THE INTERNATIONAL BANK OF AZERBAIJAN

Consolidated Condensed Interim Financial Information
For the Six Month Period Ended June 30, 2015

THE INTERNATIONAL BANK OF AZERBAIJAN

TABLE OF CONTENTS

THE INTERNATIONAL BANK OF AZERBAIJAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2015

Management is responsible for the preparation of the consolidated condensed interim financial information that presents fairly the consolidated financial position of the International Bank of Azerbaijan and its subsidiaries ("the Group") as at June 30, 2015, the consolidated results of its operations, cash flows and changes in equity for the six month period ended June 30, 2015, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the consolidated condensed interim financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated condensed interim financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern. Management have made this assessment at June 30, 2015 and have concluded that the Group will continue in operation for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated condensed interim financial position of the Group, and which enable them to ensure that the consolidated condensed interim financial information of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated condensed interim financial information of the Group for the six month period ended June 30, 2015 was approved by management on November 27, 2015:

On behalf of the Board of Directors:

Mr. Elmar Mammadov	Mr. Ulvi Mansurov
Chairman of the Board of Directors Baku, the Republic of Azerbaijan	Chief Financial Officer Baku, the Republic of Azerbaijan
November 27, 2015	November 27, 2015

"Deloitte & Touche" LLC
Business Center Landmark
96 Nizami St.
Baku, AZ1010
Azerbaijan
Tel: +994 (12) 404 12 10
Fax: +994 (12) 404 12 11
www.deloitte.az

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of the International Bank of Azerbaijan:

We have audited the accompanying consolidated condensed interim financial information of the International Bank of Azerbaijan and its subsidiaries (collectively – "the Group"), which comprises the consolidated condensed interim statement of financial position as at June 30, 2015, and the consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows for the six months period ended June 30, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Condensed Interim Financial Information

Management is responsible for the preparation and fair presentation of this consolidated condensed interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting", and for such internal control as management determines is necessary to enable the preparation of consolidated condensed interim financial information that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated condensed interim financial information presents fairly, in all material respects, the consolidated condensed interim financial position of the Group as at June 30, 2015, and its financial performance and its cash flows for the six months period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Deloitte & Touche.

November 27, 2015
Baku, the Republic of Azerbaijan

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2015
(in thousands of Azerbaijan Manats)

	Note	June 30, 2015	December 31, 2014
ASSETS			
Cash and cash equivalents	3, 25	416,984	593,195
Mandatory cash balances with the National/Central Banks		12,326	9,678
Due from other banks	4	302,056	303,639
Loans and advances to customers	5, 25	9,352,608	7,854,991
Financial assets at fair value through profit or loss		7,448	14,997
Other debt securities	25	45,963	45,355
Available-for-sale investments		-	5,287
Investment in associates	25	348	348
Premises, equipment and intangible assets		312,718	283,627
Current income tax asset		7,971	4,076
Deferred income tax asset		83,589	24,300
Other financial and insurance assets	6	190,630	23,650
Other assets	7	24,969	35,625
TOTAL ASSETS		10,757,610	9,198,768
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to other banks	8, 25	1,896,912	1,864,962
Customer accounts	9, 25	4,657,700	4,144,678
Debt securities in issue	10	602,730	400,927
Other borrowed funds	11, 25	2,242,765	1,563,366
Current income tax liability		1,735	3,372
Deferred income tax liability		38,853	23,716
Other financial and insurance liabilities	12	43,943	66,353
Other liabilities	13	31,035	23,305
Subordinated debt	14, 25	720,108	421,505
TOTAL LIABILITIES		10,235,781	8,512,184
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	15	641,287	590,192
Cumulative translation reserve		(33,760)	(14,511)
Revaluation reserve for premises		41,456	42,160
(Accumulated deficit)/retained earnings		(130,443)	65,670
Total equity attributable to owners of the Bank		518,540	683,511
Non-controlling interest		3,289	3,073
Total equity		521,829	686,584
TOTAL LIABILITIES AND EQUITY		10,757,610	9,198,768

On behalf of the Board of Directors:

Mr. Elmar Mammadov

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

November 27, 2015

Mr. Ulvi Mansurov

Chief Financial Officer
Baku, the Republic of Azerbaijan

November 27, 2015

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

The notes on pages 8-40 form an integral part of this consolidated condensed interim financial information.

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2015

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Note	Six month period ended June 30, 2015	Six month period ended June 30, 2014
Interest income	17, 25	380,406	328,017
Interest expense	17, 25	(264,858)	(184,201)
NET INTEREST INCOME		115,548	143,816
Initial recognition adjustment on interest bearing assets		-	(3,369)
Provision for impairment of due from other banks	4	(24,839)	(6,649)
Provision for impairment of loans and advances to customers	5, 25	(303,435)	(56,454)
Provision for other debt securities		-	(1,115)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT		(212,726)	76,229
Fee and commission income	17, 25	43,025	47,962
Fee and commission expense	17	(9,202)	(6,658)
Fair value loss on derivatives		(2,790)	(881)
Gains less losses from trading in foreign currencies		16,718	11,874
Foreign exchange translation gains less losses		(11,505)	(1,330)
Net income on financial assets at fair value through profit or loss		370	1,168
Gross insurance premiums earned		8,412	7,052
Premiums ceded to reinsurers		(4,182)	(2,133)
Net claims incurred		(2,155)	(2,566)
Other operating income		1,223	291
Provision for other operations		(5,229)	(2,572)
Decrease/(increase) of provision for unearned premium, net of reinsurance		1,738	(70)
Administrative and other operating expenses	18, 25	(65,448)	(72,759)
Share of loss of associates	25	-	(48)
(LOSS)/PROFIT BEFORE INCOME TAX		(241,751)	55,559
Income tax benefit/(expense)		44,822	(14,733)
(LOSS)/PROFIT FOR THE PERIOD		(196,929)	40,826
OTHER COMPREHENSIVE (LOSS)/INCOME:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(18,921)	298
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(18,921)	298
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(215,850)	41,124
(LOSS)/PROFIT IS ATTRIBUTABLE TO:			
Owners of the Bank		(196,817)	40,802
Non-controlling interest		(112)	24
(LOSS)/PROFIT FOR THE PERIOD		(196,929)	40,826
TOTAL COMPREHENSIVE (LOSS)/INCOME IS ATTRIBUTABLE TO:			
Owners of the Bank		(216,066)	41,183
Non-controlling interest		216	(59)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(215,850)	41,124
(Loss)/earnings per share for (loss)/profit attributable to the owners of the Bank:			
Basic (expressed in AZN per share)	19	(0.09)	0.02
Diluted (expressed in AZN per share)	19	(0.09)	0.02

On behalf of the Board of Directors:

Mr. Elmar Mammadov
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

November 27, 2015

Mr. Ulvi Mansurov
Chief Financial Officer
Baku, the Republic of Azerbaijan

November 27, 2015

The notes on pages 8-40 form an integral part of this consolidated condensed interim financial information.

THE INTERNATIONAL BANK OF AZERBAIJAN

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2015

(in thousands of Azerbaijan Manats)

	Share capital	Cumulative translation reserve	Revaluation reserve for premises	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the Bank	Non-controlling interest	Total equity
December 31, 2013	475,038	(3,594)	43,503	75,810	590,757	2,821	593,578
Profit for the period	-	-	-	40,802	40,802	24	40,826
Other comprehensive income for the period	-	381	-	-	381	(83)	298
Transfer to retained earnings	-	-	(627)	627	-	-	-
Dividends declared (Note 15)	-	-	-	(14,652)	(14,652)	-	(14,652)
Issue of ordinary shares (Note 15)	88,257	-	-	-	88,257	-	88,257
June 30, 2014	563,295	(3,213)	42,876	102,587	705,545	2,762	708,307
Loss for the period	-	-	-	(37,633)	(37,633)	458	(37,175)
Other comprehensive loss for the period	-	(11,298)	-	-	(11,298)	(147)	(11,445)
Transfer to retained earnings	-	-	(716)	716	-	-	-
Issue of ordinary shares (Note 15)	5,038	-	-	-	5,038	-	5,038
Increase in par value of shares (Note 15)	21,859	-	-	-	21,859	-	21,859
December 31, 2014	590,192	(14,511)	42,160	65,670	683,511	3,073	686,584
Loss for the period	-	-	-	(196,817)	(196,817)	(112)	(196,929)
Other comprehensive loss for the period	-	(19,249)	-	-	(19,249)	328	(18,921)
Transfer to retained earnings	-	-	(704)	704	-	-	-
Issue of ordinary shares (Note 15)	51,095	-	-	-	51,095	-	51,095
June 30, 2015	641,287	(33,760)	41,456	(130,443)	518,540	3,289	521,829

On behalf of the Board of Directors:

Mr. Elmar Mammadov
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan

November 27, 2015

Mr. Ulvi Mansurov
Chief Financial Officer
Baku, the Republic of Azerbaijan

November 27, 2015

The notes on pages 8-40 form an integral part of this consolidated condensed interim financial information.

