

OJSC PASHA Bank

Interim condensed consolidated financial statements

30 June 2021

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Report on review of interim condensed consolidated financial statements

Interim condensed consolidated financial statements

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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Supervisory Board of
OJSC PASHA Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC PASHA Bank and its subsidiaries (the Group), which comprise the interim consolidated statement of financial position as at 30 June 2021 and the related interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Ernst & Young Holdings (CIS) B.V.

16 September 2021

Baku, Azerbaijan

Interim consolidated statement of financial position

As at 30 June 2021

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

	Notes	30 June 2021 (unaudited)	31 December 2020
Assets			
Cash and cash equivalents	3	1,194,473	1,200,544
Amounts due from credit institutions	4	527,538	456,425
Investment securities	5	1,936,587	1,649,436
Derivative financial assets	13	8,685	7,925
Loans to customers	6	2,671,007	2,608,818
Investment property	7	28,084	34,981
Property and equipment		36,664	39,766
Intangible assets		43,195	45,619
Right-of-use assets		8,806	12,300
Current income tax assets	14	335	146
Deferred income tax assets	14	2,304	3,168
Other assets	8	50,356	52,583
Total assets		6,508,034	6,111,711
Liabilities			
Amounts due to banks and government funds	9	1,046,163	1,140,552
Amounts due to customers	10	4,609,650	4,091,379
Lease liabilities		9,487	13,339
Debt securities issued	11	162,145	149,137
Other borrowed funds		8,122	4,058
Derivative financial liabilities	13	7,998	7,422
Current income tax liabilities	14	3,792	12,798
Deferred income tax liabilities	14	10,371	9,342
Provision for guarantees and other commitments	16	19,817	10,546
Subordinated debts	12	27,181	27,165
Other liabilities	8	37,149	54,038
Total liabilities		5,941,875	5,519,776
Equity			
Share capital	15	354,512	354,512
Additional paid-in capital	15	343	343
Retained earnings		159,883	174,167
Other reserves	15	2,544	2,239
Net unrealised gain on investment securities	15	26,260	20,299
Foreign currency translation reserve	15	(37,408)	(27,822)
Total equity attributable to shareholders of the Bank		506,134	523,738
Non-controlling interests		60,025	68,197
Total equity		566,159	591,935
Total liabilities and equity		6,508,034	6,111,711

Signed and authorised for release on behalf of the Executive Board of the Bank:

Taleh Kazimov

Chairman of the Executive Board

Bahruz Naghiyev

Chief Financial Officer

16 September 2021

The accompanying notes on pages 6 to 26 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of profit or loss**For the six months ended 30 June 2021***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	For the six months ended 30 June (unaudited)	
		2021	2020
Interest income			
Loans to customers		113,119	92,527
Investment securities		38,914	26,681
Cash and cash equivalents		1,138	5,401
Amounts due from credit institutions		2,793	4,927
Interest revenue calculated using effective interest rate		155,964	129,536
Interest expense			
Amounts due to customers		(17,959)	(18,169)
Amounts due to banks and government funds		(17,496)	(9,875)
Debt securities issued		(3,462)	(2,801)
Subordinated debts		(704)	(707)
Lease liabilities		(123)	(451)
Other borrowed funds		(185)	(128)
		(39,929)	(32,131)
Net interest income		116,035	97,405
Credit loss expense on financial assets	17	(29,729)	(23,592)
Net interest income after credit loss expense		86,306	73,813
Net fee and commission income	18	14,911	14,005
Net gains from trading securities		691	-
Net gains/(losses) from foreign currencies:			
- dealing		15,332	18,769
- translation differences		(1,343)	(2,627)
- foreign currency derivatives		(343)	-
Other income		2,108	559
Non-interest income		31,356	30,706
Personnel expenses	19	(27,698)	(30,078)
General and administrative expenses	19	(21,482)	(26,423)
Depreciation and amortisation		(10,887)	(10,264)
Net gains/(losses) on modification of financial assets measured at amortised cost		1,676	(1,149)
Net losses on derecognition of loans to customers		(111)	-
Reversal/(impairment) of miles under loyalty program		691	(977)
Reversal of Impairment on Investment property		410	-
Impairment of digital products		-	(1,482)
Other operating expenses		(284)	-
Provision for credit related commitments and other assets	17	(9,542)	(2,477)
Non-interest expense		(67,227)	(72,850)
Profit before income tax expense		50,435	31,669
Income tax expense	14	(11,272)	(9,379)
Net Profit for the period		39,163	22,290
Attributable to:			
- shareholders of the Bank		36,401	20,857
- non-controlling interests		2,762	1,433
		39,163	22,290

The accompanying notes on pages 6 to 26 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of comprehensive income**For the six months ended 30 June 2021***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	For the six months ended 30 June (unaudited)	
		2021	2020
Net Profit for the period		39,163	22,290
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of investment securities at fair value through other comprehensive income		7,807	(5,256)
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income		(359)	427
Net unrealised gains/(losses) on investment securities at fair value through other comprehensive income		7,448	(4,829)
Income tax relating to components of other comprehensive income	14	(1,487)	964
Foreign currency translation differences	15	(20,520)	(25,817)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(14,559)	(29,682)
Total comprehensive income/(loss) for the period		24,604	(7,392)
Attributable to:			
- shareholders of the Bank		32,776	1,936
- non-controlling interests		(8,172)	(9,328)
		24,604	(7,392)

The accompanying notes on pages 6 to 26 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity

For the six months ended 30 June 2021

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

	Attributable to shareholders of the Bank									
	Share capital	Shares issued but not registered	Additional paid-in capital	Retained earnings	Net unrealised gain/(losses) on investment securities	Other reserves	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
As at 1 January 2020	333,000	-	343	143,432	4,668	1,983	(4,331)	479,095	80,961	560,056
Net profit for the period	-	-	-	20,857	-	-	-	20,857	1,433	22,290
Other comprehensive loss for the period	-	-	-	-	(3,865)	-	(15,056)	(18,921)	(10,761)	(29,682)
Total comprehensive income/(loss) for the period	-	-	-	20,857	(3,865)	-	(15,056)	1,936	(9,328)	(7,392)
Increase in charter capital	-	21,500	-	-	-	-	-	21,500	-	21,500
Transfer to reserves (Note 15)	-	-	-	(14,448)	-	14,448	-	-	-	-
Dividends to shareholders of the Bank (Note 15)	-	-	-	(45,422)	-	-	-	(45,422)	-	(45,422)
As at 30 June 2020 (unaudited)	333,000	21,500	343	104,419	803	16,431	(19,387)	457,109	71,633	528,742
As at 1 January 2021	354,512	-	343	174,167	20,299	2,239	(27,822)	523,738	68,197	591,935
Net profit for the period	-	-	-	36,401	-	-	-	36,401	2,762	39,163
Other comprehensive income/(loss) for the period	-	-	-	-	5,961	-	(9,586)	(3,625)	(10,934)	(14,559)
Total comprehensive income/(loss) for the period	-	-	-	36,401	5,961	-	(9,586)	32,776	(8,172)	24,604
Transfer to reserves (Note 15)	-	-	-	(305)	-	305	-	-	-	-
Dividends to shareholders of the Bank (Note 15)	-	-	-	(50,380)	-	-	-	(50,380)	-	(50,380)
As at 30 June 2021 (unaudited)	354,512	-	343	159,883	26,260	2,544	(37,408)	506,134	60,025	566,159

