# OJSC PASHA Bank

## Interim condensed consolidated financial statements

*30 June 2022*

# Contents

Building a better
working world

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor,
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 70 20
Fax: +994 (12) 490 70 17
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 70 20
Faks: +994 (12) 490 70 17

# 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 2022 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.

7 September 2022

Baku, Azerbaijan

## Interim consolidated statement of financial position

## As at 30 June 2022

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

| | *Notes* | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 3 | 2,520,244 | 1,325,411 |
| Amounts due from credit institutions | 4 | 534,950 | 602,608 |
| Investment securities | 5 | 1,812,059 | 1,883,364 |
| Derivative financial assets | 13 | 23,987 | 9,904 |
| Loans to customers | 6 | 2,986,505 | 3,027,305 |
| Investment property | 7 | 28,560 | 19,126 |
| Property and equipment | | 32,159 | 27,938 |
| Intangible assets | | 35,799 | 39,467 |
| Right-of-use assets | | 17,285 | 17,640 |
| Current income tax assets | 14 | 53 | 65 |
| Deferred income tax assets | 14 | 11,608 | 1,730 |
| Other assets | 8 | 55,977 | 53,625 |
| **Total assets** | | **8,059,186** | **7,008,183** |
| **Liabilities** | | | |
| Amounts due to banks and government funds | 9 | 912,957 | 930,407 |
| Amounts due to customers | 10 | 6,223,408 | 5,181,851 |
| Lease liabilities | | 18,277 | 18,241 |
| Debt securities issued | 11 | 98,793 | 162,465 |
| Other borrowed funds | | 13,074 | 8,586 |
| Derivative financial liabilities | 13 | 22,793 | 8,044 |
| Current income tax liabilities | 14 | 13,297 | 11,802 |
| Deferred income tax liabilities | 14 | 4,644 | 2,894 |
| Provision for guarantees and other commitments | 16 | 13,019 | 11,024 |
| Subordinated debts | 12 | 113,150 | 45,103 |
| Other liabilities | 8 | 45,419 | 50,328 |
| **Total liabilities** | | **7,478,831** | **6,430,745** |
| **Equity** | | | |
| Share capital | 15 | 354,512 | 354,512 |
| Additional paid-in capital | 15 | 343 | 343 |
| Retained earnings | | 224,714 | 222,392 |
| Other reserves | 15 | 2,790 | 2,448 |
| Net unrealised (loss)/gain on investment securities | 15 | (1,609) | 12,721 |
| Foreign currency translation reserve | 15 | (44,396) | (56,362) |
| **Total equity attributable to shareholders of the Bank** | | **536,354** | **536,054** |
| Non-controlling interests | | 44,001 | 41,384 |
| **Total equity** | | **580,355** | **577,438** |
| **Total liabilities and equity** | | **8,059,186** | **7,008,183** |

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

Javid Gouliyev — Chairman of the Executive Board

Murad Suleymanov — Chief Financial Officer

Azərbaycan Respublikası Açıq Səhmdar Cəmiyyəti PAŞA Bank Open Joint Stock Company Azerbaijan Republic

7 September 2022

*The accompanying notes on pages 6 to 27 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 2022

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

| | | For the six months ended 30 June (unaudited) | |
|---|---|---|---|
| | *Notes* | *2022* | *2021* |
| **Interest income** | | | |
| Loans to customers | | 133,092 | 113,119 |
| Investment securities | | 36,608 | 38,914 |
| Cash and cash equivalents | | 1,320 | 1,138 |
| Amounts due from credit institutions | | 4,059 | 2,793 |
| **Interest revenue calculated using effective interest rate** | | **175,079** | **155,964** |
| **Interest expense** | | | |
| Amounts due to customers | | (19,941) | (17,959) |
| Amounts due to banks and government funds | | (15,441) | (17,496) |
| Debt securities issued | | (3,390) | (3,462) |
| Subordinated debts | | (1,980) | (704) |
| Lease liabilities | | (700) | (123) |
| Other borrowed funds | | (276) | (185) |
| | | **(41,728)** | **(39,929)** |
| **Net interest income** | | **133,351** | **116,035** |
| Credit loss expense on financial assets | 17 | (46,838) | (29,729) |
| **Net interest income after credit loss expense** | | **86,513** | **86,306** |
| Net fee and commission income | 18 | 26,369 | 14,911 |
| Net (losses)/gains from investment securities | | (15,230) | 691 |
| Net gains/(losses) from foreign currencies: | | | |
| - dealing | | 27,065 | 15,332 |
| - translation differences | | (3,698) | (1,343) |
| - foreign currency derivatives | | 3,473 | (343) |
| Other income | | 1,311 | 2,108 |
| **Non-interest income** | | **39,290** | **31,356** |
| Personnel expenses | 19 | (32,401) | (27,698) |
| General and administrative expenses | 19 | (27,053) | (21,456) |
| Depreciation and amortisation | | (11,516) | (10,887) |
| Net gains on modification of financial assets measured at amortised cost | 6 | 648 | 1,676 |
| Net losses on derecognition of loans to customers | | (111) | (111) |
| Reversal of write-down of miles under loyalty program | | – | 691 |
| Reversal of impairment on Investment property | | 1,373 | 410 |
| Reversal of impairment on Property and equipment | | 694 | – |
| Write-down of repossessed collaterals | | (1,400) | (26) |
| Other operating expenses | | (53) | (284) |
| Provision for credit related commitments and other assets | 17 | (2,439) | (9,542) |
| **Non-interest expense** | | **(72,258)** | **(67,227)** |
| Loss on net monetary position | | (14,802) | – |
| **Profit before income tax expense** | | **38,743** | **50,435** |
| Income tax expense | 14 | (19,566) | (11,272) |
| **Net Profit for the period** | | **19,177** | **39,163** |
| **Attributable to:** | | | |
| - shareholders of the Bank | | 24,821 | 36,401 |
| - non-controlling interests | | (5,644) | 2,762 |
| | | **19,177** | **39,163** |

*The accompanying notes on pages 6 to 27 are an integral part of these interim condensed consolidated financial statements.*

## Interim consolidated statement of comprehensive income

## For the six months ended 30 June 2022

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

| | *Notes* | *For the six months ended 30 June (unaudited)* 2022 | 2021 |
|---|---|---|---|
| **Net Profit for the period** | | **19,177** | **39,163** |
| **Other comprehensive income** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods* | | | |
| Net change in fair value of investment securities at fair value through other comprehensive income | 5 | (71,959) | 7,807 |
| Reclassification of cumulative gain/(loss) on disposal of debt instruments at fair value through other comprehensive income to the income statement | | 14,668 | – |
| Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income | 17 | 39,377 | (359) |
| **Net unrealised (losses)/gains on investment securities at fair value through other comprehensive income** | | **(17,914)** | **7,448** |
| Income tax relating to components of other comprehensive income | 14 | 3,584 | (1,487) |
| Foreign currency translation differences | 15 | 20,227 | (20,520) |
| **Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods** | | **5,897** | **(14,559)** |
| **Total comprehensive income for the period** | | **25,074** | **24,604** |
| **Attributable to:** | | | |
| - shareholders of the Bank | | 22,457 | 32,776 |
| - non-controlling interests | | 2,617 | (8,172) |
| | | **25,074** | **24,604** |

