



**INTERNATIONAL BANK
OF AZERBAIJAN**

INVESTOR PRESENTATION

23 MAY 2017



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INTRODUCTION OF THE DELEGATION



Samir Rauf oglu Sharifov

Minister of Finance of the Republic of Azerbaijan

- Mr Sharifov holds the post of the Minister of Finance since April 2006



Rufat Aslanly

Chairman of Board of Directors of the Financial Market Supervisory Authority of the Republic of Azerbaijan (FIMSA)

- Mr Aslanly holds this position since March 2016
- Mr Aslanly previously served as Chairman of the State Committee for Securities of the Republic of Azerbaijan and as Deputy Chairman of the Central Bank of Azerbaijan



Khalid Ahadov

Chairman of the Board of International Bank of Azerbaijan

- Mr Ahadov holds this position since January 2017
- Mr Ahadov previously worked as Chairman of the Board of Bank Standard and of Azer Turk Bank OJSC



IBA'S CURRENT FINANCIAL SITUATION

IMMEDIATE ACTION PLAN REQUIRED TO RESTORE IBA'S VIABILITY

FOCUS ON THE RESTRUCTURING PROCESS

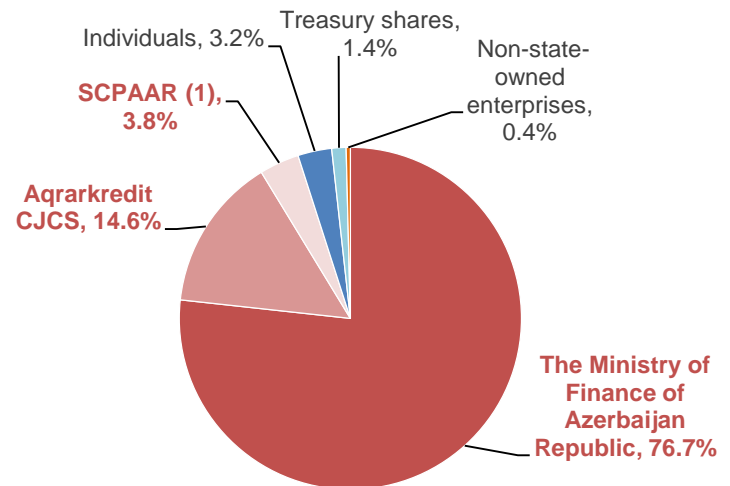


HISTORICAL PERSPECTIVE

IBA HISTORY

- ❑ The bank started operations in 1990 as an Azerbaijani branch office of USSR's bank "Vneshekonombank"
- ❑ IBA was established as a legal entity on 30 December, 1992 as a Joint Stock Commercial Bank with 50.2% State ownership and 49.8% private ownership. **Ownership structure remained unchanged until 2015**
- ❑ Historically, IBA has always been a corporate bank primarily involved in the private sector of the Azerbaijan economy through the provision of loans and other banking services to privately-owned companies
- ❑ Pursuant to a presidential decree "on additional measures related to the deepening the reforms of the financial-banking system" signed on 1 March 2005, the Ministry of Finance was expected to gradually reduce its stake in the Bank, either by selling its existing shares or by issuing additional shares on the open market. An Azerbaijani bank, Kapital Bank Open Joint-Stock Company, was privatised in accordance with this decree
- ❑ In March 2015, the CEO of the Bank resigned due to poor financial results. In December 2015, he was charged with embezzlement and subsequently convicted. The 2015 manat devaluation further exacerbated IBA's financial distress
- ❑ The last Decree of the President of the Republic of Azerbaijan No 507 dated 15 July 2015 on "The measures for rehabilitation related to the preparations for privatizing the state-owned shares of the International Bank of Azerbaijan JSC" which provides for the transfer of problematic assets to the state-owned non-banking credit organization CJSC "Aqrarkredit" was also aimed at strengthening the Bank's balance sheet and preparing the Bank for privatisation

SHAREHOLDING STRUCTURE AS AT MAY 2017



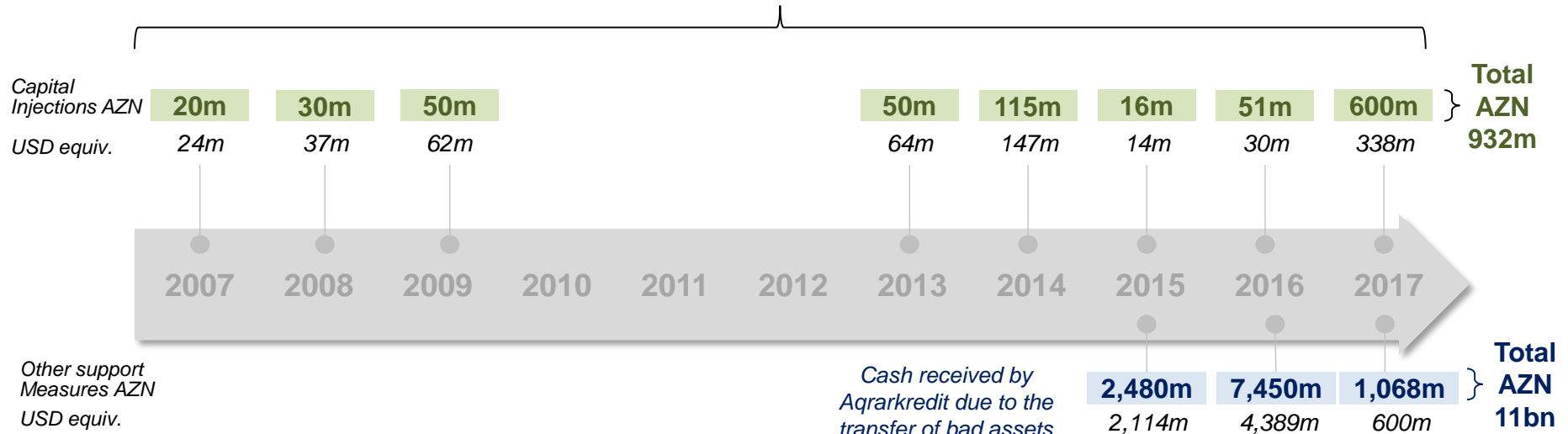
Source: Company
(1) The State Committee of Property Affairs of Azerbaijan Republic