The accompanying notes on pages 6 to 26 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flows

For the six months ended 30 June 2021

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

	<i>For the six months ended 30 June (unaudited)</i>		
	<i>Notes</i>	<i>2021</i>	<i>2020</i>
Cash flows from operating activities			
Interest received		151,015	123,844
Interest paid		(35,579)	(30,900)
Fees and commissions received		35,728	26,412
Fees and commissions paid		(21,190)	(12,229)
Realised gains less losses from dealing in foreign currencies and from operations with foreign currency derivatives		15,286	17,125
Personnel expenses paid		(43,564)	(36,914)
General and administrative expenses paid		(17,680)	(26,387)
Other income received		1,107	212
Cash flows from operating activities before changes in operating assets and liabilities		85,123	61,163
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(76,156)	176,129
Loans to customers		(126,521)	(143,139)
Other assets		(5,288)	(1,696)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to banks and government funds		(84,100)	15,154
Amounts due to customers		563,363	6,379
Other liabilities		(19,428)	2,483
Net cash flows from operating activities before income tax		336,993	116,473
Income tax paid		(20,032)	(5,868)
Net cash flows from operating activities		316,961	110,605
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		1,239,001	1,612,920
Purchase of investment securities		(1,511,438)	(1,755,694)
Proceeds from sale of property and equipment		166	-
Proceeds from sale of investment property		2,000	-
Purchase and prepayments for property and equipment		(4,221)	(6,487)
Acquisition of intangible assets		(2,906)	(1,097)
Net cash flows used in investing activities		(277,398)	(150,358)
Cash flows from financing activities			
Proceeds from debt securities issued		43,086	39,505
Payment of debt securities		(26,293)	(19,643)
Finance lease paid		(3,567)	(3,236)
Dividends paid	15	(50,380)	(45,422)
Net cash used in financing activities		(37,154)	(28,796)
Effect of exchange rates changes on cash and cash equivalents		(8,533)	(412)
Effect of expected credit losses on cash and cash equivalents	17	53	(54)
Net decrease in cash and cash equivalents		(6,071)	(69,015)
Cash and cash equivalents, beginning of the year		1,200,544	1,185,839
Cash and cash equivalents, ending of the period	3	1,194,473	1,116,824

The accompanying notes on pages 6 to 26 are an integral part of these interim condensed consolidated financial statements.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

1. Principal activities

OJSC PASHA Bank ("the Bank") was established on 18 June 2007, as an open joint stock company under the laws of the Republic of Azerbaijan. The Bank operates under a banking licence No. 250 issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") on 28 November 2007.

The Bank and its subsidiaries (together – "the Group") accept deposits from the public and extend credit, transfer payments, exchange currencies and provide other banking services to its commercial and private customers.

As at 30 June 2021 and 31 December 2020, the Bank has six service points, three branches in Azerbaijan and two subsidiaries, JSC PASHA Bank Georgia located in the Republic of Georgia and PASHA Yatirim Bankasi A.Ş. (the "Subsidiaries") located in the Republic of Turkey. The Bank's registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

As at 30 June 2021 and 31 December 2020, the following shareholders owned the outstanding shares of the Bank:

Shareholders	30 June 2021, (%)	31 December 2020, (%)
PASHA Holding LLC	57	57
Ador LLC	28	28
Mr. Arif Pashayev	10	10
Mr. Mir Jamal Pashayev	5	5
Total	100	100

As at 30 June 2021 and 31 December 2020, the ultimate beneficial owners of the Group are Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev who exercise joint control over the Group.

PASHA Bank Georgia JSC, a wholly – owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as at 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 thousand as at 30 June 2021 and 31 December 2020. PASHA Bank Georgia JSC operates under a banking licence issued by the National Bank of Georgia (the "NBG") on 17 January 2013. Legal address of the PASHA Bank Georgia JSC is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

TAIB Yatirim Bank A.Ş. was incorporated in 1987 as an investment bank in the Republic of Turkey with the permission of the Council of Ministers decision no. 6224 which allows the transfer of the banks' net profit after statutory liabilities and in case of liquidation the transfer of capital to foreign shareholders. On 27 January 2015, the Bank acquired 79.47% of the voting common shares of TAIB Yatirim Bank A.Ş. and it was renamed to PASHA Yatirim Bankasi A.Ş. at the registration of the Bank as shareholder. In March 2015, investment in share capital of the subsidiary was increased by TRY 175,000 thousand to TRY 255,000 thousand increasing ownership in subsidiary to 99.92%. On 6 June 2018, share capital of subsidiary was increased by TRY 245,000 thousand to TRY 500,000 thousand. The increase was made based on decision of Supervisory Board of the Bank, according to which newly issued shares were acquired by PASHA Holding LLC. As a result, the Bank's shares in the subsidiary decreased from 99.92% to 50.96% and PASHA Holding LLC became a new non-controlling shareholder with ownership of 49% since 6 June 2018. Head office of PASHA Yatirim Bankasi A.Ş. is located in Istanbul. The activities of the bank are regulated by the Central Bank of the Republic of Turkey (the "CBRT").

OJSC PASHA Bank and its Subsidiaries (together – "the Group") were consolidated in these financial statements.

2. Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2020.

Effect of COVID-19 pandemic

The Group continues to assess pandemic effect and changing micro and macroeconomic conditions on its activities, financial position and financial results.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

2. Basis of preparation (continued)

Estimation uncertainty

To the extent that information is available as at 30 June 2021, the Group has reflected revised estimates of expected future cash flows in its expected credit loss (hereafter, "ECL") assessment (Note 6) and estimation of fair values of financial instruments (Note 20).

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2021 (unaudited)	31 December 2020
Cash on hand	98,989	65,515
Current accounts with the CBAR, the NBG and the CBRT	682,065	587,649
Current accounts with other credit institutions	99,854	87,432
Time deposits with credit institutions up to 3 months	305,054	431,262
Reverse repurchase agreements with credit institutions up to 3 months	8,543	28,771
Less: allowance for impairment	(32)	(85)
Cash and cash equivalents	1,194,473	1,200,544

Current accounts with other credit institutions consist of non-interest-bearing correspondent account balances with resident and non-resident banks in the amount of AZN 1,015 thousand (31 December 2020: AZN 1,160 thousand) and AZN 98,839 thousand (31 December 2020: AZN 86,272 thousand), respectively.

As at 30 June 2021, the Group placed AZN 305,054 thousand in time deposits with CBAR and eight non-resident banks maturing through August 2021 with interest rates ranging between 0.1% and 9.5% p.a. (31 December 2020: AZN 431,262 thousand with CBAR and fifteen non-resident banks maturing through March 2021 with interest rates ranging between 0.1% and 8.0% p.a.). All balances of cash equivalents are allocated to Stage 1.

