borrowings impacted have been reclassified to being on demand within this condensed consolidated interim financial information.

In addition, the Bank was not in compliance with certain statutory covenants related to ratio of the value of collateral to issued loans, and the maximum limit on related party lending stipulated by the National Bank of Azerbaijan's regulations. Management considers that the Bank has obtained formal agreement with the National Bank of Azerbaijan through the development of an action plan aimed at enabling the Bank to comply with all statutory requirements by 31 December 2008. Management believes that this agreement represents a waiver from these requirements in the years prior to 31 December 2008 and as a result there will be no adverse consequents for the Bank of the potential areas of non compliance. Management consider that the Bank is on schedule with the action plan agreed in 2005 and will be in a position to fully comply with all requirements by 31 December 2008.

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

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

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Export letters of credit	1,019,401	616,581
Import letters of credit	636,510	372,938
Guarantees issued	548,667	355,413
Commitments to extend credit and un-drawn credit lines	77,384	43,542
<b>Total credit related commitments</b>	<b>2,281,962</b>	<b>1,388,474</b>

**24 Contingencies and Commitments (Continued)**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Fair value of credit related commitments was AZN 15,547 thousand at 30 June 2007 (31 December 2006: AZN 15,527 thousand). Credit related commitments are denominated in currencies as follows:

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Azerbaijani Manats	223,055	211,152
US Dollars	1,690,980	868,396
Euro	346,877	283,580
Other	21,050	25,346
<b>Total</b>	<b>2,281,962</b>	<b>1,388,474</b>

As at 30 June 2007, the Group had a significant concentration of import letters of credit of AZN 467,775 thousand issued to 18 entities or 73.5% of total import letters of credit (31 December 2006: import letters of credit of AZN 237,547 thousand issued to 14 entities or 63.7% of total import letters of credit). As at 30 June 2007, the Group also had a significant concentration of guarantees of AZN 179,708 thousand issued to 13 entities or 32.8% of total guarantees issued (31 December 2006: guarantees of AZN 112,051 thousand issued to 8 entities or 30.0% of total guarantees).

Of the total export letters of credit as at 30 June 2007, AZN 702,856 thousand (31 December 2006: AZN 607,448 thousand) were issued to foreign banks for exports by the Azerbaijani state organisations related to the oil industry. All export letters of credit are covered by guarantees of foreign banks, and the Group does not bear any credit risk in relation to these export letters of credit.

As at 30 June 2007, credit related commitments of AZN 194,516 thousand (31 December 2006: AZN 92,517 thousand) are secured by Azerbaijan government guarantees or blocked customer deposits. Refer to Note 14.

On 15 June 2004, the Group signed a credit agreement where an Azerbaijani company acted as a borrower, the Group - as a guarantor of the Azerbaijani company, Commerzbank AG - as a lender and Export-Import Bank of the United States as a guarantor of Commerzbank AG for a credit line of USD 14,641 thousand (31 December 2006: USD 12,904 thousand) at the rate of LIBOR plus 0.10% per annum repayable in sixteen semi-annual instalments beginning from 5 November 2006 for the purposes of construction of a business and entertainment complex in the centre of Baku. At 30 June 2007, an import letter of credit of USD 3,216 thousand or AZN 2,753 thousand (31 December 2006: 6,734 thousand or AZN 5,868 thousand) had been issued by the Group for this borrower under the above credit facility.

**Intermediary loans.** At 30 June 2007, the Group had borrowed funds amounting to AZN 21,925 thousand (31 December 2006: AZN 26,046 thousand) on behalf of the Government of the Republic of Azerbaijan from foreign banks and financial institutions for the purposes of providing intermediary loans to state-owned enterprises and government bodies of the Republic of Azerbaijan. The loan agreements signed between the Group and these foreign banks and financial institutions are secured by unconditional letters of guarantee of the Government of the Republic of Azerbaijan, whereby the Government acts as the primary obligor in relation to these borrowings. As a result, the Group acts as a loan-servicing agent for the Government of the Republic of Azerbaijan by transferring collected principal and interest payments to foreign banks and financial institutions and earns no interest margin on these loans.