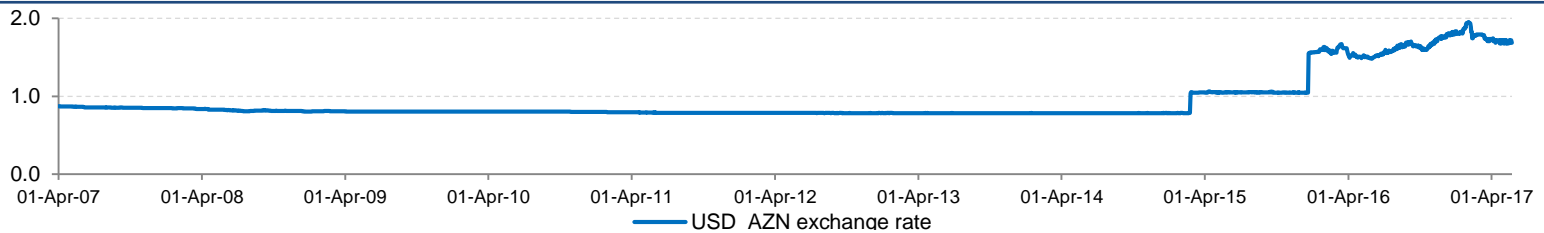
STRONG HISTORIC SUPPORT FROM THE MAJORITY SHAREHOLDER

Approximately AZN 11.9bn (or c. USD 7.8m) has been provided by the Republic of Azerbaijan to IBA since 2007

TOTAL: c. AZN 11.9bn (c. USD 7.8bn)



HISTORICAL EVOLUTION OF USD_AZN EXCHANGE RATE (Source: Bloomberg)



Republic of Azerbaijan has provided significant support over time through numerous capital injections and other support measures in order to cope with the impact of the 2015 Bank's poor financial results

Source: Company
Note: USD amounts calculated using average FX rates

IBA SUFFERS FROM A WEAK PROFITABILITY, LEADING TO A NEGATIVE CAPITAL POSITION IN 2016

2 Pro forma for additional provisions of AZN 381m

INCOME STATEMENT – KEY ITEMS

In AZNm	2013A	2014A	2015A	Prelim. 2016A	2016A Pro forma	13A-16A CAGR
Net interest income	147	287	117	(63)	(63)	n.a.
Net fee and commission income	70	73	68	114	114	17.3%
Net Banking Income	247	390	233	238	238	(1.2%)
1 Provision for impairment	(17)	(205)	(1,022)	(219)	(600)	132.8%
3 FX gain / (loss) from position	(1)	(3)	(89)	(1,300)	(1,300)	n.a.
Net income	59	26	(812)	(1,871)	(2,251)	n.a.

BALANCE SHEET – KEY ITEMS

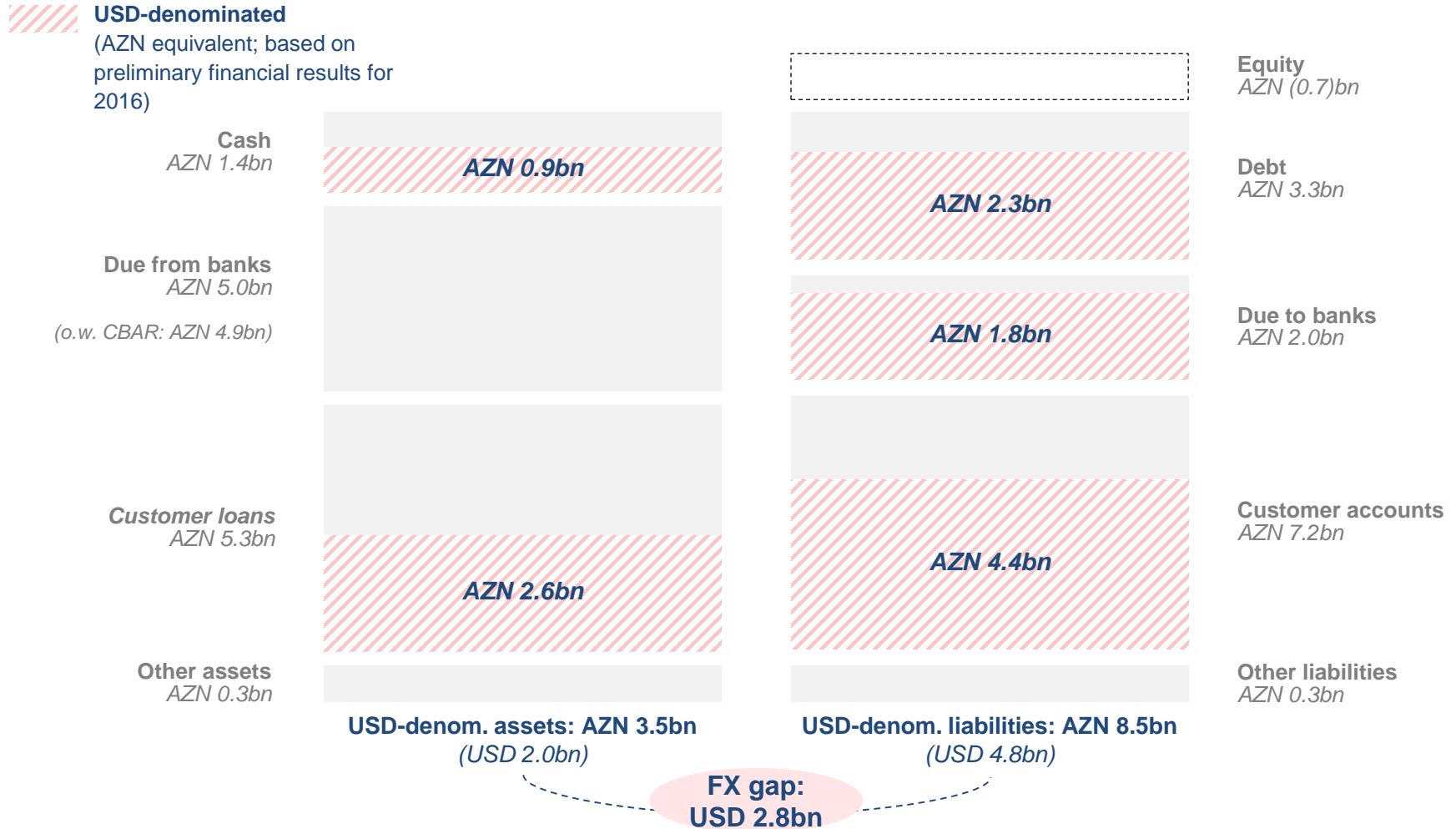
In AZNm	2013A	2014A	2015A	Prelim. 2016A	2016A Pro forma	13A-16A CAGR
Total assets	7,681	9,199	13,657	12,484	12,103	17.6%
Net loans to customers	6,618	7,855	5,636	5,621	5,290	(5.3%)
Customer accounts	3,501	4,145	7,094	7,182	7,182	27.1%
4 Equity	591	684	710	(321)	(701)	n.a.
Tier 1 ratio	7.21%	7.12%	10.49%	(4.70%)	(9.80%)	

