PASHA Bank

ANNUAL REPORT 2014

Contents

PASHA Bank, Azerbaijan's leading investment and corporate bank established in 2007, offer all major financial services, including investment banking, trade financing and asset management to a range of clients, from large corporates to small and medium-sized enterprises (SMEs). The Bank works particularly closely with companies operating in the non-oil sectors of the economy, including agriculture, transportation, construction and retail, which are vital for helping Azerbaijan to diversify its economy.

ABOUT THE BANK

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Our Vision

Our vision is to be a leading Azerbaijani bank that has an outstanding business reputation, is financially strong and adheres to the highest standards of ethics.

The Bank's mission is to serve our stakeholders by:

- offering high-quality products and services tailored to our customers' needs;
- employing, training and nurturing our personnel;
- committing to developing broader society;
- maintaining a strong financial position;
- committing to transparent business practices.

Strategic Goals

1. to be a leading corporate bank in Azerbaijan and in the region;
2. to establish a fully-functional Private Banking capacity;
3. to enhance corporate governance;
4. to build an internal culture aligned with the Bank's business philosophy;
5. to strengthen recognition of the Bank's brand both internally and externally;
6. to enhance the Bank's IT systems;
7. to optimize the HR management system to support the corporate strategy;
8. to maintain a strong financial position.

Shareholders

The Bank's shareholders are PASHA Holding Ltd. (60%), Ador Ltd. (30%) and Mr. Arif Pashayev (10%).

MANAGEMENT STRUCTURE

The Bank's supreme management body is the General Meeting of Shareholders. Control over the Bank's management and activity is carried out by the Supervisory Board. The Audit Committee oversees the Bank's audit activities. The Bank's executive body is the Executive Board.

Members of the Supervisory Board:

1. Chairman of the Supervisory Board - Agha Ali Nihad oghlu Kamalov
2. Member of the Supervisory Board - Arif Mir Jalal oglu Pashayev
3. Member of the Supervisory Board - Nariman Hasan oglu Sardarlı
4. Member of the Supervisory Board - Kamala Hasan Nuriyeva
5. Member of the Supervisory Board - Vadim Yakovlevich Shneyer

Members of the Executive Board:

1. Chairman of the Executive Board - Farid Azer oglu Akhundov
2. First Deputy Chairman of the Executive Board - Emil Daud oglu Hajiyev
3. Member of the Executive Board - Taleh Tahir oglu Kazimov

There are currently six committees supporting the Supervisory and Executive Boards:

- Credit Committee
- Small Credit Committee
- Remuneration Committee
- Risk Management Committee
- Assets and Liabilities Committee
- Audit Committee

1. Members of the Credit Committee:

1. Member of the Executive Board, Chief Investment Officer – Taleh Tahir oglu Kazimov – Chairman;
2. Director of the Legal and Organisational Issues Department – Shirin Eldar gizi Aliyeva – member;
3. Director of the Business Development Department – Melih Chetin oglu Mengu – member;
4. Director of the Trade Finance Department – Shota Dekanosidze – member;
5. Director of the Foreign Subsidiaries Division – Anar Valeh oglu İsmayilov – member;
6. Head of the Credit Risk Management Division of the Risk Management Department– Padikkal Mohamed Abdurahiman - non-voting member.

2. Members of the Small Credit Committee:

1. Head of the Ganjik Division – Kamal Huseyn oglu Heydarov – Chairman;
2. Relationship Manager of the Corporate Banking Department– Pasha Yadigar oglu Yolchiyev – member;
3. Credit Analyst of Credit Management Department – Saida İmdat gizi Huseyn – member.
4. Acting Director of the Treasury Department– Bahruz Shahin oglu Naghiyev - replacing member.

3. Members of Remuneration Committee:

1. Chairman of the Supervisory Board – Aga Ali Nihad oglu Kamalov – Chairman;
2. Chairman of the Executive Board - Farid Azer oglu Akhundov – member;
3. First Deputy Chairman of the Executive Board - Emil Daud oglu Hajiyev – member;
4. Director of the Human Resources Department – Sevinj Asqulu qizi Asadova – member;
5. Director of the Legal and Organisational Issues Department – Shirin Eldar qizi Aliyeva – member.

4. Members of the Risk Management Committee:

1. Member of the Supervisory Board - Kamala Hasan gizi Nuriyeva– Chairman;
2. First Deputy Chairman of the Executive

Board - Emil Daud oglu Hajiyev – member;

3. Member of the Executive Board, Chief Investment Officer – Taleh Tahir oglu Kazimov– member;

4. Director of the Risk Management Department – Heydar Rafiq oglu Qasimov – member;

5. Chairman of the Audit Commiittee – Azer Adil oglu Sadigov – member (non-voting member according to the "Corporate Governance Standards in Banks");

6. Head Officer of the Operations and Information Security Department – Natiq Heydar oglu Huseynov – member (non-voting member according to the "Corporate Governance Standards in Banks");

5. Members of the Assets and Liabilities Committee:

1. Member of the Executive Board, Chief Investment Officer – Taleh Tahir oglu Kazimov – Chairman;

2. Director of the Strategy and Marketing Department – Aydin Akif oglu Atakishiyev – member;

3. Director of the Risk Management Department – Heydar Rafiq oglu Qasimov – member;

4. Director of the Business Development Department – Melih Chetin oglu Mengu – member;

5. Acting Director of İnvestment Banking - Farid Bayram oglu Aliyev –member;

6. Director of the Trade Finance Department – Shota Dekanosidze – member;

7. Acting Director of the Treasury Department– Bahruz Shahin oglu Naghiyev – member.

6. Members of the Audit Committee:

1. Azer Adil oglu Sadigov – Chairman;

2. Hayala Mubariz gizi Naghiyeva – member;

3. Jamil Vahid oglu Mammadov – member.

FOREWORD BY CHAIRMAN OF THE SUPERVISORY BOARD AND CHAIRMAN OF THE EXECUTIVE BOARD

Dear Colleagues, Customers and Stakeholders,

2014 was the last year of our 2012-2014 strategy. Over the last three years, we have expanded our SME client base and adopted a new approach to SME lending, invested in new technology and cemented our position as the leader in Azerbaijan's securities market.

Many changes took place within Azerbaijan's banking sector over the course of 2014. The Central Bank of Azerbaijan tightened control over the pace of growth of the retail banking market to avoid encouraging unsustainable levels of debt. Growth of retail banks has generally been slow, but, in 2014, they started to grow at a rate of around 20-25%. Therefore, there is a potential for the retail sector to grow further, which can be achieved through increased lending to SMEs and corporates. There is relatively strong competition in this area, and this is something to be encouraged when banks operate properly under the right management. There is a large market, and we do not have to fight for a piece of the pie. The pie has to grow, and there is room for many players.

In 2014, we became the second largest privately owned bank in Azerbaijan with assets of over AZN 1.28 billion. As a result of our efforts to diversify our portfolio and enhance our customer-centric model, we increased our credit portfolio by 58% by the end of 2014 to AZN 543 million. In the corporate segment, we increased our market share to 5% from 3.75%, which is the highest growth rate among Azerbaijan's leading banks. We are still the biggest player in the investment banking segment with the best investment banking capabilities in Azerbaijan and a total investment portfolio of over AZN 200 million. The net profit for all the Bank's segments amounted to AZN 10.8 million in 2014. The share of fees and commission of the Bank's total operating income increased to 11% from 9% and amounted to AZN 7 million at the end of 2014. We continue to maintain a good level of operating efficiency with a cost/income ratio of 47%, which is well below our peers' average of 59%. As at the end of 2014, we continued to be Azerbaijan's most well-capitalised bank with a capital adequacy ratio (CAR) of 37%, providing an excellent foundation for the next strategic period.

Technology is of paramount importance to us and this is an area where we continue to invest. We made key developments to our internet banking service over the past year and as a result, we saw our biggest ever increase in new internet banking customers in 2014. We are currently working on a number of other technology projects, such as new client communication channels, contactless payments and mobile wallet solutions. Our technological advancements are enabling us to provide our corporate and SME clients with the best possible solutions, even if some of these may traditionally be more relevant for retail banking customers.

Aside from providing our clients with high-quality products and services, PASHA Bank places great emphasis on getting to know its customers, since relationships are just as important in banking as facilitating transactions. Our customers stay with us because of the personal service we provide, and we believe that building lasting client relationships is the key to building our business in the future.

Helping to develop Azerbaijan's capital markets is one of PASHA Bank's key aims, since this will not only help to bolster investment banking activities in the country, but it will also support Azerbaijan's economy as a whole. We have done some work in this area but there still need to be more players coming to the market for the local capital markets to really develop.

2014 has also been a milestone year in terms of expanding our regional footprint after acquiring a majority stake in Turkey's TAIB Bank. Now we have established a presence in Azerbaijan, Georgia and Turkey, we are now exceptionally well-positioned to finance the increasing trade between these three markets. In every country where we operate, we want to establish strong positions locally by adhering to international best practice, and we have already made good progress. Through our competitive local offerings, we are actively promoting ourselves as a gateway to the region, maintaining good relationships with financial institutions and investors in EMEA, North America and Asia and we will continue to build our brand throughout the region.

PASHA Bank has always placed strong emphasis on its CSR programme, particularly with regard to Azerbaijan's youth. Azerbaijan's youth population is huge, with almost half of the country's population aged 35 and under. Supporting education projects is our number one priority, and not only in the fields of banking, law or business. We also back a variety of sports initiatives. We believe that today's youth are not just tomorrow's highly skilled professionals, but they are also the main driving force behind Azerbaijan's socio-economic development and this is why we will continue to place young people at the heart of our CSR programme.

We are now moving into the 2015-2018 strategic period, which will focus on further increasing our presence in business and commercial banking and continuing to build our SME portfolio. We will also concentrate on enhancing our understanding of the microfinance market. We have already dedicated time and resources to gaining a deeper understanding of micro-lenders' strategies and the way they operate. In 2013, we established a fund to render technical assistance to microfinance institutions and to actively work with them in the money market. We will continue to develop this area throughout the next strategic period.

Our aspiration for 2015 is to continue supporting Azerbaijan's non-oil economy with particular emphasis on the agricultural sector, which is expected to boost Azerbaijan's exports and become a key driver behind the country's import substitution programmes. Continuing to diversify the Bank's loan portfolio through increasing lending to SMEs and supporting microfinance institutions will also be at the top of our commercial agenda for the year ahead.

Finally, we would like to thank all of our staff for their continued hard work and dedication.

Yours sincerely,
Ali Kamalov
Chairman of the Supervisory Board
Farid Akhundov
Chairman of the Executive Board

Given the current macroeconomic risks, international organisations are advising developed nations and oil importing countries to preserve their accommodative monetary policies for the time being. As for the developing countries, especially the oil exporting nations, the implementation of organisational and institutional reforms, prudent government spending and effective control of capital flows are considered to be the most efficient way of handling the current economic environment.

GLOBAL ECONOMIC PROCESSES AND AZERBAIJAN'S ECONOMY

GLOBAL ECONOMIC PROCESSES

The fall in oil prices seen in the second half of 2014 has had an important impact on the global economy. Economic growth in countries benefitting from cheap oil has surpassed the economic slowdown in the oil exporting countries. Global economic growth reached 3.3% in 2014, with developed countries seeing growth of 1.8% and developing countries' economies expanding by 4.4%. A report from the International Monetary Fund (IMF) forecasts that the global economy will grow by 3.2% in 2015.

Lower oil prices have raised the issue of fiscal sustainability in oil exporting countries, with these countries now facing lower budgets. As well as having a potential impact on the amount governments are able to invest in their countries, this trend also negatively affects global economic growth.

Many of the world's major financial market indices saw sharp decreases during 2014, with the Dow Jones and FTSE Eurofirst 300 indices falling by 7.5% and 7.4%, respectively. Central banks around the world have continued pursuing accommodative monetary policies in order to keep interest rates low. At the same time, many developing countries' national currencies have been under pressure, with some countries, including Russia and Kazakhstan, experiencing devaluation over the last year.