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2015

(in thousands of Azerbaijan Manats)

	Note	Six month period ended June 30, 2015	Six month period ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		82,210	188,418
Interest paid		(234,484)	(158,631)
Fees and commissions received		41,563	48,053
Fees and commissions paid		(8,381)	(7,921)
Insurance premiums received		7,924	8,453
Reinsurance premiums paid		(4,182)	(2,133)
Net claims paid		(2,155)	(2,566)
Income received from trading in foreign currencies		16,718	11,874
Other operating income received		1,223	291
Staff costs paid		(31,017)	(31,740)
Administrative and other operating expenses paid		(21,300)	(36,765)
Cash flows (used in)/from operating activities before changes in operating assets and liabilities		(151,881)	17,333
Changes in operating assets and liabilities:			
Net (increase)/decrease in mandatory cash balances with the Central/National Banks		(2,648)	5,246
Net decrease/(increase) in due from other banks		43,207	(219,139)
Net increase in loans and advances to customers		(120,194)	(595,295)
Net decrease in financial assets at fair value through profit or loss		7,906	1,362
Net increase in other financial and insurance assets		(60,599)	(4,431)
Net decrease/(increase) in other assets		192	(5,645)
Net decrease in due to other banks		(447,990)	(28,636)
Net (decrease)/increase in customer accounts		(139,420)	201,573
Net (decrease)/increase in other financial and insurance liabilities		(269)	18,261
Net increase/(decrease) in other liabilities		235	(530)
Cash used in operating activities before taxation		(871,461)	(609,901)
Income tax paid		(4,862)	(2,450)
Net cash used in operating activities		(876,323)	(612,351)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for premises, equipment and intangible assets		(28,363)	(51,920)
Proceeds on sale of available-for-sale investments		5,287	6,287
Payments for other debt securities		(690)	(21,545)
Net cash used in investing activities		(23,766)	(67,178)

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2015
(in thousands of Azerbaijan Manats)

	Note	Six month period ended June 30, 2013	Six month period ended June 30, 2014
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		51,095	88,257
Proceeds from issue of debt securities		79,531	382,841
Proceeds from other borrowed funds		621,742	697,402
Repayment of other borrowed funds		(415,615)	(408,607)
Proceeds from subordinated debt		262,510	-
Dividends paid		-	(5,745)
Net cash generated from financing activities		599,263	754,148
Effect of exchange rate changes on cash and cash equivalents		124,615	(292)
NET(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(176,211)	74,327
CASH AND CASH EQUIVALENTS, beginning of period	3	593,195	423,085
CASH AND CASH EQUIVALENTS, end of period	3	416,984	497,412

On behalf of the Board of Directors:

Mr. Elmar Mammadov

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

November 27, 2015

Mr. Ulvi Mansurov

Chief Financial Officer
Baku, the Republic of Azerbaijan

November 27, 2015

The notes on pages 8-40 form an integral part of this consolidated condensed interim financial information.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

1. ORGANIZATION

The International Bank of Azerbaijan ("the Bank") was incorporated in 1991 as a fully state-owned bank and is domiciled in the Republic of Azerbaijan. On October 28, 1992, the Bank became a joint-stock commercial bank and the Ministry of Finance of the Republic of Azerbaijan ("MoF") became the major shareholder of the Bank. As at June 30, 2015 the MoF held 81.86% (December 31, 2014: 51.07%) of the total paid-in share capital of the Bank. The Bank is regulated by the Central Bank of the Republic of Azerbaijan ("the CBAR") and conducts its business under a general full banking license issued on December 30, 1992. On March 1, 2005, a Presidential Decree, which outlined the process for privatisation of the state shareholding in the Bank's share capital, was enacted. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

The registered office of the Bank is located at 67, Nizami Street, AZ1005, Baku, the Republic of Azerbaijan.

As at June 30, 2015 and December 31, 2014 the Bank had 35 branches operating in the Republic of Azerbaijan, 5 representative offices in London, Frankfurt, Dubai, Luxemburg and New York.

The Bank is a parent company of a banking group ("the Group") which consists of the following enterprises consolidated in the financial information:

Name	Country of operation	Proportion of ownership interest/voting rights (%) 2015	2014	Type of operation
The International Bank of Azerbaijan	The Republic of Azerbaijan	Parent		Banking
Subsidiaries:				
IBA Moscow	Russian Federation	100.0	100.0	Banking
International Insurance Company	The Republic of Azerbaijan	100.0	100.0	Insurance
Azericard Limited	The Republic of Azerbaijan	100.0	100.0	Plastic cards
IBA Georgia	The Republic of Georgia	75.0	75.0	Banking
Associates:				
Joint Leasing	The Republic of Azerbaijan	47.6	47.6	Leasing
Baku Inter-Bank Currency Exchange	The Republic of Azerbaijan	20.0	20.0	Currency exchange

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

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

Based on the decision of Supervisory Board of the Group dated December 30, 2006 and May 18, 2011, the share capital of IBA Moscow was increased by EUR 4 million and AZN 10 million, respectively, during the years ended December 31, 2007 and year ended December 31, 2011, respectively. Based on the decision of Supervisory Board of the Group dated April 4, 2014 and May 23, 2014 the share capital of IBA Moscow was increased by AZN 10 million and AZN 18 million respectively, during the year ended December 31, 2014.

On February 5, 2002, the Group registered its fully-owned subsidiary International Insurance Company ("Insurance Subsidiary") at the Ministry of Justice of the Republic of Azerbaijan. The Insurance Subsidiary operates under an insurance licence issued by the Ministry of Finance of the Republic of Azerbaijan on October 15, 2009. The Insurance Subsidiary is licensed to perform a total of 33 types of insurance activities. The insurance business underwritten by the Company includes medical, auto, marine third party liability, marine hull, property, casualty, life, personal insurance, insurance banking risks, mandatory fire insurance, insurance of liability for non-performance of obligations and reinsurance.The registered office of the Insurance Subsidiary is located at 40C, J.Jabbarli Street, Baku, AZ 1065, the Republic of Azerbaijan. Based on the decision of Supervisory Board of the Group dated April 4, 2014 the share capital of Insurance subsidiary was increased by AZN 6 million during the year ended December 31, 2014.

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

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

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

This consolidated condensed interim financial information was authorized for issue on November 27, 2015 by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

During the first half of 2015, Azerbaijan has been impacted by a number of adverse economic conditions including the continued decline in global oil prices.

In order to support the diversification of Azerbaijan's economy, strengthen its international compatibility and export potential, as well as to provide balance of payments sustainability, the CBAR on February 21, 2015 devalued the Azerbaijani Manat (AZN) against major trading currencies by approximately 34%. As a result, the new official exchange rate of AZN to the USD fell to AZN 1.05 per U.S. dollar, and AZN to the Euro fell to AZN 1.19 per Euro. As from this date, the CBAR plans to set a daily exchange rate for the AZN against a dual currency basket comprised of the USD and the Euro.

In the context of these turbulent market conditions and due to a decline in the quality of assets, increase in problematic loans and decline in liquidity position of the Group, the Government of Azerbaijan has taken a number of steps to strengthen the Group's capital position and the quality of its assets.

In order to increase the capital of the Group the Bank has issued on March 29, 2015 189,241 thousand shares at a nominal value of AZN 51,095 thousand (see Note 15). The Group has a further 740,741 thousand shares available to issue and has the intention to issue these during the fourth quarter of 2015.

Following an in depth review of the asset quality and liquidity position of the Group by the CBAR and MoF, the President of the Republic of Azerbaijan signed a decree on July 15, 2015, about measures to improve the health of assets specifically in connection with the preparation of the government owned shares of the International Bank of Azerbaijan for further privatisation process ("Decree") (see Note 26). According to the Decree, for the purposes of improvement of the financial stability of the Bank, the problematic and poor quality assets are to be transferred to Closed Joint Stock Company "Agrarkredit", a Non-bank Credit Organisation ("Agrarkredit" CJSC), controlled by the state. The MoF together with the Bank have subsequently determined the list of the problematic and poor quality assets to be transferred to Agrarkredit CJSC. The list of the problematic and poor quality assets will be transferred in several tranches.

The first tranche of identified problematic and poor quality assets totaling about AZN 3,000,000 thousand was transferred on September 14, 2015. As of the report issuance date the Group has received AZN 2,000,000 thousand of the funds with the remainder being expected to be received before December 31, 2015. The injection of these funds will enable the Group to substantially close the June 30, 2015 cumulative liquidity gap of up to one year that is disclosed in Note 21. In addition these inflows will also enable the Group to rectify breaches of covenants related to its term borrowings that are disclosed in Note 23.

As also required in the Decree, the Bank has reorganised the composition of its Management Board. On July 22, 2015 Elmar Mammadov was elected as the Chairman of the Board succeeding Jahangir Hajiyev who had resigned from his position due to health reasons. Murad Shiraliyev and Ulvi Mansurov were elected as members of the Management Board.

The Group has commenced its restructuring process with the purpose of streamlining its operations (human resources and other areas), improvement of its corporate governance, implementation of renewed lending, attraction of new financing and returning the Group to profitability.

Management believe that the abovementioned measures will ensure that the Group will continue as a going concern and accordingly this consolidated condensed interim financial information has been prepared on the assumption that the Group will continue in operation for the foreseeable future.

<u>Statement of Compliance</u>

This consolidated condensed interim financial information has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014, which were prepared in accordance with IFRS.