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2021 (unaudited)	31 December 2020
Time deposits with credit institutions for more than 3 months	295,128	234,386
Loans to banks	23,980	28,995
Obligatory reserve with the CBAR, the NBG and the CBRT	78,070	79,292
Restricted deposits	131,370	114,237
	528,548	456,910
Less: allowance for impairment	(1,010)	(485)
Amounts due from credit institutions	527,538	456,425

As at 30 June 2021, time deposits with credit institutions mature between July 2021 and May 2023 (31 December 2020: between January 2021 and April 2023) with interest rates ranging between 0.1% and 6.5% p.a. (31 December 2020: between 0.3% and 3.6% p.a.). As at 30 June 2021, the Group had outstanding amount of AZN 23,980 thousand (31 December 2020: AZN 28,995 thousand) of secured loans issued to three resident commercial banks (31 December 2020: three resident commercial banks) with contractual maturity through December 2025 (31 December 2020: March 2021) and with interest rates ranging between 5.0% and 9.0% p.a. (31 December 2020: 8.0% and 10.0% p.a.).

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

4. Amounts due from credit institutions (continued)

Credit institutions in the Republic of Azerbaijan are required to maintain a mandatory non-interest earning reserve (with restriction on withdrawal) with the CBAR at the level of 0.5% p.a. (31 December 2020: 0.5% p.a.) and 1.0% p.a. (31 December 2020: 1.0% p.a.) of the previous month average of funds attracted from customers by a credit institution in AZN and foreign currencies, respectively.

Credit institutions in the Republic of Georgia are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5.0% p.a. (31 December 2020: 5.0% p.a.) and 25.0% p.a. (31 December 2020: 25.0% p.a.) of the average of funds attracted from customers and non-resident financial institutions by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively.

Credit institutions in the Republic of Turkey are required to maintain a mandatory non-interest earning reserve for deposits with the CBRT in the range of 3.0% p.a. and 8.0% p.a. (31 December 2020: 1.0% p.a. and 6.0% p.a.) and 5% p.a. and 21.0% p.a. (31 December 2020: 7.0% p.a. and 21.0% p.a.) of average of funds attracted from customers by a credit institution in TL and foreign currencies, respectively.

An analysis of changes in the ECLs allowances during the six months ended is as follows:

	30 June (unaudited)	
	2021	2020
	Stage 1	Stage 1
ECL allowance as at 1 January	(485)	(561)
New assets originated or purchased	(699)	(141)
Assets repaid	167	287
Foreign exchange adjustments	7	4
At 30 June	(1,010)	(411)

5. Investment securities

Investment securities comprise:

	30 June 2021	31 December 2020
	(unaudited)	
Debt securities at FVOCI		
Bonds of the Ministry of Finance of the Republic of Azerbaijan	669,335	553,787
AMF bonds	536,649	531,372
Corporate bonds	204,965	139,453
Notes issued by the Central Bank of Azerbaijan Republic	130,201	151,318
Certificate of deposits	128,234	94,216
US treasury bonds	89,615	4,445
Other foreign government bonds	50,916	44,216
Bonds of financial institutions	41,605	76,641
Debt securities at FVOCI	1,851,520	1,595,448
Debt securities at amortized cost		
Reverse repurchase agreements with credit institutions above 3 months	28,895	-
Bonds of financial institutions	25,208	27,284
Other foreign governments' bonds	16,661	13,234
Corporate bonds	10,736	10,619
	81,500	51,137
Less: allowance for impairment	(584)	(621)
Debt securities at amortized cost	80,916	50,516

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

5. Investment securities (continued)

	<u>30 June 2021</u> <i>(unaudited)</i>	<u>31 December 2020</u>
Equity securities at FVOCI		
Corporate Shares	1,490	1,765
Equity securities at FVOCI	<u>1,490</u>	<u>1,765</u>
	<u>30 June 2021</u> <i>(unaudited)</i>	<u>31 December 2020</u>
Equity securities at FVTPL		
Mutual funds participation certificate	2,661	1,707
Equity securities at FVTPL	<u>2,661</u>	<u>1,707</u>

As at 30 June 2021, debt securities at FVOCI in total amount of AZN 150,000 thousand (31 December 2020: AZN 150,000 thousand) are pledged as collateral for repurchase agreement with National Depository Centre of Azerbaijan (Note 9).

An analysis of changes in the ECLs allowances during the six months ended is as follows:

	<u>30 June (unaudited)</u>	
	<u>2021</u>	<u>2020</u>
<i>Debt securities at FVOCI</i>	<u>Stage 1</u>	<u>Stage 1</u>
ECL as at 1 January	(4,246)	(833)
New assets originated or purchased	(747)	(846)
Assets repaid	1,103	419
Changes to models and inputs used for ECL calculations	3	-
Foreign exchange adjustments	7	4
At 30 June	<u>(3,880)</u>	<u>(1,256)</u>
	<u>30 June (unaudited)</u>	
	<u>2021</u>	<u>2020</u>
<i>Debt securities at amortized cost</i>	<u>Stage 1</u>	<u>Stage 1</u>
ECL as at 1 January	(621)	(426)
New assets originated or purchased	(108)	(1,072)
Assets repaid	1	761
Changes to models and inputs used for ECL calculations	60	-
Foreign exchange adjustments	84	58
At 30 June	<u>(584)</u>	<u>(679)</u>

6. Loans to customers

Loans to customers comprise:

	<u>30 June 2021</u> <i>(unaudited)</i>	<u>31 December 2020</u>
Legal entities	2,528,707	2,441,171
Individuals	247,676	241,685
Loans to customers (gross)	<u>2,776,383</u>	<u>2,682,856</u>
Less: allowance for impairment	(105,376)	(74,038)
Loans to customers (net)	<u>2,671,007</u>	<u>2,608,818</u>

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

6. Loans to customers (continued)

Loans are made in the following industry sectors:

	30 June 2021 (unaudited)	31 December 2020
Trade and services	1,287,019	1,221,601
Manufacturing	315,006	340,344
Construction	276,581	262,752
Individuals	247,676	241,685
Transport and telecommunication	197,096	119,733
Agriculture and food processing	150,794	161,293
Non-banking credit organizations	111,163	118,482
Energy	63,711	74,818
Real estate management	36,775	41,300
Mining	34,328	41,679
Other	31,210	29,545
Leasing	25,024	29,624
Total loans (gross)	2,776,383	2,682,856

As at 30 June 2021, loans granted to top 9 customers (31 December 2020: 9 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 843,044 thousand (31 December 2020: AZN 773,133 thousand).