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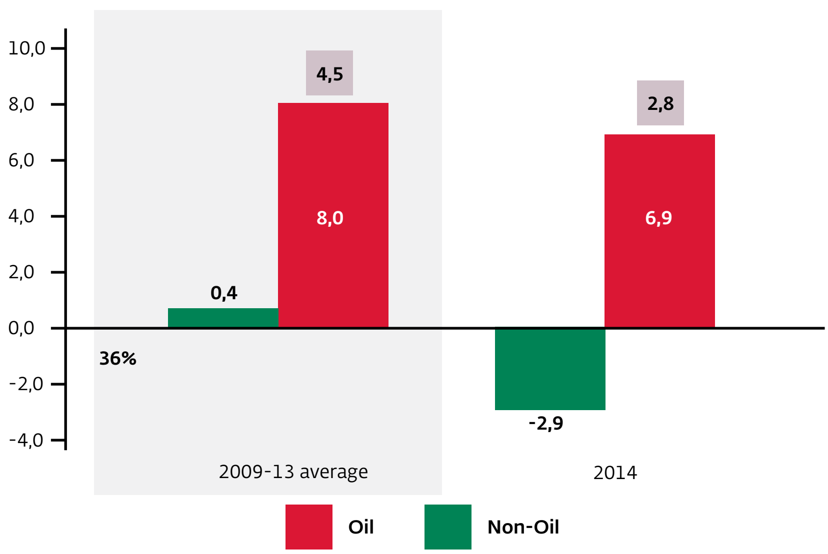
Chart 1. Economic growth, %



AZERBAIJAN'S ECONOMY

In 2014, gross domestic product (GDP) increased by 2.8% YoY (or AZN 1.6 bn at constant prices) to AZN 59.0 bn. The bulk of the growth continued to come from the non-oil sector (61.0% of GDP), which expanded by 7%, while oil and gas production (39.0% of GDP) declined by 2.9%. Crude oil output declined by 2.8% due to maintenance works at key sites, though natural gas (which contributes less to overall output) grew by 4.9%. All industries within the non-oil economy expanded in 2014, with the exception of agriculture, with the highest growth rates seen in the hospitality and ICT industries, which increased by 18.2% and 15.1% YoY respectively. The lowest growth rate was recorded in the transportation sector, which expanded by 4.7%. The gross output of the agriculture sector declined by 2.6% due to a reduction in plant-growing.

In 2014, budget revenues and expenditures fell by 5.6% and 2.2%, respectively, mainly due to a decline in the amount the State Oil Fund of Azerbaijan (SOFAZ) transferred to the state budget, as well as a cut in capital spending. As a result of the ongoing fiscal consolidation, there was a budgetary deficit of around AZN 0.3 bn.

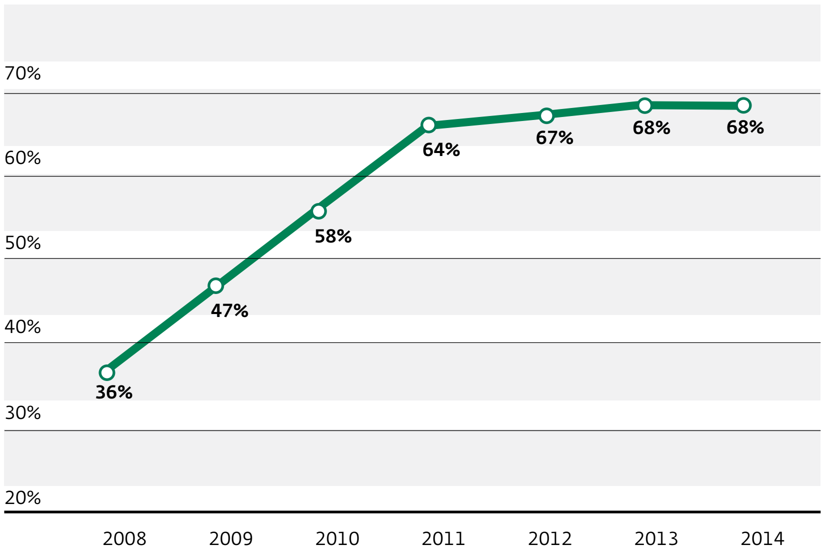
In 2014, approximately 24% of the budget was allocated to financing social projects, and 34% was spent on investment projects. The state budget is one of the main sources of financing for investment projects. According to official statistics, total investment in the economy amounted to AZN 17.6 bn in 2014 (a 1.4% reduction on the previous year) with 37% of this being financed from the budget, 55% through firms' own funds, and the rest from other sources. As a consequence of the ongoing fiscal consolidation, the share of government financing in overall investment financing continued to fall (down 7 p.p. compared to the previous year). Some 34% of investments were allocated to the oil sector and 66% to the non-oil sector.

The number of people in employment increased by 81,700 by the end of 2014, reaching 4.6 million. The rise in employment was observed in both new and existing firms. The number of firms in Azerbaijan increased by 9.9% to 94,563, of which 79.4% were small and medium-sized enterprises (SMEs). At the same time, the number of individual entrepreneurs rose by 14.2% YoY to 519,860. Notably, 26.3% of firms and 36.8% of individuals operate and work in the trade sector of the economy.

Azerbaijan's strong economic performance and increasing employment levels have led to robust growth in total household income, which increased by 4.8% to AZN 39.4 bn in 2014, equivalent to AZN 348 per capita per month. Some 68.8% of household income was spent on consumer goods, 11.2% was used for taxes, credit and social security payments, with the remaining 20.0% being used for savings. The average monthly wage, a main welfare indicator, grew by 5.4% YoY to AZN 442. The average monthly wage in the oil sector was AZN 1755 compared to AZN 409 in the non-oil sector, with the monthly average being AZN 356 in the public sector and AZN 568 in the private sector.

On the back of robust growth in employment figures and household income, consumer prices increased by just 1.4%, reflecting low price pressures from different products within the consumer basket. In 2014, the average annual price change of food products was 1.0%, while the prices of non-food products and services increased by 3.2% and 0.3%, respectively. In general, inflation remains low; only real estate prices are booming due to a supply shortage, with prices rising sharply by up to 10.1% since the beginning of 2014.

Chart 2. Strategic reserves/GDP ratio



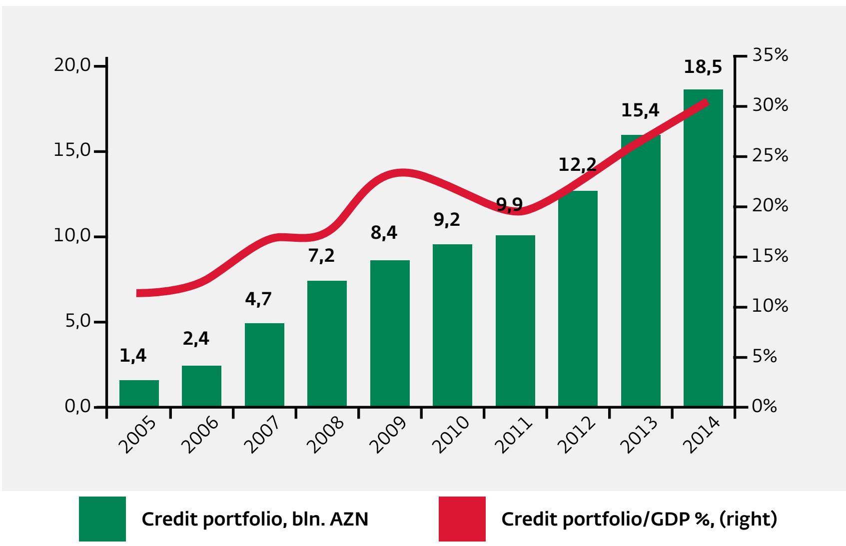
In 2014, overall exports decreased by 9% due to falling oil exports. Imports fell 14.2% as a result of a reduction in the number of vehicles being imported. In 2014, export and import turnover amounted to USD 21.8 bn and USD 9.2 bn, respectively. The price of Azerbaijan's main export product, crude oil, was an average of USD 101 per barrel in 2014.

Imports of non-oil goods contracted due to weak demand and the adverse impacts of new regulations. For instance, falling demand from the construction industry contributed to declining imports of cement, ferrous metals, plastics, wood and other materials. A new regulation requiring imported cars to meet higher environmental standards has also led to a significant drop in automobile imports. In addition, new rules from the Central Bank, which impose more stringent terms on consumer loans, contributed to a reduction in the imports of consumer electronics. Imports of vehicles and their spare parts decreased by 41.3%, with imports of cement falling by 30.2%.

In non-oil exports, exports of fruit and vegetables increased by 16.1% and exports of chemical products grew by 33.1%. Despite the country's slowing foreign trade transactions, the trade balance still has a surplus of over USD 12.6 bn and the strategic reserves continue to rise. The strategic reserves – which comprise the sum of the gross reserves in the Central Bank and SOFAZ – amounted to more than USD 51 bn at the end of 2014. With this huge trade surplus, the Central Bank's exchange rate policy has been targeted towards stabilizing the AZN/USD currency rate. During the first 11 months of the year, the Central Bank intervened in the market and sterilized USD 1.3 bn to maintain the stability of the exchange rate. However, in December 2014, the depreciation of the currencies of Russia and other neighbouring countries against the manat impacted the domestic currency market by creating additional demand for USD. As a result, the Central Bank intervened in the market and sold USD 1.1 bn in order to preserve the stability of the manat. It seems that there are a few limitations to the authorities' ability to maintain the manat-dollar peg at around 0.78 for the foreseeable future. The manat, while stable against the dollar, has appreciated against the currencies of some of its neighbouring countries, mainly due to the unstable political situations in some of those countries and the Fed's departure from its from loose monetary policy.

Conditions in Azerbaijan's financial markets continued to improve in 2014. The outlook on Azerbaijan's banking system over the next 12-18 months remains stable. Banks will continue to benefit from a favourable operating environment, stable asset quality and capital buffers sufficient to absorb losses. Robust economic growth is expected to support loan demands, which will help banks to maintain lending margins and profitability. The banking system's assets grew by

Chart 3. Credit portfolio of the banking system



23% YoY to AZN 25.2 bn in 2014, with insurance premiums increasing by 5.8% to AZN 429 mln. Overall, insurance compensation equated to AZN 157 mn, boosting the sector's financial resources. A 16.9% YoY increase in total loans was the main contributor to the overall growth in the banking system's assets. The total credit portfolio amounted to AZN 18.5 bn as of the end of 2014, with 17% of the credit extended to Azerbaijan's regions. Some 42% of the portfolio was made up of consumer loans, 14% was allocated to loans to the trade and services sectors, and 79% were long-term loans.

According to the projections from international organisations, Azerbaijan is expected to continue seeing economic growth during 2015. The IMF forecasts economic growth of 2.2% in 2015. The most recent projections from the European Bank for Reconstruction and Development (EBRD) estimate growth of 1.5% for 2015. However, the sharp fall in oil prices over the past six months, big drops in the currencies of Azerbaijan's main trading partners and rising expectations of further devaluation of the manat have led to these growth forecasts needing to be revised.

According to BP's latest estimates, Azerbaijan's proved oil reserves are sufficient to meet 21 years of annual current production, it is equal to 54 years in terms of gas. SOCAR's latest data show that Azerbaijan's proved oil and gas reserves are estimated to be around 2 bn tons of oil and 2.55 trillion m^3 of gas, which, in turn, is equal to 10 bn tons of oil equivalent.

As of 31 December 2014 PASHA Bank had total assets of AZN 1,273,258 thousands (USD 1,623,225 thousands) meaning increase of 81% compared to 2013 (AZN 704,055 thousands / USD 897,457 thousands). Bank has generated a strong loan growth increasing our gross portfolio by 63% to AZN 573,642 thousands (USD 731,313 thousands). Relevant figure for 2013 year end was AZN 350,956 thousands (USD 447,363 thousands).

FINANCE STATEMENT

FINANCE STATEMENT

PASHA Bank successfully completed the 2012-2014 strategic period aimed at strengthening the bank as corporate institution and providing more services to corporate clients with international exposure and small and medium businesses.

The Bank kept its position as the largest commercial bank by total equity which reached the level of AZN 323,706 thousands (USD 412,680 thousands) whereas the figure for 2013 year was AZN 234,923 thousands (USD 299,456 thousands).

As a result of strategic decision to diversify its assets portfolio, Bank has efficiently managed to keep a good balance of services offered to its clients.

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The breakdown of Bank's assets as of 31 December 2014 is as following:

- loans to customers – 42%,
- cash and cash equivalents – 27%,
- securities portfolio – 19%
- due from credit institutions – 6% and the rest belong to other non-current and current assets.

Given the deteriorating balance of disciplined loan repayments on the market in Azerbaijan and continued demand for credits among Azerbaijani corporate clients, mainly involved in international business and SME business, PASHA Bank throughout the crisis benefited from its strong capital position and established itself in the market as a strong partner for companies with transparent and sustainable management. The Bank successfully continues to support existing small and medium enterprises in this difficult time.

Bank has generated a strong loan growth increasing our gross portfolio by 63% to AZN 573,642 thousands (USD 731,313 thousands). Relevant figure for 2013 year end was AZN 350,956 thousands (USD 447,363 thousands).