This consolidated condensed interim financial information includes comparative consolidated condensed interim statement of comprehensive income for the six month period ended June 30, 2014 and comparative consolidated condensed interim statement of financial position as at December 31, 2014.

Except as described below, the same accounting policies and methods of computation were followed in the preparation of this consolidated condensed interim financial information as compared with the annual consolidated financial statements for the year ended December 31, 2014.

Interim period tax measurement

Interim period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of loans and receivables

The Group regularly reviews its loans and receivables to assess for impairment. The Group's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Group considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Group's estimated losses and actual losses would require the Group to record provisions which could have a material impact on its financial statements in future periods.

The Group uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Group uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the consolidated condensed financial information have been determined on the basis of existing economic and political conditions. The Group is not in a position to predict what changes in conditions will take place in the countries in which it operates and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

As at June 30, 2015 and December 31, 2014 the gross loans and receivables totaled AZN 10,567,031 thousand and AZN 8,704,795 thousand, respectively, and provision for loan impairment amounted to AZN 1,214,423 thousand and AZN 849,804 thousand, respectively.

Premises carried at revalued amounts

Premises are measured at revalued amounts. The date of the latest appraisal was June 30, 2013. The next revaluation is preliminary scheduled as at June 30, 2016. The carrying value of revalued property amounted to AZN 79,110 thousand and AZN 72,162 thousand as at June 30, 2015 and December 31, 2014, respectively.

Recoverability of deferred tax assets

The management of the Group is confident that no valuation allowance against deferred tax assets at the reporting date is considered necessary, because it is likely that the deferred tax assets will be fully realized. The carrying value of deferred tax assets amounted to AZN 83,589 thousand and AZN 24,300 thousand as at June 30, 2015 and December 31, 2014, respectively.

Other borrowed funds

Management has considered whether gains or losses should arise on initial recognition of loans from international financial institutions in the amount of AZN 2,242,765 thousand as at June 30, 2015 (December 31, 2014: AZN 1,563,366 thousand) and related lending. The Bank obtains long term financing from international financial institutions at interest rates, at which such institutions ordinarily lend in emerging markets and which may be lower than rates, at which the Bank could source the funds from local lenders. The amount of such borrowings as at June 30, 2015 was AZN 419,001 thousand (December 31, 2014: AZN 240,510 thousand). As a result of such financing, the Bank is able to advance funds to specific customers at advantageous rates.

As the transactions are with unrelated parties, management's judgement is that these funds and the related lending are at the market interest rates and no initial recognition of gains or losses should arise. In making this judgement management also considered that these instruments are a separate market segment.

Loans at low interest rates

Management has considered the appropriate market interest rate for certain loans and advances where the contractual interest rate is 5.00% or lower. The amount of such loans as at June 30, 2015 was AZN 288,992 thousand (December 31, 2014: contractual interest rate is 5.00% or lower: AZN 327,747 thousand). Management have assessed that the contractual interest rates for these loans are equivalent to the alternative highest and best use of the funds provided under these loans, the majority of which are with government bodies and state-owned entities. Had management concluded that the interest rates for these borrowings were different to the highest and best use of the funds provided, then the carrying amounts in respect of these loans in the consolidated condensed interim financial information, and the amounts recorded within interest income and losses on the origination of loans, would have been different.

Tax legislation

Azerbaijani, Russian and Georgian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 23.

Initial recognition of related party transactions

In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. The information on related party balances is disclosed in Note 25.

Capital Adequacy ratio

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

Liquidity mismatch

As disclosed in Note 21 to this consolidated condensed interim financial information, the Group has a cumulative negative liquidity gap up to twelve months as at June 30, 2015 and as at December 31, 2014. Management is confident that the Group will be able to obtain required funds in order to replace attracted liabilities with duration of up to twelve months. In particular, management believes that the continued support of its shareholders and access to borrowings from international financial institutions means that the Group would be able to obtain appropriate resources should all liabilities require settlement as disclosed in Note 21.

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

Amendments to IFRSs affecting amounts reported in the financial statements. In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

- Amendments to IAS 19 - *Defined Benefit Plans: Employee contributions*;
- Annual Improvements to IFRSs 2010-2012 Cycle;
- Annual Improvements to IFRSs 2011-2013 Cycle;

Annual Improvements to IFRSs 2010-2012 Cycle. The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 change the definition of 'vesting condition' and 'market condition' and add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IAS 39 or IFRS 9 or a non-financial asset or liability.

The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments and clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. These amendments are considered to be effective immediately.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/ amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

These amendments do not have a significant effect on the consolidated financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle. The Annual Improvements to IFRSs 2011-2013 Cycle include the following amendments to various IFRSs.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of a financial assets or financial liabilities within IAS 32.

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether the property meets the definition of investment property in terms of IAS 40, and whether the transaction meets the definition of a business combination under IFRS 3.

The application of these amendments does not have a significant effect on the consolidated financial statements.

The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 *Financial Instruments*[2];
- IFRS 14 *Regulatory Deferral Accounts*[1];
- IFRS 15 *Revenue from Contracts with Customers*[2];
- Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*[1];
- Amendments to IAS 1 – *Disclosure initiative project*[1];
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*[1];
- Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*[1];
- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*[1];
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1];
- Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the Consolidation Exception*[1];
- Annual Improvements to IFRSs 2012-2014 Cycle[1];

[1] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

IFRS 9 *Financial Instruments.* IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014 IASB issued a finalised version of IFRS 9 mainly introducing impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is aiming at replacing IAS 39 Financial Instruments: Recognition and Measurement.

The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. Specifically, debt instruments that are held within the business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost after initial recognition. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for debt instruments held within the business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset giving rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding which are measured at fair value through other comprehensive income after initial recognition. All other debt and equity investments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- **Classification and measurement of financial liabilities.** Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

- **Impairment.** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting.** The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.
- **Derecognition.** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The standard is effective from 1 January 2018 with early application permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements.

The management of the Group anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard provides a single, principles based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. Furthermore, extensive disclosures are required by IFRS 15

The management of the Group anticipates that the application of IFRS 15 in the future may have an impact on amount and timing of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations.* The amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding the recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The management of the Group anticipates that the application of these amendments to IFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to IAS 1 – Disclosure initiative project

The amendments clarify the principles of disclosing information. The definition of materiality is expanded. It specifies the requirements of aggregation and disaggregation of data, clarifies that materiality applies to all parts of financial statements and even in those cases when the standards require specific disclosures materiality criteria do apply. The standard also provides more guidance on presenting the information in the statement of financial position and statement of comprehensive income as well as on the order of the notes in the financial statements.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016. The management of the Group does not anticipate that the application of these amendments to IAS 1 will have a material impact on the Group's consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

	June 30, 2015	December 31, 2014
Cash on hand	152,382	191,143
Cash balances with the Central/National banks (other than mandatory reserve deposits)	74,280	108,142
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	1,315	2,641
- Other countries	189,007	291,269
Total cash and cash equivalents	**416,984**	**593,195**

Included in cash balances with the Central/National banks (other than mandatory reserve deposits) are the balances on correspondent accounts of the Bank and its subsidiaries, IBA Moscow and IBA Georgia, with the CBAR, CBRF and NBG amounting to AZN 43,561 thousand, AZN 30,206 thousand and AZN 513 thousand as at June 30, 2015, respectively (December 31, 2014: AZN 88,762 thousand, AZN 18,999 thousand and AZN 381 thousand respectively).

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

As at June 30, 2015 overnight placements with other banks was AZN 11,540 thousand with an interest rate of 0.45% per annum (December 31, 2014: overnight placements with other banks was AZN 97,266 with an interest rate of 0.25% per annum).

4. DUE FROM OTHER BANKS

	June 30, 2015	December 31, 2014
Term placements with other banks	337,190	313,934
Less: Provision for impairment	(35,134)	(10,295)
Total due from other banks	**302,056**	**303,639**

Movements in the provision for loan impairment during the six months period ended June 30, 2015 are as follows:

	Provision for impairment as at January 1, 2015	Increase in provision for impairment during the period	Provision for impairment as at June 30, 2015
Due from other banks	10,295	24,839	35,134
Total	**10,295**	**24,839**	**35,134**

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2014 are as follows:

	Provision for impairment as at January 1, 2014	Increase in provision for impairment during the period between January 1, 2014 and June 30, 2014	Provision for impairment as at June 30, 2014	Recovery of provision for impairment during the period between July 1, 2014 and December 31, 2014	Provision for impairment as at December 31, 2014
Due from other banks	4,121	6,649	10,770	(475)	10,295
Total	**4,121**	**6,649**	**10,770**	**(475)**	**10,295**

As at June 30, 2015 term placements with other banks include seventeen short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 223,509 thousand at annual interest rates of 0.0% and 8.0% respectively. Term placements mature from July 2015 to August 2016 (December 31, 2014: 19 short-term foreign currency denominated placements with non-resident banks in the total amount equivalent to AZN 171,313 thousand at annual interest rates of 0.0% and 8.0%, respectively. Term placements matured from January to November 2015).

The carrying value of each class of amounts due from other banks approximates fair value as at June 30, 2015 and December 31, 2014. As at June 30, 2015, the estimated fair value of due from other banks was AZN 298,955 thousand (December 31, 2014: AZN 304,394 thousand). Refer to Note 24.

