

**Open Joint Stock
Company
“International Bank
of Azerbaijan”**

Interim Condensed Consolidated
Financial Information
For the 1st half of 2016

Open Joint Stock Company “International Bank of Azerbaijan”

Table of contents

Page

STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE 1ST HALF OF 2016.....	1
INDEPENDENT AUDITOR’S REPORT ON AUDIT OF THE INTERIM CONDENSED CONSOLIDATION FINANCIAL INFORMATION	2-3
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE 1ST HALF OF 2016:	
Interim condensed consolidated statement of financial position	4
Interim condensed consolidated statement of comprehensive income	5
Interim condensed consolidated statement of changes in equity	6
Interim condensed consolidated statement of cash flows	7-8
Selected notes to the interim condensed consolidated financial information:	
1. Organization	9
2. Basis of preparation	10
3. Significant accounting policies	11
4. Reclassifications	12
5. Cash and cash equivalents	13
6. Due from banks and other financial institutions	13
7. Loans to customers	13
8. Investments available for sale	14
9. Due to banks and other financial institutions	14
10. Customer accounts	14
11. Debt securities issued	15
12. Other borrowed funds	15
13. Segment reporting	15
14. Allowance for impairment losses and other provisions	18
15. Additional paid in capital	18
16. Management of capital	18
17. Contingencies and commitments	20
18. Fair value	21
19. Related party transactions	24
20. Subsequent events	26

Open Joint Stock Company "International Bank of Azerbaijan"

Statement of Management's Responsibilities for the Preparation and Approval of the Interim Condensed Consolidated Financial Information for the 1st half of 2016

Management is responsible for the preparation of the interim condensed consolidated financial information that presents fairly the financial position of the Open Joint Stock Company "International Bank of Azerbaijan" ("OJSC "IBA") and its subsidiaries (collectively – the "Group") as at June 30, 2016, the consolidated results of its operations, cash flows and changes in equity for the 1st half 2016, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

In preparing the interim condensed consolidated 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 International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

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 financial position of the Group, and which enable them to ensure that the interim condensed consolidated 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 interim condensed consolidated financial information of the Group for the 1st half of 2016 were approved by the Management of the Group on October 28, 2016:

On behalf of the Board of Directors:


Mr. Elmar Mammadov
Chairman of the Board of Directors

Baku, the Republic of Azerbaijan
October 28, 2016




Mr. Ulvi Mansurov
Chief Financial Officer

Baku, the Republic of Azerbaijan
October 28, 2016



"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 OJSC "IBA":

We have audited the accompanying interim condensed consolidated financial information of OJSC "IBA" and its subsidiaries (collectively – the "Group") which comprises the interim condensed consolidated statement of financial position as at June 30, 2016 and the interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the 1st half of 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Interim Condensed Consolidated Financial Information

Management is responsible for the preparation and presentation of this interim condensed consolidated 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 interim condensed consolidated 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 interim condensed consolidated 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 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 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 interim condensed consolidated financial information of the Group for the 1st half of 2016 is prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Emphasis of Matter

The Group and its customers have been negatively impacted by adverse economic conditions in 2014-2016, such as decline in oil prices and resulting devaluation of AZN. As a result, net interest expense before impairment losses of the Group for the 1st half of 2016 amounted to AZN 53,596 thousand, net loss for the 1st half of 2016 amounted to AZN 322,804 thousand, accumulated deficit as at 30 June 2016 amounted to AZN 1,067,463 thousand. To maintain financial stability of the Group, the Government of the Republic of Azerbaijan arranged for the transfer of non-performing assets from the Group to a state-controlled entity, CJSC Agrarkredit in 2015-2017. Without qualifying our opinion, we draw attention to Note 2 that describes the strategy and the action plan for the Group developed by the new management and supported by the controlling shareholder.

Baku, Azerbaijan
October 28, 2016

Open Joint Stock Company "International Bank of Azerbaijan"

Interim Condensed Consolidated Statement of Financial Position as at June 30, 2016 (in thousands of Azerbaijan Manats)

	Note	June 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	5, 19	2,289,342	1,597,696
Mandatory cash balances with the Central Banks		11,909	15,334
Financial assets at fair value through profit or loss		7,319	906
Due from banks and other financial institutions	6, 19	3,285,740	102,028
Loans to customers	7, 19	5,135,769	5,664,881
Investments available for sale	8, 19	36,166	-
Receivables from CJSC Agrarkredit	19	2,842,432	5,628,923
Current income tax assets		21,008	16,946
Deferred income tax assets		348	58,503
Property, equipment and intangible assets		252,600	322,741
Other assets		309,747	249,317
Total assets		14,192,380	13,657,275
Liabilities and equity			
Liabilities:			
Due to banks and other financial institutions	9	1,669,425	2,150,964
Customer accounts	10, 19	8,175,442	6,696,759
Debt securities issued	11	788,018	893,654
Other borrowed funds	12, 19	1,984,846	2,310,214
Deferred income tax liabilities		110,732	42,889
Other liabilities		122,975	89,712
Subordinated debt	19	771,995	759,043
Total liabilities		13,623,433	12,943,235
Equity:			
Equity attributable to owners of the Bank:			
Share capital		641,287	641,287
Additional paid in capital	15	999,028	799,971
Foreign currency translation reserve		(49,002)	(27,648)
Property revaluation reserve		40,177	40,740
Accumulated deficit		(1,067,463)	(744,750)
Total equity attributable to owners of the Bank		564,027	709,600
Non-controlling interest		4,920	4,440
Total equity		568,947	714,040
Total liabilities and equity		14,192,380	13,657,275

On behalf of the Board of Directors:


Mr. Elmar Mammadov
Chairman of the Board of Directors

Baku, the Republic of Azerbaijan
October 28, 2016




Mr. Ulvi Mansurov
Chief Financial Officer

Baku, the Republic of Azerbaijan
October 28, 2016

The notes on pages 9-26 form an integral part of this consolidated condensed interim financial information.