Effective provision rate on the portfolio was 6.1% (2013 – 6.2%). Non-performing loans decreased from 15.24% of gross portfolio for the period ended 2013 to 5.84% for the year ended 2014 based on the preliminary assessment of the valuation techniques by the Bank according to the local regulatory requirements. This ratio is based on Bank's internal methodology of treatment of NPLs and is kept under close scrutiny of the Bank's Credit Committee and Board.

By staying consistent and serving customers when the market was soft we're now benefiting, from the relationships that we've developed over the last few years. As the result Bank has generated the customer base with balance of AZN 703,058 thousands (USD 896,300 thousands). Mentioned customers' balances were mainly concentrated in demand and term accounts in the proportion of 79% and 21%, respectively (year end 2013 – 61% and 39%, respectively).

The Bank's net loss for 12 months ended 2014 year comprised to AZN 2,796 thousands (USD 3,565 thousands) meaning 123% decrease in comparison with net profit of the same period of 2013 year (AZN 12,028 thousands /USD 15,332 thousands) and the main reasons for that were creation of loan loss provision on loan portfolio by the group exposure of the borrowers. Total operating income for 12 months ended in 2014 was AZN 60,205 thousands (USD 76,753 thousands) meaning 17% increase versus AZN 51,583 thousands (USD 65,753 thousands) achieved in the comparative period of 2013.

Interest income of the Bank reached to AZN 64,335 thousands (USD 82,018 thousands) while non interest income comprised AZN 11,263 thousands (USD 14,359 thousands) and as the result the ratio of proportion of non interest income in overall operating income of the Bank comprised 19%.

As a result of extensive negotiations with

international financial institutions, PASHA Bank was able to provide more trade finance services to its corporate clients by accessing a broader range of financial instruments and get more better terms for financing resources of customers after getting the credit rating from two internationally accepted rating agencies. In parallel, on the institutional level Bank held various seminars and workshops to the clients to strengthen its capacity to provide with timely and professional services. Documentary operations balances (including post financing) comprised AZN 147,049 thousands (USD 187,467 thousands), relevant figure was AZN 92,505 thousands (USD 117,916 thousands) in 2013. The current strategic target for PASHA Bank is to grow its trade finance portfolio up to AZN 182,809 thousands (USD 233,056 thousands) in 2015.

The Bank generated strong internal capital growth, producing an estimated tier capital adequacy ratio under CBAR capital requirements of 33% (2013 – 36%). We remain focused on meeting the required capital levels once Basel II and BASEL III are finalized while returning capital to our shareholders through dividends. During 2014 year the Bank has paid dividends to the shareholders in the amount of AZN 14,992 thousands (USD 19,113 thousands), which is 100% of total net profit of the Bank for 2013 year and the remaining amount is the accumulated prior year earnings of the Bank.

PASHA Bank is working on further growing market share in corporate and SME business via offering competitive and advanced products to clients to become the leader in the Azerbaijani market.

** Main figures and performance evaluation ratios of PASHA Bank and its subsidiary PASHA Bank Georgia. all figures have been presented as of 31 December 2014, if not indicated otherwise and based on consolidated audited financial statements*

2014 was a landmark year for PASHA Bank, marking the successful end of its three-year development strategy. The Bank completed this strategic period with a strong financial position in the domestic market, cementing its position as one of the leading financial organisations in Azerbaijan.

DEVELOPMENT OF THE BUSINESS IN 2014

Branch network

2014 was a landmark year for PASHA Bank, marking the successful end of its three-year development strategy. The Bank completed this strategic period with a strong financial position in the domestic market, cementing its position as one of the leading financial organisations in Azerbaijan.

Over the past year, the Bank has devoted resources to improving customer services and has implemented a number of initiatives, including:

• The 'Customer Service Effectiveness Project'

• Developing the banking system to enhance customer services

• Standardizing customer service standards across PASHA Bank branches in Azerbaijan and Georgia

The main goal of our 'Customer Service Effectiveness Project' was to measure the efficiency of existing processes and to analyse how many hours customer service staff were spending on a single process. This approach was aimed at optimising the process and avoiding bureaucracy where possible to save both our staff and our customers' time. As a result of this initiative, some ineffective processes were identified and improvements were made, starting from the cash desk to the processing of payment orders.

As part of our review of our customer service, we identified the need to develop our banking system. The project team conducted feedback sessions with key stakeholders both internally and externally, and the findings were reflected in our system. Overall, 120 modifications were identified and implemented into our banking system last year. Increased automation in the banking system was one of the key changes, which helped to optimise both cost and staff levels in branches.

In order to ensure that customer service standards are unified across the Bank's network, the branches in Azerbaijan were tasked with providing training to the growing PASHA Bank Georgia office on customer service processes and customer satisfaction tools. This was largely achieved through giving presentations and workshops on quality principles and guidelines, the structure of the branches and the complaint management system.

Direct banking

During 2014, the Bank carried out many projects to develop remote services. A number of new remote banking technologies were successfully implemented and existing products and services were upgraded. For instance, we transitioned to an improved access system for internet banking and new authentication methods (One Time Password sent via SMS and Asan Imza login).

2014 was also marked by implementing new contactless technology on both the issuing and acceptance sides of the card business (MasterCard PayPass and Visa payWave). This project enabled the Bank's corporate customers to use this exciting and innovative payment method at Point of Sales (POS) terminals in Azerbaijan and abroad. The McDonald's chain was one of the major places where this technology was integrated; McDonald's customers can now experience faster and secure payment methods.

In 2014, the Visa Infinite card was introduced to PASHA Private Banking's range of premium branded card products and was made available to the Bank's most affluent customers. This card features many services such as lifestyle concierge, life and travel insurance, access to VIP lounges in airports worldwide, as well as a range of other luxury discounts and benefits.

A number of other projects were introduced to simplify the banking process for our customers in 2014, such as the 'Online mode with Core

DEVELOPMENT OF THE BUSINESS IN 2014

Banking' project. . This optimised customer service in the branch offices by enabling operations with card accounts to be carried out without needing the card itself. PASHA Bank also integrated with MilliOn terminals. PASHA Bank customers can now deposit cash to their accounts via MilliOn terminals anytime. This service immediately became very popular and turnover continues to grow. In addition, cash-in machines were introduced, which allow customers to deposit funds into their accounts without needing to visit a cashier.

Finally, the acquiring network was migrated to PASHA Bank's in-house processing system, which enabled the Bank to service its customers more efficiently and led to lower operating costs.

Domestic and international development

In 2014, PASHA Bank continued to focus on supporting SMEs, which are strategically important for Azerbaijan's economy and have great growth potential. Since the start of 2014, PASHA Bank has been actively involved in the business banking segment and opened four new offices in Baku dedicated to serving SME clients: the Khalglar Dostlugu, Ganjlik, Narimanov and Microdistrict business centres. SME clients in the regions are currently serviced by the Bank's first regional offices, which were opened in Ganja and Zaqatala in 2014.

The opening of the Ganja and Zaqatala offices have enabled the Bank to provide local SMEs and entrepreneurs with a full range of high-quality financial services to help them develop sustainably. Companies operating within the country's real economy are in particular need of a strong and reliable financial partner, and the Bank continues to develop relationships with its key stakeholders in the region. The Ganja and Zaqatala branches offer all types of banking products and services such as loans, cash and settlement services and card services.

Following on from the opening of PASHA Bank Georgia in 2013, the Bank made another key

Table 1. İssuers and volumes

Issuer	Volume (AZN)
AccessBank QSC	10,000,000
Embawood MMC	10,000,000
Bakcell MMC	40,000,000
AccessBank QSC	12,000,000
Unibank ASC	10,000,000

step in expanding its international footprint at the end of 2014 by acquiring a controlling stake in TAIB Bank from Aksoy Holding of Turkey. By establishing a presence in Turkey, the Bank is now in an excellent position to capitalise on the increased trade and investment flows between Azerbaijan, Georgia and Turkey. With economic activity between these three countries growing, PASHA Bank's Board of Directors saw entering the Turkish market as essential for serving their clients' current and future banking needs. The Bank believes there is great potential to build a strong SME client base in Turkey, particularly by working with corporates looking for investment opportunities in Azerbaijan, Georgia and other countries in the region. Through the TAIB Bank acquisition, the Bank is now also well-positioned to support Azerbaijani companies looking to invest in the Turkish market.

Investment Banking

Helping to develop Azerbaijan's capital markets is one of PASHA Bank's key aims, since this will not only help to bolster investment banking activities in Azerbaijan, but it will also support the economy as a whole. In 2014, the Bank's assets under management amounted to AZN 615mln and capital markets activities generated 32% (AZN 15.8mln) of the Bank's total interest income (AZN 48.6mln) and 54% (AZN 8.1mln) of the Bank's total non-interest income (AZN 14.8mln).

During 2014, PASHA Bank, together with regulators and the Baku Stock Exchange, facilitated the process of introducing repos on corporate bonds to the market. As the leading investment bank in Azerbaijan, PASHA Bank continued to close several deals on the local bond market throughout 2014, which had a total face value of AZN 82 mln. A key achievement for the local bond market was how PASHA Bank and PASHA Capital brought on board the first international investor since 2008 to invest in local AZN denominated bonds. In addition, PASHA Bank organised the first road show for Embawood LLC, the first non-financial Azerbaijani company to be listed on the Baku Stock Exchange.

PASHA Bank underwrote five bond issues in 2014 and the Bank provides daily liquidity for these bonds.

Table 2. Turnovers for 2014

PASHA Bank Turnover (USD)	Total PASHA Bank	Corporate Bonds	Total Repo	Corporate Repo
	3.54 billion	1.12 billion	2.18 billion	190 million

Trade Finance Activities

PASHA Bank also continued to extend the volumes of trade financing operations during 2014. The Bank optimised procedures and processes in order to increase workflow processing capacity and also added front office/ sales functionality to the Trader Financing Department. The trade finance limit portfolio was also increased by receiving new trade finance limits from commercial banks in Turkey, Belgium and Italy, and by financing the first deal with Italian ECA SACE for EUR 14.5 mln. The Bank also increased existing trade finance limits and decreased confirmation costs with existing partner banks in Europe.

Cooperation with international financial institutions

In 2014, the Bank continued to expand its relationships with global financial institutions. As in previous years, the Bank has been very active in managing and expanding its correspondent banking relationship network. The financial institutions team has also approached new banks and export credit agencies, primarily in Western Europe and the U.S., including SACE, EULER HERMES and UK Export Finance. In 3Q 2014, PASHA Bank successfully concluded its first ECA based deal with the Italian Export Credit Agency, SACE.

With regard to operations, international payments have undergone a thorough internal review, and, as a result, the financial institutions team was able to substantially decrease fees charged by our international partners.

In 2013, the Bank concluded its first ever international borrowing in the amount of USD 30 mln. Due to the Bank's high liquidity, there was no need to seek additional funding from the international markets in 2014.

International recognition

PASHA Bank continues to hold the highest international ratings of any Azerbaijani privately owned commercial bank, with both Standard & Poor's and Fitch Ratings affirming their ratings of BB - and B +, respectively, with a stable outlook in 2014.

Aside from international credit ratings, PASHA Bank was nominated and awarded with a number of internationally recognised awards during 2014. International Finance Magazine (IFM) named PASHA Bank the 'Best SME Bank of Azerbaijan' and the 'Best Investment Bank 2014' at the Financial Awards 2014. The Bank was also recognised as the 'Best Investment Bank in Azerbaijan' at the C-Bonds Awards CIS. In addition, the Bank received three awards at the 2014 World Finance Awards for the 'Best Commercial Bank in Azerbaijan', 'Best Banking Group in Azerbaijan' and 'Best Private Bank in Azerbaijan', the latter being awarded to PASHA Bank for the second consecutive year.

Since PASHA Bank was founded in 2007, the Bank has focused on providing banking services at the highest international standards, initially in Azerbaijan and then later in Georgia as well. PASHA Bank is honoured that its work has been recognised not only by international rating agencies, but also the financial media, and this highlights the consistent high quality of our products and services.

Since it was launched in 2010, PASHA Private Banking has been providing international standard private banking services in Azerbaijan. As a result of nurturing internal expertise and strengthening its international network of partners, PASHA Private Banking has become the advisor of choice for high-net-worth individuals in Azerbaijan.

SERVING PRIVATE CUSTOMERS

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Since it was launched in 2010, PASHA Private Banking has been providing international standard private banking services in Azerbaijan. As a result of nurturing internal expertise and strengthening its international network of partners, PASHA Private Banking has become the advisor of choice for high-net-worth individuals in Azerbaijan. Through our open architecture approach, we have been able to offer a suite of tailored solutions to our clients.