An analysis of changes in the ECL allowances during the six months ended 30 June 2021 is, as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	(14,034)	(32,547)	(27,457)	(74,038)
New assets originated or purchased	(24,815)	-	-	(24,815)
Assets repaid	3,155	4,726	7,158	15,039
Transfers to Stage 1	(2,602)	2,597	5	-
Transfers to Stage 2	7,016	(9,888)	2,872	-
Transfers to Stage 3	14,475	5,298	(19,773)	-
Impact on period end ECL of exposures transferred between stages during the period	533	1,040	(18,031)	(16,458)
Unwinding of discount (recognised in interest revenue)	-	-	(2,643)	(2,643)
Changes to models and inputs used for ECL calculations	928	(1,580)	(2,676)	(3,328)
Amounts written off	-	-	3,972	3,972
Recoveries	-	-	(4,594)	(4,594)
Foreign exchange adjustments	282	443	764	1,489
At 30 June 2021	(15,062)	(29,911)	(60,403)	(105,376)

An analysis of changes in the ECL allowances during the six months ended 30 June 2020 is, as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	(12,102)	(21,090)	(33,729)	(66,921)
New assets originated or purchased	(19,963)	-	-	(19,963)
Assets repaid	5,915	4,508	6,739	17,162
Transfers to Stage 1	(787)	787	-	-
Transfers to Stage 2	10,771	(10,795)	24	-
Transfers to Stage 3	5,034	379	(5,413)	-
Impact on period end ECL of exposures transferred between stages during the period	477	(6,659)	(4,023)	(10,205)
Unwinding of discount (recognised in interest revenue)	-	-	(1,652)	(1,652)
Changes due to modifications not resulting in derecognition	312	(9)	1	304
Changes to models and inputs used for ECL calculations	(4,449)	(553)	(5,242)	(10,244)
Amounts written off	-	-	1,315	1,315
Recoveries	-	-	(1,642)	(1,642)
Foreign exchange adjustments	543	702	886	2,131
At 30 June 2020	(14,249)	(32,730)	(42,736)	(89,715)

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

6. Loans to customers (continued)

Modified and restructured loans

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired asset.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 1, Stage 2 and Stage 3 assets that were modified during the period, with the related modification loss suffered by the Group.

	<u>30 June 2021</u> <i>(unaudited)</i>	<u>30 June 2020</u> <i>(unaudited)</i>
Loans modified during the period		
Amortised cost before modification	76,814	171,638
Net modification gain/(loss)	1,676	(1,149)

7. Investment property

The movements in investment property were as follows:

	<u>30 June 2021</u> <i>(unaudited)</i>	<u>31 December 2020</u>
Opening balance at 1 January	34,981	43,202
Disposals	(1,590)	-
Amortisation for the period	(103)	(181)
Foreign translation difference	(5,204)	(8,040)
Closing balance	28,084	34,981

In 2011, the Group acquired land for the amount of AZN 2,000 thousand as investment property which is held for long term appreciation in value. As at 31 December 2020, the fair value of this investment property amounted to AZN 1,590 thousand. During six-months period ended 30 June 2021, the Group sold the land for AZN 2,500 thousand.

As at 30 June 2021, the Group has a real estate classified as investment property amounting to AZN 28,084 thousand with the fair value of AZN 29,759 thousand (31 December 2020: AZN 35,267 thousand).

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

8. Other assets and liabilities

Other assets comprise:

	30 June 2021 (unaudited)	31 December 2020
Other financial assets		
Settlements on money transfers	13,454	22,511
Clearance cheque accounts	4,857	4,342
Accrued commission receivable on guarantees and letters of credit	1,963	1,736
Other	50	3
	<u>20,324</u>	<u>28,592</u>
Less: allowance for impairment of other financial assets	(489)	(410)
Total other financial assets	<u>19,835</u>	<u>28,182</u>
Other non-financial assets		
Reposessed collateral	16,343	16,211
Deferred expenses	4,409	2,846
Prepayments for acquisition of property, equipment and intangible assets	1,437	644
Purchased miles under loyalty programme	5,710	2,807
Other prepayments	2,577	1,888
Taxes, other than income tax	45	5
	<u>30,521</u>	<u>24,401</u>
Other assets	<u>50,356</u>	<u>52,583</u>

Other liabilities comprise:

	30 June 2021 (unaudited)	31 December 2020
Other financial liabilities		
Settlements on money transfer	6,634	4,930
Clearance cheque accounts	4,857	4,342
Accrued expenses	7,392	10,724
Other	1,454	889
	<u>20,337</u>	<u>20,885</u>
Other non-financial liabilities		
Payable to employees	14,095	30,463
Deferred income	2,156	1,436
Taxes, other than income tax	553	1,242
Other	8	12
	<u>16,812</u>	<u>33,153</u>
Other liabilities	<u>37,149</u>	<u>54,038</u>

9. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	30 June 2021 (unaudited)	31 December 2020
Entrepreneurship Development Fund of the Republic of Azerbaijan	338,163	385,654
Long-term deposits from banks	309,465	324,822
Repurchase agreements	154,670	159,635
Short-term deposits from banks	117,466	94,942
Azerbaijan Mortgage and Credit Guarantee Fund	62,651	47,360
Loan from the National Bank of Georgia	10,801	7,790
Agro Credit and Development Agency	9,965	8,674
Correspondent accounts with other banks	9,906	69,392
Long-term loans from banks	9,135	8,971
Short-term loans from banks	8,133	9,290
Deposit from the Ministry of Finance of Georgia	5,645	5,710
State Agency on Mandatory Health Insurance	4,188	4,065
Amount due to IT Development Fund	1,840	2,686
Other	4,135	11,561
Amounts due to banks and government funds	<u>1,046,163</u>	<u>1,140,552</u>

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

9. Amounts due to banks and government funds (continued)

As at 30 June 2021, Entrepreneurship Development Fund of the Republic of Azerbaijan had current account amounting to AZN 79,238 thousand (31 December 2020: AZN 95,174 thousand) and time deposits amounting to AZN 12,683 thousand (31 December 2020: AZN 30,083 thousand). The Group had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 246,242 thousand (31 December 2020: AZN 260,397 thousand), maturing through June 2030 (31 December 2020: through June 2030), and bearing interest rate of 1.0% p.a (31 December 2020: 1.0% p.a). The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at interest rate not higher than 6.0% p.a. (31 December 2020: not higher than 6.0% p.a.).

As at 30 June 2021, the Group attracted long-term deposits from resident commercial banks comprising AZN 309,465 thousand (31 December 2020: AZN 324,822 thousand) maturing through August 2023 with interest rate ranging between 1.5% and 4.3% p.a. (31 December 2020: August 2023 with interest rate ranging between 0.3% and 4.3% p.a.).

As at 30 June 2021, the Group entered into repurchase agreement and borrowed funds amounting to AZN 154,670 thousand (31 December 2020: AZN 159,635 thousand). As at 30 June 2021, for the balance of the borrowing amounted to AZN 153,449 thousand (31 December 2020: AZN 151,416 thousand), the Group pledged its debt securities at FVOCI as collateral in National Depository Centre of Azerbaijan (31 December 2020: National Depository Centre of Azerbaijan) (Note 5).

As at 30 June 2021, the Group attracted short-term deposits from resident and non-resident commercial banks (31 December 2020: non-resident) comprising AZN 117,466 thousand (31 December 2020: AZN 94,942 thousand) maturing through April 2022 (31 December 2020: April 2021) and with interest rates ranging between 0.01% and 18.9% p.a. (31 December 2020: ranging between 0.01% and 18.5% p.a.).

As at 30 June 2021, the Group had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 42,299 thousand (31 December 2020: AZN 37,118 thousand), maturing through June 2051 (31 December 2020: through November 2050) and bearing interest rate of 1.0% and 4.0% p.a. (31 December 2020: 1.0% and 4.0% p.a.). The loans have been granted to borrowers at interest rate not higher than 8.0% p.a. (31 December 2020: not higher than 8.0%). Also the Group had short-term deposit from the Azerbaijan Mortgage and Credit Guarantee Fund amounting AZN 20,352 thousand (31 December 2020: AZN 10,242), maturing through June 2022 (31 December 2020: October 2021) with interest rate ranging between 5.0% and 7.5% p.a (31 December 2020: ranging between 6.5% and 7.5% p.a.).