COMMENTS

- Provisions for impairment peaked in 2015 at approximately AZN 1bn, primarily as a result of a substantial increase in provision for corporate loans
- Additional provisions of AZN 381m are expected to be booked in H1 2017
- Large foreign exchange losses were incurred in 2016 as a result of IBA's large open FX position as at the end of 2016 and FX rate volatility
- IBA's financial position has significantly weakened with a reported negative capital as of the end of 2016, exacerbated by foreign exchange losses



IBA HAS A TIGHT FX LIQUIDITY POSITION (USD only)



As at the end of 2016, IBA had a USD 2.8bn FX gap and only a USD 509m liquidity buffer⁽¹⁾

(1) Refers to AZN 0.9bn of cash, using FX rate as at the end of 2016 (USD 1 = AZN 1.7707)



IBA'S CURRENT FINANCIAL SITUATION

IMMEDIATE ACTION PLAN REQUIRED TO RESTORE IBA'S VIABILITY

FOCUS ON THE RESTRUCTURING PROCESS



OVERVIEW OF THE IMMEDIATE ACTION PLAN

A comprehensive debt restructuring operation together with the transfer of the 4th tranche of bad assets of the Bank to Aqrarkredit are required to restore the Bank's viability and facilitate IBA's future privatization. The completion of Aqrarkredit tranche 4 is conditional on a successful debt restructuring

KEY PHASES		INDICATIVE TIMING	KEY CONSIDERATIONS
Restructuring of Assets & Liabilities	Restructuring of Assets (Aqrarkredit transaction - 4 th tranche)	<ul style="list-style-type: none"> □ <i>May – September 2017</i> 	<ul style="list-style-type: none"> □ Pursuant to the Presidential Decree, the Bank signed a Master Agreement with Ministry of Finance and Central Bank of Azerbaijan for the transfer of problematic and risky assets to Aqrarkredit in several tranches between 2015 and 2017 □ The bank successfully completed the first part of this programme in 2016, which included the transfer of assets for a total nominal amount of AZN 9.9 billion □ Upon the successful debt restructuring, the Bank will work together with the Ministry of Finance to complete the transfer of bad assets for a total value of AZN 4.9bn under the second part of this programme (4th tranche)
	Restructuring of Liabilities		<ul style="list-style-type: none"> □ The Bank and the Ministry of Finance have concluded that the restructuring of the Bank's balance sheet is necessary in order to further reduce its foreign currency open position and, as a consequence, its exposure to exchange rate volatility. As a result, the financial profile of the Bank and its profitability are expected to improve □ The Bank intends to carry out the debt restructuring operation through an exchange of its foreign currency debt for direct sovereign obligations of the Republic of Azerbaijan and a limited amount of new IBA debt
Internal reorganisation		<ul style="list-style-type: none"> □ <i>YE 2017</i> 	<ul style="list-style-type: none"> □ Reorganisation plan including disposal of IBA subsidiaries in Russia and Georgia
Privatization		<ul style="list-style-type: none"> □ <i>2018</i> 	<ul style="list-style-type: none"> □ Disposal by the State of a stake in IBA



TRANSFER OF TRANCHE 4 PROBLEMATIC ASSETS ALONE WOULD ENABLE IBA TO REACH ONLY c. 5% TIER 1 RATIO

IMPACT ON IBA'S BALANCE SHEET (IFRS basis, consolidated)

31 December 2016
(Pro forma for additional provisions⁽¹⁾)

Tier 1 ratio **(9.80)%**

CAR **(9.80)%**

31 December 2016
POST TRANSFER

Tier 1 ratio **4.67%**

CAR **6.80%**

Includes effect of additional prov. of AZN 381m⁽¹⁾

Cash (AZN 1.4bn)	Equity (AZN 0.7bn)
Due from banks (AZN 5.0bn) <i>(of which CBAR: AZN 4.9bn)</i>	Debt (AZN 0.6bn)
Tranche 4 (AZN 3.7bn)	FX liabilities (AZN 5.7bn)
Customer loans (AZN 1.6bn)	Customer accounts (AZN 5.5bn)
Other (AZN 0.3bn)	Other (AZN 1.0bn)