PASHA Private Banking is continuously striving to improve its level of service and to broaden the variety of products and services it is able to offer its clients. Following customer feedback, PASHA Private Banking introduced a number of new products in 2014, including a financing programme for renting the luxury Baku City Villas and new deposit products. In addition to innovating new products and services, PASHA Private Banking continued to offer complimentary services to its clients in 2014, including life insurance, the World Elite card from MasterCard and concierge services, which help to maintain customer loyalty.

It is very difficult to compete for clients' loyalty if you do not go beyond offering financial and non-financial products. For this reason we pay substantial attention to initiatives that keep our customers up-to-date with the latest trends, as well as entertained. PASHA Private Banking has supported a number of sporting and social events over the past year, including the Polo World Cup, and wine and whiskey tastings. We also sponsored the 'At the Crossroads 2: Contemporary Art from Istanbul to Kabul'" exhibition in Sotheby's, London, which a number of clients were invited to. These initiatives did not go unnoticed and contributed to PASHA Bank being named the 'Best Private Bank in Azerbaijan' by World Finance Journal for the second consecutive time in 2014.

PASHA Bank has devoted significant resources over the past year to upgrading its IT systems as specified in its IT Strategy 2012-2014, including enhancing security, developing new banking software products and improving functionality. As well as benefiting the Bank internally and the overall customer experience, many of these IT improvements have made PASHA Bank substantially more open and interactive when communicating with partner companies, international organisations and Azerbaijan's governing bodies.

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The Bank has integrated a number of new systems to enhance its internal technological infrastructure since the beginning of 2014, including a message delivery service called 'SMS gateway', highly secure '3D acquiring' technology, and a direct transaction processing function called 'H2H'. Additionally, the Bank has adopted 'Calypso', a treasury management system, a Customer Relationship Management (CRM) system, as well as 'MS Project Server 2013', a project organisation and planning tool. PASHA Bank provides daily support for both new and existing software; an integrated 'Help Desk' helps to track and solve any IT issues that have been raised. .

Technological progress has helped underpin PASHA Bank's drive to improve its level of service and the overall customer experience. The deposits system used by branch staff has been replaced, which means there is now much greater flexibility in the settings that can be used to generate product suggestions for our customers. Automated processes have been introduced to mortgages, which allow customers to make direct transactions to the Mortgage Fund and to receive up-to-date mortgage-related information. Customers can also track their overdraft and request changes to their limits via the new system; PASHA Insurance customers can also have their insurance limits altered in the same fashion. In addition, the Tax Orders function can now execute automatic tax payments from customers' accounts to the Ministry of Taxes, the Social Fund or the Court and can notify the corresponding governing bodies of payment.

Other new banking functions introduced over the past year are helping PASHA Bank to communicate better with international partners. PASHA Bank has implemented technology to ensure it now complies with the Foreign Account Tax Compliance Act (FATCA), which helps us to track the links our customers have with the United States. By incorporating this module, PASHA Bank has joined the international community that now cooperates with the U.S. with FATCA to track US citizens' financial accounts outside the country.

As part of an initiative from the Ministry of Taxes, PASHA Bank installed 3,000 new point of sale (POS) terminals across Azerbaijan in 2014. In conjunction with this, we completed a project to integrate our POS terminals with McDonald's cash machines by the middle of 2014. INPAS software, which is integrated into POS terminals and works on the internal OTP server, greatly reduces the time taken to install and deliver POS-terminal by reducing dependency on Azericard processing. This has resulted in a great decrease in the time lapse between the customers' order and the moment the product is delivered. Moreover, the fact that PASHA Bank's POS terminals are completely independent from third-parties make PASHA Bank's services much more competitive, since the interest rate payable by customers for the POS terminal installation service is much lower. The introduction of internal processing is now also certified by Visa and MasterCard. Analogous modifications have also been applied for the Bank's ATM monitoring processes.

Our team has developed a number of new systems over the past year to make information sharing across the Bank's more efficient. One such system was Zirve, a project aimed at incorporating the statistics of the Bank and its major partner enterprises into a global consolidation system functioning at the PASHA Holding level. Replacing the previously manual 'Credit Portfolio' system means that loans-related information can now be extracted and delivered in a standardised form automatically. Furthermore, the introduction of the 'Branch Balance' function allowed balance-related statistics for specific Bank branches to be acquired separately. The Bank also developed a Management Information System (MIS) last year, which is a fully independent system for delivering strategic and decision making information to directors of departments, managers and senior decision makers on a daily basis.

PASHA Bank's internet banking system has undergone global changes in terms of user authentication, with the authentication process now encompassing a smaller number of steps without comprising security. In addition, PASHA Bank customers now have the option of signing into the internet banking system via the integrated 'Asan Imza' e-service. The introduction of Azericard 3D payment was also a key development, since this allows PASHA Bank's clients to transfer money to their bank accounts even more conveniently by using any type of card from any part of the world.

The integration of PASHA Bank's system with MilliÖn payment terminals was a key milestone for 2014. PASHA Bank's customers can now transfer money to their bank accounts and pay their credits online by using one of MilliÖn's 600 payment terminals across Azerbaijan without needing to go to the Bank.

As the Bank has expanded internationally, it has had to invest more in its international infrastructure, most recently following the acquisition of a majority stake in TAIB Bank. PASHA Bank Turkey's new office now has the highest standard local network, equipment cabins that monitor the environment, a precision cooling system for the server rooms and uninterrupted power supply (UPS). PASHA Bank Turkey has already transferred all IT services to the new office and is now operating fully from the new office.

Other new offices opened over the past year, namely the regional branches, are equipped with the highest standards of IT infrastructure, including UPS, a server room cooling system, and an IP telephony system. PASHA Bank's offices at Ataturk Avenue, Microdistrict No 4, Narimanov district and Gara Garayev Avenue already have this level of equipment.

"We remain forward looking and committed to delivering long-term value for all our stakeholders - our customers, our staff and our shareholders and the wider community for years to come".

Farid Akhundov,
Chairman of the Executive Board

SUSTAINABILITY SUMMARY

SUSTAINABILITY SUMMARY

PASHA Bank (the "Bank") is committed to integrating the best sustainability practices into every aspect of the business. PASHA Bank's first sustainability report, 'Towards integrity, quality and profitability', covered the Bank's sustainability performance during 2011-2012 and laid out sustainability objectives for the upcoming strategic period.

In light of the deteriorating macroeconomic conditions in the CIS region, Azerbaijan's banking sector has faced a number of challenges. PASHA Bank perceives external crises as opportunities to assess its strengths and weaknesses, and to therefore streamline the business to make it even more efficient in the future. Due to the internal analysis the Bank has been conducting on its overall performance, the senior management team resolved to postpone the sustainability report for the period of 2013- 2014, and to instead issue a full sustainability report covering 2013-2015 in 2016.

Despite the challenging macro environment, PASHA Bank continues to base its strategic decisions and business activities on its core values: integrity, quality and profitability.

To demonstrate our commitment to sustainability and our values, below is a short summary of major sustainability-related issues and achievements during 2013-2014.

1. Integrity

1.1 Corporate governance

At PASHA Bank, we aim to achieve long-term sustainable development by putting ethical and transparent business practices, high-quality service, personnel development and community welfare first.

The Bank's corporate governance system is based on the Central Bank of the Republic of Azerbaijan's standards, as well as international best practices and the Bank's own Corporate Governance Policy.

Strong corporate governance is essential for the long term success of any organisation. A management team adhering to best corporate governance practices ensures its organisation has defined strategic goals based on its vision, that responsibilities have been appropriately distributed across all management levels and that each of the company's management bodies are fit for purpose. A company's corporate governance system also makes sure that control systems for efficient risk management are in place, as well as internal and external audit measures to guarantee the transparency of management.

PASHA Bank's management ensures that it is acting in accordance with international corporate governance best practice and the Central Bank of the Republic of Azerbaijan's corporate governance standards by:

- Organising and implementing a strategic planning process;
- Creating an efficient organisational structure;
- Carrying out a financial planning process;
- Implementing efficient internal control and reporting systems;
- Establishing risk management systems;
- Developing reliable management information systems that ensure the continuous flow of clear and adequately detailed information on the Bank's current financial position and the status of its operations;
- Creating an internal audit function to enhance the efficiency of internal controls, establishing an internal audit strategy, and continually improving and the internal audit function;
- Preparing precise measures to be carried by the Bank's shareholders and executives to prevent and regulate conflicts of interests, as well as delivering the Bank's financial and operational figures to all interested stakeholders in a timely manner;

• Providing correct, detailed and impartial information reflecting the Bank's activity to all stakeholders in a timely manner;

• Executives placing the Bank's interest ahead of their own interests;

• Taking measures to prevent a deterioration in the Bank's financial position and image caused by anyone acting on behalf of the Bank;

• Adhering to International Financial Reporting Standards, constantly complying with regulatory requirements and developing internal rules to reflect accounting and reporting procedures.

1.2 Stakeholder engagement

The opinions and concerns of the Bank's key stakeholders are extremely important to us, and we always carefully consider these views when evaluating strategic issues. For instance, when the Bank was developing its new strategy, a stakeholder mapping exercise was conducted to ensure that the interests of all parties were considered throughout the decision making process. For this purpose, the main stakeholders of the Bank were defined as shareholders, the wider banking community (associations), institutional partners (IFIs), employees, regulators, professional groups, customers, and the management team. In addition, the Bank monitors stakeholder opinions on a regular basis through satisfaction surveys.

1.3 Internal audit and compliance

The key task of the Internal Audit Department is to independently assess the effectiveness of internal control systems and to provide recommendations for areas to be improved, if appropriate.

The Internal Audit Department is responsible for the Bank's risk assessment procedure. During 2013, the department updated the Bank's risk profile, which previously covered 130 risk types.

During 2014, the Internal Audit Department reviewed a number of business processes, including lending, the payment and settlement of transactions, the creation of new products and setting tariffs, procurement, risk management and anti-money laundering. The audits resulted in recommendations being issued, and action plans to optimise the internal risk control procedures were developed and implemented.

People are the main asset of the Internal Audit Department. Their knowledge, skills, professional experience and creativity are what enable them to conduct high-quality analyses and to add real value to the business. The main requirement for maintaining an effective audit team is continuous development and training. Over the past year, members of the Department enhanced their knowledge in a variety of areas, such as credit and operational risk management, trade finance, corporate governance and financial analysis. In addition, they improved their knowledge of audit principles, approaches and procedures and attended training sessions on developing soft skills, particularly communication and project management. Furthermore, the auditors are studying towards obtaining international certificates, and passed six ACCA exams and one CIA exam during 2014.

In addition, the Internal Audit Department interviews senior management on an annual basis as part of a self-assessment process. By the end of 2014, the Department's activities were assessed at 4.2 points out of a possible 5.

At PASHA Bank, we have a Compliance Policy, Code of Conduct and Conflict of Interests Policy. These documents serve as guidelines to our employees and are communicated on a regular basis. The Compliance Department is responsible for organising training and induction programmes to all employees to ensure they are fully aware of what these policies mean. We are currently working on developing a special

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compliance training programme for relationship managers and customer services advisors.

IMPROVING OUR COMPLIANCE POLICY

Last year, the Bank became fully compliant with FATCA requirements. From the middle of the year, bank accounts for all individuals were opened in accordance FATCA requirements, meaning that individuals were identified and verified to determine whether or not they are subject to US tax. This identification and verification work is now automated at PASHA Bank when opening bank accounts for both individuals and corporates, which allows the Bank to classify its customers in accordance with FATCA requirements. As a result of these measures, PASHA Bank has now made it a priority to establish a transparent reporting system that meets both domestic and international requirements. This process will also mean that PASHA Bank will have the correct infrastructure in place for when the European Commission introduces its new requirements, the European FATCA.

In 2014, the Bank also became the first bank in the world to pilot the integrated version of SafeWatch Profiling and IBM® i2® Analyst'sNotebook®, a visual data analysis tool. Integrating these products will allow the Bank to process a vast flow of information arriving from the Automated Banking System (ABS) and display it visually as charts, which will mean that transactions are clearly and promptly presented, and that clients' networks, accounts and transactions are analysed more thoroughly.

In addition to this, the Bank established the Central Information System in 2014, which led to a significant reduction in the number of compliance breaches seen within the bank. As a result of this system, the Bank's management was made aware of all non-compliance issues and took appropriate measures in a timely manner.