As at 30 June 2021, the Group had loans from National Bank of Georgia amounting AZN 10,801 thousand (31 December 2020: AZN 7,790 thousand) maturing through July 2021 (31 December 2020: January 2021) and with interest rates ranging between 9.6% and 9.7% p.a (31 December 2020: 8.0% p.a.).

As at 30 June 2021, the Group had loans received from the Agro Credit and Development Agency amounting to AZN 9,965 thousand (31 December 2020: AZN 8,674 thousand), maturing through May 2026 (31 December 2020: October 2025) and bearing interest rate between 2.0% and 3.3% p.a. (31 December 2020: ranging between 2.0% and 3.6% p.a.). The loans have been granted to local entrepreneurs at interest rate of 7.0% p.a (31 December 2020: 7.0% p.a.).

As at 30 June 2021, the Group received long-term loan from one resident commercial bank (31 December 2020: one resident commercial bank) comprising AZN 9,135 thousand (31 December 2020: AZN 8,971 thousand) maturing through August 2022 with interest rate 4.0% p.a. (31 December 2020: August 2022 with interest rate 4.0% p.a.).

As at 30 June 2021, the Group received short-term loan from one non - resident commercial financial institution (31 December 2020: one non-resident commercial financial institution) comprising AZN 8,133 thousand (31 December 2020: AZN 9,290 thousand) maturing through July 2021 and with interest rate 8.8% p.a (31 December 2020: maturing through April 2021 and with interest rate 17.8% p.a).

As at 30 June 2021, the Group had deposit from Ministry of Finance of Georgia amounting AZN 5,645 thousand (31 December 2020: AZN 5,710 thousand) maturing through January 2028 (31 December 2020: January 2028) and with interest rates ranging between 8.8% and 9.9% p.a. (31 December 2020: 9.3% and 9.9% p.a.).

As at 30 June 2021, the Group had loans refinanced from the IT Development Fund amounting to AZN 1,840 thousand (31 December 2020: AZN 2,686 thousand), maturing through June 2024 (31 December 2020: through June 2024) and bearing interest rate of 1.0% p.a. (31 December 2020: 1.0% p.a.). The loans have been granted to local entrepreneurs at interest rate of 5.0% p.a.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

10. Amounts due to customers

The amounts due to customers include the following:

	30 June 2021 (unaudited)	31 December 2020
Demand deposits	3,052,381	2,703,609
Time deposits	1,557,269	1,387,770
Amounts due to customers	4,609,650	4,091,379
Held as security against guarantees issued (Note 16)	32,442	35,831

An analysis of customer accounts by economic sector follows:

	30 June 2021 (unaudited)	31 December 2020
Trade and services	1,336,089	1,008,833
Individuals	1,243,789	1,319,453
Investment holding companies	465,422	474,794
Transport and communication	313,004	265,064
Construction	273,932	216,402
Mining	267,949	115,975
Manufacturing	265,355	257,349
Insurance	131,803	149,301
Energy	94,133	96,214
Public organizations	65,529	55,062
Agriculture	53,028	37,157
Non-banking credit organizations	19,221	29,379
Hotel business	18,052	10,958
Real estate management	13,116	1,150
Other	49,228	54,288
Amounts due to customers	4,609,650	4,091,379

As at 30 June 2021, customer deposits included balances with twelve (31 December 2020: nine) largest customers comprised AZN 2,368,909 thousand or 51% of the total customer deposits portfolio (31 December 2020: AZN 1,906,386 thousand or 47% of the total customer deposits portfolio).

11. Debt securities issued

As at 30 June 2021, PASHA Yatirim Bankasi A.S. had issued interest-bearing bonds with carrying amount of AZN 162,145 thousand (31 December 2020: AZN 149,137 thousand) denominated in US dollars, Euro and Turkish lira (31 December 2020: US dollars and Euro) maturing in February 2023 (31 December 2020: matured in February 2023) and bearing annual interest rates ranging from 1.8% to 19.3% p.a. (31 December 2020: from 1.8% to 4.9% p.a.).

12. Subordinated debts

As of 30 June 2021, the amount of subordinated debts represents USD denominated subordinated loans of AZN 27,181 thousand (31 December 2020: AZN 27,165) borrowed by the Group from its parent and entities under common control maturing through December 2025 and August 2027 (31 December 2020: through August 2024 and December 2025).

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

13. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the period end and are not indicative of the credit risk.

	30 June 2021 (unaudited)			31 December 2020		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	53,529	180	(52)	76,535	157	(333)
Foreign exchange contracts						
Forwards and swaps – foreign	371,449	3,750	(4,294)	340,160	6,468	(736)
Forwards and swaps – domestic	372,015	4,512	(3,652)	409,071	861	(6,353)
Options – domestic	115,296	163	-	18,318	437	-
Futures – foreign	12,576	2	-	-	-	-
Futures – domestic	16,574	78	-	4,614	2	-
Total derivative assets/ (liabilities)		8,685	(7,998)		7,925	(7,422)

Foreign and domestic in the table above stand for counterparties where foreign means non-Azerbaijani entities and domestic means Azerbaijani entities. As at 30 June 2021 and 31 December 2020, the Group has positions in the following types of derivatives:

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument or commodity at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

14. Taxation

The corporate income tax expense comprises:

	For six months ended (unaudited)	
	30 June 2021	30 June 2020
Current tax charge	(11,015)	(12,897)
Deferred tax (charge) / credit – origination and reversal of temporary differences	(1,744)	4,482
Less: deferred tax recognised in other comprehensive income	1,487	(964)
Income tax expense	(11,272)	(9,379)

As at 30 June 2021, current income tax assets and deferred income tax assets of the Group were AZN 335 thousand and AZN 2,304 thousand, respectively (31 December 2020: AZN 146 thousand and AZN 3,168 thousand, respectively).

As at 30 June 2021, current income tax liabilities and deferred income tax liabilities of the Group were AZN 3,792 thousand and AZN 10,371 thousand, respectively (31 December 2020: AZN 12,798 thousand and AZN 9,342 thousand, respectively).

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

15. Equity

On 24 June 2020 Shareholders of the Group approved an issue of 646 ordinary shares. Total consideration received for these shares was comprised of cash for the total amount of AZN 21,500 thousand. This share issue was registered by State Tax Service under the Ministry of Economy of the Republic of Azerbaijan.

As at 30 June 2021 and 31 December 2020, the Bank's authorized, issued and fully paid capital amounted to AZN 354,512 thousand comprising of 10,646 ordinary shares with a par value of AZN 33,300 per ordinary share. Each ordinary share entitles one vote to the shareholder.

On 24 April 2020 Shareholders of the Bank declared dividends totalling AZN 45,422 thousand on ordinary shares (AZN 4,542 per share) which was paid as at 31 December 2021.