Open Joint Stock Company "International Bank of Azerbaijan"

Interim Condensed Consolidated Statement of Comprehensive Income for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

	Note	1 st half 2016	1 st half 2015
Interest income	19	223,807	359,366
Interest expense	19	(277,403)	(264,858)
Net interest (expense)/income before impairment losses on interest bearing assets		(53,596)	94,508
Initial recognition adjustment on interest bearing assets and liabilities		7,987	-
Impairment losses on interest bearing assets	14	(19,958)	(328,274)
Net interest expense		(65,567)	(233,766)
Net gain/(loss) on financial assets at fair value through profit or loss		2,299	(2,420)
Gains from trading in foreign currencies		46,827	16,718
Foreign exchange translation losses		(72,861)	(11,505)
Fee and commission income	19	63,663	64,065
Fee and commission expense		(6,711)	(9,202)
Other provisions	14	(5,293)	(5,229)
Impairment of property and equipment		(127,774)	-
Other operating income		3,683	5,036
Net non-interest (expense)/income		(96,167)	57,463
Operating losses		(161,734)	(176,303)
Operating expenses	19	(81,800)	(65,448)
Loss before income tax		(243,534)	(241,751)
Income tax		(79,270)	44,822
Net loss for the period		(322,804)	(196,929)
Attributable to:			
Owners of the Parent		(323,276)	(196,817)
Non-controlling interest		472	(112)
		(322,804)	(196,929)
Loss per share			
Basic (AZN)		(0.14)	(0.09)
Diluted (AZN)		(0.14)	(0.09)
OTHER COMPREHENSIVE (LOSS)/INCOME:			
Items that will not be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(21,354)	(18,921)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD		(21,354)	(18,921)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(344,158)	(215,850)
ATTRIBUTABLE TO:			
Owners of the Parent		(344,638)	(216,066)
Non-controlling interest		480	216
		(344,158)	(215,850)

On behalf of the Board of Directors:


Mr. Elmar Mammadov
Chairman of the Board of Directors

Baku, the Republic of Azerbaijan
October 28, 2016




Mr. Ulvi Mansurov
Chief Financial Officer

Baku, the Republic of Azerbaijan
October 28, 2016

The notes on pages 9-26 form an integral part of this consolidated condensed interim financial information.

Open Joint Stock Company "International Bank of Azerbaijan"

Interim Condensed Consolidated Statement of Changes in Equity for the 1st half of 2016 (in thousands of Azerbaijan Manats)

	Share capital	Additional paid-in capital	Foreign currency translation reserve	Property revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity attributable to owners of the Parent	Non- controlling interest	Total equity
January 1, 2015	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)
Property revaluation reserve transferred to accumulated deficit upon disposal	-	-	-	(704)	704	-	-	-
Issue of ordinary shares	51,095	-	-	-	-	51,095	-	51,095
June 30, 2015	641,287	-	(33,760)	41,456	(130,443)	518,540	3,289	521,829
January 1, 2016	641,287	799,971	(27,648)	40,740	(744,750)	709,600	4,440	714,040
Loss for the period	-	-	-	-	(323,276)	(323,276)	472	(322,804)
Other comprehensive loss for the period	-	-	(21,354)	-	-	(21,354)	8	(21,346)
Property revaluation reserve transferred to accumulated deficit upon disposal	-	-	-	(563)	563	-	-	-
Additional paid in capital (Note 2, 15)	-	199,057	-	-	-	199,057	-	199,057
June 30, 2016	641,287	999,028	(49,002)	40,177	(1,067,463)	564,027	4,920	568,947

On behalf of the Board of Directors:


Mr. Elmar Mammadov
Chairman of the Board of Directors
Baku, the Republic of Azerbaijan
October 28, 2016




Mr. Ulvi Mansurov
Chief Financial Officer
Baku, the Republic of Azerbaijan
October 28, 2016

The notes on pages 9-26 form an integral part of this consolidated interim financial information.

Open Joint Stock Company "International Bank of Azerbaijan"

Interim Condensed Consolidated Statement of Cash Flows for the 1st half of 2016 (in thousands of Azerbaijan Manats)

	Note	1st half 2016	1st half 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		71,248	61,170
Interest paid		(263,446)	(234,484)
Fees and commissions received		63,957	62,603
Fees and commissions paid		(10,065)	(8,381)
Receipts from trading in foreign currencies		46,827	16,718
Other operating income received		5,049	9,147
Staff costs paid		(27,651)	(31,017)
Other operating expenses paid		(51,330)	(27,637)
Cash flows used in operating activities before changes in operating assets and liabilities		(165,411)	(151,881)
Changes in operating assets and liabilities:			
Net decrease/(increase) in mandatory cash balances with the Central Banks			
Net (increase)/decrease in due from banks and other financial institutions		3,425	(2,648)
Net increase in loans to customers		(3,166,124)	43,207
Net (increase)/decrease in financial assets at fair value through profit or loss		(1,198,820)	(120,194)
Cash received from CJSC Agrarkredit	14	(6,413)	7,906
Net decrease/(increase) in other assets		4,580,000	-
Net decrease in due to banks and other financial institutions		178,687	(60,407)
Net increase/(decrease) in customer accounts		(503,920)	(447,990)
Net increase/(decrease) in other liabilities		1,522,661	(139,420)
		21,040	(34)
Cash generated/(used) in operating activities before taxation		1,265,125	(871,461)
Income tax paid		(7,213)	(4,862)
Net cash generated/(used) in operating activities		1,257,912	(876,323)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for property, equipment and intangible assets		(56,117)	(28,363)
Proceeds on sale of investments available-for-sale		-	5,287
Payments for investments available-for-sale		(35,436)	(690)
Net cash used in investing activities		(91,553)	(23,766)