Cash (AZN 1.4bn)	Equity (AZN 0.3bn)
Due from banks (AZN 5.0bn) <i>(of which CBAR: AZN 4.9bn)</i>	Debt (AZN 0.6bn)
Promissory Notes (AZN 5.1bn)	FX liabilities (AZN 5.7bn)
Customer loans (AZN 1.6bn)	Customer accounts (AZN 5.5bn)
Other (AZN 0.3bn)	Other (AZN 1.5bn)

Includes difference between Tranche 4 and PN goes into APIC

TOTAL BS: c. AZN 12.1bn

TOTAL BS: c. AZN 13.5bn

- ❑ Following completion of Tranche 4 assets' transfer, IBA would benefit from an increase in additional paid-in capital thanks to (i) the release of provisions (AZN 592m), (ii) off-balance sheet accrued interest (AZN 127m), and (iii) difference between the nominal amounts of Tranche 4 and the Promissory Notes (AZN 232m)
- ❑ **IBA debt restructuring is required in order to reach necessary capital adequacy ratio**

Note: FX rate used as at 04/05/2017 USD 1 = AZN 1.7024

(1) Pro forma for additional provisions of AZN 331m related to loan portfolio and AZN 50m to other assets

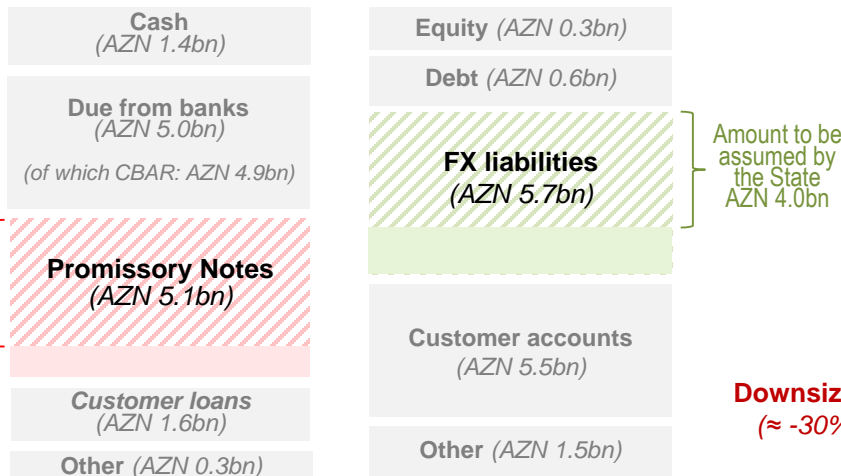


DEBT RESTRUCTURING WILL ENABLE IBA TO REACH c. 13% TIER 1 RATIO

IMPACT ON IBA'S BALANCE SHEET (IFRS basis, consolidated)

31 December 2016
POST TRANSFER

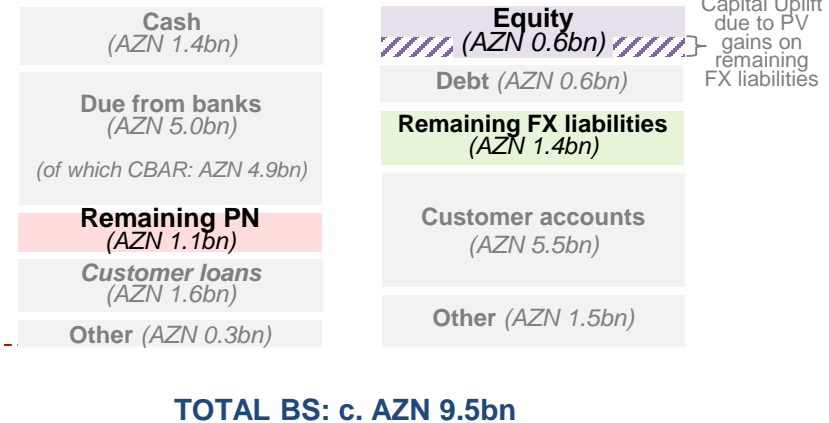
Tier 1 ratio **4.67%** CAR **6.80%**



TOTAL BS: c. AZN 13.5bn

31 December 2016
POST TRANSFER AND RESTRUCTURING

Tier 1 ratio **13.25%** CAR **15.39%**

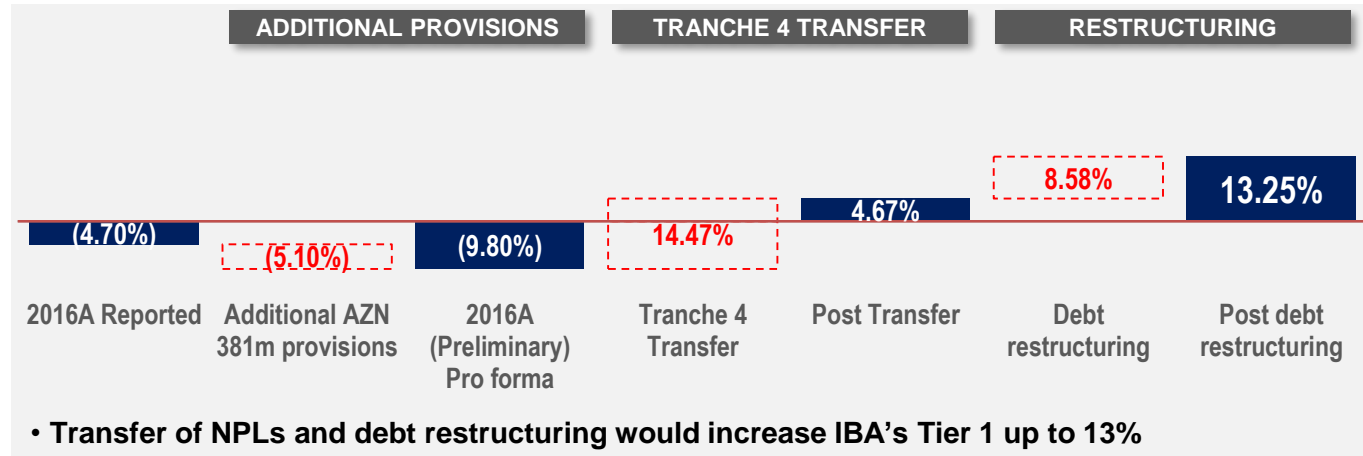


The contemplated restructuring will enable IBA to reach a Tier 1 ratio of approximately 13%