*The accompanying notes on pages 6 to 27 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 2022

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

| | *Attributable to shareholders of the Bank* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Share capital* | *Additional paid-in capital* | *Retained earnings* | *Net unrealised gains/ (losses) on investment securities* | *Other reserves* | *Foreign currency translation reserve* | *Total* | *Non-controlling interests* | *Total equity* |
| **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 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 |
| Increase in charter capital | – | – | – | – | – | – | – | – | – |
| 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 |
| **As at 1 January 2022** | 354,512 | 343 | 222,392 | 12,721 | 2,448 | (56,362) | 536,054 | 41,384 | 577,438 |
| Net profit for the period | – | – | 24,821 | – | – | – | 24,821 | (5,644) | 19,177 |
| Other comprehensive income/(loss) for the period | – | – | – | (14,330) | – | 11,966 | (2,364) | 8,261 | 5,897 |
| **Total comprehensive income/(loss) for the period** | – | – | 24,821 | (14,330) | – | 11,966 | 22,457 | 2,617 | 25,074 |
| Transfer to reserves (Note 15) | – | – | (342) | – | 342 | – | – | – | – |
| Dividends to shareholders of the Bank (Note 15) | – | – | (22,157) | – | – | – | (22,157) | – | (22,157) |
| **As at 30 June 2022 (unaudited)** | 354,512 | 343 | 224,714 | (1,609) | 2,790 | (44,396) | 536,354 | 44,001 | 580,355 |

## Interim consolidated statement of cash flows

## For the six months ended 30 June 2022

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

| | Notes | For the six months ended 30 June (unaudited) 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 177,526 | 151,015 |
| Interest paid | | (42,852) | (35,579) |
| Fees and commissions received | | 53,200 | 35,728 |
| Fees and commissions paid | | (27,333) | (21,190) |
| Realised gains less losses from dealing in foreign currencies and from operations with foreign currency derivatives | | 26,778 | 15,286 |
| Personnel expenses paid | | (44,432) | (43,564) |
| General and administrative expenses paid | | (28,217) | (17,680) |
| Other income received | | 3,939 | 1,107 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **118,609** | **85,123** |
| *Net (increase)/decrease in operating assets* | | | |
| Amounts due from credit institutions | | 47,229 | (76,156) |
| Loans to customers | | (51,946) | (126,521) |
| Other assets | | (5,760) | (5,288) |
| *Net increase/(decrease) in operating liabilities* | | | |
| Amounts due to banks and government funds | | 16,782 | (84,100) |
| Amounts due to customers | | 1,118,834 | 563,363 |
| Other borrowed funds | | 6,447 | – |
| Other liabilities | | 7,536 | (19,428) |
| **Net cash flows from operating activities before income tax** | | **1,257,731** | **336,993** |
| Income tax paid | | (22,966) | (20,032) |
| **Net cash flows from operating activities** | | **1,234,765** | **316,961** |
| **Cash flows from investing activities** | | | |
| Proceeds from sale and redemption of investment securities | | 1,014,112 | 1,239,001 |
| Purchase of investment securities | | (1,022,675) | (1,511,438) |
| Proceeds from sale of property and equipment | | 1,452 | 166 |
| Proceeds from sale of investment property | | – | 2,000 |
| Purchase and prepayments for property and equipment | | (1,402) | (4,221) |
| Acquisition of intangible assets | | (1,521) | (2,906) |
| **Net cash flows used in investing activities** | | **(10,034)** | **(277,398)** |
| **Cash flows from financing activities** | | | |
| Proceeds from debt securities issued | | 77,099 | 43,086 |
| Payment of debt securities | | (147,682) | (26,293) |
| Lease payments | | (3,771) | (3,567) |
| Proceed from issue of subordinated debt | | 68,778 | – |
| Dividends paid | 15 | (22,157) | (50,380) |
| **Net cash used in financing activities** | | **(27,733)** | **(37,154)** |
| Effect of exchange rates changes on cash and cash equivalents | | (11,958) | (8,533) |
| Inflation effect on cash and cash equivalents | | 9,822 | – |
| Effect of expected credit losses on cash and cash equivalents | 17 | (37) | 53 |
| Effect of restricted balances and accruals | | 8 | – |
| **Net decrease in cash and cash equivalents** | | **1,194,833** | **(6,071)** |
| Cash and cash equivalents, beginning of the year | | 1,325,411 | 1,200,544 |
| **Cash and cash equivalents, ending of the period** | 3 | **2,520,244** | **1,194,473** |

*The accompanying notes on pages 6 to 27 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 2022 and 31 December 2021, 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 2022 and 31 December 2021, the following shareholders owned the outstanding shares of the Bank:

| *Shareholders* | *30 June 2022, (%)* | *31 December 2021, (%)* |
|---|---|---|
| PASHA Holding LLC | 57 | 57 |
| Bless LLC | 28 | 28 |
| Mr. Arif Pashayev | 10 | 10 |
| Mr. Mir Jamal Pashayev | 5 | 5 |
| **Total** | **100** | **100** |

As at 30 June 2022 and 31 December 2021, the Group is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective 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. In March 2022 share capital of subsidiary was increased by GEL 26,000 thousand and amounted to GEL 139,000 thousand as at 30 June 2022. 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 2022 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 2021.

### 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)

**Financial reporting in hyperinflationary economy**

Effective from 30 June 2022, IAS 29 Financial Reporting in Hyperinflation Economies has been applied to the financial statements of PASHA Yatirim Bankasi A.Ş., a subsidiary of the Group in Turkey, because the functional currency this bank (Turkish Lira) is the currency of a hyperinflationary economy as per IAS 29.

Accordingly, financial statements and corresponding figures of PASHA Yatirim Bankasi A.Ş. for previous periods have been restated for the changes in the general purchasing power of Turkish Lira and, as a result, are expressed in terms of purchasing power of Turkish Lira as of 30 June 2022. As per IAS 29 existence of hyperinflation in Turkish economy is firstly identified in the interim reporting period ending as of the 30 June 2022. Three-year cumulative increase in Consumer Price Index (CPI) as of June 2022 has been 136% in Turkey according to inflation data published by Turkey Statistical Institute on July 4, 2022.

On the application of IAS 29, the Group used the conversion coefficient derived from the CPI in the Turkey published by Turkey Statistical Institute.