In the same period, Head of PASHA Bank Compliance Department was elected as the Chairman of the Legal Affairs Committee of the Financial Affairs Committee operating under the Confederation of Entrepreneurs of the Azerbaijan Republic. After this appointment, experts from the country's leading banks gathered on behalf of the Committee to discuss legislative amendments and to submit proposals to the appropriate governmental authorities.

IMPROVING RISK MANAGEMENT

In 2014, the Bank has been working hard to improve the efficiency and accuracy of lending. The Risk Management team developed an in-house model for scoring financial institutions and then transforming their score into an exposure limit. Our quantitative specialists implemented a fully automated reporting tool, which allows current exposure to be tracked and emails warning messages when there is a risk of limit breaches. We, therefore, have a limit generation and reporting tool for our financial institution counterparties.

The Bank is currently developing similar tools for non-financial institution counterparty ratings and bond valuations. We have also developed in-house stress tests and scenario analyses to assess the loan portfolio's resilience to possible downturns in the economy. The Bank is also devoting a lot of resources to ensuring that it has fully-fledged risk reporting in place. Also, on the credit risk management side, the Bank has developed a Loan Loss Provisioning methodology, together with KPMG. For the first time we have a Probability of Default model, which we will be able to use in stress tests and scenario analyses of the Bank's loan portfolio; we will also use this model for stress testing our liquidity position. The Loan Loss Provisioning methodology has been validated by EY. On the market risk management side, we continue to develop certain risk metrics, including position reports, sensitivity metrics, stress tests and scenario analyses.

The Risk and Control Self-Assessment (RCSA) was one of the largest projects started by the Bank in 2014. The project's aim is to firmly establish fundamental principles and sound risk management practices within the Bank. This Bank-wide project consisting of four stages is well on track; the Risk Identification and Assessment stages were completed in December 2014, where all identified risks were ranked according to their probability and potential impact. We have now entered the Action Planning stage of the RCSA, which is where all identified and scored risks will be addressed. All spheres of the Bank's activities, from lending to compliance, will have been affected and will be improved when the last phase of the project is completed in 2015.

The Bank also developed an Incident Management System (IMS) and Internal Loss Database (ILdB) in order to record incidents and how they were dealt with. The methodology is in line with Basel II requirements and will be fundamental in assessing expected losses (EL) due to operational inefficiencies, as well as conducting stress tests and scenario analyses. Another important project is the Bank's Business Continuity Plan (BCP). This is an inter-departmental collaboration with the objective of preparing the Bank for possible unforeseen circumstances and to ensure the Bank is able to recover as quickly as possible from challenging situations.

2. Quality

2.1 Our people

At every step of our employees' career, we invest in them and ensure their interests remain focused on the long term and closely aligned with those of our clients and shareholders. Our goals are to maximise individual potential, reinforce PASHA Bank's core values and culture, and help our employees contribute positively to the Bank's success.

To help maximise the potential of each and every one of our employees, we have six key HR policies in place:

- Recruitment Policy
- Motivation Policy
- Appraisal Policy
- Code of Conduct
- Training Policy
- Job Grading Policy

Motivating staff, ensuring excellent working conditions, and providing top-level training are all key to ensuring our staff have the very best skills and that PASHA Bank is a place where Azerbaijan's most talented banking professionals want to work.

During 2014, the HR department implemented a number of major projects, including:

- Performance Related Reward Scheme
- Job Grading
- Recruitment
- Governmental E-portal
- Vacation Database
- Employee Training and Development: in-house training sessions

The main purpose of the Performance Related Reward Scheme is to attract and retain high calibre staff. The scheme uses objective means to assess performance, which is primarily designed to promote over-achievement, but also recognises and rewards the performance of all members of staff.

The main aim of the Job Grading project was to appraise and evaluate how each job within the Bank fits in with the Company's overall hierarchy by using a consistent assessment matrix to rank each job in relation to

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other jobs. A key benefit of this grading system is that staff are able to see where their current role fits in the Bank's overall structure, and to plan their future career more easily. The Bank's new job grading system is based on the role rather than on the person and the grade of a job role reflects:

• the levels of knowledge, skills and experience required to perform the job competently

• the levels of responsibility and accountability encompassed within the role

• the value of the job compared to all other roles within the organisation

The Vacation Database was launched in 2014 after a lot preparation work from both the HR department and a media design company. The aim of the system was to simplify the vacation application process. Now every employee can check their vacation status, track the number of vacation days available to them and to apply for vacation for electronically. In addition, the Bank successfully loaded all employee information into the Governmental E-portal within one and half months as per the regulations of the Ministry of Labor and Social Protection, the Ministry of Finance and the Ministry of Taxes.

Enhancing the professional development of our employees remains a key focus of the HR department. In this regard, we conduct regular performance reviews and appraisal procedures. This allows us to develop and customise individual training programmes for our personnel which are implemented on a regular basis.

Headcount as of 1 January, 2013	*Hired*	*Resigned*	*Total headcount as of 31 December, 2013*
185	*113*	*19*	*279*

Headcount as of January, 2014	*Hired*	*Resigned*	*Total headcount as of 31 December, 2014*
279	*133*	*36*	*376*

Please see below for information on employee turnover at PASHA Bank's operations in Azerbaijan and Georgia:

In 2013, the Bank recruited 106 new employees in Azerbaijan, mainly to serve clients in the Bank's new business centres in Ganja and Zagatala and in four SME business offices.

In 2013, the Bank arranged 135 training sessions for 304 employees; 55 of these sessions were conducted abroad and 80 were held in Azerbaijan. In 2014, the Bank hosted 10 internal training sessions for 129 employees as part of the Bank's in-house training programme. In addition, 156 external training sessions were arranged for 596 participants to support their professional development; 24 of these sessions were held abroad and 132 in Azerbaijan.

By implementing this training programme, PASHA Bank continues to demonstrate its commitment to talent management and has once again proven its status as the employer of choice in the Azerbaijani corporate market. PASHA Bank's HR team was named 'HR Team of the Year' by P-World at Marketing Kingdom Baku in April 2015, which highlights the recognition PASHA Bank's HR policies are getting in Azerbaijan and beyond.

Aside from an industry leading training programme, we provide a number of benefits to our employees, including medical insurance for our staff and their families, gym allowance and educational assistance.

2.2 Our customers

Since its foundation, PASHA Bank has been committed to supporting SMEs from a variety of sectors, particularly manufacturing and agriculture. We are currently working with both SMEs and private entrepreneurs on a number of agricultural projects across Azerbaijan through third party involvement and direct investments. In 2013 and 2014, a total of four SME Business Centres were set up to provide banking services

	2013	2014
Business Client	**134**	**2543**
Individuals	4	47
Non-state-owned Legal Entities - Mining	1	1
Private entrepreneurs	61	2376
Private Enterprises - Agriculture and Recycling	3	4
Private Enterprises - Construction	4	4
Private Enterprises – Industry or Manufacturing	7	5
Private Enterprises - Other Sectors	3	8
Private Enterprises - Trade and/or Service Sector	47	93
Private Enterprises - Transportation or Communication	2	3
State owned enterprises - Other Sectors	1	1
State owned enterprises - Trade and/or Service Sector	1	1
Commercial Client	**45**	**107**
Individuals	1	1
Private Entrepreneurs	3	13
Private Enterprises - Agriculture and Recycling	7	5
Private Enterprises - Construction	8	11
Private Enterprises - Energy, Chemicals or Natural Resources	25	2
Private Enterprises – Industry or Manufacturing	1	7
Private Enterprises - Other Sectors		9
Private Enterprises - Trade and/or Service Sector		54
Private Enterprises - Transportation or Communication		5
Corporate Client	**53**	**83**
Non-state-owned Legal Entities - Mining		1
Non-Bank Credit Organisations		1
Private Entrepreneurs	1	4
Private Enterprises - Construction	2	8
Private Enterprises – Industry or Manufacturing	2	8
Private Enterprises - Other Sectors	4	6
Private Enterprises - Trade and/or Service Sector	3	50
Private Enterprises - Transportation or Communication	39	1
State-owned Enterprises - Other Sectors	2	1
State-owned Enterprises - Trade and/or Service Sector		1
State owned enterprises - Transportation or Communication		1
State owned legal entities - Mining		1

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Financial Institution	**21**	**16**
Foreign Banks	1	1
National Banks	7	8
Non-Bank Credit Organisations	8	2
Other Financial Institutions	5	4
Other State Fund		1
Individuals	**205**	**343**
Individuals	185	302
Private Entrepreneurs	20	41
Grand Total	**458**	**3092**

to small and medium-sized companies in Azerbaijan.

Beyond providing banking services to SMEs, PASHA Bank frequently holds events to educate its SME customers about business opportunities in various sectors and the financing options available to them. For instance, in 2014, PASHA Bank held a business forum in Sheki called ‘Financing and prospects for agricultural development’. Representatives from approximately 50 SMEs from Sheki, Zagatala, Gabala, Oguz and other neighbouring regions attended the event to hear expert views on a range of issues, including the current status of Azerbaijan’s agricultural industry, its role in the wider economy and growth prospects for the industry. Delegates also learnt more about sources of alternative financing and private investment opportunities. The agricultural industry in Azerbaijan has tremendous growth potential, and by educating SMEs about the business opportunities available to them in the sector, we are not only helping them to grow their respective businesses, but also the wider agricultural sector, which is a key element of Azerbaijan’s non-oil economy.

In order to help us expand the lending options we can provide to SMEs, we became a member of the Azerbaijan Microfinance Association (AMFA) in April 2013 and introduced a programme of lending to SMEs through other members of the association. As part of the programme, PASHA Bank, along with other members, contribute funds to non-bank credit organisations (NBCOs) and credit unions which, in turn, provide loans to their clients and members. The lending programme’s portfolio amounted to AZN 25.32 million by the end of 2014.

Customer services should be a key priority for any business, and at PASHA Bank we continually work on improving our services to ensure we consistently achieve the highest levels of customer satisfaction. For instance, we introduced a 24/7 Contact Centre service on 17 February 2014 to ensure our customers can receive help with their queries whenever they may need it. Aside from this, our Customer Services Department is currently working on a number of new initiatives to enhance our level of service, such as developing a more advanced system for monitoring client satisfaction. The Bank also runs regular customer satisfaction surveys, with the most recent one conducted last year.

In 2013, the Bank introduced a clear

distinction between the branch network and the customer relationship management segment. During 2014, the Business Development Department was focused on selling products and acquiring new customers, whereas the Customer Services Department was devoted to delivering post-acquisition services.

As well as ensuring our customers receive the highest standards of service from us, PASHA Bank is also committed to ensuring our customers are protected from fraud. To help prevent any fraud and security risks, the Bank has introduced a Card Suite Fraud Management System. This tool allows the Bank to monitor potential fraud by identifying and analysing any fraudulent transactions before they may happen.

Being at the forefront of technology is an important element of providing the best level of banking services to our customers. PASHA Bank is always looking to introduce new technologies to the market and we completely support both government and non-government initiatives to increase the number of non-cash operations in the country and to extend the banking services available to both companies and private individuals. For instance, PASHA Bank was the first bank in Azerbaijan to implement contactless technology after introducing PayPass for MasterCard customers in 2013 and Visa's payWave in 2014. Contactless payment is a much more efficient form of non-cash payment, as a contactless card can simply be held to the reader to pay for goods, without the need to enter a PIN code. Contactless payments are just as secure

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as other non-cash payment methods, as the advanced technology that underpins chip and PIN is also used for contactless cards. PASHA Bank is proud to have brought this technology, which is widely used in the USA and Europe, to the Azerbaijani market. As well as making it easier to pay for goods without using cash, contactless technology is helping to raise the number of transactions made via Azerbaijan's POS terminals, thus increasing service companies' non-cash turnover.

3. Profitability

3.1 Resource allocation

Generating profits is, of course, the Bank's key aim, and the more profitable we are, the more we are able to invest in sustainability projects.

As the leading investment bank in Azerbaijan, PASHA Bank is best placed to develop new products for the market and to drive future profitability. In 2014, PASHA Bank, together with regulators and the Baku Stock Exchange, facilitated the process of introducing repos on corporate bonds to the market. PASHA Bank also closed several deals on the local bond market in 2014, which had a total face value of AZN 82 million. In addition, PASHA Bank organised the first road show for Embawood LLC, the first non-financial Azerbaijani company to be listed on the Baku Stock Exchange.