As the Group does not receive the benefits and does not bear the risks of these intermediary loans, the Group has recorded these intermediary loans amounting as at 30 June 2007 to AZN 21,925 thousand (31 December 2006: AZN 26,046 thousand) on off-balance sheet accounts. Similarly funds received by the Group to finance these intermediary loans in the corresponding amounts have also been recorded on off balance sheet accounts.

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

<i>In thousands of Azerbaijani Manats</i>	<b>30 June 2007</b>	<b>31 December 2006</b>
Export Credit Bank of Turkey (Eximbank): - Trade finance facility	21,925	26,046
<b>Total funds borrowed for the purposes of providing intermediary loans and transferred to off-balance sheet accounts</b>	<b>21,925</b>	<b>26,046</b>

**25 Related Party Transactions**

For the purposes of this condensed consolidated interim financial information, 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 as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Banking transactions are entered into in the normal course of business with significant shareholders, directors, subsidiaries, associates, companies, with which the Group has significant shareholders in common and other related parties. These transactions include settlements, loans, deposit taking, guarantees, trade finance and foreign currency transactions. These transactions are priced predominantly at market rates.

As at 30 June 2007, the outstanding balances with related parties were, as follows:

	<b>30 June 2007</b>		
	<b>Shareholders and management</b>	<b>Government bodies and state-owned entities</b>	<b>Other*</b>
<i>In thousands of Azerbaijani Manats</i>			
<b>Cash and cash equivalents</b>	-	61,611	-
Mandatory balances with NBAR	-	123,802	-
<b>Loans and advances to customers</b>			
Loans and advances to customers at period end	371	550,657	288,403
Provision for impairment of loans and advances to customers at period end	(8)	(12,124)	(39,552)
<b>Due from other banks</b>			
Term placements with resident banks at period end	5,558	-	-
Provision for impairment of due from banks at period end	(2,135)	-	-
<b>Other assets</b>	-	-	205
<b>Due to other banks</b>			
Corresponding accounts of other banks at period end	828	-	-
<b>Customer accounts</b>			
Current/settlements accounts at period end	17	448,644	-
Term deposits outstanding at period end	-	351,883	-
<b>Other liabilities</b>	2,290	40,166	-

*\*Other related parties - include balances and transactions with associates, joint ventures and other related parties.*

The income and expense items with related parties for the six-month period ended 30 June 2007 were, as follows:

	<b>Six-month period ended 30 June 2007</b>		
	<b>Shareholders and management</b>	<b>Government bodies and state-owned entities</b>	<b>Other*</b>
<i>In thousands of Azerbaijani Manats</i>			
Interest income	-	19,768	-
Interest expense	-	5,619	-
Provision for loan impairment	-	2,175	-
Fee and commission income	-	4,795	-
<b>Other expenses</b>			
Staff costs	380	-	-
Other operating expenses	-	-	32

*The International Bank of the Republic of Azerbaijan*  
*Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007*

**25 Related Party Transactions (Continued)**

As at 30 June 2007, other rights and obligations with related parties were, as follows:

<i>In thousands of Azerbaijani Manats</i>	30 June 2007		
	Shareholders and management	Government bodies and state-owned entities	Other*
Guarantees issued by the Group at period end	-	57,848	-
Guarantees received by the Group at period end	-	55,627	-
Import letters of credit at period end	-	315,194	-
Export letters of credit at period end	-	696,525	-
Other commitments	-	14,472	-

As at 31 December 2006, the outstanding balances with related parties were, as follows:

<i>In thousands of Azerbaijani Manats</i>	31 December 2006		
	Shareholders and management	Government bodies and state-owned entities	Other*
<b>Cash and cash equivalents</b>	-	324,422	-
Mandatory balances with NBAR	-	112,600	-
<b>Loans and advances to customers</b>			
Loans and advances to customers at period end	-	219,014	224,094
Provision for impairment of loans and advances to customers at period end	-	(4,419)	(48,077)
<b>Due from other banks</b>			
Term placements with resident banks at period end	8,278	-	-
Provision for impairment of due from banks at period end	(1,089)	-	-
<b>Due to other banks</b>			
Corresponding accounts of other banks at period end	632	-	-
<b>Customer accounts</b>			
Current/settlements accounts at period end	-	405,988	-
Term deposits outstanding at period end	-	288,053	-
Other liabilities	4,865	11,523	-