To perform the required restatement of financial statements under IAS 29, assets and liabilities are separated into those that are monetary and non–monetary, with non–monetary items further divided into those measured on either a current or historical basis. Monetary items (other than index -linked monetary items) are not restated because they are already expressed in terms of measuring unit as of 30 June 2022. Non-monetary items (items which are not expressed in terms of measuring unit as of 30 June 2021) are restated by applying the relevant index. The restated amount of a non-monetary item is reduced, in accordance with appropriate IFRSs, when it exceeds its recoverable amount. Components of shareholders' equity in the statement of financial position and all items in the statement of profit or loss and other comprehensive income also be restated by applying the relevant index.

Non-monetary items measured at historical cost that were acquired or assumed and components of shareholders' equity that were contributed or arose before the time when the Turkey previously ceased to be considered hyperinflationary, i.e before 1 January 2005, are restated by applying the change in the relevant index from 1 January 2005 to 30 June 2022.

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Turkish Lira recognized in the profit or loss section of the statement of profit or loss and comprehensive income. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position is derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income and the adjustment of index linked assets and liabilities.

IAS 29 and IAS 21 require the closing exchange rate to be applied when translating both the income statement and the balance sheet from the hyperinflationary currency (Turkish Lira), into the presentation currency of the Group, Azerbaijani manat.

Since the Group's presentation currency, is non-hyperinflationary, comparatives are not adjusted for the effects of inflation in the current period. The net impact from inflation adjustment of PASHA Yatirim Bankasi A.Ş. net assets is included in other comprehensive income for the year within foreign currency translation differences.

### Estimation uncertainty

To the extent that information is available as at 30 June 2022, 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 2021. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Several other amendments effective since 1 January 2022 were applied but do not have an impact on the interim condensed consolidated financial statements of the Bank.

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

## 3. Cash and cash equivalents

Cash and cash equivalents comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Cash on hand | 73,481 | 84,590 |
| Current accounts with the CBAR, the NBG and the CBRT | 1,445,253 | 1,069,209 |
| Time deposits with credit institutions up to 3 months | 831,093 | 77,841 |
| Current accounts with other credit institutions | 170,465 | 93,282 |
| Reverse repurchase agreements with credit institutions up to 3 months | – | 500 |
| Less: allowance for impairment | (48) | (11) |
| **Cash and cash equivalents** | **2,520,244** | **1,325,411** |

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 2,321 thousand (31 December 2021: AZN 4,230 thousand) and AZN 168,144 thousand (31 December 2021: AZN 89,052 thousand), respectively.

As at 30 June 2022, the Group placed AZN 831,093 thousand in time deposits with seven non-resident banks maturing through August 2022 (31 December 2021: AZN 77,841 thousand one resident and six non-resident banks maturing through January 2022). All balances of cash equivalents are allocated to Stage 1.

## 4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Time deposits with credit institutions for more than 3 months | 189,274 | 323,240 |
| Loans to banks | 88,371 | 37,070 |
| Obligatory reserve with the CBAR, the NBG and the CBRT | 90,959 | 90,195 |
| Restricted deposits | 167,700 | 152,964 |
| | **536,304** | **603,469** |
| Less: allowance for impairment | (1,354) | (861) |
| **Amounts due from credit institutions** | **534,950** | **602,608** |

As at 30 June 2022, time deposits with credit institutions mature between July 2022 and August 2023 (31 December 2021: between January 2022 and August 2023)

As at 30 June 2022, the Group had outstanding amount of AZN 19,853 thousand (31 December 2021: AZN 37,070 thousand) of secured loans issued to two resident commercial banks (31 December 2021: four resident commercial banks) with contractual maturity through September 2023 (31 December 2021: September 2023) and AZN 68,518 thousand (31 December 2021: nil) of non-secured loans issued to one resident and eight non-resident commercial banks with contractual maturity through December 2024.

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% (31 December 2021: 0.5%) and 1.0% (31 December 2021: 1.0%) 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% (31 December 2021: 5.0%) and 25.0% (31 December 2021: 25.0%) 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 interest earning reserve for deposits with the CBRT in the range of 3.0% and 8.0% (31 December 2021: 3.0% and 8.0%) and 5% and 26.0% (31 December 2021: 5.0% and 26.0%) of average of funds attracted from customers by a credit institution in TL and foreign currencies, respectively.

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

## 4. Amounts due from credit institutions (continued)

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

| | *30 June (unaudited)* | |
|---|---|---|
| | *2022* | *2021* |
| | *Stage 1* | *Stage 1* |
| **ECL allowance as at 1 January** | **(861)** | **(485)** |
| New assets originated or purchased | (502) | (699) |
| Assets repaid | – | 167 |
| Foreign exchange adjustments | 9 | 7 |
| **At 30 June** | **(1,354)** | **(1,010)** |

## 5. Investment securities

Investment securities comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Debt securities at FVOCI** | | |
| Azerbaijan Mortgage Fund bonds | 600,896 | 592,843 |
| Bonds of the Ministry of Finance of the Republic of Azerbaijan | 528,611 | 616,722 |
| Notes issued by the Central Bank of Azerbaijan Republic | 260,746 | 16,563 |
| Certificate of deposits | 96,393 | 93,741 |
| Corporate bonds | 90,964 | 216,142 |
| US treasury bonds | 88,289 | 142,186 |
| Bonds of financial institutions | 56,841 | 70,659 |
| Other foreign government bonds | 5,041 | 58,187 |
| **Debt securities at FVOCI** | **1,727,781** | **1,807,043** |

As at 30 June 2022, a net decrease in fair value through other comprehensive income of AZN 47,920 thousand was caused by debt securities related to Russian financial markets.

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Equity securities at FVOCI** | | |
| Corporate Shares | 2,787 | 3,021 |
| **Equity securities at FVOCI** | **2,787** | **3,021** |

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Equity securities at FVTPL** | | |
| Mutual funds participation certificate | 3,153 | 2,785 |
| **Equity securities at FVTPL** | **3,153** | **2,785** |

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

## 5. Investment securities (continued)

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Debt securities at amortized cost** | | |
| Bonds of financial institutions | 27,092 | 28,871 |
| Other foreign governments' bonds | 36,911 | 28,234 |
| Corporate bonds | 15,091 | 14,159 |
| | **79,094** | **71,264** |
| Less: allowance for impairment | (756) | (749) |
| **Debt securities at amortized cost** | **78,338** | **70,515** |