Despite the growth opportunities PASHA Bank has been pursuing in Azerbaijan, PASHA Bank has started to expand into the wider region. In 2013, PASHA Bank established its first subsidiary in Georgia. PASHA Bank Georgia has already been recognised as a leading player in the Georgian market having been named 'Bank of the Year' at the Caspian Energy Forum 2014 for its support of the Georgian economy and the work it is doing to enhance business relationships between Azerbaijan and Georgia. In 2014, PASHA Bank also entered the Turkish market having acquired a controlling interest in TAIB Bank from Aksoy Holding. By establishing a presence in Turkey and Georgia, PASHA Bank is extremely well-placed to capitalise on the growing investment and trade flows between Azerbaijan, Turkey and Georgia.

3.2 Contributing to socio-economic development

Investing in community development has become an essential part of the Bank's activities, since investments made today will yield huge benefits to society as a whole and will also promote long-term development opportunities. In 2013, PASHA Bank was recognised as having the 'Best Corporate Social Responsibility (CSR) Programme in Europe' for its active support of local communities.

PASHA Bank's overall CSR objectives are to support local communities, help develop Azerbaijan's economy and promote Azerbaijan's cultural heritage. We believe that education plays a key role in contributing to Azerbaijan's further development, which is why we devote a significant amount of resources to not only supporting the education of young people and improving their financial literacy, but also educating the business community on Azerbaijan's capital markets.

We run a number of projects for young people, including a business journalism scheme developed in collaboration with the Thomson Foundation, a writing competition held in partnership with the British Council, the 'Sustainable Enterprise Development' programme and the 'Banks in Action' programme. The 'I am a PASHA Bank scholar' scheme, which encourages young talent into the bank, is among other projects successfully initiated by PASHA Bank to support Azerbaijan's youth.

To help improve business leaders' financial literacy and corporate governance knowledge, PASHA Bank co-organised a business forum called 'Corporate Governance: Transparency. Efficiency. Accountability' in 2014. Nearly 80 representatives from public and private companies, as well as international financial institutions, took part in this event. We believe that the forum succeeded in promoting best corporate governance practices, and we hope that this event, and any similar ones we will arrange in the future, will have a lasting impact on raising corporate governance standards in Azerbaijan.

In December 2014, PASHA Bank also held a business forum called 'Retail trade in Azerbaijan: current status and long-term development perspectives' together with the National Confederation of Entrepreneurs (Employers) of Azerbaijan. More than 40 representatives from local businesses attended the forum to discuss a range of issues, including current retail trade trends, how this area is developing in Baku and the regions and the possibilities for improving dialogue between the private and public sectors. Speakers shared their views on the potential issues and challenges that may be faced by the retail market over the coming years, and gave their insights on how international experience could help local Azerbaijani companies working in this field.

Azerbaijan is entering a new stage of economic development, with the economy continuing to diversify beyond the energy sector. There were a number of structural changes taking place within the economy, and competition on both the domestic and international markets is continuing to grow. Against this backdrop, PASHA Bank, as a reliable financial partner and Azerbaijan's leading corporate bank, believed it was timely to introduce detailed economic reports to help its customers assess the risks and opportunities present within Azerbaijan's economy. In 2014, PASHA Bank launched the first of a series of economic reviews to be issued on a quarterly basis, as well as monthly industry research reports. These reports were developed by the Bank's own economists and reflect the country's key quarterly economic dynamics, including a macro-economic overview, trends in Azerbaijan's financial and banking system, developments in the financial markets and key policy changes. The reviews also outline economic growth forecasts for the year ahead and enable existing and potential customers to closely monitor macro and micro-economic trends affecting their business objectives.

The following industry research reports were issued in 2014:

- Motor Vehicles and Passenger Cars
- Cement Industry
- Construction Industry
- Food Processing Industry
- Retail Industry
- Furniture Industry
- Confectionery Industry
- Paint & Lacquers Industry

Outside of promoting better business practices through education, our sponsorship programmes actively target the preservation of Azerbaijani cultural heritage. In 2014, PASHA Bank sponsored an art exhibition 'At the Crossroads 2: Contemporary Art from Istanbul to Kabul', which was held in London and displayed some works from Azerbaijani artists. Throughout 2014, PASHA Bank sponsored a host of cultural and educational events in Azerbaijan itself, including events for children from local schools and orphanages.

We believe that sustainable growth is possible through building long-term quality relationships with our customers, continually improving our services and processes and investing in the wider community. During the period until the next Sustainability Report is published, we are planning to further shape our sustainability goals to ensure they are focused, as well as to continue developing our sustainability performance and management systems.

OJSC PASHA Bank Consolidated financial statements

Year ended 31 December 2014 together with independent auditors' report

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OJSC PASHA Bank

We have audited the accompanying consolidated financial statements of OJSC PASHA Bank and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

OPINION

Building a better
working world

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC PASHA Bank and its subsidiary as at 31 December 2014, and their financial performance and cash flows for the year 2014 in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

12 June 2015

OJSC PASHA Bank
2014 Consolidated financial statements
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	5	347,980	48,056
Trading securities	6	28,599	51,717
Amounts due from credit institutions	7	51,070	32,639
Investment securities available-for-sale	8	209,467	156,126
Loans to banks	9	21,621	14,107
Loans to customers	10	538,875	329,218
Investment property	11	2,000	2,000
Property and equipment	12	16,244	14,389
Intangible assets	13	4,126	3,989
Current income tax assets		1,367	–
Deferred income tax assets		1,013	–
Prepayment for equity investment	14	41,971	41,971
Other assets	15	8,925	9,843
Total assets		**1,273,258**	**704,055**
Liabilities			
Amounts due to banks and government funds	16	174,377	107,286
Amounts due to customers	17	703,058	302,817
Amounts due to credit institutions	18	55,451	37,252
Current income tax liabilities		–	1,562
Deferred income tax liabilities	19	–	1,969
Provision for guarantees and letters of credit	22	2,683	150
Dividends payable to shareholders	20	10,832	14,992
Other liabilities	15	3,151	3,104
Total liabilities		**949,552**	**469,132**
Equity			
Share capital	20	333,000	228,000
(Accumulated deficit)/retained earnings		(5,929)	7,699
Net unrealised gains/(losses) on investment securities available-for-sale		98	(44)
Foreign currency translation reserve		(3,463)	(732)
Total equity		**323,706**	**234,923**
Total liabilities and equity		**1,273,258**	**704,055**

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

Farid Akhundov — Chairman of the Executive Board

Elmina Nabiyeva — Director, Financial Management Department

12 June 2015

The accompanying notes on pages 60 to 108 are an integral part of these consolidated financial statements.

OJSC PASHA Bank
2014 Consolidated financial statements
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2014
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Interest income			
Loans to customers		46,606	38,792
Investment securities available-for-sale		9,772	11,300
Amounts due from credit institutions		2,836	1,715
Trading securities		3,954	2,621
Loans to banks		1,097	281
Securities purchased under agreements to resell		70	63
Interest expense		**64,335**	**54,772**
Amounts due to customers		(9,220)	(8,682)
Amounts due to credit institutions		(1,666)	(2,387)
Amounts due to banks and government funds		(4,500)	(1,292)
Other		(7)	–
		(15,393)	**(12,361)**
Net interest income		**48,942**	**42,411**
Provision for impairment of interest earning assets	22	(31,092)	(13,715)
Net interest income after provision for impairment of interest bearing assets		17,850	28,696
Net fee and commission income	23	4,203	3,038
Net gains from trading securities		47	417
Net (losses)/gains from investment securities available-for-sale		(160)	174
Net gains/(losses) from foreign currencies:			
- dealing		7,019	5,562
- translation differences		(159)	(127)
Other income		313	108
Non-interest income		**11,263**	**9,172**
Personnel expenses	24	(11,006)	(10,901)
General and administrative expenses	24	(14,620)	(9,095)
Depreciation and amortisation	12, 13	(3,705)	(2,570)
(Provision)/reversal of provision for guarantees and letters of credit	22	(2,534)	817
Non-interest expenses		**(31,865)**	**(21,749)**
(Loss)/profit before income tax expense		**(2,752)**	**16,119**
Income tax expense	19	(44)	(4,091)
Net (loss)/profit for the year		**(2,796)**	**12,028**

OJSC PASHA Bank
2014 Consolidated financial statements
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Net (loss)/profit for the year		**(2,796)**	**12,028**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Gross unrealised gains/(losses) on investment securities available-for-sale		18	(107)
Realised (gains)/losses on investment securities available-for-sale reclassified to the consolidated statement of profit or loss		160	(174)
Net unrealised gains/(losses) on investment securities available for-sale	20	**178**	**(281)**
Tax effect of net (losses)/gains on investment securities available for-sale	19	(36)	56
Foreign currency translation difference net of tax	20	(2,731)	(721)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(2,589)**	**(946)**
Total comprehensive income for the year		**(5,385)**	**11,082**

The accompanying notes on pages 60 to 108 are an integral part of these consolidated financial statements.

OJSC PASHA Bank
2014 Consolidated financial statements
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014
(Figures in tables are in thousands of Azerbaijani manats)

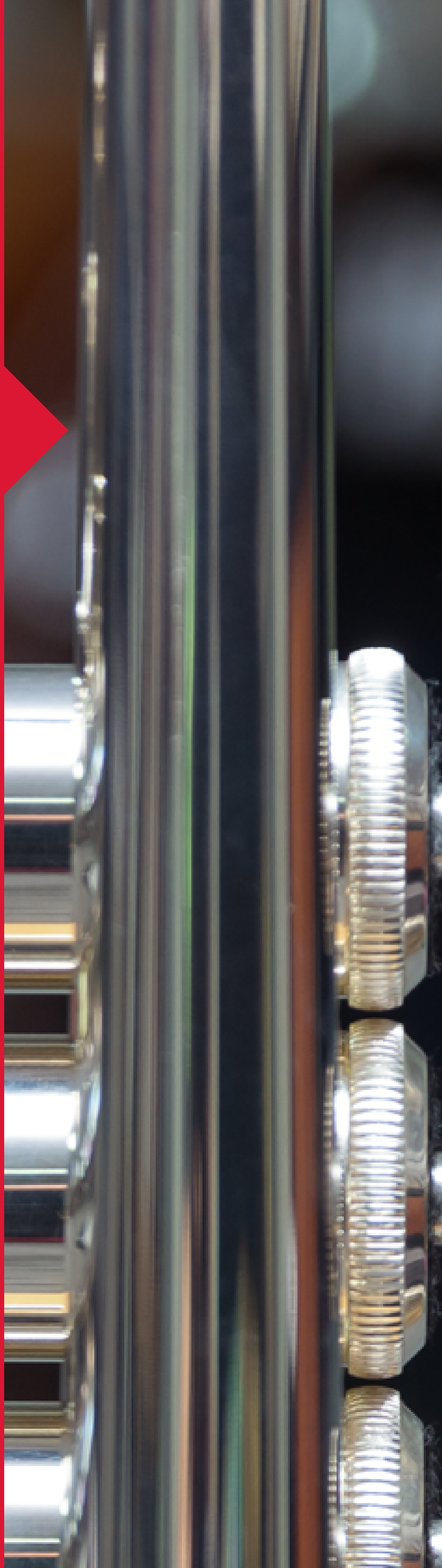
	Share capital	Retained earnings	Net unrealized (losses)/gains on investment securities available-for-sale	Foreign currency translation reserve	Total equity
31 December 2012	**157,000**	**31,178**	**181**	**(11)**	**188,348**
Net profit for the year	–	12,028	–	–	12,028
Other comprehensive income for the year	–	–	(225)	(721)	(946)
Total comprehensive income for the year	**–**	**12,028**	**(225)**	**(721)**	**11,082**
Dividends declared (Note 20)	–	(35,507)	–	–	(35,507)
Cash contribution for share capital increase (Note 20)	71,000	–	–	–	71,000
31 December 2013	228,000	7,699	(44)	(732)	234,923
Net profit for the year	–	(2,796)	–	–	(2,796)
Other comprehensive income for the year	–	–	142	(2,731)	(2,589)
Total comprehensive income for the year	**–**	**(2,796)**	**142**	**(2,731)**	**(5,385)**
Dividends declared (Note 20)	–	(10,832)	–	–	(10,832)
Cash contribution for share capital increase (Note 20)	105,000	–	–	–	105,000
31 December 2014	**333,000**	**(5,929)**	**98**	**(3,463)**	**323,706**

The accompanying notes on pages 60 to 108 are an integral part of these consolidated financial statements.