Open Joint Stock Company "International Bank of Azerbaijan"

Interim Condensed Consolidated Statement of Cash Flows (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats)

	Note	1st half 2016	1st half 2015
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issue of ordinary shares		-	51,095
Proceeds from issue of debt securities		-	79,531
Repayment of debt securities		(111,722)	-
Proceeds from other borrowed funds		202,655	621,742
Repayment of other borrowed funds		(497,003)	(415,615)
Proceeds from issue of subordinated debt		-	262,510
Net cash (used)/generated from financing activities		(406,070)	599,263
Effect of exchange rate changes on the balance of cash held in foreign currencies		(68,643)	124,615
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		691,646	(176,211)
CASH AND CASH EQUIVALENTS, beginning of period	5	1,597,696	593,195
CASH AND CASH EQUIVALENTS, end of period	5	2,289,342	416,984

On behalf of the Board of Directors:


Mr. Elmar Mammadov
Chairman of the Board of Directors

Baku, the Republic of Azerbaijan
October 28, 2016




Mr. Ulvi Mansurov
Chief Financial Officer

Baku, the Republic of Azerbaijan
October 28, 2016

The notes on pages 9-26 form an integral part of this consolidated condensed interim financial information.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information for the 1st half of 2016 (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, 2016 the MoF and CJSC Aqrarkredit held 54,96% and 27,26%, respectively (December 31, 2015: 54,96% and 27,26%) 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, 2016 and December 31, 2015 the Bank had 35 branches operating in the Republic of Azerbaijan, representative offices in London and Frankfurt.

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 (%)		Type of operation
		30 June 2016	2015	
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
Beynaxalq Lizing	The Republic of Azerbaijan	100.0	47.6	Leasing
Inter Peshakar Idman Klubu	The Republic of Azerbaijan	100.0	<20.0	Football Team
Associates:				
Baku Inter-Bank Currency Exchange	The Republic of Azerbaijan	0.0	20.0	Currency exchange

In January 2016 the Group acquired 100% shares of a subsidiary company LLC “Inter Peshakar Idman Klubu” under loan settlement agreement. LLC “Inter Peshakar Idman Klubu” is a football club, whose main asset is a football stadium in Baku. Total assets of LLC “Inter Peshakar Idman Klubu” at the date of acquisition amounted to AZN 28,296 thousand.

In January 2016 the Group acquired 100% shares of a subsidiary company CJSC “Jont Lizing Kompani” under loan settlement agreement. CJSC “Joint Lizing Kompani” is engaged in the leasing business. In July 2016 CJSC “Joint Lizing Kompani” was renamed to CJSC “Beynaxalq Lizing”. Total assets of CJSC “Joint Lizing Kompani” at the date of acquisition amounted to AZN 37,934 thousand.

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

This interim condensed consolidated financial information was authorized for issue on October 28, 2016 by the Board of Directors.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

2. Basis of preparation

Accounting basis. This interim condensed consolidated financial information has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015, which were prepared in accordance with IFRS. Since the results of the Group’s operations closely relate to and depend on changing market conditions, the results of the Group’s operations for the interim period are not necessarily indicative of the results for the year.

The interim condensed consolidated financial information do not include all the information and disclosures required in the annual financial statements. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2015 prepared in accordance with International Financial Reporting Standards (“IFRS”), such as accounting policies and details of accounts which have not changed significantly in amount or composition.

These interim condensed consolidated financial information are presented in thousands of Azerbaijan Manats (“AZN”), unless otherwise indicated. These interim condensed consolidated financial information have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and land and buildings.

Exchange rates for the currencies in which the Group transacts were as follows:

	June 30, 2016	December 31, 2015
Closing exchange rates – AZN		
1 U.S. Dollar (“USD”)	1.5394	1.5594
1 Euro	1.7090	1.7046

Going concern. During 2014-2015 and the 1st half of 2016, Azerbaijan has been impacted by a number of adverse economic conditions as a result of the continued decline in global oil prices. In order to support the diversification of the economy, strengthen its international compatibility and export potential, as well as to provide balance of payments sustainability, during 2015 and 2016 the CBAR devalued AZN against major trading currencies by more than 100%. This led to decline in most sectors of the economy, which led to significant increase in the amounts of non-performing loans in the banking sector. The Group also faced similar economic environment in Russia, another main area of its geographical presence.

During the 1st half of 2016 and 2015, the Group incurred losses after tax in the amount of AZN 322,804 thousand and AZN 196,929 thousand. The key factors of the negative financial results were an increase of the loan impairment provisions for both retail and corporate loan portfolios as a result of assets quality erosion, decrease of the loan portfolio as a result of temporary stoppage of lending operations during 2015 and 1st half of 2016 and impairment of certain items of property, owned by the Group in the amount of AZN 127,774 thousand in the 1st half of 2016. In addition, a decrease in net interest income arising from uneven changes in interest rates on assets and liabilities had a significant impact on the financial results for 2015.