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

| *Debt securities at FVOCI* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECl allowance as at 1 January 2022** | **(3,693)** | – | – | **(3,693)** |
| New assets originated or purchased | (1,752) | – | – | **(1,752)** |
| Assets repaid or sold | 1,533 | – | – | **1,533** |
| Transfer to Stage 2 | 31 | (31) | – | – |
| Transfer to Stage 3 | 23 | – | (23) | – |
| Changes to models and inputs used for ECL calculations | (227) | – | – | **(227)** |
| Impact on period end ECL of exposures transferred between stages during the period | – | (11,028) | (27,903) | **(38,931)** |
| Foreign exchange adjustment | (2) | – | – | **(2)** |
| **At 30 June 2022** | **(4,087)** | **(11,059)** | **(27,926)** | **(43,072)** |

| *Debt securities at FVOCI* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECl allowance as at 1 January 2021** | **(4,246)** | – | – | **(4,246)** |
| New assets originated or purchased | (747) | – | – | **(747)** |
| Assets repaid or sold | 1,103 | – | – | **1,103** |
| Changes to models and inputs used for ECL calculations | 3 | – | – | **3** |
| Foreign exchange adjustment | 7 | – | – | **7** |
| **At 30 June 2021** | **(3,880)** | – | – | **(3,880)** |

| | *30 June (unaudited)* | |
|---|---|---|
| | *2022* | *2021* |
| *Debt securities at amortized cost* | *Stage 1* | *Stage 1* |
| **ECL as at 1 January** | **(749)** | **(621)** |
| New assets originated or purchased | (173) | (108) |
| Assets repaid | 66 | 1 |
| Changes to models and inputs used for ECL calculations | (23) | 60 |
| Foreign exchange adjustments | 123 | 84 |
| **At 30 June** | **(756)** | **(584)** |

## 6. Loans to customers

Loans to customers comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Legal entities | 2,717,649 | 2,808,078 |
| Individuals | 374,958 | 315,391 |
| **Loans to customers (gross)** | **3,092,607** | **3,123,469** |
| Less: allowance for impairment | (106,102) | (96,164) |
| **Loans to customers (net)** | **2,986,505** | **3,027,305** |

*(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 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Trade and services | 1,338,226 | 1,460,654 |
| Individuals | 374,958 | 315,391 |
| Manufacturing | 368,742 | 360,062 |
| Construction | 323,645 | 328,149 |
| Transport and telecommunication | 215,558 | 201,356 |
| Agriculture and food processing | 167,472 | 154,859 |
| Non-banking credit organizations | 148,437 | 119,700 |
| Energy | 61,541 | 70,896 |
| Mining | 38,606 | 41,706 |
| Real estate management | 27,355 | 30,759 |
| Other | 14,348 | 14,321 |
| Leasing | 13,719 | 25,616 |
| **Total loans (gross)** | **3,092,607** | **3,123,469** |

As at 30 June 2022, loans granted to top 13 customers (31 December 2021: 16 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 835,804 thousand (31 December 2021: AZN 1,027,958 thousand).

An analysis of changes in the ECL allowances during the six months ended 30 June 2022 is, as follows:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2022** | **(19,957)** | **(23,498)** | **(52,709)** | **(96,164)** |
| New assets originated or purchased | (26,505) | – | – | **(26,505)** |
| Assets repaid | 3,909 | 2,931 | 13,450 | **20,290** |
| Transfers to Stage 1 | (3,657) | 3,652 | 5 | – |
| Transfers to Stage 2 | 4,855 | (5,049) | 194 | – |
| Transfers to Stage 3 | 16,053 | 1,506 | (17,559) | – |
| Impact on period end ECL of exposures transferred between stages during the period | 2,316 | (1,677) | (7,736) | **(7,097)** |
| Unwinding of discount (recognised in interest revenue) | – | – | (5,327) | **(5,327)** |
| Changes to models and inputs used for ECL calculations | 3,615 | 2,321 | 590 | **6,526** |
| Amounts written off | – | – | 1,683 | **1,683** |
| Recoveries | – | – | (1,143) | **(1,143)** |
| Inflation Adjustment | 716 | 1,286 | 1,075 | **3,077** |
| Foreign exchange adjustments | (333) | (461) | (648) | **(1,442)** |
| **At 30 June 2022** | **(18,988)** | **(18,989)** | **(68,125)** | **(106,102)** |

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 due to modifications not resulting in derecognition | – | – | – | – |
| 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)** |

*(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 gain earned by the Group.

| | *30 June 2022 (unaudited)* | *30 June 2021 (unaudited)* |
|---|---|---|
| **Loans modified during the period** | | |
| Amortised cost before modification | 81,986 | 76,814 |
| Net modification gain | 648 | 1,676 |

## 7. Investment property

The movements in investment property were as follows:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Opening balance at 1 January** | **19,126** | **34,981** |
| Disposals | – | (1,590) |
| Amortisation for the period | (81) | (188) |
| Impairment reversal | 1,373 | – |
| Foreign translation difference | 8,142 | (14,077) |
| **Closing balance** | **28,560** | **19,126** |

As at 30 June 2022 the Group has a real estate classified as investment property amounting to AZN 28,560 thousand with the fair value of AZN 28,560 thousand (31 December 2021: AZN 21,397 thousand).

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

## 8. Other assets and liabilities

Other assets comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Other financial assets** | | |
| Settlements on money transfers | 29,772 | 27,772 |
| Clearance cheque accounts | 3,845 | 2,695 |
| Accrued commission receivable on guarantees and letters of credit | 2,324 | 1,774 |
| Other | 355 | 101 |
| | **36,296** | **32,342** |
| Less: allowance for impairment of other financial assets | (603) | (358) |
| **Total other financial assets** | **35,693** | **31,984** |
| **Other non-financial assets** | | |
| Repossessed collateral | 10,208 | 10,853 |
| Other prepayments | 4,296 | 1,836 |
| Deferred expenses | 3,001 | 2,833 |
| Purchased miles under loyalty programme | 1,978 | 3,788 |
| Prepayments for acquisition of property, equipment and intangible assets | 764 | 2,301 |
| Taxes, other than income tax | 37 | 30 |
| **Total other non-financial assets** | **20,284** | **21,641** |
| **Other assets** | **55,977** | **53,625** |

Other liabilities comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Other financial liabilities** | | |
| Accrued expenses | 11,929 | 11,348 |
| Settlements on money transfer | 7,863 | 1,287 |
| Clearance cheque accounts | 3,845 | 2,695 |
| Other | 2,699 | 1,255 |
| | **26,336** | **16,585** |
| **Other non-financial liabilities** | | |
| Payable to employees | 16,411 | 28,676 |
| Deferred income | 1,474 | 3,059 |
| Taxes, other than income tax | 1,189 | 1,995 |
| Other | 9 | 13 |
| **Total other non-financial liabilities** | **19,083** | **33,743** |
| **Other liabilities** | **45,419** | **50,328** |

## 9. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Long-term deposits from banks | 301,277 | 319,961 |
| Entrepreneurship Development Fund of the Republic of Azerbaijan | 223,254 | 273,940 |
| Short-term deposits from banks | 151,454 | 108,000 |
| Azerbaijan Mortgage and Credit Guarantee Fund | 92,079 | 82,674 |
| Long-term loans from banks | 59,762 | 59,394 |
| Correspondent accounts with other banks | 43,729 | 22,711 |
| Agro Credit and Development Agency | 13,150 | 12,923 |
| Loan from the National Bank of Georgia | 9,356 | 10,992 |
| Deposit from the Ministry of Finance of Georgia | 5,982 | 5,762 |
| Repurchase agreements | 5,224 | 5,378 |
| Amount due to IT Development Fund | 805 | 1,067 |
| State Agency on Mandatory Health Insurance | 6 | 4,305 |
| Other | 6,879 | 23,300 |
| **Amounts due to banks and government funds** | **912,957** | **930,407** |

*(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 2022, the Group attracted long-term deposits from resident commercial banks comprising AZN 301,277 thousand (31 December 2021: AZN 319,961 thousand) maturing through June 2025 with interest rate ranging between 0.1% and 4.3% (31 December 2021: September 2023 with interest rate ranging between 0.1% and 4.3%).