The income and expense items with related parties for the six-month period ended 30 June 2006 were, as follows:

<i>In thousands of Azerbaijani Manats</i>	Six-month period ended 30 June 2006		
	Shareholders and management	Government bodies and state-owned entities	Other*
Interest income	23	2,802	88
Interest expense	-	50	-
Provision for loan impairment	-	8,603	-
Fee and commission income	-	2,675	-
<b>Other expense</b>			
Staff costs	279	-	-
Other operating expenses	-	-	280

**25 Related Party Transactions (Continued)**

As at 31 December 2006, other rights and obligations with related parties were as follows:

	31 December 2006		
	Shareholders and management	Government bodies and state-owned entities	Other*
<i>In thousands of Azerbaijani Manats</i>			
Guarantees issued by the Group at the year end	-	193,418	-

\*Other related parties - include balances and transactions with associates, joint ventures and other related parties.

During the six-month period ended 30 June 2007, the total remuneration of members of the Board of Directors and key management personnel of the Group including discretionary compensation amounted to AZN 380 thousand (six-month period ended 30 June 2006: AZN 279 thousand).

As disclosed in Note 8, included in the gross amount of total loans and advances to customers as at 30 June 2007, are the loans granted to twelve companies amounting to AZN 366,738 thousand (31 December 2006: ten borrowers, AZN 73,397 thousand) with interest rates being less than or equal to eight per cent and representing a significant concentration of 23% (31 December 2006: 6%) of the total gross loan portfolio of the Group. The majority of these loans are transactions with related parties and as such disclosed in Note 25. No adjustments have been made to the contractual interest rates in relation to these amounts on initial recognition at fair value as the interest rates applicable are considered to represent the highest and best use of the funds provided given the alternative uses by the Bank of the funds extended under these agreements.

At 30 June 2007, the Group's employees held 7.55% of the total share capital of the Group, or 31,010 ordinary shares with a par value of AZN 6,202 thousand (31 December 2006: 8.89%, or 26,365 ordinary shares with a par value of AZN 5,273 thousand respectively). Refer to Note 17.

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

**26 Principal Subsidiaries, Associates and Joint Ventures**

The subsidiaries and associates of the Group included in this condensed consolidated interim financial information are presented in the table below:

Name	Subsidiary/ associate	Nature of business	Country of Registration	Percentage of ownership	
				30 June 2007	31 December 2006
Baku Inter-Bank Currency Exchange	Associate	Currency	Republic of Azerbaijan	20.0	20.0
Azerileasing	Associate	Leasing	Republic of Azerbaijan	47.6	47.6
IBAR Moscow	Subsidiary	Banking	Russian Federation	100.0	100.0
IBAR Georgia	Subsidiary	Banking	Georgia	75.0	75.0
International Insurance Company	Subsidiary	Insurance	Republic of Azerbaijan	100.0	100.0
Inter Protect Re AG	Subsidiary	Reinsurance	Switzerland	100.0	100.0
Azericard Limited	Subsidiary	Plastic cards	Republic of Azerbaijan	100.0	100.0

On 7 October 2002, the Group's Insurance Subsidiary established a reinsurance company, Inter Protect Re AG. It was registered in Zurich, Switzerland. The Insurance Subsidiary of the Group transferred CHF 1,450 thousand as contribution to the share capital and reserves of Inter Protect Re AG. Of the total amount transferred, CHF 1,200 thousand was used to pay for 1,000 shares at CHF 1,200 par value each, CHF 200 thousand as a payment for the share premium and the remaining CHF 50 thousand as contribution to the capital reserves of the company.