In the turbulent market conditions due to continued decline in the quality of the Group’s 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. Following an in depth review of the asset quality and liquidity position of the Group by CBAR and Ministry of Finance of the Republic of Azerbaijan (“MoF”), the President of the Republic of Azerbaijan signed a decree on July 15, 2015, about measures to improve the health of the Groups’ assets. According to the Decree and other documents signed between the parties involved, the problematic assets the Group were to be transferred in a number of tranches during 2015-2017 to a state controlled Closed Joint Stock Company “Aqrarkredit”, a Non-bank Credit Organisation (CJSC “Aqrarkredit”). All transfers were agreed to be made at full value of respective transactions including all on and off balance sheet exposures. The 1st part of the problematic assets transfer program has been successfully completed in 2016. The assets transferred as the 1st part of the program amounted to AZN 9,930,000 thousand. 2nd part of the problematic assets transfer to CJSC “Aqrarkredit” is currently being discussed and is expected to be executed in 2nd half of 2016 – 1st half of 2017.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

2. Basis of preparation (continued)

Significant portion of the problematic assets transferred as the 1st part of the program were denominated in foreign currencies. As the payments made by CJSC “Aqrarkredit” to the Group in exchange for the problematic assets are in AZN, this led to the Group having a significant short open currency position. This creates significant exposure of the Group to foreign currency risk. As at June 30 2016, the Groups foreign currency short position was AZN 5,302,860 thousand for US dollars and AZN 1,003,233 thousand for Euro. As at December 31 2015, the Groups foreign currency short position was AZN 5,652,033 thousand for US dollars and AZN 1,354,654 thousand for Euro. The Group is at final stage of discussing with the controlling shareholder of the solution to hedge the open currency position and plans to address this issue by the end of 2016.

To ensure future operational profitability and maintain financial stability the Group’s management and shareholders intend to develop the Group’s business both in corporate and in retail segments. The Group has also developed a strategy with the objective are to restructure the Group’s foreign debt and optimize the organizational structure of the Group. This plan includes, but not limited to the following steps:

- Finalize the 2nd part of the problematic assets transfer program in the 2nd half of 2016 – 1st half of 2017;
- Hedge the short open currency position by the end of 2016;
- Complete the restructuring of the foreign debt of the Group in 2016 - 2017;
- Attract funding in functional currency;
- Implement the program of optimization of the organization structure of the Group and its individual entities.

The controlling shareholder also plans to increase share capital of the Group by AZN 500,000 thousand until the end of 2016.

Management believe that the above mentioned measures and continued financial support of controlling shareholder will ensure that the Group will continue as a going concern and accordingly these condensed consolidated financial information have been prepared on the assumption that the Group will continue in operation for the foreseeable future.

3. Significant accounting policies

In preparing this condensed interim consolidated financial information the Group has applied the same accounting policies and methods of computation as those applied in the annual consolidated financial statements of the Group for the year ended December 31, 2015, except for the impact of the adoption of the following new and amended Standards and Interpretations:

- IFRS 14 *Regulatory Deferral Accounts*¹;
- 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 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;
- Annual Improvements to IFRSs 2012-2014 Cycle¹.

Abovementioned changes does not have significant impact on the consolidated interim condensed financial information.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

3. Significant accounting policies (continued)

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 and correspondent amendments to other standards*²;
- IFRS 15 *Revenue from Contracts with Customers and correspondent amendments to other standards*²;
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*¹;
- Amendments to IAS 7 – *Disclosure Initiative*¹;
- IFRS 16 *Leases*³.

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

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

³ Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted for entities applying IFRS 15 *Revenue from Contracts with Customers*.

Critical accounting judgements and key sources of estimation uncertainty. In preparing these interim condensed consolidated financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the Group’s annual consolidated financial statements for 2015 prepared in accordance with IFRS.

4. Reclassifications

Following reclassifications have been made to the consolidated financial statements as at December 31, 2015 as current period presentation provides a better view of the financial position of the Group.

	As previously reported	Reclassification amount	As reclassified
Loans to customers	5,635,583	29,298	5,664,881
Other debt securities	29,298	(29,298)	-
Due to banks and other financial institutions	1,800,844	350,120	2,150,964
Customer accounts	7,094,114	(397,355)	6,696,759
Other borrowed funds	2,262,979	47,235	2,310,214

Following reclassifications have been made to the interim condensed consolidated financial information for 1st half of 2015 as current period presentation provides a consistent view of the financial performance of the Group.

	As previously reported	Reclassification amount	As reclassified
Interest income	380,406	(21,040)	359,366
Fee and commission income	43,025	21,040	64,065

Open Joint Stock Company "International Bank of Azerbaijan"

Notes to the Interim Condensed Consolidated Financial Information (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

5. Cash and cash equivalents

	June 30, 2016	December 31, 2015
Cash on hand	274,667	304,829
Cash balances with the Central/National banks (other than mandatory reserve deposits)	348,710	1,101,289
Correspondent accounts and overnight placements with other banks		
- The Republic of Azerbaijan	139,271	298
- Other countries	1,526,694	191,280
Total cash and cash equivalents	2,289,342	1,597,696

As at June 30, 2016 the Group had correspondent accounts and overnight placements with 5 banks (December 31, 2015: 1 bank), totaling AZN 1,937,065 thousand (December 31, 2015: AZN 1,064,024 thousand), which individually exceeded 10% of the Group's equity.