As at 30 June 2022, Entrepreneurship Development Fund of the Republic of Azerbaijan had current account amounting to AZN 11,600 thousand (31 December 2021: AZN 25,317 thousand) and time deposits amounting to AZN 13,089 thousand as of 31 December 2021. The Group had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 211,654 thousand (31 December 2021: AZN 235,534 thousand), maturing through June 2030 (31 December 2021: through June 2030), and bearing interest rate of 1.0% (31 December 2021: 1.0%). 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% (31 December 2021: not higher than 6.0%).

As at 30 June 2022, the Group attracted short-term deposits from resident and non-resident commercial banks (31 December 2021: resident and non-resident) comprising AZN 151,454 thousand (31 December 2021: AZN 108,000 thousand) maturing through February 2023 (31 December 2021: November 2022) and with interest rates ranging between 0.01% and 20.0% (31 December 2021: ranging between 0.01% and 19.0%).

As at 30 June 2022, the Group had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 87,079 thousand (31 December 2021: AZN 67,181 thousand), maturing through July 2052 (31 December 2021: through January 2051) and bearing interest rate of 1.0% and 4.0% (31 December 2021: 1.0% and 4.0%). The loans have been granted to borrowers at interest rate not higher than 8.0% (31 December 2021: not higher than 8.0%). Also the Group had short-term deposit from the Azerbaijan Mortgage and Credit Guarantee Fund amounting AZN 5,000 thousand (31 December 2021: AZN 15,493), maturing through June 2023 (31 December 2021: June 2022) with interest rate 5.0% (31 December 2021: ranging between 5.0% and 5.5%).

As at 30 June 2022, the Group received long-term loan from resident and non-resident commercial banks (31 December 2021: resident and non-resident commercial banks) comprising AZN 59,762 thousand (31 December 2021: AZN 59,394 thousand) maturing through August 2026 with interest rate ranging between 3.0% and 10.5% (31 December 2021: August 2026 with interest rate ranging between 3.0% and 11.0%).

As at 30 June 2022, the Group had loans received from the Agro Credit and Development Agency amounting to AZN 13,150 thousand (31 December 2021: AZN 12,923 thousand), maturing through June 2027 (31 December 2021: December 2026) and bearing interest rate 2.0%. (31 December 2021: ranging between 2.0% and 4.0%). The loans have been granted to local entrepreneurs at interest rate of 7.0% (31 December 2021: 7.0%).

As at 30 June 2022, the Group had loans from National Bank of Georgia amounting AZN 9,356 thousand (31 December 2021: AZN 10,992 thousand) maturing through July 2022 (31 December 2021: January 2022) and with interest rate 11.2% (31 December 2021: 11.0%).

As at 30 June 2022, the Group had deposit from Ministry of Finance of Georgia amounting AZN 5,982 thousand (31 December 2021: AZN 5,762 thousand) maturing through January 2028 (31 December 2021: January 2028) and with interest rates ranging between 9.9% and 11.5% (31 December 2021: 9.9% and 11.0%).

As at 30 June 2022, the Group had loans refinanced from the IT Development Fund amounting to AZN 805 thousand (31 December 2021: AZN 1,067 thousand), maturing through June 2024 (31 December 2021: through June 2024) and bearing interest rate of 1.0% (31 December 2021: 1.0%). The loans have been granted to local entrepreneurs at interest rate of 5.0%.

*(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 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Demand deposits | 4,452,523 | 3,647,812 |
| Time deposits | 1,770,885 | 1,534,039 |
| **Amounts due to customers** | **6,223,408** | **5,181,851** |
| Held as security against guarantees issued (Note 16) | 79,045 | 51,317 |

An analysis of customer accounts by economic sector follows:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| Trade and services | 1,679,271 | 1,119,964 |
| Individuals | 1,303,107 | 1,651,084 |
| Mining | 747,674 | 502,764 |
| Transport and communication | 721,017 | 360,886 |
| Investment holding companies | 631,877 | 453,777 |
| Manufacturing | 491,264 | 382,238 |
| Energy | 148,167 | 131,830 |
| Construction | 143,029 | 250,994 |
| Insurance | 139,498 | 121,780 |
| Public organizations | 70,084 | 68,939 |
| Agriculture | 37,989 | 29,197 |
| Hotel business | 33,987 | 16,137 |
| Non-banking credit organizations | 28,200 | 23,573 |
| Real estate management | 79 | – |
| Other | 48,165 | 68,688 |
| **Amounts due to customers** | **6,223,408** | **5,181,851** |

As at 30 June 2021, customer deposits included balances with thirteen (31 December 2021: thirteen) largest customers comprised AZN 3,533,344 thousand or 59% of the total customer deposits portfolio (31 December 2021: AZN 2,757,218 thousand or 53% of the total customer deposits portfolio).

## 11. Debt securities issued

As at 30 June 2022, PASHA Yatirim Bankasi A.S. had issued interest-bearing bonds with carrying amount of AZN 98,793 thousand (31 December 2021: AZN 162,465 thousand) maturing in December 2023 (31 December 2021: maturing in February 2023) and bearing annual interest rates ranging from 1.8% to 18.5% (31 December 2021: from 1.8% to 18.4%).

## 12. Subordinated debts

As of 30 June 2022, the amount of subordinated debts represents USD denominated subordinated loans of AZN 113,150 thousand (31 December 2021: AZN 45,103) maturing through August 2027 and April 2029 (31 December 2021: through August 2024 and December 2028).