5. LOANS AND ADVANCES TO CUSTOMERS

	June 30, 2015	December 31, 2014
Corporate loans	9,447,441	7,650,654
State and public organisations*	47	419
Loans to individuals - consumer loans	602,598	520,557
Loans to individuals - mortgage loans	325,571	263,064
Loans to individuals - purchase of motor vehicles	57,654	61,601
Loans to individuals - employees	14,240	94,104
Loans to individuals - other purposes	119,480	114,396
	10,567,031	8,704,795
Less: Provision for loan impairment	(1,214,423)	(849,804)
Total loans and advances to customers	9,352,608	7,854,991

Movements in the provision for loan impairment during the six-month period ended June 30, 2015 are as follows:

	Provision for loan impairment as at January 1, 2015	Increase in/(recovery of) provision for impairment during the period	Effect of foreign currency exchange recognized	Provision for loan impairment as at June 30, 2015
Corporate loans	762,224	293,658	53,667	1,109,549
State and public organisations*	111	(111)	-	-
Loans to individuals – consumer loans	62,382	14,213	7,279	83,874
Loans to individuals – mortgage loans	4,208	957	17	5,182
Loans to individuals – purchase of motor vehicles	689	1,209	3	1,901
Loans to individuals – employees	6,434	(5,806)	108	736
Loans to individuals – other purposes	13,756	(685)	110	13,181
Total	849,804	303,435	61,184	1,214,423

Movements in the provision for loan impairment during the first half and the second half of the year ended December 31, 2014 are as follows:

	Provision for loan impairment as at January 1, 2014	Increase in/(recovery of) provision for impairment during the period between January 1, 2014 and June 30, 2014	Effect of foreign currency exchange recognized	Increase in/(recovery of) provision for impairment during the period between July 1, 2014 and December 31, 2014	Effect of foreign currency exchange recognized	Provision for loan impairment as at December 31, 2014
Corporate loans	619,694	59,392	(3,500)	137,262	(50,624)	762,224
State and public organizations*	207	36	(1)	(114)	(17)	111
Loans to individuals – consumer loans	69,275	(7,498)	(391)	6,655	(5,659)	62,382
Loans to individuals – mortgage loans	4,364	3,063	(25)	(2,837)	(357)	4,208
Loans to individuals – purchase of motor vehicles	378	116	(2)	228	(31)	689
Loans to individuals – employees	2,756	42	(16)	3,877	(225)	6,434
Loans to individuals – other purposes	16,991	1,303	(96)	(3,054)	(1,388)	13,756
Total	713,665	56,454	(4,031)	142,017	(58,301)	849,804

The analysis by credit quality of loans outstanding as at June 30, 2015 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals - purchase of motor vehicles	Loans to individuals – employees	Loans to individuals - other purposes	Total
Current and not impaired								
Secured loans	5,596,217	-	393,729	281,833	41,258	3,044	70,883	6,386,964
Unsecured loans	1,151,004	-	166,441	42,215	48	8,117	-	1,367,825
Loans renegotiated in 2015	1,341,343	-	-	-	-	-	-	1,341,343
Total current and not impaired	**8,088,564**	**-**	**560,170**	**324,048**	**41,306**	**11,161**	**70,883**	**9,096,132**
Past due but not impaired								
- up to 90 days overdue	296,689	-	2,967	5	1,496	10	631	301,798
- 90 to 180 days overdue	59,649	-	1,041	8	1,336	2	20	62,056
- 180 to 360 days overdue	155,853	-	6,237	28	2,282	26	40	164,466
- over 360 days overdue	434,851	47	31,470	1,482	9,969	3,041	33,451	514,311
Loans renegotiated in 2015	19,982	-	-	-	-	-	-	19,982
Total past due but not impaired	**967,024**	**47**	**41,715**	**1,523**	**15,083**	**3,079**	**34,142**	**1,062,613**
Impaired loans								
- up to 90 days overdue	384,287	-	1	-	71	-	4,631	388,990
- 90 to 180 days overdue	2,177	-	1	-	-	-	-	2,178
- 180 to 360 days overdue	1,012	-	-	-	5	-	2	1,019
- over 360 days overdue	4,377	-	711	-	1,189	-	9,822	16,099
Total impaired loans	**391,853**	**-**	**713**	**-**	**1,265**	**-**	**14,455**	**408,286**
Total loans to customers (before impairment)	**9,447,441**	**47**	**602,598**	**325,571**	**57,654**	**14,240**	**119,480**	**10,567,031**
Less: provision for loan impairment	(1,109,549)	-	(83,874)	(5,182)	(1,901)	(736)	(13,181)	(1,214,423)
Total loans and advances to customers	**8,337,892**	**47**	**518,724**	**320,389**	**55,753**	**13,504**	**106,299**	**9,352,608**

The analysis by credit quality of loans outstanding as at December 31, 2014 is as follows:

	Corporate loans	State and public organisations	Loans to individuals - consumer loans	Loans to individuals - mortgage loans	Loans to individuals - purchase of motor vehicles	Loans to individuals – employees	Loans to individuals - other purposes	Total
Current and not impaired								
Secured loans	5,521,162	38	266,367	208,776	49,280	61,804	52,754	6,160,181
Unsecured loans	586,464	273	186,692	52,526	145	4,515	10,554	841,169
Loans renegotiated in 2014	526,559	-	26,725	152	243	21,419	1,363	576,461
Total current and not impaired	**6,634,185**	**311**	**479,784**	**261,454**	**49,668**	**87,738**	**64,671**	**7,577,811**
Past due but not impaired								
- up to 90 days overdue	121,254	1	6,284	49	1,082	7	46	128,723
- 90 to 180 days overdue	82,377	2	859	26	1,179	-	104	84,547
- 180 to 360 days overdue	81,812	-	3,518	-	3,139	382	129	88,980
- over 360 days overdue	374,276	105	29,603	1,460	6,533	3,491	31,505	446,973
Total past due but not impaired	**659,719**	**108**	**40,264**	**1,535**	**11,933**	**3,880**	**31,784**	**749,223**
Impaired loans								
- up to 90 days overdue	353,453	-	-	75	-	2,477	8,397	364,402
- 90 to 180 days overdue	43	-	-	-	-	9	10	62
- 180 to 360 days overdue	642	-	2	-	-	-	2	646
- over 360 days overdue	2,612	-	507	-	-	-	9,484	12,603
Loans renegotiated in 2014	-	-	-	-	-	-	48	48
Total impaired loans	**356,750**	**-**	**509**	**75**	**-**	**2,486**	**17,941**	**377,761**
Total loans to customers (before impairment)	**7,650,654**	**419**	**520,557**	**263,064**	**61,601**	**94,104**	**114,396**	**8,704,795**
Less: provision for loan impairment	(762,224)	(111)	(62,382)	(4,208)	(689)	(6,434)	(13,756)	**(849,804)**
Total loans and advances to customers	**6,888,430**	**308**	**458,175**	**258,856**	**60,912**	**87,670**	**100,640**	**7,854,991**

In these condensed consolidated interim financial information prepared in accordance with IFRS, the Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan by the end of the reporting period. The Group's internal loan grading policy is to classify each loan as follows:

• Standard loans – Loans with the payments of both principal and interest are up-to-date in accordance with the agreed terms and provisions up to 10% against gross carrying amount.

• Sub-standard loans – Fully secured or expected loss is less than 50% of the unsecured amount and 10%-50% provisions against gross carrying amount.

• Doubtful loans – Indeterminable security value but expected to be significant with expected loss is 50% to less than 100% of the loan and 50%-100% provision against gross carrying amount.

• Loss (bad) loans – Loan recovery is assessed to be insignificant with no security available as alternative resource and 100% provision against gross carrying amount.

For the purposes of above table standard and sub-standard loans have been classified either as current and not impaired or past due but not impaired loans. Doubtful and loss (bad) loans have been classified as impaired loans.

Current and not impaired, but renegotiated loans represent the carrying amount of loans that would otherwise be past due or impaired whose terms have been renegotiated. Past due, but not impaired loans presented in the above table represent collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due, but not impaired is the whole balance of such loans, not only the individual instalments that are past due. The primary factors that the Group considers whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presented the above ageing analysis of loans that are impaired.

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

	June 30, 2015		December 31, 2014	
	Amount	**%**	**Amount**	**%**
Construction and real estate development	4,284,539	40.5	3,391,931	41.1
Trade and service	2,331,068	22.1	1,932,875	24.7
Manufacturing	2,308,148	21.8	1,849,879	16.5
Individuals	1,119,543	10.6	1,053,722	11.4
Railroad and other transportation	319,982	3.0	243,018	2.7
Oil and gas sector, Power production and distribution	87,624	0.8	84,427	1.1
Air transportation	49,600	0.5	59,254	0.9
Communication	14,787	0.1	14,885	0.5
Leasing companies	7,161	0.1	18,074	0.4
State and public organisations*	47	0.0	419	-
Other	44,532	0.5	56,311	0.7
Total loans and advances to customers (before impairment)	**10,567,031**	**100.0**	**8,704,795**	**100.0**

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

Included in the gross amount of total loans and advances to customers as at June 30, 2015, are the loans granted to thirty companies amounting to AZN 4,371,579 thousand (December 31, 2014: to thirty companies amounting to AZN 3,527,364 thousand) and representing a concentration of 41.3% (December 31, 2014: 42.4%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2015, are the loans granted to government institutions and state enterprises of the Republic of Azerbaijan amounting to AZN 260,151 thousand (December 31, 2014: AZN 246,859 thousand) and representing 2.5% (December 31, 2014: 2.8%) of the total loan portfolio of the Group.