On 3 May 2021 Shareholders of the Bank declared dividends totalling AZN 50,380 thousand on ordinary shares (AZN 4,733 per share) which was paid as at 30 June 2021.

Additional paid-in capital

As at 30 June 2021 and 31 December 2020, additional capital of AZN 343 thousand represents gain from fair value measurement of subordinated debts of AZN 8,531 thousand, borrowed from entities under common control.

Foreign currency translation reserve

Foreign currency translation reserve is used to record exchange difference arising from the translation of the financial statements of foreign subsidiaries.

Other reserves

Other reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the general reserve is exhausted.

As of 30 June 2021 the total reserve amounted to AZN 2,544 thousand (31 December 2020: AZN 2,239 thousand).

Unrealised gains on investment securities

This reserve records fair value changes on investment securities at FVOCI which amounted to AZN 26,260 thousand (31 December 2020: AZN 20,299 thousand).

16. Commitments and contingencies

Operating environment

During 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic (COVID-19).

During March-August 2020, the increasingly restrictive lockdown measures to combat COVID-19 in many countries significantly reduced economic activity and aggregate spending levels. Social distancing and quarantine measures resulted in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. International trade was also significantly reduced. Finally, oil prices tumbled to historic lows but fully recovered by the end of the period.

However, during the six months ended 30 June 2021, increased worldwide vaccination resulted in softened quarantine restrictions, which in turn positively affected the global economy. Effect on economies in which the Group operates is presented as follows.

The Republic of Azerbaijan

The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government has initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector.

During 2020 and 2021, the CBAR continued to ease monetary conditions while maintaining the stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. As a result, the CBAR refinancing rate was reduced from 7.25% to 6.25% during 2020 and remained flat since then.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

16. Commitments and contingencies (continued)

Operating environment (continued)

A support package was introduced by the Government and CBAR to counter the economic downturn caused by the pandemic. These measures include, but are not limited to, subsidized lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures. As a result of the pandemic, the CBAR decided in 2020 to reduce temporarily the minimum required capital adequacy ratio from 12% to 11% for banks of systematic importance, which include the Bank, and from 10% to 9% for all other banks and keep until July 2021.

With the start of vaccination of Azerbaijani population on 16 January 2021 the Azerbaijani Government decided to gradually eliminate the special strict quarantine regime measures introduced in the previous year to combat the COVID-19 outbreak, such as travel restrictions, closure of business and other venues, lockdowns of certain areas throughout the country. Despite this relief of strict quarantine regime for preventing coronavirus, CBAR decided to prolong easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources.

The Republic of Georgia

According to Georgia's socio-economic development strategy, the economic policy of Georgia is based on the principles of fast and efficient economic growth driven by development of the real sector of economy, implementation of economic policies that would facilitate inclusive economic growth and rational use of natural resources, ensuring environmental safety and sustainability. Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The level of inflation reached 11.9% year-on-year in June 2021, largely reflecting utility price increases, higher commodity prices and elevated input costs. NBG has increased its refinancing rate twice during the six months ended 30 June 2021 to reach 9.5% and further increased to 10% in August 2021. The inflationary expectations remain high for 2021 before it starts declining in 2022. NBG remains vigilant against signs of high inflation becoming entrenched and is ready to further increase the refinancing rate if needed.

With the economic recovery recorded in the first six months of 2021, significant downside risks related to further development of COVID-19 situation remain. In August 2021 the total share of fully vaccinated adult population of Georgia reached 12.1%. It is hard to underestimate the significance of controlling the pandemic to avoid new lockdowns that would derail the signs of recovery. Renewed political uncertainty could also increase GEL volatility and undermine investor confidence.

In line with the overall developments in the Georgian banking sector, the bank has also suffered from the effects of the economic downturn caused by COVID 19 with deterioration of the performance and credit risk of the borrowers operating in the vulnerable sectors. This has resulted in the number of restructured loans and significant increase in the ECL rates across all portfolio segments, compared to the average rates existing in the pre-pandemic periods. Nevertheless, the roll out of the vaccination program by the government, the positive economic outlook for 2021 and the ongoing modifications of the customer's loan facilities has allowed the bank to obtain certain improvements on the quality of its portfolios and recognize reversal of provisions in the reporting period. Despite the negative effect of the pandemic the management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis, reasonable NPL levels due to timely restructuring actions and continued support from the parent.

The Republic of Turkey

Various measures have been taken in Turkey in order to prevent the transmission of the virus and it is still being taken. In addition to these measures, economic measures are also taken to minimize the economic impact of the virus outbreak on individuals and businesses. After an initial shock from COVID-19 (the economy shrunk a record 9.9% in the second quarter of 2020), Turkey's GDP grew by 1.8% in 2020. GDP growth has continued into 2021 with a 7% increase in the first quarter. Turkey responded to COVID-19 with a large economic stimulus program and in fiscal terms, Turkey's COVID-19 stimulus package amounted to nearly 12% of GDP when including tax deferrals and contingent liabilities. Turkey's support was overwhelmingly provided through the banking sector and was not realized as direct fiscal costs on the budget, but as contingent liabilities to the government in future.

The Group's management is monitoring economic developments in the current environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future. The Group considers its current liquidity position to be sufficient for its sustainable functioning.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

16. Commitments and contingencies (continued)

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Recent events within the Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

Management believes that its interpretation of the relevant legislation as at 30 June 2021 is appropriate and that the Group's tax, currency and customs positions will be sustained.

Insurance

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

Compliance with the CBAR ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2021 and 31 December 2020, the Bank was in compliance with these ratios except for the followings:

- a) Ratio of maximum credit exposure of a bank per a single borrower or a group of related borrowers on unsecured loan that should not exceed 10%. As at 30 June 2021, the Bank's ratio was 13.39% (31 December 2020: 15.19%).
- b) Ratio of maximum credit exposure of total related party loans of the bank or their representatives should not exceed 20% of the capital. As at 30 June 2021, the Bank's ratio was 42.00% (31 December 2020: 44.33%).
- c) Ratio of maximum credit exposure to one related party legal entity of the bank or their representatives should not exceed 10% of the capital. As at 30 June 2021, the Bank's ratio was 21.84% (31 December 2020: 22.02%).
- d) Ratio of the share in one legal entity which should not exceed 10% of total capital. As at 30 June 2021, the Bank's ratio was 27.16% (31 December 2020: 27.39%).

NBG requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2021 and 31 December 2020, PASHA Bank Georgia was in compliance with these ratios except for the following:

- a) Ratio of maximum credit exposure of a bank per a single borrower or a group of related borrowers on loan that should not exceed 15%. As at 30 June 2021 the Bank's ratio was 16.73% p.a. (As at 31 December 2020, the Bank's ratio was 17.54% p.a.).

Throughout the year the Group submitted information regarding these breaches to the regulator on a monthly basis and no sanctions were imposed on the Group. Management believes that the Group will not face any sanctions against the Group in the future.