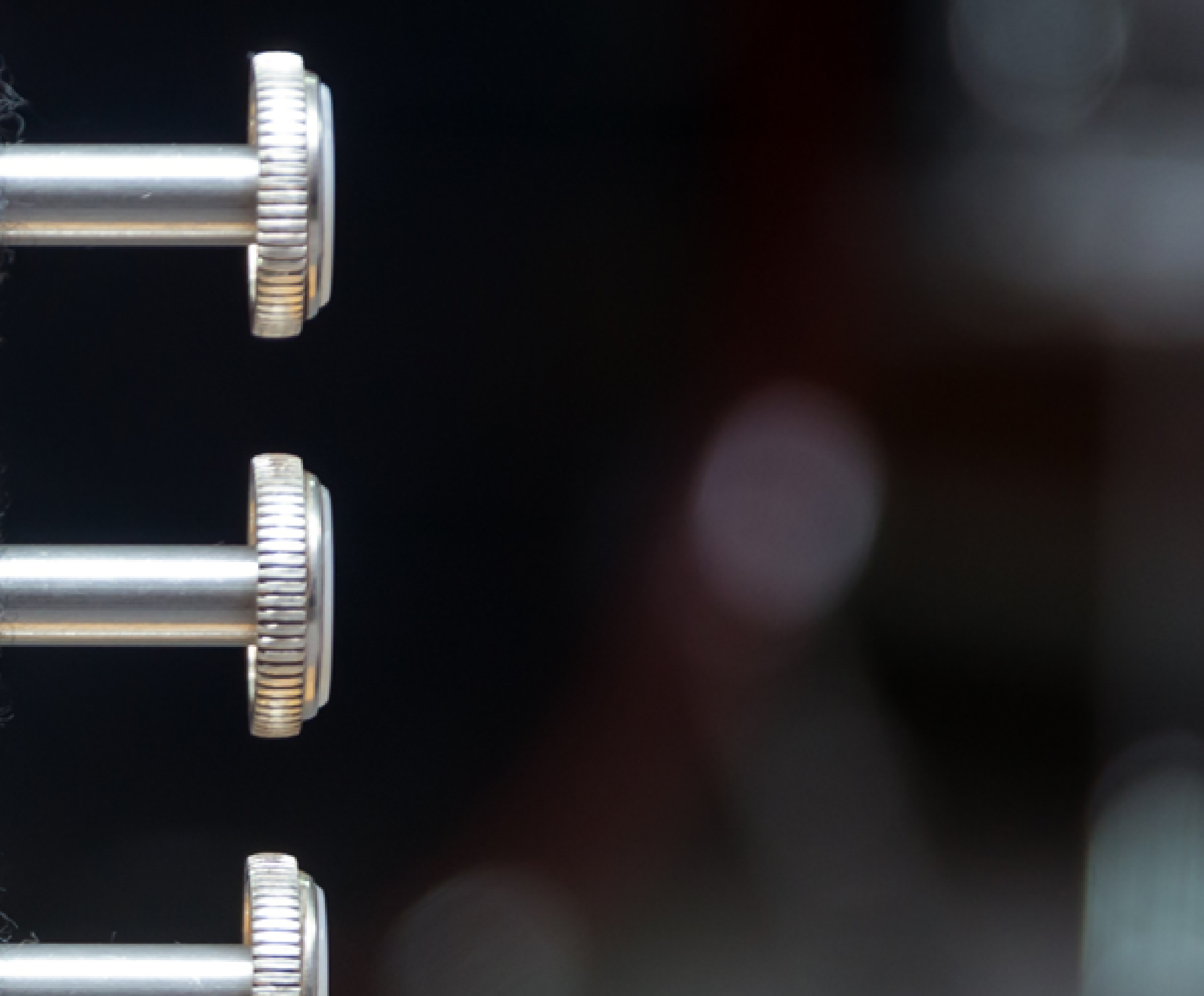
OJSC PASHA Bank
2014 Consolidated financial statements
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended 31 December 2014	Year ended 31 December 2013
Cash flows from operating activities			
Interest received		59,195	51,726
Interest paid		(15,072)	(12,552)
Fees and commissions received		7,706	5,963
Fees and commissions paid		(3,188)	(2,973)
Net realized (loss)/gain on sale of investment securities available-for-sale		(160)	174
Net realized (loss)/gain from trading securities		(71)	118
Realised gains less losses from dealing in foreign currencies		7,019	5,562
Personnel expenses paid		(12,494)	(10,297)
General and administrative expenses paid		(13,653)	(11,488)
Other operating income received		168	63
Cash flows from operating activities before changes in operating assets and liabilities		**29,450**	**26,296**
Net (increase)/decrease in operating assets			
Trading securities		22,732	(36,837)
Amounts due from credit institutions		(19,580)	(18,074)
Loans to banks		(3,776)	(13,051)
Loans to customers		(239,755)	(67,479)
Other assets		(3)	(1,185)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and government funds		65,659	72,582
Amounts due to customers		418,704	(153,024)
Amounts due to credit institutions		17,968	6,803
Other liabilities		1,267	(62)
Net cash from/(used in) operating activities before income tax		**292,666**	**(184,031)**
Income tax paid		(4,960)	(2,634)
Net cash from/(used in) operating activities		**287,706**	**(186,665)**
Cash flows from investing activities			
Purchase of investment securities available-for-sale		(296,820)	(259,275)
Proceeds from sale and redemption of investment securities available-for-sale		242,048	425,386
Purchase and prepayments for property and equipment		(5,758)	(6,009)
Acquisition of intangible assets		(1,667)	(1,943)
Proceeds from sale of property and equipment		1,646	47
Prepayment for equity investment	14	–	(41,971)
Net cash (used in)/from investing activities		(60,551)	116,235

Cash flows from financing activities			
Share capital contribution	20	105,000	71,000
Dividends paid	20	(14,992)	(20,515)
Net cash from financing activities		**90,008**	**50,485**
Effect of exchange rates changes on cash and cash equivalents		(17,239)	(525)
Net increase/(decrease) in cash and cash equivalents		**299,924**	**(20,470)**
Cash and cash equivalents, beginning	5	**48,056**	**68,526**
Cash and cash equivalents, ending	5	**347,980**	**48,056**



OJSC PASHA Bank
Notes to 2014 consolidated financial statements



OJSC PASHA Bank
Notes to 2014 consolidated financial statements

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

OJSC PASHA Bank (the "Bank") was formed 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 number 250 issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") on 28 November 2007.

The Bank accepts deposits from the public and extends credit, transfers payments, exchanges currencies and provides other banking services to its commercial and private customers. The Bank also carries market maker service activities.

The Bank has three service points and two branches in Azerbaijan as of 31 December 2014 (31 December 2013: four service points and one representative office) and one subsidiary, JSC PASHA Bank Georgia (the "Subsidiary") located in the Republic of Georgia.

The Bank's registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

On 17 December 2012, the Bank established JSC PASHA Bank Georgia, a wholly – owned subsidiary, which operates in the banking sector, with registered and paid up share capital of GEL 35,000 thousands or AZN 16,615 thousands. On 17 January 2013 JSC PASHA Bank Georgia received a license for banking activities issued by the National Bank of Georgia ("NBG").

Legal address of the JSC PASHA Bank Georgia is 15 Rustaveli Street, Tbilisi, GE 0108, Georgia.

As at 31 December 2014 and 31 December 2013 the following shareholders owned the outstanding shares of the Bank:

Shareholders	31 December 2014 (%)	31 December 2013 (%)
Pasha Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	100	100

As at 31 December 2014 and 2013, the Bank is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, who exercise joint control over the Bank.

2. Basis of preparation

General

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Azerbaijani manat is the functional and presentation currency of OJSC PASHA Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Bank is required to maintain its records and prepare its financial statements in Azerbaijani manat and in accordance with IFRS. These consolidated financial statements are presented in thousands of Azerbaijani manat ("AZN"), except when otherwise indicated. The consolidated financial statements have been prepared under the historical cost convention except for trading and available for sale securities which have been measured at fair value.

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary for the year ended 31 December 2014. The financial statements of Pasha Bank's subsidiary are prepared for the same reporting year as Pasha Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full. Subsidiary is fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Bank has a control over its subsidiary.

3. Summary of significant accounting policies

Changes in accounting policies

The Bank has adopted the following amended IFRS and new IFRIC Interpretations during the year. The principal effects of these changes are as follows:

Investment Entities (amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Bank, since the Bank does not qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments had no impact on the Bank's financial position.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. This IFRIC had no impact on the Bank's consolidated financial statements as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36 Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Bank's financial position or performance.

Fair value measurement

The Bank measures financial instruments, such as trading and available-for-sale securities, derivatives and non-financial assets such as investment property, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant

OJSC PASHA Bank
Notes to 2014 consolidated financial statements

(Figures in tables are in thousands of Azerbaijani manats)

that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets, as appropriate. The Bank determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Bank commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in Net trading income. In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Bank has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Bank places deposits with banks as well as issues loans to banks. According to the terms of deposit agreements the Bank is allowed to withdraw deposits before maturity while as per terms of loan agreements the Bank is not allowed to do so and loans can be demanded by the Bank at maturity.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Bank has the intention and ability to hold it for the foreseeable future or until maturity;
- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Bank has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, excluding obligatory reserves, and amounts due from credit institutions with no maturity and less than 90 days of the date of origination and that are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell ("reverse repo") are recorded as separate account on the consolidated statement of financial position if material or as cash and cash equivalents or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to the Central Bank of the Republic of Azerbaijan, banks and government funds, amounts due to credit institutions and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Bank determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a valuation technique that uses only data from observable markets, the Bank recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;
- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Bank recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include

indications that the borrower or a group of borrowers is experiencing significant financial

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difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions, loans to banks and loans to customers

For amounts due from credit institutions, loans to banks and loans to customers carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current year profit. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates,

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property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the other comprehensive income is reclassified from other comprehensive income to the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recognized in the consolidated statement of profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

Held to maturity financial investments

For held to maturity investments the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated statement of comprehensive income.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Bank uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Bank recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan

is not impaired after restructuring the Bank recalculates the effective interest rate.

► Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

► the rights to receive cash flows from the asset have expired;

► the Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and

► the Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to current year profit. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

The interest rate is applied to amount of guarantees without consideration of effective interest rate method.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan and of the countries in which the Bank has offices and branches and where its subsidiaries are located.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Azerbaijan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of general and administrative expenses.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of property and equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset, including construction in progress, begins when it is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20
Furniture and fixtures	4
Computers and other equipment	4
Vehicles	4
Other equipment	5
Leasehold improvements	15

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Leasehold improvements are depreciated of over the useful life of the leased assets.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the

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Bank or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently is stated at cost less accumulated depreciation and any accumulated impairment losses. For disclosure purposes investment property is re-measured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Bank's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in the income statement within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of profit or loss and presented within income or expense arising from non-banking activities.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Bank and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost.

Intangible assets

Intangible assets consist of licenses and computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised and assessed for impairment at least at each financial year-end whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank has no post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

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Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognized when incurred. The following specific recognition criteria must also be met before revenue and expense is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income includes cash collection and withdrawal fees and customer services fees, which are recognized as revenue as the services are provided. Fee and commission expense consists of documentary operations (letters of credit and guarantees), customer, brokerage, custodian and foreign currency purchase/sale fees.

Foreign currency translation

The consolidated financial statements are presented in AZN, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in current year profit as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

As at the reporting date, the assets and liabilities of the Bank's subsidiary whose functional currency is different from the presentation currency of the Bank are translated into AZN at the rate of exchange ruling at the reporting date and, its statement of income is translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to consolidated statement of comprehensive income.

The Bank used the following official exchange rates at 31 December 2014 and 2013 in the preparation of these consolidated financial statements:

	31 December 2014	31 December 2013
1 US Dollar	AZN 0.7844	AZN 0.7845
1 Euro	AZN 0.9522	AZN 1.0780
1 Georgian Lari	AZN 0.4244	AZN 0.4521

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January

2017 with early adoption permitted. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Bank, since the Bank does not have defined benefit plans with contributions from employees or third parties.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early

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adoption permitted. These amendments are not expected to have any impact to the Bank given that the Bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Bank's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

4. Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgements and made estimates which have affected the amounts recognised in the consolidated financial statements:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

The Bank regularly reviews its loans and receivables to assess impairment. The Bank uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Bank uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral

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revisions.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment. The valuations of collaterals are performed based on review of similar collaterals available on the market.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. If actual results differ from those estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in the consolidated statement of profit or loss.

5. Cash and cash equivalents

	31 December 2014	31 December 2013
Cash on hand	69,993	11,768
Current accounts with the CBAR and NBG	16,321	7,968
Current accounts with other credit institutions	222,734	10,195
Time deposits with credit institutions up to 90 days	38,932	18,125
Cash and cash equivalents	**347,980**	**48,056**

Cash and cash equivalents comprise:

Current accounts with other credit institutions consist of interest bearing correspondent account balances with two resident banks in the amount of AZN 2,603 thousands (31 December 2013 – AZN 6,854 thousands) and non-interest bearing correspondent account balances with resident and non–resident banks in the amount of AZN 972 thousands (31 December 2013 – AZN 619 thousands) and AZN 219,159 thousands (31 December 2013 – AZN 2,722 thousands), respectively.