On 18 July 2007 the Group sold 100% of its interest in Inter Protect Re AG to a non-resident individual at an arms-length transaction with a total contractual consideration of CHF 2,620 thousand. At 30 June 2007, the Group had an intercompany payable to Inter Protect Re AG of USD 355 thousand, which in accordance with the agreement between parties will be settled upon the receipt of full amount of consideration from the buyer.

**The International Bank of the Republic of Azerbaijan**  
**Notes to the Condensed Consolidated Interim Financial Information – 30 June 2007**

**26 Principal Subsidiaries, Associates and Joint Ventures (Continued)**

The net carrying amount of disposal group's assets and liabilities as at 30 June 2007 is provided below. These amounts are equal to their fair values.

<i>In thousands of Azerbaijani Manats</i>	<b>Total</b>
Cash and due from banks	1,806
Accounts receivable	12
Prepaid expenses	17
<b>Total assets of disposal group</b>	<b>1,836</b>
Liabilities to third parties	(85)
<b>Total liabilities of disposal groups</b>	<b>(85)</b>
<b>Net carrying amount of disposal group</b>	<b>1,751</b>

The financial statements of Azerileasing, the Group's leasing subsidiary, were included in the consolidated financial statements of the Group for the first time as at 31 December 2003. In October 2006, the Group sold 52.4% of its interest in "Azerileasing" to a British leasing company with a total consideration of AZN 24,170 thousand. The Management of the Group believes that terms and conditions of this contract constitute those of an ordinary arms-length contract with an unrelated party. As at 30 June 2007, the Group holds 47.6% interest in the company and applies equity method consolidation principles to account for its investment in this associate. On 14 June 2007, the new charter of "Azerileasing" was registered at Ministry of Justice of Azerbaijan Republic, where the change in shareholding structure of the company was stipulated and the legal name of the company was changed to "Joint Leasing Company" Closed Joint-Stock Company.

On 10 November 2006, the Group registered its 75% owned subsidiary, International Bank of Azerbaijan Republic-Georgia ("IBAR Georgia"), in Tbilisi, Georgia. The share capital of IBAR Georgia was established at 12,000,000 Georgian Lari ("GL") with the minority interest in the amount of GL 3,000,000 paid-in by a Georgian bank at the reporting date. IBAR Georgia started its operations under a license issued by the National Bank of Georgia ("the NBG") on 7 February 2007.

**27 Subsequent Events**

On 19 July 2007, the Bank signed a framework borrowing agreement with Societe Generale, registered in Paris, France, for obtaining funds in the amount of EUR 50 million. According to this agreement, each draw down the Bank makes shall have individual interest rate and terms of repayment.

On 20 October 2007, the Bank signed a Credit Facility Agreement with Export Development Bank of Iran for obtaining EUR 20 million. The borrowing will be repayable in four consecutive semi-annual instalments with the first instalment falling due six months after the date of each disbursement. The borrowing bears an interest rate of EURIBOR+1.5% per annum.

As disclosed in Note 15, on 2 November 2007 the Bank signed a Supplemental Deed to syndicated borrowing agreement signed on 10 November 2006 with foreign banks led by one of major German banks in the total amount of USD 130,000,000. According to the supplemental agreement, maturity date of the borrowing was extended from 10 November 2007 to 31 October 2008.

On 14 December 2007, the Bank signed a Term Facility Agreement with Asian Development Fund, registered in Manila, the Philippines, for obtaining funds in the amount not exceeding USD 20 million to be used in further lending activities of the Bank. The borrowing will be repayable in six equal semi-annual installments with a first installment due on 14 June 2012. The borrowing will bear an interest rate of LIBOR+3.85% for the period of five years from the contract date and LIBOR+5.35% for the remaining period to maturity.

As disclosed in Note 17, on 18 November 2007, the outstanding portion equal to AZN 17,853 thousand of the additional share capital issued by the Bank was fully paid-in.

In December 2007, as part of a single negotiation the Bank agreed to terminate a number of assets and liabilities that were entered into during earlier periods at non-market rates. As a result of these early terminations, the Bank incurred a loss of approximately AZN 9 million that has been recorded as a charge to the consolidated income statement in December 2007.