*(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 2022 (unaudited)* | | | *31 December 2021* | | |
|---|---|---|---|---|---|---|
| | *Notional amount* | *Fair values* | | *Notional amount* | *Fair value* | |
| | | *Asset* | *Liability* | | *Asset* | *Liability* |
| **Interest rate contracts** | | | | | | |
| Forwards and swaps – foreign | 46,269 | 160 | (421) | 39,828 | 102 | (183) |
| **Foreign exchange contracts** | | | | | | |
| Forwards and swaps – foreign | 361,673 | 2,614 | (13,187) | 356,704 | 1,868 | (7,801) |
| Forwards and swaps – domestic | 319,125 | 14,627 | (2,816) | 334,764 | 7,835 | (60) |
| Options – domestic | 114,888 | 76 | – | 54,474 | 99 | – |
| Futures – foreign | 67,283 | 5,814 | (688) | – | – | – |
| Futures – domestic | 67,150 | 696 | (5,681) | – | – | – |
| **Total derivative assets/ (liabilities)** | | 23,987 | (22,793) | | 9,904 | (8,044) |

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 2022 and 31 December 2021, 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 2022* | *30 June 2021* |
| Current tax charge | (24,687) | (11,015) |
| Deferred tax credit / (charge) – origination and reversal of temporary differences | 8,705 | (1,744) |
| Less: deferred tax recognised in other comprehensive income | (3,584) | 1,487 |
| **Income tax expense** | **(19,566)** | **(11,272)** |

As at 30 June 2022, current income tax assets and deferred income tax assets of the Group were AZN 53 thousand and AZN 11,608 thousand, respectively (31 December 2021: AZN 65 thousand and AZN 1,730 thousand, respectively).

As at 30 June 2022, current income tax liabilities and deferred income tax liabilities of the Group were AZN 13,297 thousand and AZN 4,644 thousand, respectively (31 December 2021: AZN 11,802 thousand and AZN 2,894 thousand, respectively).

## 15. Equity

As at 30 June 2022, the Bank's authorized, issued and fully paid capital amounted to AZN 354,512 thousand (31 December 2021: AZN 354,512 thousand) comprising of 10,646 ordinary shares (31 December 2021: 10,646) with a par value of AZN 33,300 per ordinary share (31 December 2021: AZN 33,300). Each ordinary share entitles one vote to the shareholder.

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 31 December 2021.

On 20 April 2022 Shareholders of the Bank declared dividends totalling AZN 22,157 thousand on ordinary shares (AZN 2,081 per share) which was paid as at 30 June 2022.

### Additional paid-in capital

As at 30 June 2022 and 31 December 2021, 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. Additionally, it includes the net impact from inflation adjustment of PASHA Yatirim Bankasi A.Ş. net assets.

### 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 2022 the total reserve amounted to AZN 2,790 thousand AZN (31 December 2021: AZN 2,448 thousand).

### Unrealised gains on investment securities

This reserve records fair value changes on investment securities at FVOCI which amounted to AZN 1,609 thousand of loss (31 December 2021: AZN 12,721 thousand of gain).

## 16. Commitments and contingencies

### Operating environment

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine as well as rising consumer demand for goods lead to significant inflationary pressures to the global economy in 2022, including soaring commodity prices. Effect on economies in which the Group operates is presented as follows.

*The Republic of Azerbaijan*

During recent years, the Azerbaijani Government has continued reforms to accelerate transition to a more balanced economy and reduce dependence on the oil and gas sector.

During 2022, oil and gas prices reached multi-year highs, contributing to significant trade surplus, and increased foreign currency inflows into the Azerbaijani economy. At the same time, these global trends contributed to high inflationary pressures in the country.

During 2021 and 2022, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During the first half of 2022, the CBAR increased refinancing rate due to the increased inflation, and, as a result, refinancing rate reached 7.75% as at 30 June 2022 (31 December 2021: 7.25%). During 2022, global rating agencies have revised up growth forecast for Azerbaijan and upgraded Azerbaijani Government's credit rating by one notch. The upgrade reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future disruptions during the post pandemic period. Fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices.

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

## 16. Commitments and contingencies (continued)

### Operating environment (continued)

*The Republic of Azerbaijan (continued)*

However, with inflation at multi-decade highs in many countries, policymakers in advanced economies have pivoted toward tightening of their monetary policies through reduction of their balance sheets and aggressive interest rate hikes. In the event of global recession, which might be triggered by such tightening, demand for hydrocarbons will fall, which would negatively impact Azerbaijan economy.

*The Republic of Georgia*

The economic policies of Georgia in the last decade have been mostly consistent and effective in terms of investment and increasing short-term economic growth rates. Nevertheless, these policies failed for the most part in laying the foundations for increasing the competitiveness of the Georgian economy and ensuring long-term economic growth. 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.

Inflation level in Georgia increased reaching 12.8% year-on year in June 2022 mostly due to Russia-Ukraine conflict. The NBG has increased its refinancing rate during the six months ended 30 June 2022 to 11.0%. As the inflationary expectations remain high for 2022, the NBG remains alert to the signs of high inflation and is ready to further increase the refinancing rate if needed.

The management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis.

*The Republic of Turkey*

Price growth in Turkey has reached a two-decade peak in 2022. Inflation in the country started increasing rapidly in 2021 after the CBRT decided to cut interest rates based on the government decree. It then refused to reverse course despite global supply disruptions and an increase in energy prices caused by Russia-Ukraine conflict. As a result, according to inflation data published by Turkey Statistical Institute on July 4, 2022, the three-year cumulative increase in Consumer Price Index (CPI) as of June 2022 has been 136% in Turkey. This index substantially exceeds 100%, which is a criterion for defining Turkish economy as hyperinflationary in line with IAS 29.

Based on CBRT projections, the disinflationary process is expected to start with the steps taken to achieve a price stability. Accordingly, inflation is projected to be 60.4% at the end of 2022; fall to 19.2% at the end of 2023; and sustain the downward trend by receding to 8.8% by the end of 2024.

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

### 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 2022 is appropriate and that the Group's tax, currency and customs positions will be sustained.

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

## 16. Commitments and contingencies (continued)

### Compliance with regulatory ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2022 and 31 December 2021, 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 2022, the Bank's ratio was 11.49% (31 December 2021: 13.42%).

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 2022, the Bank's ratio was 37.62% (31 December 2021: 42.81%).

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 2022, the Bank's ratio was 16.87% (31 December 2021: 19.28%).

d) Ratio of the share in one legal entity which should not exceed 10% of total capital. As at 30 June 2022, the Bank's ratio was 20.99% (31 December 2021: 23.98%).

NBG requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2022 and 31 December 2021, PASHA Bank Georgia was in compliance with these ratios except for the following:

a) Ratio of maximum exposure to a single related party should not exceed 5% of regulatory capital. As at 30 June 2022, the Bank's ratio was 5.72% (31 December 2021: 5.87%).

This breach does not lead to any regulatory punishment, because of the waiver granted by the NBG. As of the date of the issue of interim condensed financial statements the breach has been fixed. 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.