KEY TAKEAWAYS FROM THE OPERATION

SOLVENCY POSITION



PROFITABILITY

- The restructuring of expensive foreign liabilities would restore IBA's profitability
 - Net Interest Margin should become positive post debt restructuring (negative in 2016)

IBA'S NEW STRATEGY GOING FORWARD

- The restructuring would enable IBA to shrink and de-risk its balance sheet, IBA thus emerging as a relatively less systemic bank (AZN 1.6bn of net loans to customers following the restructuring)
- Therefore, IBA would benefit from a satisfactory capital position, a partially restored profitability and a smaller size, which should enable the Bank to continue its business on a healthy basis and be ready for privatisation



SCOPE OF IBA DEBT RESTRUCTURING

IBA debt restructuring will not concern any corporate and individual depositors

COMMENTS

- ❑ **Total principal amount of FX-denominated liabilities subject to the restructuring amounts to approximately USD 3,343 million**
 - The scope of the restructuring operation comprises the following categories of FX-denominated instruments issued by the Bank: (i) trade finance related on balance sheet instruments; (ii) senior instruments (bonds, commercial loans and SOFAZ deposits); and (iii) subordinated debt
- ❑ Pending the implementation of the planned restructuring, and to ensure equal treatment of all affected creditors, **the Bank has suspended payments of principal and interest** with respect to the obligations included in the restructuring operation **(other than interest under trade finance facilities)**
- ❑ **The Bank will continue to honour its obligations to its domestic and insured depositors in accordance with existing terms.** All other services and operations of the Bank will continue as usual

SCOPE OF THE RESTRUCTURING (USD M⁽¹⁾)

Debt category	Sub-type	Total principal outst.	
Trade finance related instruments (incl. official sector)	❑ Banca Monte dei Paschi di Siena	1.5	} USD 861.5m
	❑ Banco Popolare	2.6	
	❑ Bayerische Landesbank, Muenchen	12.0	
	❑ Cargill	715.0	
	❑ Commerzbank	21.9	
	❑ Intesa Sanpaolo	0.6	
	❑ Komercni Banka	8.0	
	❑ Landesbank Berlin	48.9	
	❑ Rabobank	0.8	
	❑ Societe Generale	50.2	
Senior instruments	❑ ABLV Bank	8.0	} USD 2,381.7m
	❑ Citi as facility agent	205.0	
	❑ Credit Suisse as facility agent	287.1	
	❑ Sberbank	20.0	
	❑ Emerald	250.0	
	❑ Eurobond	500.0	
	❑ FBME	111.6	
❑ SOFAZ Deposits	1,000.0		
Sub. debt	❑ Rubrika Finance	100.0	
TOTAL		3,343.4	

(1) All amounts are calculated in USD equivalent, using an EUR:USD exchange rate of 1.11259, as of 19-May-2017



PROPOSED TERMS OF IBA DEBT RESTRUCTURING

PROPOSED TERMS OF THE DEBT RESTRUCTURING (NOMINAL AMOUNT OF THE INSTRUMENTS IN USD M)

Debt category	Total principal outstanding ⁽¹⁾	Description of key exchange terms
Trade finance related instruments	USD 861.5m	<ul style="list-style-type: none"> ❑ 21% of the total initial amount outstanding: USD 1 in principal amount of initial claim is exchanged for USD 1 in principal amount of new sovereign 3-month 0.85% bullet notes ❑ 79% of the total initial amount outstanding: USD 1 in principal amount of initial claim is exchanged for USD 1 in principal amount of new sovereign 4-year 2.82% notes amortizing in 4 equal annual instalments ❑ The above-mentioned notes can be exchanged at par (within certain limitations of amounts) for new trade finance facilities entered into between the current trade finance instruments' holders and acceptable state-owned counterparties, w/o MinFin guarantee
Senior instruments	USD 2,381.7m	<ul style="list-style-type: none"> ❑ Option 1: USD 1 in principal amount of initial claim is exchanged for USD 0.8 in principal amount of new sovereign 12-year 5$\frac{1}{8}$ % bonds amortizing in 3 equal annual instalments. Minimum amount of the new bond to be USD 500 million ❑ Option 2: USD 1 in principal amount of initial claim is exchanged for USD 1 in principal amount of new sovereign 15-year 3$\frac{1}{2}$ % bonds amortizing in 2 equal annual instalments. Minimum amount of the new bond to be USD 500 million ❑ Option 3: USD 1 in principal amount of initial claim is exchanged for USD 1 in principal amount of new IBA 7-year 3$\frac{1}{2}$ % bullet bonds, maximum available quantum of USD 1 billion
Subordinated debt	USD 100.0m	<ul style="list-style-type: none"> ❑ USD 1 in principal amount of initial claim is exchanged for USD 0.5 in principal amount of new sovereign 12-year 5$\frac{1}{8}$ % bonds amortizing in 3 equal annual instalments

(1) All amounts are calculated in USD equivalent, using an EUR:USD exchange rate of 1.11259, as of 19-May-2017



PROPOSED TERMS OF IBA DEBT RESTRUCTURING *(cont'd)*

The Bank intends to carry out the debt restructuring through an exchange of certain of its indebtedness for direct sovereign obligations of the Republic of Azerbaijan and a limited amount of new IBA debt

- ❑ For initial claims denominated in EUR, the exchange rate as of the date of the Claimants' meeting will be used to calculate the precise amount of the new USD-denominated instruments to be issued

The following treatment of interest is envisaged:

❑ **With respect to the trade-finance related instruments:**

- Contractual interest will continue to be paid in full and in cash as it falls due until the date of the initial distribution of entitlements
- All contractual interest accrued at the interest rate applicable under the existing contracts (excluding any penalty or default interest) but not payable prior to the date of the initial distribution of entitlements will be capitalised in full and the principal amount of the new instruments to be distributed by the relevant creditors will be increased by the corresponding amount
- It is expected that the coupon on the new instruments will be deemed to start accruing on the date of the initial distribution of entitlements

❑ **With respect to senior instruments and subordinated debt:**

- All interest falling due between 10 May 2017 and the date of the Claimants' meeting under the terms of the existing instruments will be paid to the creditors in cash on the relevant entitlements distribution date at contractual interest rate (excluding any penalty or default interest)
- All other interest accrued on the senior instruments will be capitalised in full (at the existing contractual rates, excluding any penalty or default interest) and included in the amount of the existing claims for the purposes of calculating the amount of new entitlements to be distributed to the relevant creditors
- It is expected that the coupon on the new instruments will be deemed to start accruing on the date of the Claimants' meeting (tentatively expected to take place on 13 July 2017), irrespective of the date of issuance of new instruments



PROPOSED TERMS OF IBA DEBT RESTRUCTURING *(cont'd)*

Allocation principles

- “First come, first served” principle until the nominal amount of bonds to be issued pursuant to the elections received for Options 1 and 2 reaches USD 500 million for each (to ensure minimum EMBI eligibility is reached for each instrument)
- When the nominal amount of bonds to be issued pursuant to the elections received for Options 1 or 2 reaches USD 500 million, any further elections to such option will be subject to reallocation to the other option to fill any shortfall (up to USD 500 million of bond issuance) in the other option. If there is no such shortfall in the other option, then no reallocation will be required
- No reallocation of elections received for Options 1 and 2 will ever be made to Option 3
- “First come, first served” principle until USD 1 billion in elections received for Option 3. Any elections received above USD 1 billion will be reallocated (i) first, to fill any shortfall (up to USD 500 million of bond issuance) in elections received for Options 1 and/or 2 and (ii) second, if no such shortfalls exist, equally between Options 1 and 2
- If no election was made, entitlements will be allocated equally between Options 1 and 2
- SOFAZ will be treated as junior in allocation decisions (and will be allocated after all other senior creditors have been allocated). To this end, SOFAZ will be allocated (i) first, to Option 3 until elections for such option have reached USD 1 billion, (ii) second, to fill any shortfall (up to USD 500 million of bond issuance) in elections received for Options 1 and/or 2 and (iii) third, if no such shortfalls exist, equally between Options 1 and 2
- Rounding and minimum denomination conventions to be specified when Information Memorandum is published

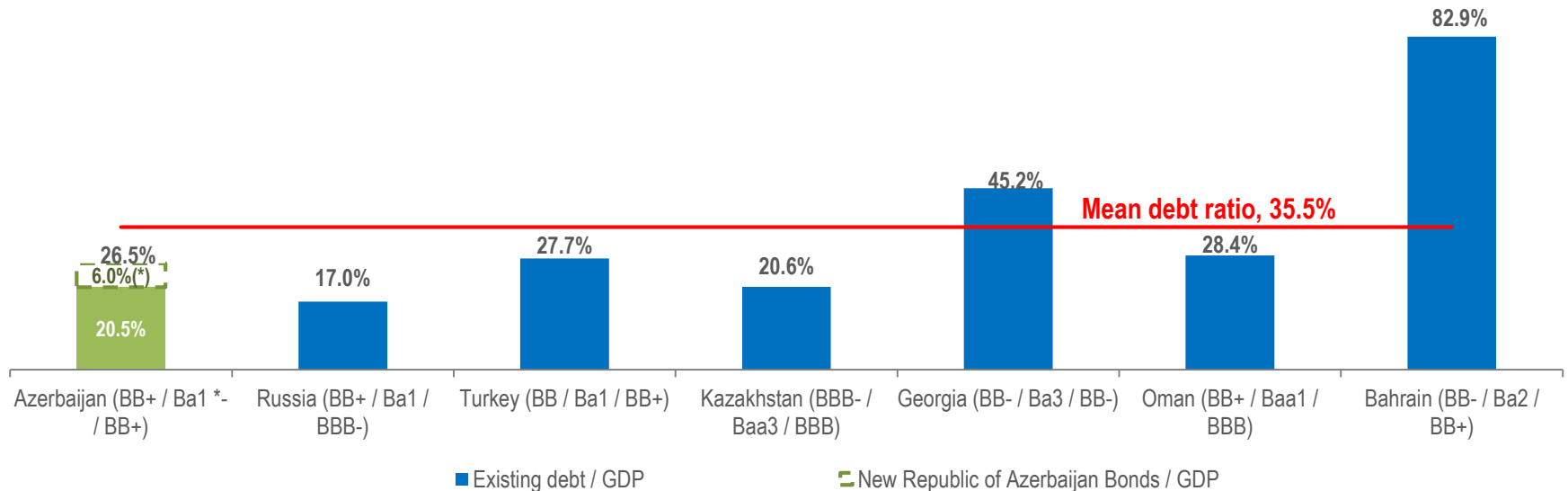


AZERBAIJANI SOVEREIGN DEBT WILL REMAIN SUSTAINABLE FOLLOWING IBA RESTRUCTURING

KEY CONSIDERATIONS

- ❑ Following the restructuring, the Republic of Azerbaijan general government debt-to-GDP may increase by a maximum of USD 2.34bn, or c. 6.0% of GDP, thus resulting in a general government debt-to-GDP ratio of c. 27%. Such level remains sustainable and is still below the peer selection average
- ❑ Moreover, the restructuring of IBA's debt will also allow the Republic of Azerbaijan to create a sovereign yield curve with such important points as 7Y (existing already), 12Y and 15Y