Included in the gross amount of total loans and advances to customers as at June 30, 2015, are the loans granted to fifteen borrowers amounting to AZN 258,211 thousand (December 31, 2014: fifteen borrowers, AZN 272,267 thousand) with interest rates being less than or equal to five per cent and representing 2.4% (December 31, 2014: 2.5%) of the total gross loan portfolio of the Group. The majority of these loans are transactions with related parties and as such disclosed in Note 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 available to the Bank of the funds extended under these agreements.

Included in the gross amount of total loans to individuals as at June 30, 2015 are outstanding balances drawn on credit cards of AZN 132,891 thousand (December 31, 2014: AZN 128,070 thousand).

6. OTHER FINANCIAL AND INSURANCE ASSETS

	June 30, 2015	December 31, 2014
Receivables from shareholders	172,465	-
Amounts in the course of settlement and receivables for plastic cards transactions	11,324	16,794
Receivables from insurance policyholders	5,481	6,433
Other	1,360	423
Total other financial and insurance assets	**190,630**	**23,650**

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.

7. OTHER ASSETS

	June 30, 2015	December 31, 2014
Collateral repossessed	8,612	8,735
Advances for purchase of intangible assets and equipment	6,765	16,058
Prepaid expenses	5,488	5,823
Deferred acquisition costs on insurance premiums written	1,416	1,018
Prepaid insurance premiums	690	1,028
Taxes receivable, other than income tax	318	393
Deferred expenses for plastic cards	-	821
Other assets	1,680	1,749
Total other assets	**24,969**	**35,625**
Current	7,066	22,658
Non-current	17,903	12,967
Total other assets	**24,969**	**35,625**

Included in the advances for purchase of intangible assets and equipment as at June 30, 2015 and December 31, 2014 are prepayments for office furniture and other assets for the new Head Office building in the centre of Baku.

8. DUE TO OTHER BANKS

	June 30, 2015	December 31, 2014
Term placements of other banks	1,314,475	1,458,698
Correspondent accounts and overnight placements of other banks	582,437	226,480
Overdraft with CBAR	-	179,784
Total due to other banks	**1,896,912**	**1,864,962**

9. CUSTOMER ACCOUNTS

	June 30, 2015	December 31, 2014
State and public organisations		
- Current/settlement accounts	985,964	649,214
- Term deposits	416,754	280,427
- Restricted customer deposits	155,697	71,273
	1,558,415	1,000,914
Other legal entities		
- Current/settlement accounts	562,674	826,401
- Term deposits	434,680	373,297
- Restricted customer deposits	881	10,102
	998,235	1,209,800
Individuals		
- Current/demand accounts	328,398	347,394
- Term deposits	1,772,652	1,586,570
	2,101,050	1,933,964
Total customer accounts	**4,657,700**	**4,144,678**

As at June 30, 2015, the Group had significant concentration of customer accounts attracted from one customer – a state organisation in the oil industry totaling AZN 816,847 thousand, and from one government body of AZN 141,327 thousand, or 20.6% of total customer accounts in aggregate (December 31, 2014: one customer – a state organisation in oil industry totaling AZN 479,378 thousand, and from one government body of AZN 154,555 thousand, or 15.3% of total customer accounts in aggregate).

Included in term deposits of state and public organizations is overnight deposit of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 188,571 thousand. The interest rates on these deposits are 0.10% per annum as at June 30, 2015 (December 31, 2014: deposits of a state organization involved in the oil industry sector of the Republic of Azerbaijan totaling AZN 152,461 thousand. The interest rates on these deposits are 0.10% per annum as at December 31, 2014).

Included in the current and settlement accounts of state and public organisations as at June 30, 2015 are balances on current interest bearing accounts of state-owned enterprises and government bodies of AZN 175,081 thousand (December 31, 2014: AZN 176,387 thousand). Interest rates on these accounts vary from 0.1% to 4% per annum (December 31, 2014: 0.1% to 1.5% per annum).

Restricted customer deposits amounting to AZN 156,578 thousand as at June 30, 2015 (December 31, 2014: AZN 81,375 thousand) represent balances on customer accounts held by the Group as collateral for irrevocable commitments under import letters of credit issued by the Group on behalf of its customers. The information on letters of credit and guarantees outstanding as at June 30, 2015 and December 31, 2014 is disclosed in Note 23.

Economic sector concentrations within customer accounts are as follows:

	June 30, 2015		December 31, 2014	
	Amount	%	Amount	%
Individuals	2,101,208	45.1	1,933,964	46.7
Energy	1,262,541	27.1	699,686	16.9
Trade and services	658,492	14.1	792,250	19.1
State and public organisations*	258,378	5.5	219,203	5.3
Transportation and communication	134,796	2.9	200,769	4.8
Manufacturing	99,981	2.1	119,554	2.9
Construction	39,908	0.9	88,102	2.1
Other	102,396	2.3	91,150	2.2
Total customer accounts	**4,657,700**	**100.0**	**4,144,678**	**100.0**

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

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

10. DEBT SECURITIES IN ISSUE

	June 30, 2015	December 31, 2014
Eurobonds	514,792	389,161
European Commercial Paper	72,193	-
Deposit certificates	15,745	11,766
Total debt securities in issue	**602,730**	**400,927**

On June 9, 2014, the Bank has issued USD 500,000 thousand Eurobonds due in June 2019 with interest rate of 5.63% per annum. Interest on these bonds is payable semi-annually. Bonds are admitted to trading on the regulated market of the Irish Stock Exchange PLC or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area. The Bank is obliged to comply with certain financial covenants stipulated by the borrowing agreements for its Eurobonds. The Bank's compliance with these financial covenants is discussed further in Note 23.

On January 29, 2015 the Bank established European Commercial Paper Programme with a limit of the aggregate principal amount of USD 250,000 thousand. On February 27, 2015 the Bank issued first tranche in nominal value of USD 67,500 thousand maturing in February 2016. Interest on these borrowings is payable annually.

As at June 30, 2015, deposit certificates denominated in USD in the amount of AZN 6,671 thousand bear interest rates ranging between 8.0% - 25.0% per annum and have maturities of two, three, eight, nine and ten years and deposit certificates denominated in AZN in the amount of AZN 1,805 thousand bear interest rate of 25.0% per annum and have maturities of eight, nine and ten years (December 31, 2014: deposit certificates denominated in USD in the amount of AZN 6,285 thousand bear interest rates ranging between 8.0%-25.0% per annum and have maturities between two and ten years, deposit certificates denominated in AZN in the amount of AZN 1,825 thousand bear an interest rate of 25.0% per annum and have maturities between eight and ten years, and deposit certificates denominated in RUB in the amount of AZN 2,344 thousand bear interest rates ranging between 4.5%-10.0% per annum and have maturities of one year). These certificates of deposit state as a condition that interest is paid each year only if certificates are held for the full period of that calendar year.

11. OTHER BORROWED FUNDS

	June 30, 2015	December 31, 2014
Syndicated loan maturing on December 24, 2015	261,755	197,669
Syndicated loan maturing on April 28, 2016	215,122	-
Syndicated loan maturing on January 14, 2015	-	47,260
Syndicated loan maturing on April 8, 2015	-	115,368
National Fund for Support of Entrepreneurship (the Republic of Azerbaijan)	194,458	207,891
Term borrowings from other financial institutions	1,535,976	979,351
Accrued interest payable	35,454	15,827
Total other borrowed funds	**2,242,765**	**1,563,366**

Syndicated borrowings

On April 28, 2015, Bank signed a facility agreement with a number of foreign banks led by one major foreign bank in the amount of EUR 98,500 and USD 97,500 thousand. The borrowing facilities are repayable on 28 April, 2016.

On December 24, 2014, the Bank signed a facility agreement with a number of foreign banks led by one major foreign bank in the amount of USD 252,000 thousand. The borrowing facilities are repayable on December 24, 2015.

On April 15, 2014, the Bank signed a facility agreement with a number of foreign banks led by one major foreign bank in the amount of USD 48,750 thousand and EUR 81,000 thousand. The borrowing facilities were repaid on April 8, 2015.

On July 16, 2013, the Bank signed a facility agreement with a number of foreign banks led by one major foreign bank in the amount of USD 120,500 thousand. The borrowing facilities were repaid on January 14, 2015.

Term borrowings from government organizations

As at June 30, 2015 loans from National Fund for Support of Entrepreneurship amounting to AZN 194,458 thousand has been borrowed with annual rate of 1% and maturity period from 2 to 10 years (December 31, 2014: borrowings from National Fund for Support of Entrepreneurship amounting to AZN 207,891 thousand, which has been borrowed with the annual rate of 1% and maturity period from 1 year to 10 years).

Term borrowings from other financial institutions

Included in term borrowings from other financial institutions are funds attracted from twenty seven foreign banks and financial institutions. The amounts drawn down under credit agreements signed with these banks amounted to USD 1,106,398 thousand or AZN 1,159,837 thousand and EUR 182,310 thousand or AZN 215,077 thousand (December 31, 2014: funds attracted from twenty four foreign banks and financial institutions with amount of USD 968,883 thousand or AZN 759,992 thousand and EUR 198,499 thousand or AZN 189,011 thousand).