6. Due from banks and other financial institutions

	June 30, 2016	December 31, 2015
Term placements with the Central Bank of Azerbaijan Republic	3,018,333	-
Term placements with other banks	297,029	163,062
Less: Provision for impairment	(29,622)	(61,034)
Total due from banks and other financial institutions	3,285,740	102,028

7. Loans to customers

	June 30, 2016	December 31, 2015
Corporate loans	4,606,303	5,317,260
Loans to individuals – consumer loans	671,581	686,600
Loans to individuals – mortgage loans	602,204	395,307
Loans to individuals – purchase of motor vehicles	58,543	60,262
Loans to individuals – employees	12,280	13,107
Loans to individuals – other purposes	34,694	114,138
	5,985,605	6,586,674
Less: Provision for loan impairment	(849,836)	(921,793)
Total loans to customers	5,135,769	5,664,881

As at June 30, 2016 the Group granted loans to thirteen customers (December 31, 2015: twelve customers), totaling AZN 3,065,750 thousand (December 31, 2015: AZN 3,487,801 thousand), which individually exceeded 10% of the Group's equity.

Movements in the allowance for impairment losses for the 1st half of 2016 and for the 1st half of 2015 are disclosed in Note 14.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

8. Investments available for sale

In the 1st half of 2016 the Group bought debt securities of the Ministry of Finance of the Republic of Azerbaijan bearing interest rates ranging between 7.5% to 9.5% maturing in the 2nd half of 2016 and in the 1st half of 2017.

9. Due to banks and other financial institutions

	June 30, 2016	December 31, 2015
Short-term placements of other banks	1,359,806	1,783,145
Correspondent accounts and overnight placements of other banks	309,619	367,819
Total due to banks and other financial institutions	1,669,425	2,150,964

As at June 30, 2016 the Group had short-term deposits with two banks and financial institutions (December 31, 2015: seven banks and financial institutions), totaling AZN 1,063,417 thousand (December 31, 2015: AZN 1,059,814 thousand), which individually exceeded 10% of the Group's equity.

10. Customer accounts

	June 30, 2016	December 31, 2015
Legal entities		
- Current/settlement accounts	3,633,668	3,877,201
- Term deposits	1,427,300	102,492
- Restricted customer deposits	331,713	35,703
	5,392,681	4,015,396
Individuals		
- Current/demand accounts	556,989	518,721
- Term deposits	1,277,718	1,727,677
- Restricted customer deposits	110,702	158,691
	1,945,409	2,405,089
Ministries and other government units		
- Current/settlement accounts	68,364	162,585
- Term deposits	539,968	9,114
- Restricted customer deposits	229,020	104,575
	837,352	276,274
Total customer accounts	8,175,442	6,696,759

As at June 30, 2016 the Group had deposits with twelve customers (December 31, 2015: eleven customers), totaling AZN 4,893,564 thousand (December 31, 2015: AZN 2,830,085 thousand), which individually exceeded 10% of the Group's equity.

Restricted customer deposits amounting to AZN 671,435 thousand as at June 30, 2016 (December 31, 2015: AZN 298,969 thousand) represent balances on customer accounts held by the Group as collateral for loans to customer and 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, 2016 and December 31, 2015 is disclosed in Note 17.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

11. Debt securities issued

	June 30, 2016	December 31, 2015
Eurobonds	769,293	878,524
Deposit certificates	18,725	15,130
Total debt securities in issue	788,018	893,654

On June 9, 2014, the Group 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 Group is obliged to comply with certain financial covenants stipulated by the borrowing agreements for its Eurobonds. The Group's compliance with these financial covenants is discussed further in Note 17.

12. Other borrowed funds

	June 30, 2016	December 31, 2015
Term borrowings from other financial institutions	1,794,979	1,786,302
Term borrowings from government organisations	189,867	203,435
Syndicated loan	-	320,477
Total other borrowed funds	1,984,846	2,310,214

As at June 30, 2016 the Group obtained long-term loans from seven lenders (December 31, 2015: seven lenders), totaling AZN 1,787,834 thousand (December 31, 2015: AZN 2,088,825 thousand), which individually exceeded 10% of the Group's equity.

As at June 30 2016 the Group is obliged to comply with certain financial covenants for certain and term borrowings from other financial institutions. The Group's compliance with these financial covenants is discussed further in Note 17.

13. Segment reporting

Information reported to the management responsible for operating decision making for the purposes of resource allocation and assessment of segment performance is presented by types of services delivered or provided.

There are no differences from the last annual financial information in the basis of segmentation or in the basis of the measurement of segment profit or loss.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

13. Segment reporting (continued)

Segment information for the reportable segments of the Group for 1st half of 2016 is set out below:

	Banking	Insurance	Card processing	Total
Interest income	223,019	361	427	223,807
Interest expense	(277,402)	(1)	-	(277,403)
Net interest (expense)/income before impairment losses on interest bearing assets	(54,383)	360	427	(53,596)
Initial recognition adjustment on interest bearing assets and liabilities	7,987	-	-	7,987
Impairment losses on interest bearing assets	(18,648)	(1,310)	-	(19,958)
Net interest (expense)/income	(65,044)	(950)	427	(65,567)
Net gain on financial assets at fair value through profit or loss	2,299	-	-	2,299
Gains from trading in foreign currencies	46,827	-	-	46,827
Foreign exchange translation losses	(72,631)	(214)	(16)	(72,861)
Fee and commission income	53,129	(33)	10,567	63,663
Fee and commission expense	(5,685)	(991)	(35)	(6,711)
Other provisions	(5,293)	-	-	(5,293)
Impairment of property and equipment	(127,774)	-	-	(127,774)
Other operating income	1,579	2,104	-	3,683
Operating (losses)/income	(172,593)	(84)	10,943	(161,734)
Operating expenses	(70,173)	(1,529)	(10,098)	(81,800)
(Loss)/profit before income tax	(242,766)	(1,613)	845	(243,534)
Income tax	(76,383)	(344)	(2,543)	(79,270)
Net loss for the period	(319,149)	(1,957)	(1,698)	(322,804)
Segment assets	14,137,258	16,732	38,390	14,192,380
Segment liabilities	13,613,592	5,822	4,019	13,623,433
Other segment items				
Depreciation expense	6,487	59	3,193	9,739
Capital expenditures	15,156	4	694	15,854