Financial commitments and contingencies

The Group provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

16. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

Financial commitments and contingencies comprise:

	30 June 2021 (unaudited)	31 December 2020
Credit-related commitments		
Guarantees issued	293,428	322,306
Unused credit lines	312,707	331,549
Letters of credit	33,568	24,698
	<u>639,703</u>	<u>678,553</u>
Operating lease commitments		
Not later than 1 year	74	72
Later than 1 year but not later than 5 years	7	20
	<u>81</u>	<u>92</u>
Performance guarantees	300,184	264,351
Less: provision for ECL for credit related commitments	(9,420)	(7,316)
Less: provisions for performance guarantees	(10,397)	(3,230)
Commitments and contingencies (before deducting collateral)	<u>920,151</u>	<u>932,450</u>
Less: cash held as security against guarantees issued (Note 10)	(32,442)	(35,831)
Commitments and contingencies	<u>887,709</u>	<u>896,619</u>

An analysis of changes in the ECLs during the period ended 30 June 2021 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	(2,456)	(4,676)	(184)	(7,316)
New exposures	(3,321)	-	-	(3,321)
Exposures derecognised or matured (excluding write-offs)	921	2,459	52	3,432
Transfers to Stage 1	(176)	176	-	-
Transfers to Stage 2	1,394	(1,490)	96	-
Transfers to Stage 3	171	40	(211)	-
Impact on period end ECL of exposures transferred between stages during the period	143	(294)	(1,782)	(1,933)
Changes to inputs used for ECL calculations	6	(478)	(2)	(474)
Foreign exchange adjustments	55	137	-	192
At 30 June 2021	<u>(3,263)</u>	<u>(4,126)</u>	<u>(2,031)</u>	<u>(9,420)</u>

An analysis of changes in the ECLs during the period ended 30 June 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	(3,984)	(4,095)	(273)	(8,352)
New exposures	(2,197)	-	-	(2,197)
Exposures derecognised or matured (excluding write-offs)	2,204	1,518	-	3,722
Transfers to Stage 1	(62)	62	-	-
Transfers to Stage 2	1,427	(1,427)	-	-
Transfers to Stage 3	31	-	(31)	-
Impact on period end ECL of exposures transferred between stages during the period	26	(585)	(284)	(843)
Changes to inputs used for ECL calculations	109	354	-	463
Foreign exchange adjustments	87	244	-	331
At 30 June 2020	<u>(2,359)</u>	<u>(3,929)</u>	<u>(588)</u>	<u>(6,876)</u>

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

17. Credit loss expense and other impairment and provision

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2021:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	3	53	-	-	53
Amounts due from credit institutions	4	(532)	-	-	(532)
Investment securities at FVOCI	5	359	-	-	359
Investment securities at amortised cost	5	(47)	-	-	(47)
Loans to customers at amortised cost	6	(1,310)	2,193	(30,445)	(29,562)
Credit loss on financial assets		(1,477)	2,193	(30,445)	(29,729)
Commitments and contingencies	16	(862)	413	(1,847)	(2,296)
Total credit loss expense		(2,339)	2,606	(32,292)	(32,025)

	<i>Other financial assets (Note 8)</i>	<i>Performance guarantees (Note 16)</i>	<i>Total</i>
1 January 2021	(410)	(3,230)	(3,640)
Charge	(79)	(7,167)	(7,246)
30 June 2021	(489)	(10,397)	(10,886)

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2020:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	3	(54)	-	-	(54)
Amounts due from credit institutions	4	146	-	-	146
Investment securities at FVOCI	5	(427)	-	-	(427)
Investment securities at amortised cost	5	(311)	-	-	(311)
Loans to customers at amortised cost	6	(2,690)	(12,342)	(7,914)	(22,946)
Credit loss on financial assets		(3,336)	(12,342)	(7,914)	(23,592)
Commitments and contingencies		1,538	(78)	(315)	1,145
Total credit loss expense		(1,798)	(12,420)	(8,229)	(22,447)

	<i>Other financial assets (Note 8)</i>	<i>Performance guarantees (Note 16)</i>	<i>Total</i>
1 January 2020	(315)	(2,198)	(2,513)
Charge	8	(3,630)	(3,622)
30 June 2020	(307)	(5,828)	(6,135)

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets. Provision for ECL for credit related commitments are recorded in liabilities.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

18. Net fee and commission income

Net fee and commission income comprises:

	<i>For six months ended (unaudited)</i>	
	<u>30 June 2021</u>	<u>30 June 2020</u>
Servicing plastic card operations	16,867	10,795
Settlements operations	9,226	6,873
Guarantees and letters of credit	6,842	7,116
Cash operations	2,192	1,588
Other	429	306
Fee and commission income	<u>35,556</u>	<u>26,678</u>
Servicing plastic card operations	(14,880)	(9,044)
Settlements operations	(3,606)	(1,559)
Guarantees and letters of credit	(708)	(1,101)
Cash operations	(580)	(314)
Securities operations	(6)	(80)
Other	(865)	(575)
Fee and commission expense	<u>(20,645)</u>	<u>(12,673)</u>
Net fee and commission income	<u>14,911</u>	<u>14,005</u>

19. Personnel, general and administrative expenses

Personnel expenses comprise:

	<i>For six months ended (unaudited)</i>	
	<u>30 June 2021</u>	<u>30 June 2020</u>
Salaries and bonuses	(23,160)	(25,255)
Social security costs	(3,286)	(3,189)
Other employee related expenses	(1,252)	(1,634)
Total personnel expenses	<u>(27,698)</u>	<u>(30,078)</u>

General and administrative expenses comprise:

	<i>For six months ended (unaudited)</i>	
	<u>30 June 2021</u>	<u>30 June 2020</u>
Professional services	(4,734)	(3,989)
Insurance	(4,080)	(2,693)
Stationery (loyalty miles)	(2,927)	(483)
Software cost	(2,614)	(1,826)
Charity and sponsorship	(1,062)	(11,213)
Communications	(1,044)	(651)
Repair and maintenance	(949)	(453)
Utilities	(866)	(740)
Advertising costs	(845)	(950)
Taxes, other than income tax	(618)	(786)
Security expenses	(485)	(474)
Transportation and business trip expenses	(444)	(153)
Membership fees	(294)	(660)
Entertainment	(291)	(171)
Operating leases	(140)	(333)
Impairment of repossessed collateral	(26)	(655)
Printing expenses	(8)	(13)
Other expenses	(55)	(170)
Total general and administrative expenses	<u>(21,482)</u>	<u>(26,423)</u>

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

20. Fair values measurement

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The following table shows an analysis of financial instruments recorded at fair value measurement at the end of reporting period by level of the fair value hierarchy:

<i>At 30 June 2021 (unaudited)</i>	<i>Recurring fair value measurement</i>			<i>Total</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	
Financial assets				
Investment securities – at FVOCI	325,518	1,527,492	–	1,853,010
Investment securities at FVTPL	529	2,132	–	2,661
Derivative financial assets	–	8,685	–	8,685
Financial liabilities				
Derivative financial liabilities	–	7,998	–	7,998

<i>At 31 December 2020</i>	<i>Recurring fair value measurement</i>			<i>Total</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	
Financial assets				
Investment securities – at FVOCI	213,771	1,383,442	–	1,597,213
Investment securities – at FVTPL	339	1,368	–	1,707
Derivative financial assets	–	7,925	–	7,925
Financial liabilities				
Derivative financial liabilities	–	7,422	–	7,422