The Bank is obliged to comply with certain financial covenants stipulated by the borrowing agreements with international financial institutions. The Bank's compliance with these financial covenants is discussed further in Note 23.

Market interest rates for the borrowings range between 0.95% to 9.0% per annum for the six months period ended June 30, 2015 (ranging between 1.07% to 8.9% per annum for the year ended December 31, 2014). All borrowings that belong to other borrowed funds category bear market interest rates.

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

12. FINANCIAL AND INSURANCE LIABILITIES

Other financial and insurance liabilities comprise the following:

	June 30, 2015	December 31, 2014
Items in course of settlement	14,773	16,193
Sundry creditors	9,578	9,187
Insurance reserves, net	7,907	9,630
Payables to employees	4,735	3,764
Insurance premiums and broker commissions payable	4,160	4,313
Payables on currency SWAP agreements	2,790	6,609
Payables to shareholders	-	16,657
Total other financial and insurance liabilities	**43,943**	**66,353**

13. OTHER LIABILITIES

Other liabilities comprise the following:

	June 30, 2015	December 31, 2014
Provision on off balance sheet liabilities	12,755	7,526
Taxes payable other than income tax	11,786	7,630
Deferred revenue on plastic cards operations	5,143	6,605
Deferred ceding commissions on insurance operations	46	474
Other liabilities	1,305	1,070
Total other liabilities	**31,035**	**23,305**
Current	24,026	15,368
Non-current	7,009	7,937
Total other liabilities	**31,035**	**23,305**

Deferred revenue on plastic cards operations represents the unearned portion of revenue related to fees charged for the annual maintenance of plastic card accounts. These fees are charged upon the issuance of cards and amortised over their respective term.

Movements in the provision on off balance sheet liabilities during the six months period ended June 30, 2015 are as follows:

	Balance as at January 1, 2015	Increase in provision during the period	Balance as at June 30, 2015
Provision on off balance sheet liabilities	7,526	5,229	12,755
Total	**7,526**	**5,229**	**12,755**

Movements in the provision on off balance sheet liabilities during the first half and the second half of the year ended December 31, 2014 are as follows:

	Balance as at January 1, 2015	Increase in provision for the period between January 1, 2014 and June 30, 2014	Balance as at June 30, 2014	Increase in provision during the period between July 1, 2014 and December 31, 2014	Balance as at December 31, 2014
Provision on off balance sheet liabilities	3,367	2,572	5,939	1,587	7,526
Total	**3,367**	**2,572**	**5,939**	**1,587**	**7,526**

14. SUBORDINATED DEBT

	June 30, 2015	December 31, 2014
Subordinated debt from the CBAR	600,000	350,000
Subordinated debt from non-resident financial institutions	104,830	69,969
Accrued interest payable	15,278	1,536
Total subordinated debt	**720,108**	**421,505**

On February 21, 2012, the Bank signed AZN 150,000 thousand subordinated loan agreement with the CBAR, which is treated as Tier II Capital as per capital requirements described in Note 23. This loan is to be repaid in 5 years. On December 4, 2012 the Bank signed a subordinated loan agreement with the CBAR in the amount of AZN 100,000 thousand repayable in 7 years. On June 28, 2013 Bank signed another subordinated loan agreement with the CBAR in the amount of AZN 100,000 thousand, to be repaid in 7 years. On February 27, 2015 Bank signed another subordinated loan agreement with the CBAR in the amount of AZN 250,000 thousand and is repayable in 6 years.

Interest rates on subordinated debts are at market rates. Market interest rate for these subordinated debts is 4-7% per annum. The repayment of the Bank's subordinated debt ranks after all other creditors in case of the liquidation of the Bank.

15. SHARE CAPITAL

	Number of paid-in and outstanding shares (in thousands)	Ordinary Shares	Total
As at December 31, 2013	1,827,068	475,038	475,038
Increase in par value of shares	-	21,859	21,859
New shares paid-in	358,827	93,295	93,295
As at December 31, 2014	2,185,895	590,192	590,192
New shares paid-in	189,241	51,095	51,095
As at June 30, 2015	2,375,136	641,287	641,287

As at June 30, 2015 the authorized share capital consisted of 3,115,877 thousand ordinary shares including 740,741 thousand shares which are authorized but not issued. As at December 31, 2014 the authorized share capital consisted of fully paid 2,185,895 thousand ordinary shares. As at June 30, 2015 and December 31, 2014 there are no issued but not paid ordinary shares.

All ordinary shares have a nominal value of AZN 0.27 per share as at June 30, 2015 and December 31, 2014 and rank equally. Each share carries one vote.

As at June 30, 2015 and December 31, 2014 the Ministry of Finance of the Republic of Azerbaijan held 81.86% and 51.07% of the total paid-in share capital of the Bank, respectively.

As at June 30, 2015, the Group's employees held 3.61% of the total share capital of the Bank, or 85,726 thousand ordinary shares with a par value of AZN 23,146 thousand (December 31, 2014: 4.81% or 105,167 thousand ordinary shares with a par value of AZN 28,395 thousand).

The Bank has declared AZN 14,652 thousand of dividend during the six month period ended June 30, 2014.

16. INTEREST INCOME AND EXPENSE

	Six month period ended June 30, 2015	Six month period ended June 30, 2014
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
- interest income on unimpaired financial assets	367,504	319,053
- interest income on impaired financial assets	12,902	8,964
Total interest income	**380,406**	**328,017**
Interest income on financial assets recorded at amortized cost comprises:		
Loans and advances to customers	369,524	315,044
Due from other banks and correspondent accounts	7,671	9,600
Interest income on other debt securities	3,211	3,373
Total interest income	**380,406**	**328,017**
Interest expense comprises:		
Due to other banks and other borrowed funds	136,338	89,108
Customer accounts	94,400	77,479
Subordinated debt	18,859	12,390
Debt securities in issue	15,261	5,224
Total interest expense	264,858	184,201
Net interest income	**115,548**	**143,816**

For information on related party transactions, see Note 25.

17. FEE AND COMMISSION INCOME AND EXPENSE

	Six month period ended June 30, 2015	Six month period ended June 30, 2014
Fee and commission income		
- Plastic cards operations	22,471	19,509
- Transactions with foreign currencies and securities	9,923	11,226
- Settlement transactions	4,387	6,784
- Cash transactions	3,699	4,919
- Guarantees issued	626	2,100
- Letters of credit issued	544	748
- Servicing intermediary loans	271	126
- Other	1,104	2,550
Total fee and commission income	43,025	47,962
Fee and commission expense		
- Settlement transactions	5,854	2,760
- Cash transactions	1,862	1,681
- Policy acquisition costs on insurance operations	764	694
- Plastic cards operations	459	1,339
- Other	263	184
Total fee and commission expense	9,202	6,658
Net fee and commission income	33,823	41,304

18. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Six month period ended June 30, 2015	Six month period ended June 30, 2014
Staff costs	31,017	31,740
Depreciation of premises and equipment	7,325	7,427
Advertising and marketing services	3,253	3,596
Charity and financial aid	2,789	4,411
Rent	2,725	2,821
External labour and guarding	2,036	1,999
Consultancy and other professional services	1,939	2,750
Software maintenance	1,828	1,255
Premises, equipment and investment property maintenance	1,492	1,607
Amortisation of software and other intangible assets	1,240	1,221
Customs duties and taxes other than on income	1,360	3,756
Communication	1,098	1,136
Insurance expense	1,063	1,097
Fees paid to Deposit Insurance Fund	992	1,305
Training	932	469
Purchase of plastic cards	548	921
Stationary, books, printing, and other supplies	499	703
Business trips	405	503
Other	2,907	4,042
Total administrative and other operating expenses	65,448	72,759

Included in staff costs are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan of AZN 4,133 thousand (six-month period ended June 30, 2014: AZN 2,613 thousand). In addition, AZN 501 thousand was collected by the Group as a deduction to employee salaries and paid to the State Social Protection Fund on their behalf (six-month period ended June 30, 2014: AZN 445 thousand).

Included in charity and financial aid expenses incurred during the six-month period ended June 30, 2015 are AZN 2,168 thousand paid to "Inter" professional football club (six-month period ended June 30, 2014: AZN 3,600 thousand).

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

19. (LOSS)/EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in calculation of basic and diluted earnings per share are as follows:

	Six-month period ended June 30, 2015	Six-month period ended June 30, 2014
(Loss)/profit for the period attributable to ordinary shareholders for the purpose of basic earnings per share	(196,817)	40,802
(Loss)/profit for the period attributable to ordinary shareholders for the purpose of diluted earnings per share	(196,817)	40,802
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,207,210	1,998,441
Weighted average number of ordinary shares for the purpose of diluted earnings per share	2,207,210	2,000,784
Basic (loss)/earnings per ordinary share (expressed in AZN per share)	**(0.09)**	**0.02**
Diluted (loss)/earnings per ordinary share (expressed in AZN per share)	**(0.09)**	**0.02**

20. SEGMENT ANALYSIS

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

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

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

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

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

The Chairman of the Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax. This measurement basis excludes the effects of non-recurring expenditure from the operating segments, such as impairment of premises.