Open Joint Stock Company "International Bank of Azerbaijan"

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

13. Segment reporting (continued)

Segment information for the reportable segments of the Group for the 1st half of 2015 is set out below:

	Banking	Insurance	Card processing	Total
Interest income	358,213	723	430	359,366
Interest expense	(264,858)	-	-	(264,858)
Net interest income before impairment losses on interest bearing assets	93,355	723	430	94,508
Impairment losses on interest bearing assets	(327,153)	(1,121)	-	(328,274)
Net interest (expense)/income	(233,798)	(398)	430	(233,766)
Net loss on financial assets at fair value through profit or loss	(2,420)	-	-	(2,420)
Gains from trading in foreign currencies	16,718	-	-	16,718
Foreign exchange translation gains/(losses)	(11,322)	(190)	7	(11,505)
Fee and commission income	50,615	-	13,450	64,065
Fee and commission expense	(8,389)	(764)	(49)	(9,202)
Other provisions	(5,130)	(99)	-	(5,229)
Other operating income	1,000	3,921	115	5,036
Operating (losses)/income	(192,726)	2,470	13,953	(176,303)
Operating expenses	(58,582)	(2,377)	(4,489)	(65,448)
(Loss)/profit before income tax	(251,308)	93	9,464	(241,751)
Income tax	46,711	(19)	(1,870)	44,822
Net (loss)/profit for the period	(204,597)	74	7,594	(196,929)
Segment assets	13,592,317	22,229	42,729	13,657,275
Segment liabilities	12,927,084	9,464	6,687	12,943,235
Other segment items				
Depreciation expense	7,644	55	877	8,576
Capital expenditures	43,208	48	1	43,257

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

14. Allowance for impairment losses and other provisions

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

	Due from banks and other financial institutions	Loans to customers	Other provisions	Total
January 1, 2015	10,295	849,804	7,526	867,625
Additional provisions recognized	24,839	303,435	5,229	333,503
Effect of foreign currency exchange difference	-	61,184	-	61,184
June 30, 2015	35,134	1,214,423	12,755	1,262,312
January 1, 2016	61,034	921,793	6,850	989,677
Additional provisions recognized	1,871	18,087	5,293	25,251
Effect of foreign currency exchange difference	-	26,425	988	27,413
Sale to Agrarkredit	(33,283)	(116,469)	-	(149,752)
June 30, 2016	29,622	849,836	13,131	892,589

15. Additional paid in capital

In the first half of 2016 the Group finalized the transaction of problematic assets transfer started in 2015. Since Agrarkredit is also ultimately controlled by the Ministry of Finance excess of amounts received or receivable from Agrarkredit over the carrying amount of transferred loans in the amount of AZN 199,057 thousand (net of tax) has been credited to the additional paid-in capital. Cash received from CJSC Agrarkredit in 2016 amounted to AZN 4,580,000 thousand.

16. Management of capital

The objectives of management when managing the Group's capital are (i) to comply with the capital requirements set by the Financial Markets Supervision Chamber ("FMSC"), (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 10%. Compliance with capital adequacy ratios set by the FMSC 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 FMSC banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (December 31, 2015: AZN 50,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (December 31, 2015: 10%) 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 5% (December 31, 2015: 5%).

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

16. Management of capital (continued)

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, 2016	December 31, 2015
Tier 1 capital		
Share capital	641,287	641,287
Additional paid in capital (net of tax)	999,028	799,971
Accumulated losses	(1,067,463)	(744,750)
Non-controlling interest	4,920	4,440
Less: intangible assets	(14,547)	(9,230)
Total qualifying Tier 1 capital	563,225	691,718
Tier 2 capital		
Reserves (up to 1.25% of total risk-weighted assets)	96,760	82,389
Property revaluation reserve	40,177	40,740
Subordinated debt (up to 50% of Tier 1 capital)	281,613	345,859
Total qualifying Tier 2 capital limited to 100% of Tier 1 capital	418,550	468,988
Less: investments in equity shares	-	(187)
Total regulatory capital	981,775	1,160,519
Risk-weighted assets		
On-balance sheet	5,834,915	4,874,979
Off-balance sheet	1,905,861	1,716,125
Total risk-weighted assets	7,740,776	6,591,104
Capital ratios		
Tier 1 capital	7.28%	10.49%
Total capital	12.68%	17.61%

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, 2016 the Group and Bank have complied with all externally imposed capital requirements.

Open Joint Stock Company “International Bank of Azerbaijan”

**Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)**

17. 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 condensed consolidated 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 stability of the Azerbaijan economy is heavily influenced by reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly. As a result, during 2015 and 1st half of 2016 Azerbaijani manat was devalued against the US dollar and other major currencies. As a result, in December 2015 the Central Bank of the Republic of Azerbaijan announced floating exchange rate. In January 2016 Standard & Poor’s, international credit agency, downgraded long-term and short-term foreign and national currency sovereign rating to the speculative level. During 1st half of 2016 the Central Bank of the Republic of Azerbaijan has gradually increased refinancing rate from 3 to 15%.

These events resulted in worsening of liquidity in the banking system and much tighter credit conditions. There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Group’s future results and financial position and business prospects including deterioration of the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and losses on investment securities in a manner not currently determinable.

Azerbaijani government announced plans to accelerate reforms and support to banking system in response to current economic challenges. The Group’s management is monitoring developments in the current environment and taking measures to support the sustainability and development of the Group’s business in the foreseeable future.