Recurring fair value measurements

The following is a description of the determination of fair value for recurring fair value measurements which are recorded using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate data observable in the market.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

20. Fair values measurement (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2021 (unaudited)			31 December 2020		
	Carrying value	Fair value	Unrecogni- zed gain/(loss)	Carrying value	Fair value	Unrecogni- zed gain/(loss)
Financial assets						
Cash and cash equivalents	1,194,473	1,194,473	-	1,200,544	1,200,544	-
Amounts due from credit institutions	527,538	527,538	-	456,425	456,425	-
Investment securities measured at amortised cost	80,916	83,046	2,130	50,516	52,440	1,924
Loans to customers	2,671,007	2,659,194	(11,813)	2,608,818	2,599,116	(9,702)
Other financial assets	19,835	19,835	-	28,182	28,182	-
Financial liabilities						
Amounts due to banks and government funds	1,046,163	1,063,106	(16,943)	1,140,552	1,154,532	(13,980)
Amounts due to customers	4,609,650	4,608,640	1,010	4,091,379	4,089,046	2,333
Other borrowed funds	8,122	8,122	-	4,058	4,058	-
Subordinated debts	27,181	27,181	-	27,165	27,165	-
Debt securities issued	162,145	162,526	(381)	149,137	149,971	(834)
Other financial liabilities	20,337	20,337	-	20,885	20,885	-
Total unrecognised change in unrealised fair value			(25,997)			(20,259)

Valuation techniques and assumptions

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

20. Fair values measurement (continued)

Fixed and variable rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, without a specific maturity and variable rate financial instruments.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

21. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	30 June 2021 (unaudited)					31 December 2020				
	Shareholders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total	Shareholders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total
Cash and cash equivalents	-	841	-	-	841	-	1,113	-	-	1,113
Loans, gross	-	654,517	4,117	57,311	715,945	-	647,313	3,415	43,213	693,941
Less: allowance for impairment	-	(6,089)	(218)	(861)	(7,168)	-	(4,711)	(153)	(424)	(5,288)
Loans, net	-	648,428	3,899	56,450	708,777	-	642,602	3,262	42,789	688,653
Amounts due to banks and government funds	-	14,768	-	-	14,768	-	86,347	-	-	86,347
Time deposits	88,516	789,762	12,028	48,965	939,271	88,075	494,709	11,810	22,469	617,063
Demand deposits	363,544	340,403	6,530	260,053	970,530	253,348	271,695	2,901	426,652	954,596
Additional paid-in capital	-	343	-	-	343	-	-	-	-	-
Other assets	-	926	-	133	1,059	-	681	-	129	810
Subordinated debts	18,918	8,263	-	-	27,181	18,923	8,242	-	-	27,165
Lease liabilities	-	3,956	-	-	3,956	-	5,345	-	-	5,345
Derivative financial assets	-	4,171	-	-	4,171	-	406	-	-	406
Derivative financial liabilities	-	3,653	-	-	3,653	-	6,354	-	-	6,354
Other liabilities	371	3,694	-	97	4,062	-	6,903	-	495	7,398
Debt securities issued	98,308	27,626	-	-	125,934	99,587	37,824	-	-	137,411
Guarantees issued	-	19,225	-	37,867	57,092	-	11,294	-	49,189	60,483
Letters of credit issued	-	820	-	16,838	17,658	-	1,016	-	9,874	10,890
Unused credit lines	-	13,333	866	24,692	38,891	-	6,933	636	41,967	49,536

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

21. Related party disclosures (continued)

	For the six months ended (unaudited)									
	30 June 2021					30 June 2020				
	Share- holders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total	Share- holders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total
Interest income on loans	-	14,030	192	2,652	16,874	-	9,741	211	2,208	12,160
Interest expense (except subordinated debts)	(2,076)	(6,909)	(265)	(1,528)	(10,778)	(2,143)	(3,919)	(100)	(847)	(7,009)
Interest expense on subordinated debts	(276)	(214)	-	-	(490)	(277)	(215)	-	-	(492)
Net gains from foreign currencies: dealing	335	1,319	12	817	2,483	211	1,398	58	1,140	2,807
Net gains / (losses) from foreign currencies: translation differences	524	(1,747)	-	-	(1,223)	(721)	(3,421)	-	-	(4,142)
Net gains from foreign currencies: operations with foreign currency derivatives	-	6,466	-	-	6,466	-	3,698	-	-	3,698
General and administrative expenses	(11)	(1,570)	-	-	(1,581)	-	(1,376)	-	-	(1,376)
Fee and commission income	193	4,008	39	1,603	5,843	62	3,295	25	872	4,254
Fee and commission expense	-	(2,852)	-	(241)	(3,093)	-	(2,691)	-	(5)	(2,696)
Other income	-	247	-	-	247	-	-	-	-	-

Compensation to members of key management personnel was comprised of the following:

	For six months ended (unaudited)	
	30 June 2021	30 June 2020
Salaries and other benefits	(14,780)	(9,399)
Social security costs	(2,090)	(1,212)
Total key management compensation	(16,870)	(10,611)

22. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the CBAR, NBS and BRSA. During the past period, the Group had complied in full with all its externally imposed capital requirements.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

22. Capital adequacy (continued)

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6.0% (2020: 6.0%) and 11.0% (2020: 11.0%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines. In January 2020 the CBAR increased the minimum required capital adequacy ratio for Total Capital from 11.0% to 12.0%. However, as part of the stimulus measures to combat economic downturn caused by the COVID-19 pandemic, CBAR decided on 23 April 2020 to temporarily reduce it back to 11.0% and keep it at 11.0% until July 2021:

	<u>30 June 2021</u> <u>(unaudited)</u>	<u>31 December 2020</u>
Tier 1 capital	418,806	384,363
Tier 2 capital	104,189	135,495
Less: deductions from capital	<u>(149,301)</u>	<u>(149,301)</u>
Total regulatory capital	<u>373,694</u>	<u>370,557</u>
Risk-weighted assets	<u>2,696,511</u>	<u>2,387,253</u>
Capital adequacy ratio (Tier 1)	15.5%	16.1%
Capital adequacy ratio (Total Capital)	13.9%	15.5%

NBG capital adequacy ratio

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 14.0% p.a., (31 December 2020: 14.3% p.a.), Tier 1 Capital ratio of 8.7% p.a. (31 December 2020: 7.8% p.a.) and Core Tier 1 Capital ratio of 6.5% p.a. of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2021 the PASHA Bank Georgia's capital adequacy ratio and Tier 1 Capital ratio calculated on this basis were 23.3% p.a. (31 December 2020: 21.5% p.a.) and 15.8% p.a. (31 December 2020: 14.0%) respectively.

BRSA capital adequacy ratio

The Banking Regulation and Supervision Agency (hereafter, "BRSA") requires banks to maintain a minimum total capital adequacy ratio of 8.0% p.a. (31 December 2020: 8.0% p.a.) of risk-weighted assets for regulatory capital. Capital Adequacy Standard Ratio of PASHA Yatirim Bankasi is calculated in accordance with BRSA. As at 30 June 2021 the bank's capital adequacy ratio was 22.4% p.a. (31 December 2020: 26.3% p.a.).