GENERAL GOVERNMENT DEBT / GDP (YE 2017F): PEER COMPARISON



(*) Assuming the maximum amount of USD 2.34bn that could be absorbed by the Republic of Azerbaijan following the completion of the debt restructuring of IBA
Source: Fitch, latest available country reports and Azerbaijani official public debt statistics

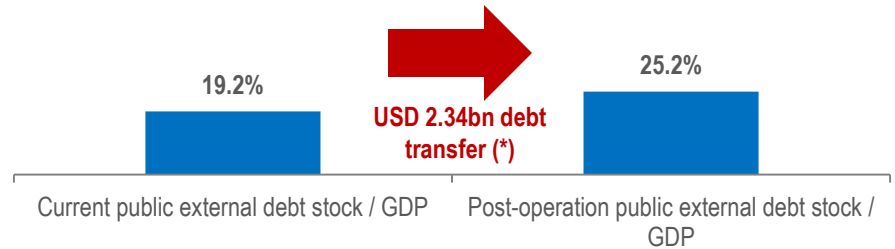


AZERBAIJAN'S EXTERNAL PUBLIC DEBT REDEMPTION PROFILE WILL ONLY BE MODERATELY IMPACTED

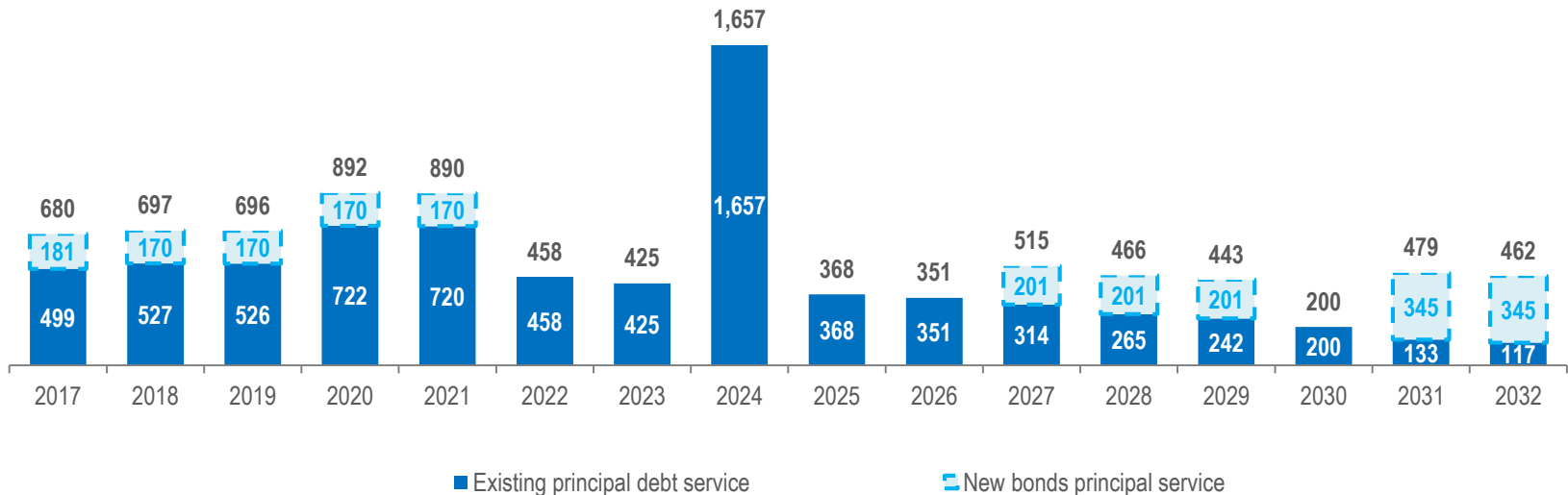
KEY CONSIDERATIONS

- ❑ The Republic of Azerbaijan external public debt stock to GDP metrics remain moderate after this transaction
- ❑ The impact of IBA restructuring on the external public debt redemption profile will be limited

GROSS EXTERNAL PUBLIC DEBT STOCK / GDP (YE 2017E)



AZERBAIJANI EXTERNAL PUBLIC PRINCIPAL REDEMPTION PROFILE, USD m (**)



(*) Assuming the maximum amount of USD 2.34bn that could be absorbed by the Republic of Azerbaijan following the completion of the debt restructuring of IBA

(**) Assuming the USD 2.34bn of new sovereign debt will be split 50%:50% between the new 12Y sovereign bond and the new 15Y sovereign bond

Source: Ministry of Finance of the Republic of Azerbaijan



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FOCUS ON THE RESTRUCTURING PROCESS



RESTRUCTURING PROCESS UNDER AZERBAIJANI LAW: APPLICATION TO IBA CASE

- ❑ **In order to facilitate the implementation of the deleveraging operation, the Bank has commenced a process of voluntary restructuring in accordance with the applicable provisions of the law of the Republic of Azerbaijan on banks**
 - The provisions of the law of the Republic of Azerbaijan on banks provide for a framework which allows the banks to engage in a voluntary debt restructuring of the bank's obligations vis-à-vis its creditors, except for claims of depositors that are eligible for deposit insurance
 - This framework represents a fair process designed to comply with the principles of the UNCITRAL Model Cross-border Insolvency Law, resulting in a solution that can be recognized in the U.S. and the U.K.
 - This framework ensures an orderly process with all affected creditors voting as a single class
- ❑ **Following the approval of FIMSA, on 4 May 2017, the Nasimi District Court issued an order commencing a process of voluntary restructuring on the basis of an application of the Bank and a proposed restructuring plan**
 - From the date of the court decision on the voluntary restructuring of the Bank's obligations, the Bank is entitled to suspend, in full or in part, the performance of the obligations that are subject to restructuring. The Bank has 180 calendar days to complete its restructuring, a term that could be extended for up to 90 calendar days upon application of the Bank and with consent of FIMSA
 - Thus, in accordance with these provisions of the law of the Republic of Azerbaijan on banks and with a view to ensure equal treatment of all affected creditors, **the Bank has suspended payments of principal and interest with respect to all obligations that are included in the restructuring. The Bank will nonetheless continue paying interest on all of its trade finance liabilities**
- ❑ **The restructuring process will culminate in a meeting of all affected creditors**
 - If 2/3 by value of all the creditors affected by the restructuring process approve the plan, it will be binding on all of them