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, 2016 the Group was in compliance with all financial covenants stipulated in financing agreements.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

17. Contingencies and commitments (continued)

Compliance with CBAR ratios. CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. The Bank did not achieve full compliance with certain statutory ratios neither as at June 30, 2016 nor as at December 31, 2015. The breaches are due to high volumes of operations with state owned related party entities. The Bank has submitted prudential reports to CBAR on monthly basis and indicated above listed breaches with no subsequent sanctions applied by the Regulator. The Bank is in ongoing regular discussions with the regulator. The worst case scenario for the breach of ratios in accordance with regulatory requirements is banking license withdrawal. Taking into account the fact, that the Bank is a state owned entity and other facts stated above, the management believes that the Bank will not face any sanctions from the Regulator in the foreseeable future.

As at June 30, 2016 and December 31, 2015 contingent liabilities comprise:

	June 30, 2016	December 31, 2015
Import letters of credit	544,459	349,245
Guarantees issued	1,788,048	1,504,316
Commitments to extend credit and undrawn credit lines	93,548	93,569
Total credit related commitments	2,426,055	1,947,130

As at June 30, 2016, the Group had a significant concentration of import letters of credit of AZN 1,326,550 thousand issued to 5 entities or 90.9% of total import letters of credit (December 31, 2015: import letters of credit of AZN 328,651 thousand issued to 5 entities or 94.0% of total import letters of credit).

Movements in the other provisions for the 1st half of 2016 and December 2015 are disclosed in Note 14.

18. Fair value

IFRS 13 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.

Valuation techniques. The Group uses a number of methodologies to determine the fair values of financial instruments for which observable prices in active markets for identical instruments are not available. These techniques include: relative value methodologies based on observable prices for similar instruments; present value approaches where future cash flows from the asset or liability are estimated and then discounted using a risk-adjusted interest rate.

The principal inputs to these valuation techniques are listed below. When utilizing valuation techniques, the fair value can be significantly affected by the choice of valuation model and by underlying assumptions concerning factors such as the amounts and timing of cash flows, discount rates and credit risk.

Fixed income and equity securities – quoted prices are generally available for these securities.

Interest rates – these are principally benchmark interest rates effective as at reporting date and quoted interest rates in the bond and futures markets.

Foreign currency exchange rates – these are observable markets both for forward contracts and futures in major currencies.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information gathered from the above sources. Furthermore, on an ongoing basis, the Group assesses the appropriateness of any model used.

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

18. Fair value (continued)

Financial assets and liabilities. The following methods and significant assumption have been applied to estimate the fair values of following financial instruments:

- Cash and balances with the CBAR and mandatory reserve deposits with the CBAR, due to the short term environment and availability restriction of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.
- The estimated fair value of quoted trading securities and derivative financial instruments, comprising financial assets at fair value through profit or loss category and available-for-sale financial assets, is determined based on quoted active market prices at the reporting date.
- The fair value of overdraft loans to customers is assumed to be the amount of their carrying value. The fair value of other loans is estimated by application of the reporting period -end market rates offered on similar loans with the deduction of the allowance for loan impairment from the calculated fair value amounts.
- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a reasonable estimate of their fair value.
- The fair value of the term deposits (included in customer accounts and due to banks) is estimated by application of the reporting period-end market rates offered on similar deposits. The carrying amount of current customer accounts is assumed to be reasonable estimate of their fair value due to the short-term environment and availability requirements of these types of liability.
- The fair value of debt securities issued, RUR-denominated bonds issued, and subordinated debt is based on quoted prices. Where these are not available, fair value is based on expected cash flows discounted using market interest rates for similar securities or funds whose market shares are quoted.

Valuation hierarchy. Financial instruments are broken down for disclosure purposes into a three level fair value hierarchy based on the observability of inputs as follows:

- Quoted prices in an active market (Level 1) – Valuations based on quoted prices in active markets that the Group has the ability to access for identical assets or liabilities. Valuation adjustments and block discounts are not applied to these financial instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuations of these products does not entail a significant amount of judgment.
- Valuation techniques using observable inputs (Level 2) – Valuations based on inputs for which all significant inputs are observable, either directly or indirectly and valuations based on one or more observable quoted prices for orderly transactions in markets that are not considered active.
- Valuation techniques incorporating information other than observable market data (Level 3) – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Open Joint Stock Company "International Bank of Azerbaijan"

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

18. Fair value (continued)

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 gives information about how the fair values of these financial assets and financial liabilities are determined.

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	June 30, 2016	December 31, 2015		
				Discounted cash flow Future cash flows are estimated based on swap rates from observable swap exchange rates at the end of the reporting period
1) Financial assets at fair value through profit or loss	7,319	906	Level 2	Quoted bid prices in an active market
2) Investments available for sale	36,166	-	Level 1	

There were no transfers between Level 1 and Level 2 during first half of 2016 and 2015.