Financial commitments and contingencies comprise:

| | *30 June 2022 (unaudited)* | *31 December 2021* |
|---|---|---|
| **Credit-related commitments** | | |
| Guarantees issued | 274,500 | 291,260 |
| Unused credit lines | 348,417 | 340,472 |
| Letters of credit | 41,527 | 34,981 |
| | **664,444** | **666,713** |
| **Operating lease commitments** | | |
| Not later than 1 year | 55 | 61 |
| Later than 1 year but not later than 5 years | – | 2 |
| | **55** | **63** |
| Performance guarantees | 391,220 | 386,318 |
| Less: provision for ECL for credit related commitments | (6,208) | (6,119) |
| Less: provisions for performance guarantees | (6,811) | (4,905) |
| **Commitments and contingencies (before deducting collateral)** | **1,042,700** | **1,042,070** |
| Less: cash held as security against guarantees issued (Note 10) | (79,045) | (51,317) |
| **Commitments and contingencies** | **963,655** | **990,753** |

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

## 16. Commitments and contingencies (continued)

### Financial commitments and contingencies (continued)

An analysis of changes in the ECLs during the period ended 30 June 2022 is as follows:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2022** | **(2,387)** | **(3,494)** | **(238)** | **(6,119)** |
| New exposures | (2,523) | – | – | **(2,523)** |
| Exposures derecognised or matured (excluding write-offs) | 821 | 579 | 222 | **1,622** |
| Transfers to Stage 1 | (895) | 895 | – | **–** |
| Transfers to Stage 2 | 1,326 | (1,326) | – | **–** |
| Transfers to Stage 3 | 3 | – | (3) | **–** |
| Impact on period end ECL of exposures transferred between stages during the period | 780 | (76) | (23) | **681** |
| Changes to inputs used for ECL calculations | (22) | (46) | – | **(68)** |
| Foreign exchange adjustments | 174 | 25 | – | **199** |
| **At 30 June 2022** | **(2,723)** | **(3,443)** | **(42)** | **(6,208)** |

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** | **(3,263)** | **(4,126)** | **(2,031)** | **(9,420)** |

## 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 2022:

| | *Note* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| Cash and cash equivalents | 3 | (37) | – | – | **(37)** |
| Amounts due from credit institutions | 4 | (508) | – | – | **(508)** |
| Investment securities at FVOCI | 5 | (392) | (11,059) | (27,926) | **(39,377)** |
| Investment securities at amortised cost | 5 | (130) | – | – | **(130)** |
| Loans to customers at amortised cost | 6 | 586 | 3,684 | (11,056) | **(6,786)** |
| **Credit loss on financial assets** | | **(481)** | **(7,375)** | **(38,982)** | **(46,838)** |
| Commitments and contingencies | 16 | (510) | 26 | 196 | **(288)** |
| **Total credit loss expense** | | **(991)** | **(7,349)** | **(38,786)** | **(47,126)** |

As at 30 June 2022, a credit loss on investment securities at FVOCI of AZN 40,082 thousand was caused by debt securities related to Russian financial markets.

| | *Other financial assets (Note 8)* | *Performance guarantees (Note 16)* | *Total* |
|---|---|---|---|
| **1 January 2022** | (358) | (4,905) | (5,263) |
| Charge | (245) | (1,906) | (2,151) |
| **30 June 2022** | (603) | (6,811) | (7,414) |

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

## 17. Credit loss expense and other impairment and provision (continued)

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:

| | *Note* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| 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 | | (862) | 413 | (1,847) | (2,296) |
| **Total credit loss expense** | | **(2,339)** | **2,606** | **(32,292)** | **(32,025)** |

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

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.

## 18. Net fee and commission income

Net fee and commission income comprises:

| | *For six months ended (unaudited)* | |
|---|---|---|
| | *30 June 2022* | *30 June 2021* |
| Servicing plastic card operations | 29,340 | 16,867 |
| Guarantees and letters of credit | 8,858 | 6,842 |
| Settlements operations | 11,407 | 9,226 |
| Cash operations | 5,013 | 2,192 |
| Other | 244 | 429 |
| **Fee and commission income** | **54,862** | **35,556** |
| Servicing plastic card operations | (22,703) | (14,880) |
| Settlements operations | (4,393) | (3,606) |
| Guarantees and letters of credit | (614) | (708) |
| Cash operations | (669) | (580) |
| Securities operations | (39) | (6) |
| Other | (75) | (865) |
| **Fee and commission expense** | **(28,493)** | **(20,645)** |
| **Net fee and commission income** | **26,369** | **14,911** |

## 19. Personnel, general and administrative expenses

Personnel expenses comprise:

| | *For six months ended (unaudited)* | |
|---|---|---|
| | *30 June 2022* | *30 June 2021* |
| Salaries and bonuses | (26,732) | (23,160) |
| Social security costs | (3,822) | (3,286) |
| Other employee related expenses | (1,847) | (1,252) |
| **Total personnel expenses** | **(32,401)** | **(27,698)** |

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

## 19. Personnel, general and administrative expenses (continued)

General and administrative expenses comprise:

| | *For six months ended (unaudited)* | |
|---|---|---|
| | *30 June 2022* | *30 June 2021* |
| Charity and sponsorship | (5,981) | (1,062) |
| Insurance | (4,301) | (4,080) |
| Software cost | (3,962) | (2,614) |
| Professional services | (2,824) | (4,734) |
| Stationery and loyalty miles | (2,264) | (2,927) |
| Advertising costs | (1,964) | (845) |
| Communications | (1,065) | (1,044) |
| Utilities | (990) | (866) |
| Taxes, other than income tax | (899) | (618) |
| Operating leases | (586) | (140) |
| Repair and maintenance | (556) | (949) |
| Security expenses | (476) | (485) |
| Entertainment | (425) | (291) |
| Transportation and business trip expenses | (328) | (444) |
| Membership fees | (254) | (294) |
| Other expenses | (156) | (55) |
| Printing expenses | (22) | (8) |
| **Total general and administrative expenses** | **(27,053)** | **(21,456)** |

## 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:

| | *Recurring fair value measurement* | | | |
|---|---|---|---|---|
| *At 30 June 2022 (unaudited)* | *(Level 1)* | *(Level 2)* | *(Level 3)* | *Total* |
| **Financial assets** | | | | |
| Investment securities – at FVOCI | 121,724 | 1,608,844 | – | **1,730,568** |
| Investment securities at FVTPL | 373 | 2,780 | – | **3,153** |
| Derivative financial assets | – | 23,987 | – | **23,987** |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | – | 22,793 | – | **22,793** |

| | *Recurring fair value measurement* | | | |
|---|---|---|---|---|
| *At 31 December 2021* | *(Level 1)* | *(Level 2)* | *(Level 3)* | *Total* |
| **Financial assets** | | | | |
| Investment securities – at FVOCI | 417,927 | 1,392,137 | – | **1,810,064** |
| Investment securities – at FVTPL | 356 | 2,429 | – | **2,785** |
| Derivative financial assets | – | 9,904 | – | **9,904** |
| **Financial liabilities** | | | | |
| Derivative financial liabilities | – | 8,044 | – | **8,044** |

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

## 20. Fair values measurement (continued)

### Fair value hierarchy (continued)

*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.