Other information provided to the Chairman of the Board of Directors is measured in a manner consistent with that in this financial information, except that segment assets reported to the Chairman of the Board of Directors exclude deferred income tax assets which is managed on a central basis. These are part of the reconciliation to total consolidated interim statement financial position assets.

Segment information for the reportable segments of the Group for the six month period ended June 30, 2015 is set out below:

Six-month period ended June 30, 2015	**Banking**	**Insurance**	**Card processing**	**Total Group**
Total revenue	443,725	9,241	13,996	466,962
Inter-segment revenue	(7,745)	-	(9,063)	(16,808)
Revenue from external customers	435,980	9,241	4,933	450,154
Adjusted (loss)/profit before income tax	(243,678)	150	10,342	(233,186)

Segment information for the reportable segments of the Group for the six month period ended June 30, 2014 is set out below:

Six-month period ended June 30, 2014	**Banking**	**Insurance**	**Card processing**	**Total Group**
Total revenue	383,388	7,420	10,209	401,017
Inter-segment revenue	(9,341)	(13)	(8,342)	(17,696)
Revenue from external customers	374,047	7,407	1,867	383,321
Adjusted profit before income tax	60,437	454	3,364	64,255

Segment information for the reportable segment assets and liabilities of the Group for the six month period ended June 30, 2015 and the year ended December 31, 2014 is set out below:

Total assets reported	**Banking**	**Insurance**	**Card processing**	**Total Group**
June 30, 2015	10,632,954	23,655	17,412	10,674,021
December 31, 2014	9,126,910	26,751	20,807	9,174,468
Total liabilities reported				
June 30, 2015	10,180,460	15,591	877	10,196,928
December 31, 2014	8,468,416	16,628	3,424	8,488,468

	Six-month period ended June 30, 2015	**Six-month period ended June 30, 2014**
Adjusted (loss)/profit before income tax for reportable segments	**(233,186)**	**64,255**
Depreciation	(7,325)	(7,427)
Amortisation	(1,240)	(1,221)
Share of post-tax loss of associates	-	(48)
(Loss)/profit before income tax	**(241,751)**	**55,559**

The adjustments are attributable to the following:

- The Group does not allocate depreciation and amortisation to the segments.
- The Group does not allocate share of profit of associates to segments.

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

	June 30, 2015	December 31, 2014
Total segment assets	10,674,021	9,174,468
Deferred income tax assets	83,589	24,300
Total assets	**10,757,610**	**9,198,768**

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

	June 30, 2015	December 31, 2014
Total segment liabilities	10,196,928	8,488,468
Deferred income tax liabilities	38,853	23,716
Total liabilities	**10,235,781**	**8,512,184**

The Group applies an asymmetric approach regarding the allocation of non-current assets and related depreciation charges between segments, whereby the Group allocates non-current assets between segments whereas does not allocate related depreciation charges.

The adjustments are attributable to the following:

- Deferred income tax assets are not calculated for the purpose of internal management reporting.

21. FINANCIAL RISK MANAGEMENT

The analysis of carrying values of assets and liabilities by contractual maturities may be summarized as follows as at June 30, 2015:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	416,984	-	-	-	416,984
Mandatory cash balances with the National/Central banks	12,326	-	-	-	12,326
Due from other banks	115,986	63,451	20,841	101,778	302,056
Loans and advances to customers	490,605	1,395,778	1,167,028	6,299,197	9,352,608
Financial assets at fair value through profit or loss	1,645	3,462	234	2,107	7,448
Other debt securities	-	-	-	45,963	45,963
Other financial and insurance assets	7,414	180,179	303	2,734	190,630
TOTAL FINANCIAL ASSETS	**1,044,960**	**1,642,870**	**1,188,406**	**6,451,779**	**10,328,015**
FINANCIAL LIABILITIES:					
Due to other banks	417,886	814,238	627,221	37,567	1,896,912
Customer accounts	2,192,877	632,033	1,117,440	715,350	4,657,700
Debt securities in issue	100	148	2,279	600,203	602,730
Other borrowed funds	36,201	582,006	394,397	1,230,161	2,242,765
Other financial and insurance liabilities	30,864	2,378	2,666	8,035	43,943
Subordinated debt	-	-	-	720,108	720,108
TOTAL FINANCIAL LIABILITIES	**2,677,928**	**2,030,803**	**2,144,003**	**3,311,424**	**10,164,158**
NET LIQUIDITY GAP AS AT JUNE 30, 2015	**(1,632,968)**	**(387,933)**	**(955,597)**	**3,140,355**	
CUMULATIVE LIQUIDITY GAP AS AT JUNE 30, 2015	**(1,632,968)**	**(2,020,901)**	**(2,976,498)**	**163,857**	

The analysis of carrying values of assets and liabilities by contractual maturities may be summarized as follows as at December 31, 2014:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 12 months	Total
FINANCIAL ASSETS:					
Cash and cash equivalents	593,195	-	-	-	593,195
Mandatory cash balances with the National/Central banks	9,678	-	-	-	9,678
Due from other banks	120,455	72,700	39,845	70,639	303,639
Loans and advances to customers	539,955	621,896	706,625	5,986,515	7,854,991
Financial assets at fair value through profit or loss	-	1,502	2,829	10,666	14,997
Other debt securities	116	-	-	45,239	45,355
Available-for-sale investments	23	-	-	5,264	5,287
Other financial and insurance assets	14,556	6,358	439	2,297	23,650
TOTAL FINANCIAL ASSETS	**1,277,978**	**702,456**	**749,738**	**6,120,620**	**8,850,792**
FINANCIAL LIABILITIES:					
Due to other banks	415,698	978,070	311,443	159,751	1,864,962
Customer accounts	1,973,422	628,310	646,174	896,772	4,144,678
Debt securities in issue	4	654	186	400,083	400,927
Other borrowed funds	74,171	201,898	286,985	1,000,312	1,563,366
Other financial and insurance liabilities	42,161	1,560	6,141	16,491	66,353
Subordinated debt	-	-	-	421,505	421,505
TOTAL FINANCIAL LIABILITIES	**2,505,456**	**1,810,492**	**1,250,929**	**2,894,914**	**8,461,791**
NET LIQUIDITY GAP AS AT DECEMBER 31, 2014	**(1,227,478)**	**(1,108,036)**	**(501,191)**	**3,225,706**	
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2014	**(1,227,478)**	**(2,335,514)**	**(2,836,705)**	**389,001**	

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

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

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

22. MANAGEMENT OF CAPITAL

The objectives of management when managing the Group's capital are (i) to comply with the capital requirements set by the CBAR, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel I of at least 6%. Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Head of Audit Committee, First Deputy of Chairman of the Board, Chief Financial Officer, Internal Audit Department and Accounting and Budgeting Department. The other objectives of capital management are evaluated on an ongoing basis.

Under the current capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (December 31, 2014: AZN 10,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 12% (December 31, 2014: 12%) and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 6% (December 31, 2014: 6%).

Under the current capital requirements set by the Central Bank of Russian Federation ("CBRF"), banks have to (i) comply with the capital requirements set by the CBRF, (ii) safeguard the Bank's ability to continue as a going concern and (iii) maintain a sufficient capital base to achieve a capital adequacy ratio based on the Basel I of at least 8%.

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

	June 30, 2015	December 31, 2014
Tier 1 capital		
Share capital	641,287	590,192
Retained earnings	(130,443)	65,670
Non-controlling interest	3,289	3,073
Less: intangible assets	(11,407)	(7,850)
Total qualifying Tier 1 capital	**502,726**	**651,085**
Tier 2 capital		
Reserves (1.25% of total risk-weighted assets)	82,682	114,254
Revaluation reserve for premises	41,456	42,160
Subordinated debt (restricted to 50% of Tier 1 capital)	251,363	294,984
Total qualifying Tier 2 capital limited to 100% of Tier 1 capital	**375,501**	**451,398**
Less: investments in equity shares	(348)	(348)
Total regulatory capital	**877,879**	**1,102,135**
Risk-weighted assets:		
On-balance sheet	4,601,805	7,618,643
Off-balance sheet	2,012,769	1,521,707
Total risk-weighted assets	**6,614,574**	**9,140,350**
Capital Ratios:		
Tier 1 capital	7.60%	7.12%
Total capital	13.27%	12.06%

As an integral part of the Bank's capital management procedures the Chief Financial Officer performs regular monitoring of compliance with the externally imposed capital requirements and the monitoring reports are reviewed and approved by Head of Audit Committee, Chairman of the Board of Directors and the Head of Internal Audit Department. As at June 30, 2015 the Group and Bank have complied with all externally imposed capital requirements.

23. CONTINGENCIES AND COMMITMENTS

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in this consolidated condensed interim financial information.

Taxation – Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a particular treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans to customers and receivables, as an underestimation of the taxable profit. The management of the Bank believes that it has accrued all tax amounts due and therefore no allowance has been made in the consolidated condensed interim financial information.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. In the case of criminal investigation statute of limitation may be extended up to seven years based on the court decision.