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). The following table compares the carrying amount of financial assets and liabilities to their estimated fair value:

	30 June 2016		31 December 2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	2,289,342	2,289,342	1,597,696	1,597,696
Mandatory cash balances with the Central Banks	11,909	11,909	15,334	15,334
Due from banks and other financial institutions	3,285,740	3,115,755	102,028	102,674
Loans to customers	5,135,769	5,015,507	5,664,881	5,633,400
Receivables from CJSC Aqrarkredit	2,842,432	2,842,432	5,628,923	5,628,923
Other financial assets	269,866	269,866	210,934	210,934
Financial liabilities				
Due to banks and other financial institutions	1,669,425	1,650,598	2,150,964	2,147,482
Customer accounts	8,175,442	8,210,065	6,696,759	6,717,539
Debt securities issued	788,018	785,820	893,654	818,928
Other borrowed funds	1,984,846	1,953,776	2,310,214	2,311,738
Other financial liabilities	96,667	96,667	64,475	64,475
Subordinated debt	771,995	758,376	759,043	759,043

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

18. Fair value (continued)

Details of the Group's information about the fair value hierarchy as at June 30, 2016 are as follows:

	June 30 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Due from banks and other financial institutions	-	3,115,755	-	3,115,755
Loans to customers	-	-	5,015,507	5,015,507
Receivables from CJSC Aqrarkredit	-	-	2,842,432	2,842,432
Other financial assets	-	-	269,866	269,866
Financial liabilities				
Due to banks and other financial institutions	-	1,650,598	-	1,650,598
Customer accounts	-	-	8,210,065	8,210,065
Debt securities issued	772,245	-	13,575	785,820
Other borrowed funds	-	1,953,776	-	1,953,776
Other financial liabilities	-	-	96,667	96,667
Subordinated debt	-	-	758,376	758,376

Details of the Group's information about the fair value hierarchy as at December 31, 2015 are as follows:

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Due from banks and other financial institutions	-	102,674	-	102,674
Loans to customers	-	-	5,633,400	5,633,400
Receivables from CJSC Agrarkredit	-	-	5,628,923	5,628,923
Other financial assets	-	-	210,934	210,934
Financial liabilities				
Due to banks and other financial institutions	-	2,147,482	-	2,147,482
Customer accounts	-	-	6,717,539	6,717,539
Debt securities issued	804,308	-	14,620	818,928
Other borrowed funds	-	2,311,738	-	2,311,738
Other financial liabilities	-	-	64,475	64,475
Subordinated debt	-	-	759,043	759,043

The fair values of the financial assets and financial liabilities included in the level 2 category 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.

As at June 30, 2016 and December 31, 2015 the Group's buildings belonged to Level 3 within fair value hierarchy. There were not transfers between Levels 1, 2 and 3 during 1st half of 2016 and 2015 year.

19. 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.

Open Joint Stock Company "International Bank of Azerbaijan"

Notes to the Interim Condensed Consolidated Financial Information (continued) for the 1st half of 2016 (in thousands of Azerbaijan Manats, unless otherwise indicated)

19. Related party transactions (continued)

As at June 30, 2016 and for the 1st half of 2016, the outstanding balances and results of operations with related parties were as follows:

	Government bodies and state-owned entities	Key manage- ment personnel of the Group	Other related parties	Total related parties
Assets				
Cash and cash equivalents	348,710	-	-	348,710
Due from banks and other financial institutions	3,018,333	-	-	3,018,333
Investments available for sale	36,166	-	-	36,166
Loans to customers, net	708,687	-	39,611	748,298
Loans to customers, gross	718,749	-	40,011	758,760
Less: allowance for loan impairment	(10,062)	-	(400)	(10,462)
Receivables from CJSC Aqrarkredit	2,842,432	-	-	2,842,432
Liabilities				
Customer accounts	5,123,596	197	375	5,124,168
Other borrowed funds	189,867	-	-	189,867
Subordinated debt	616,228	-	-	616,228
Statement of comprehensive income				
Interest income	29,952	-	2,001	31,953
Interest expense	34,773	3	-	34,776
Recovery of provision for loan impairment	777	-	4,274	5,051
Off-balance sheet commitments				
Guarantees issued	486,144	-	462,528	948,672
Import letters of credit	202,035	-	63,570	265,605
Commitments to extend credit and undrawn credit lines	56,753	-	-	56,753

As at December 31, 2015 and for the 1st half of 2015, the outstanding balances and results of operations with related parties were as follows:

	Government bodies and state-owned entities	Key manage- ment personnel of the Group	Associates	Other related parties	Total related parties
Assets					
Cash and cash equivalents	1,064,024	-	-	-	1,064,024
Loans to customers, net	622,910	-	15,144	26,942	664,996
Loans to customers, gross	633,749	-	15,300	31,615	680,664
Less: allowance for loan impairment	(10,839)	-	(156)	(4,674)	(15,669)
Receivables from CJSC Aqrarkredit	5,628,923	-	-	-	5,628,923
Other financial assets	191,648	-	-	-	191,648
Liabilities					
Customer accounts	3,127,579	80	22	16	3,127,697
Other borrowed funds	203,435	-	-	-	203,435
Subordinated debt	600,000	-	-	-	600,000
Statement of comprehensive income					
Interest income	52,110	-	1,155	2,072	55,337
Interest expense	37,978	-	-	-	37,978
Recovery of provision/(provision) for loan impairment	10,603	7	(156)	(4,674)	5,780
Fee and commission income	-	-	22	-	22
Off-balance sheet commitments					
Guarantees issued	518,034	-	15,894	234	534,162
Import letters of credit	88,707	-	-	-	88,707
Commitments to extend credit and undrawn credit lines	6,859	-	-	-	6,859

Open Joint Stock Company “International Bank of Azerbaijan”

Notes to the Interim Condensed Consolidated Financial Information (continued)
for the 1st half of 2016
(in thousands of Azerbaijan Manats, unless otherwise indicated)

19. Related party transactions (continued)

The remuneration of key management personnel was as follows:

	1st half 2016	1st half 2015
Short-term benefits:		
- salaries	237	299
- performance bonuses	-	49
Total	237	348

20. Subsequent events

In July 2016 CSJC Agrarkredit has fully repaid the receivable balance in the amount of AZN 2,842,432 thousand, outstanding as at June 30, 2016.