### 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 2022 (unaudited)* | | | *31 December 2021* | | |
|---|---|---|---|---|---|---|
| | *Carrying value* | *Fair value* | *Unrecognized gain/(loss)* | *Carrying value* | *Fair value* | *Unrecognized gain/(loss)* |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 2,520,244 | 2,520,244 | – | 1,325,411 | 1,325,411 | – |
| Amounts due from credit institutions | 534,950 | 534,950 | – | 602,608 | 602,608 | – |
| Investment securities measured at amortised cost | 78,338 | 76,184 | (2,154) | 70,515 | 71,186 | 671 |
| Loans to customers | 2,986,505 | 2,970,719 | (15,786) | 3,027,305 | 3,018,272 | (9,033) |
| Other financial assets | 35,693 | 35,693 | – | 31,984 | 31,984 | – |
| **Financial liabilities** | | | | | | |
| Amounts due to banks and government funds | 912,957 | 909,885 | 3,072 | 930,407 | 918,349 | 12,058 |
| Amounts due to customers | 6,223,408 | 6,229,019 | (5,611) | 5,181,851 | 5,181,042 | 809 |
| Other borrowed funds | 13,074 | 13,074 | – | 8,586 | 8,586 | – |
| Subordinated debts | 113,150 | 113,150 | – | 45,103 | 45,103 | – |
| Debt securities issued | 98,793 | 97,794 | 999 | 162,465 | 162,812 | (347) |
| Other financial liabilities | 26,336 | 26,336 | – | 16,585 | 16,585 | – |
| **Total unrecognised change in unrealised fair value** | | | **(19,480)** | | | **4,158** |

### 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 2022 (unaudited)* | | | | | *31 December 2021* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *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* |
| Cash and cash equivalents | – | 678 | – | – | 678 | – | 609 | – | – | 609 |
| Loans, gross | – | 568,527 | 2,913 | 44,471 | 615,911 | – | 668,349 | 3,283 | 22,826 | 694,458 |
| Less: allowance for impairment | – | (3,172) | (22) | (452) | (3,646) | – | (3,729) | (12) | (309) | (4,050) |
| **Loans, net** | – | 565,355 | 2,891 | 44,019 | 612,265 | – | 664,620 | 3,271 | 22,517 | 690,408 |
| Amounts due to banks and government funds | – | 68,377 | – | 1,540 | 69,917 | – | 89,324 | – | 1,390 | 90,714 |
| Time deposits | 128,986 | 485,706 | 5,223 | 47,819 | 667,734 | 87,995 | 673,803 | 6,550 | 28,268 | 796,616 |
| Demand deposits | 468,867 | 538,944 | 9,433 | 194,424 | 1,211,668 | 623,328 | 309,521 | 7,400 | 357,966 | 1,298,215 |
| Additional paid-in capital | – | 343 | – | – | 343 | – | 343 | – | – | 343 |
| Other assets | – | 12,504 | – | 53 | 12,557 | – | 275 | – | – | 275 |
| Subordinated debts | 53,281 | 30,025 | 1,109 | 983 | 85,398 | 18,923 | 12,739 | 850 | – | 32,512 |
| Investment securities | – | 2,003 | – | 626 | 2,629 | – | 2,003 | – | – | 2,003 |
| Lease liabilities | – | 13,571 | – | – | 13,571 | – | 8,100 | – | – | 8,100 |
| Derivative financial assets | – | 13,188 | – | – | 13,188 | – | 7,786 | – | – | 7,786 |
| Derivative financial liabilities | – | 2,160 | – | – | 2,160 | – | 61 | – | – | 61 |
| Other liabilities | 266 | 10,308 | – | 736 | 11,310 | 12 | 7,904 | – | 487 | 8,403 |
| Debt securities issued | 19,181 | 49,899 | – | – | 69,080 | 78,749 | 51,868 | – | – | 130,617 |
| Guarantees issued | 11,599 | 16,614 | – | 8,499 | 36,712 | – | 22,292 | – | 15,382 | 37,674 |
| Letters of credit issued | – | 5,405 | – | 5,842 | 11,247 | – | 2,995 | – | 6,894 | 9,889 |
| Unused credit lines | – | 8,834 | 619 | 20,753 | 30,206 | – | 30,536 | 772 | 33,235 | 64,543 |
| Other borrowed funds | – | – | 628 | – | 628 | – | – | 50 | – | 50 |

*(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 2022 | | | | | 30 June 2021 | | | | |
| | 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 | – | 16,456 | 125 | 2,181 | 18,762 | – | 14,030 | 192 | 2,652 | 16,874 |
| Interest expense | (2,127) | (12,299) | (96) | (1,058) | (15,580) | (2,352) | (7,123) | (265) | (1,528) | (11,268) |
| Net gains from foreign currencies: dealing | 418 | 8,526 | 33 | 3,671 | 12,648 | 335 | 1,319 | 12 | 817 | 2,483 |
| Net losses from foreign currencies: translation differences | 116 | (18,355) | – | – | (18,239) | 524 | (1,747) | – | – | (1,223) |
| Net gains from foreign currencies: operations with foreign currency derivatives | – | 3,308 | – | 50 | 3,358 | – | 6,466 | – | – | 6,466 |
| General and administrative expenses | (14) | (2,892) | – | – | (2,906) | (11) | (1,570) | – | – | (1,581) |
| Fee and commission income | 158 | 5,949 | 45 | 1,848 | 8,000 | 193 | 4,008 | 39 | 1,603 | 5,843 |
| Fee and commission expense | – | (5,410) | – | (90) | (5,500) | – | (2,852) | – | (241) | (3,093) |
| Other income | – | 134 | – | – | 134 | – | 247 | – | – | 247 |

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

| | For six months ended (unaudited) | |
|---|---|---|
| | 30 June 2022 | 30 June 2021 |
| Salaries and other benefits | (11,667) | (14,780) |
| Social security costs | (1,828) | (2,090) |
| **Total key management compensation** | **(13,495)** | **(16,870)** |

## 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, NBG 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.

### CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6.0% (2021: 6.0%) and 12.0% (2021: 12.0%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

| | 30 June 2022 (unaudited) | 31 December 2021 |
|---|---|---|
| Tier 1 capital | 488,431 | 417,676 |
| Tier 2 capital | 160,630 | 156,891 |
| Less: deductions from capital | (165,365) | (151,305) |
| **Total regulatory capital** | **483,696** | **423,262** |
| **Risk-weighted assets** | **3,397,396** | **3,161,218** |
| Capital adequacy ratio (Tier 1) | 14.4% | 13.2% |
| Capital adequacy ratio (Total Capital) | 14.2% | 13.4% |

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

## 22. Capital adequacy (continued)

### NBG capital adequacy ratio

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 18.96%, (31 December 2021: 15.08%) and Core Tier 1 Capital ratio of 11.07% (31 December 2021: 6.8%) of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2022 the PASHA Bank Georgia's capital adequacy ratio and Tier 1 Capital ratio calculated on this basis were 22.3% (31 December 2021: 18.7%) and 17.7% (31 December 2021: 13.7%) 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% (31 December 2021: 8.0%) 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 2022 the bank's capital adequacy ratio was 15.9% (31 December 2021: 17.4%).