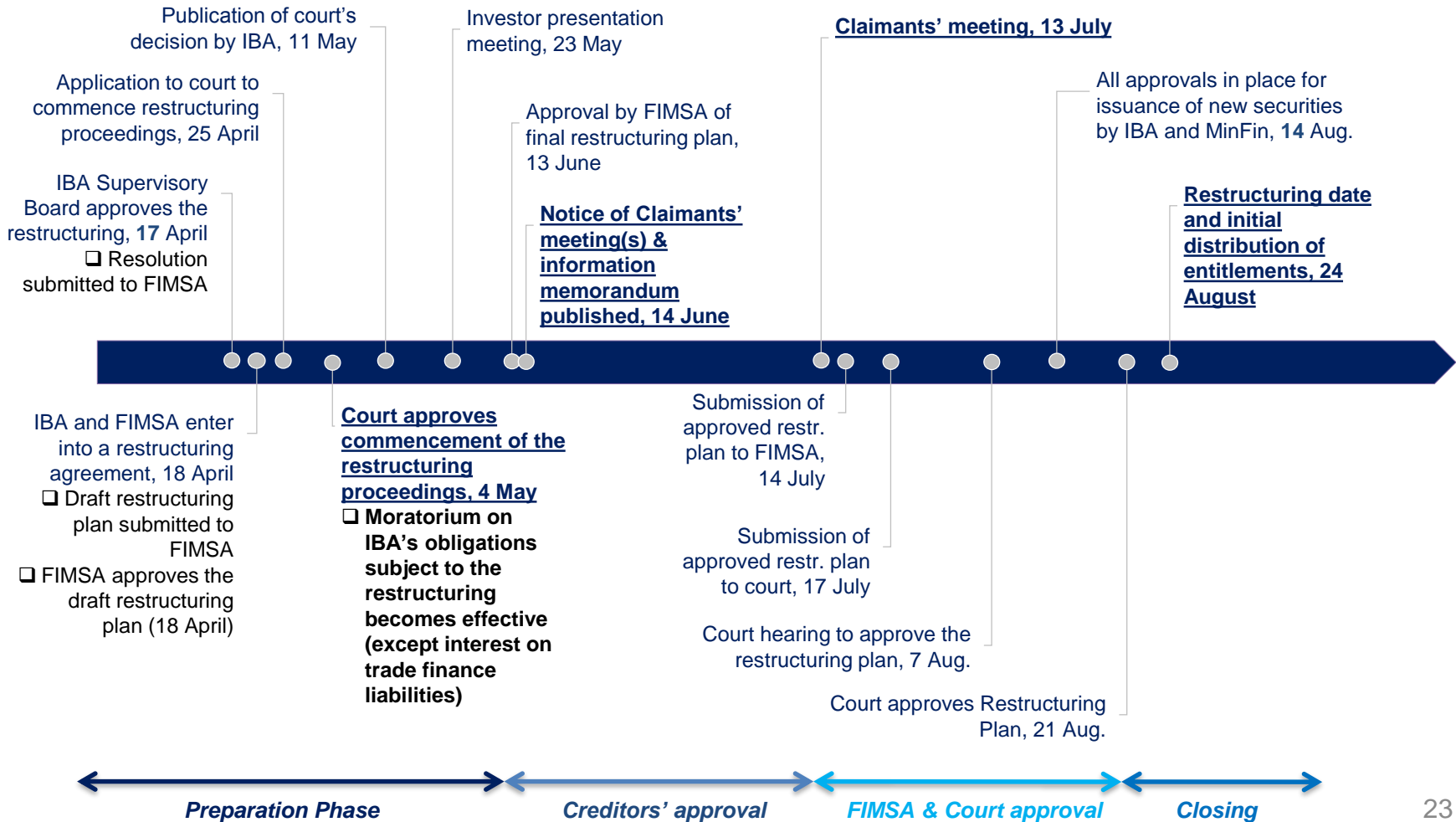
IMPLICATIONS OF PLACING THE BANK IN LIQUIDATION UNDER AZERBAIJANI LAW

- ❑ **The following priority of payments is envisaged in case of liquidation of a bank under Azerbaijani law:**
 1. Claims of the Deposit Insurance Fund with respect to payments made to individual depositors;
 2. Costs and expenses incurred by the temporary administrator or liquidator in connection with the bankruptcy event including judicial fees, salaries and other expenses such as liabilities recognized by the liquidator with respect to the liquidation of a bank;
 3. Employees claims in connection with the physical injuries or deaths occurred at work;
 4. Employees and ex-employees claims regarding their salaries as well as social payments pending during the maximum period of 6 months prior to the issuance of a court order on bankruptcy of a bank;
 5. Bank's liabilities incurred in connection with the performance by the temporary liquidator of its controlling duties and financial improvements events;
 6. Taxes paid in connection with the compulsory transfers to the budget and payments under the compulsory state social insurance pending during the maximum period of one year prior to the issuance of a court order on bankruptcy of a bank;
 7. Unsecured liabilities.



INDICATIVE TIMELINE FOR THE VOLUNTARY RESTRUCTURING IMPLEMENTATION

The following timeline is envisaged by IBA for the voluntary restructuring implementation under Azerbaijani law:





CONTACT INFORMATION

- D.F. King has been retained as Information and Tabulation Agent. D.F. King contact details can be found below:

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Please copy ibar.creditors@lazard.com to any communication with D.F. King

- Media and press who wish to obtain further information, please contact
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