Operating environment – Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Azerbaijan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Azerbaijan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market, which decreased significantly during 2014 and 2015. Management is unable to reliably estimate the effects of any further price fluctuations on the Group's financial position. As a result of significant decline in oil prices, the Central Bank of the Republic of Azerbaijan devalued the Azerbaijani Manat on 21 February 2015.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

In December 2014, the CBRF significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

Compliance with covenants – The Bank has agreed to comply with certain financial and business covenants in various financing and similar agreements.

Non-compliance with such covenants may result in negative consequences for the Group, including, inter alia, potential declarations of events of default, acceleration of the related indebtedness, enforcement of security and cross-defaults under other financing arrangements.

As at June 30, 2015 the Bank was in breach of certain covenants with five financing arrangements with outstanding balances amounting to AZN 671,839 thousand at June 30, 2015.

As disclosed in Note 26 the Bank has received waivers from international financial institutions for all five breached financing arrangements outstanding at June 30, 2015 amounting to AZN 671,839 thousand.

As at the date of issuance of these financial statements, the Group has not received an acceleration notice from any lender in respect of the above matter or otherwise. As such term borrowings and subordinated debts have been set out in Note 21 in accordance with their contractual maturities.

As disclosed in Note 2 above and following the inflow of funds for the transfer of poor quality and problematic loans to Agrarkredit CJSC, the Bank has been able to rectify its breach of covenants as noted above.

As at June 30, 2015 the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital requirements (December 31, 2014: the Group and the Bank has complied with all externally imposed capital requirements as per Basel I and CBAR statutory capital requirements). Refer to Note 22.

The Bank did not achieve full compliance with certain statutory ratios neither as at June 30, 2015 nor as at December 31, 2014. As a result of this non-compliance the Bank provided to CBAR an action plan on how these breaches are going to be rectified. The plan contains a complete list of measures that would rectify current breaches and will bring the Bank into full compliance with all CBAR statutory requirements by December 31, 2015.

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

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

Outstanding credit related commitments are, as follows:

	June 30, 2015	**December 31, 2014**
Import letters of credit	1,363,769	772,597
Guarantees issued	1,255,578	1,335,398
Commitments to extend credit and undrawn credit lines	113,161	67,066
Total credit related commitments	**1,750,726**	**2,175,061**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

As at June 30, 2015, the Group had a significant concentration of import letters of credit of AZN 1,330,071 thousand issued to 20 entities or 97.5% of total import letters of credit (December 31, 2014: import letters of credit of AZN 702,288 thousand issued to 20 entities or 90.9% of total import letters of credit). As at June 30, 2015, the Group also had a significant concentration of guarantees of AZN 1,182,021 thousand issued to 20 entities or 94.1% of total guarantees issued (December 31, 2014: guarantees of AZN 1,186,505 thousand issued to 20 entities or 88.9% of total guarantees).

As at June 30, 2015, credit related commitments of AZN 156,578 thousand (December 31, 2014: AZN 81,375 thousand) are secured by blocked customer deposits. Refer to Note 9.

Intermediary loans – As at June 30, 2015, the Group had borrowed funds amounting to AZN 744,698 thousand (December 31, 2014: AZN 744,698 thousand) on behalf of the Government of the Republic of Azerbaijan from certain financial institutions and state organizations for the purposes of providing intermediary loans to state-owned enterprises and government bodies of the Republic of Azerbaijan. The loan agreements signed between the Group and these financial institutions and state organizations are secured by unconditional letters of guarantee of the Government of the Republic of Azerbaijan, whereby the Government acts as the primary obligor in relation to these borrowings or secured by customer deposits of the borrowing state organization. As a result, the Group acts as a loan-servicing agent for the Government of the Republic of Azerbaijan by transferring collected principal and interest payments to financial institutions and state organizations and earns commission income on servicing these intermediary loans.

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

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

	June 30, 2015	**December 31, 2014**
Funds borrowed from CBAR and given to two state organizations	744,698	744,698
Total funds borrowed for the purposes of providing intermediary loans and transferred to off-balance sheet accounts	**744,698**	**744,698**

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides an analysis of financial and non-financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Financial assets/ financial liabilities	**Fair value as at**		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable inputs to fair value**
	June 30, 2015	**December 31, 2014**				
1) Non-derivative financial assets at fair value through profit or loss	7,448	14,997	Level 1	Quoted bid prices in an active market.	N/A	N/A
2) Available-for-sale investments	-	5,287	Level 1	Quoted bid prices in an active market.	N/A	N/A
3) Currency forward agreements	(2,790)	(6,609)	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
4) Buildings	79,110	72,162	Level 2	Valuation using market approach.	N/A	N/A

There were no transfers between Level 1 and 2 in the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	June 30, 2015		December 31, 2014	
	Carrying value	Fair value Level 2	Carrying value	Fair value Level 2
Due from other banks	302,056	298,955	303,639	304,394
Loans and advances to customers	9,352,608	9,333,195	7,854,991	7,851,240
Other debt securities	45,963	44,411	45,355	42,453
Due to other banks	1,896,912	1,889,067	1,864,962	1,856,694
Customer accounts	4,657,700	4,647,032	4,144,678	4,157,276
Debt securities in issue	602,730	608,849	400,927	400,417
Other borrowed funds	2,242,765	2,239,271	1,563,366	1,566,949
Subordinated debt	720,108	713,949	421,505	418,221

The fair values of the financial assets and financial liabilities included in the level 2 and level 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties

25. RELATED PARTY TRANSACTIONS

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

As at June 30, 2015, the outstanding balances with related parties were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	43,561	-
Gross amount of loans and advances to customers (contractual interest rate: 4 - 22% p.a.)	127	101	260,151	9,590
Provisions for loan impairment	(42)	(7)	(15,466)	-
Other debt securities	-	-	-	8,193
Investment in associates	-	-	-	348
Other financial and insurance assets	172,465	-	-	-
Customer accounts				
Current/settlement accounts	-	-	959,478	68
Term deposits (contractual interest rate: 0.11 – 17.2% p.a.)	1,216	37	413,796	-
Other borrowed funds	-	-	375,205	-
Subordinated debt	-	-	614,319	-

The income and expense items with related parties for the six month period ended June 30, 2015 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	431	13	14,132	903
Interest expense	-	(3)	(17,337)	(418)
Provision for impairment of loans and advances to customers	1,728	-	5,976	-
Fee and commission income	-	-	14,348	2
Staff costs	-	(348)	-	-

As at June 30, 2015, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities	Associates
Guarantees issued	382,232	124,440
Commitments to extend credit and undrawn credit lines	43,326	-

As at December 31, 2014, the outstanding balances with shareholders are substantially all with the Parent.

	Shareholders	Management	Government bodies and state-owned entities	Associates
Cash and cash equivalents	-	-	88,762	-
Gross amount of loans and advances to customers (contractual interest rate: 1 - 25% p.a.)	43,174	210	246,859	12,993
Provisions for loan impairment	(1,770)	(7)	(21,442)	-
Other debt securities	-	-	-	10,000
Investment in associates	-	-	-	348
Due to other banks				
Correspondent accounts of other banks	-	-	179,784	-
Customer accounts				
Current/settlement accounts	113	-	720,487	342
Term deposits (contractual interest rate: 0.18 - 9% p.a.)	30	-	280,427	-
Subordinated debt	-	-	350,000	-

The income and expense items with related parties for the six months period ended June 30, 2014 were as follows:

	Shareholders	Management	Government bodies and state-owned entities	Associates
Interest income	45	-	13,186	3,819
Interest expense	-	-	(17,973)	-
Provision for impairment of loans and advances to customers	273	15	671	73
Fee and commission income	4	-	-	-
Staff costs	-	(350)	-	-
Share of loss of associates	-	-	-	(48)

As at December 31, 2014, other rights and obligations with related parties were as follows:

	Government bodies and state-owned entities	Associates
Guarantees issued	320,891	15,894
Commitments to extend credit and undrawn credit lines	5,320	-

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

During the six-month period ended June 30, 2015, the total remuneration of members of the Board of Directors and key management personnel of the Group including discretionary compensation amounted to AZN 348 thousand (the six-month period ended June 30, 2014: AZN 350 thousand) and comprised of:

	Six-month period ended June 30, 2015	Six-month period ended June 30, 2014
Short-term benefits:		
- salaries	299	261
- performance bonuses	49	89
Total	**348**	**350**

26. SUBSEQUENT EVENTS

On July 15, 2015 the President of the Republic of Azerbaijan signed a decree about measures to improve the health of assets specifically in connection with the preparation of the government owned shares of the International Bank of Azerbaijan for further privatisation process. During September 2015 the MoF together with the Bank determined the list of the problematic and poor quality assets to be transferred to Agrarkredit CJSC. The list of the problematic and poor quality assets will be transferred in several tranches. On September 14, 2015 the first tranche of identified problematic and poor quality assets totaling AZN 3,000,000 thousand was transferred. As of the report issuance date the Group has received AZN 2,000,000 thousand of the funds with the remainder being expected to be received before December 31, 2015.

On July 22, 2015 Elmar Mammadov was elected as the Chairman of the Management Board succeeding Jahangir Hajiyev. Murad Shiraliyev and Ulvi Mansurov were elected as members of the Management Board.

In October and November 2015 the Bank received waivers from international financial institutions for all five breached financing arrangements outstanding at June 30, 2015 amounting to AZN 671,839 thousand.