As at 31 December 2014, the Bank placed AZN 38,932 thousands in time deposits with two resident banks and one non–resident bank maturing through March 2015 and with annual interest rate of 0.04%-11.00% p.a. (31 December 2013 – AZN 18,125).

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6. Trading securities

Trading securities comprise:

	31 December 2014		31 December 2013	
	Annual interest rate	Carrying value	Annual interest rate	Carrying value
Corporate bonds issued by Bakcell LTD	9.00%	13,970	9.50%	14,534
Corporate bonds issued by AccessBank CJSC	9.00%	9,403	9.00%	6,425
Corporate bonds issued by Unibank Commercial Bank OJSC	9.75%-14.00%	3,363	11.00%-14.00%	15,796
Corporate bonds issued by FINCA Azerbaijan limited liability non-banking credit organization	11.50%	809	11.50%	6,431
Corporate bonds issued by Bank of Baku OJSC	12.00%	526	12.00%	4,533
Corporate bonds issued by AGBank Commercial Bank OJSC	12.00%	525	12.00%	1,951
Corporate bonds issued by Embawood	11.00%	3	–	–
Corporate bonds issued by "Unileasing" Leasing Company CJSC	–	–	10.50%	2,047
Trading securities		**28,599**		**51,717**

As at 31 December 2014, the Bank carried market maker service activities and signed related agreements with seven (2013 – seven) local entities. As at 31 December 2014, the Bank had trading securities under these agreements amounting to AZN 28,599 thousands (2013 – AZN 51,717 thousands).

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2014	31 December 2013
Time deposits	39,277	21,861
Restricted deposits	6,173	–
Obligatory reserve with the CBAR and NBG	5,620	10,778
Amounts due from credit institutions	51,070	32,639

As at 31 December 2014, AZN 38,836 thousands or 99% of total time deposits (2013 – AZN 14,683 thousands or 67% of total time deposits) was placed on inter-bank deposits with five local (2013 – two local) commercial banks maturing through 15 June 2015 (2013 – through 04 June 2014) and with effective annual interest rate of 3%-10% (2013 –3% 10%).

Credit institutions in the Republic of Azerbaijan and Republic of Georgia are required to maintain a non-interest earning cash deposit as obligatory reserve with the CBAR at 2% p.a. and interest earning cash deposit with NBG at 10% p.a. and at 15% p.a. (31 December 2013 – the CBAR at 3% p.a. and NBG at 4.25% p.a. and 11% p.a.) of the previous month (as per the CBAR) and for the appropriate two-week period (as per NBG) average of funds attracted from customers by the credit institution in local and foreign currencies, respectively. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

8. Investment securities available-for-sale

Investment securities available-for-sale comprise:

	31 December 2014		31 December 2013	
	Carrying value	Nominal value	Carrying value	Nominal value
Notes issued by the Azerbaijan Mortgage Fund	155,210	154,585	125,243	123,925
Treasury bills of the Ministry of Finance of Georgia	22,660	22,566	–	–
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	18,163	18,000	4,086	4,000
Treasury bonds of the Ministry of Finance of Georgia	3,464	3,454	–	–
Corporate bonds issued by YapiKredi Bank	3,028	3,000	–	–
Corporate bonds issued by Unibank Commercial Bank OJSC	2,131	2,187	–	–
Certificates of Deposits of financial institutions	1,619	1,619	–	–
Corporate bonds issued by Bakcell LTD	1,172	1,139	–	–
Corporate bonds issued by FINCA Azerbaijan limited liability non-banking credit organization	790	767	–	–
Corporate bonds issued by FinansLizinq Open Joint Stock Company (OJSC)	413	400	414	400
Corporate bonds issued by AccessBank CJSC	311	302	–	–
Corporate bonds issued by TBC Kredit	306	300	253	250
Corporate bonds issued by Bank of Baku OJSC	200	195	–	–
Notes issued by Baghlan Group FZCO	–	–	20,605	19,934
Certificates of Deposit of National Bank of Georgia	–	–	5,525	5,564
Investment securities available-for-sale	209,467	208,514	156,126	154,073

Nominal interest rates per annum and maturities of these securities are as follows:

	31 December 2014		31 December 2013	
	%	Maturity	%	Maturity
Notes issued by Azerbaijan Mortgage Fund	3.00%	May 2016 –December 2023	3.00%-3.25%	May 2016 – January 2022
Treasury bills of the Ministry of Finance of Georgia	4.34%-7.10%	January 2015 – August 2015	–	–
Bonds issued by the Ministry of Finance of the Republic of Azerbaijan	3.25%-5.00%	May 2015 –		
May 2017	4.25%-5.00%	July 2015 –		
July 2016				
Treasury bonds of the Ministry of Finance of Georgia	7.43%-8.00%	March 2016 – August 2016	–	–
Corporate bonds issued by YapiKredi Bank	9.00%	June 2016	–	–
Corporate bonds issued by Unibank Commercial Bank OJSC	11.50%	May 2018	–	–
Certificates of Deposits of financial institutions	5.25%	January 2015	–	–
Corporate bonds issued by Bakcell LTD	9.00%	December 2017	–	–
Corporate bonds issued by FINCA Azerbaijan limited liability non-banking credit organization	11.50%	July 2016	–	–
Corporate bonds issued by FinansLizinq Open Joint Stock Company (OJSC)	14.00%	January 2015	14.00%	January 2015
Corporate bonds issued by AccessBank CJSC	9.00%	December 2015	–	–
Corporate bonds issued by TBC Kredit	9.00%	April 2016	7.00%	April 2014
Corporate bonds issued by Bank of Baku OJSC	12.00%	December 2015	–	–
Notes issued by Baghlan Group FZCO	–	–	14.75%	June 2015
Certificates of Deposit of National Bank of Georgia	–	–	3.80%-4.25%	January-June 2014

9. Loans to banks

As at 31 December 2014, the Bank had outstanding amount of AZN 21,621 thousands (2013 – AZN 14,107 thousands) of unsecured loans issued to six resident commercial banks (2013 – four resident commercial banks) with contractual maturity through November 2015 (2013 – June 2014) and annual interest rate of 7.5%-12% (2013 – 8%-12%).

10. Loans to customers

Loans to customers comprise:

	31 December 2014	31 December 2013
Legal entities	506,551	328,939
Individuals	67,091	22,017
Loans to customers (gross)	573,642	350,956
Less – allowance for impairment (Note 22)	(34,767)	(21,738)
Loans to customers (net)	538,875	329,218

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 31 December 2014	Individual lending 31 December 2014	Total 31 December 2014
Individual impairment	(27,971)	(164)	(28,135)
Collective impairment	(6,431)	(201)	(6,632)
	(34,402)	(365)	(34,767)
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	60,936	767	61,703

	Corporate lending 31 December 2013	Individual lending 31 December 2013	Total 31 December 2013
Individual impairment	(19,538)	(161)	(19,699)
Collective impairment	(1,948)	(91)	(2,039)
	(21,486)	(252)	(21,738)
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	27,200	577	27,777

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Loans are made in the following industry sectors:

	31 December 2014	31 December 2013
Trade and services	280,767	141,025
Construction	72,386	38,280
Individuals	67,091	22,017
Manufacturing	35,591	87,922
Agriculture and food processing	35,504	21,933
Mining	31,169	12,844
Non banking credit organizations	21,420	13,018
Transport and telecommunication	15,695	12,946
Energy	7,511	171
Leasing	5,288	744
Other	1,220	56
Total loans (gross)	573,642	350,956

As at 31 December 2014, the Bank granted loans to 5 customers (2013 – 7 customers) totalling AZN 155,677 thousands (2013 – AZN 148,419 thousands), which individually exceeded 5% of the Bank's equity.

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2014, comprised AZN 7,629 thousands (2013 – AZN 3,466 thousands).

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

► For commercial lending, charges over real estate properties, inventory and trade receivables;

► For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

11. Investment property

In 2011, the Bank acquired land for the amount of AZN 2,000 thousands as investment property which is held for long-term appreciation in value. As at 31 December 2014 the fair value of this investment property amounted to AZN 2,342 thousands (2013 – AZN 2,074 thousands).

12. Property and equipment

The movements in property and equipment were as follows:

	Land	Buildings	Furniture and fixtures	Computers and other equipment	Vehicles	Other equipment	Leasehold improvements	Construction in progress	Total
Cost									
31 December 2012	–	4,458	3,465	1,726	992	293	681	–	11,615
Additions	–	2,316	1,681	2,370	226	206	868	–	7,667
Disposals	–	–	(11)	(15)	(98)	(28)	–	–	(152)
31 December 2013	–	6,774	5,135	4,081	1,120	471	1,549	–	19,130
Additions	415	328	877	874	103	23	–	3,851	6,471
Disposals	–	(1,531)	(27)	(137)	(268)	(6)	–	–	(1,969)
Foreign currency translation difference	–	–	(22)	(27)	(18)	(6)	(58)	–	(131)
31 December 2014	415	5,571	5,963	4,791	937	482	1,491	3,851	23,501
Accumulated depreciation									
31 December 2012	–	(120)	(1,082)	(890)	(502)	(43)	(78)	–	(2,715)
Depreciation charge	–	(206)	(844)	(544)	(233)	(82)	(238)	–	(2,147)
Disposals	–	–	6	2	98	15	–	–	121
31 December 2013	–	(326)	(1,920)	(1,432)	(637)	(110)	(316)	–	(4,741)
Depreciation charge	–	(332)	(1,165)	(942)	(235)	(95)	(307)	–	(3,076)
Disposals	–	62	26	137	235	2	–	–	462
Foreign currency translation difference	–	–	23	29	19	4	23	–	98
31 December 2014	–	(596)	(3,036)	(2,208)	(618)	(198)	(601)	–	(7,257)
Net book value									
31 December 2014	415	4,975	2,927	2,583	319	284	890	3,851	16,244
31 December 2013	–	6,448	3,215	2,649	483	361	1,233	–	14,389
31 December 2012	–	4,338	2,383	836	490	250	603	–	8,900

13. Intangible assets

The movements in intangible assets were as follows:

	Licenses	Computer software	Total
Cost			
31 December 2012	772	2,165	2,937
Additions	1,607	527	2,134
Disposals	(42)	–	(42)
31 December 2013	2,337	2,692	5,029
Additions	631	407	1,038
Disposals	(267)	(98)	(365)
Foreign currency translation difference	(23)	(7)	(30)
31 December 2014	2,678	2,994	5,672
Accumulated amortization			
31 December 2012	(124)	(535)	(659)
Amortisation charge	(175)	(248)	(423)
Disposals	42	–	42
31 December 2013	(257)	(783)	(1,040)
Amortisation charge	(465)	(164)	(629)
Disposals	57	59	116
Foreign currency translation difference	5	2	7
31 December 2014	(660)	(886)	(1,546)
Net book value			
31 December 2014	2,018	2,108	4,126
31 December 2013	2,080	1,909	3,989
31 December 2012	648	1,630	2,278

14. Prepayment for equity investment

In July 2013, the Bank has resolved to make an investment and acquired TAIB Yatirim Bank which shall become the Bank's subsidiary upon completion of the legal acquisition process. The Bank made a prepayment for equity investment in the amount of AZN 41,971 thousands under Share Sale and Purchase agreement. The acquisition of 79.47% in TAIB Yatirim Bank was completed on 27 January 2015 (Note 30).

15. Other assets and liabilities

Other assets comprise:

	31 December 2014	31 December 2013	
Other financial assets			
Settlements on money transfers	850	673	
Accrued interest receivable on guarantees and letters of credit	419	176	
	1,269	849	
Other non-financial assets			
Deferred expenses	4,205	5,137	
Prepayments for acquisition of property, equipment and intangible assets		2,912	3,029
Other	539	828	
	7,653	8,994	
Other assets	8,925	9,843	

As at 31 December 2014, deferred expenses of AZN 3,013 thousands (2013 – AZN 4,078 thousands), related to prepayment for the rent of the service point located in Baku.

As at 31 December 2014, prepayments for the purchase of property, equipment and intangible assets of AZN 2,912 thousands (2013 – AZN 3,029 thousands) were related to premises for the Bank's new service points.

Other liabilities comprise:

	31 December 2014	31 December 2013
Other financial liabilities		
Settlements on money transfer	1,431	252
Accrued expenses	146	106
Payables for professional services	96	95
Other	114	358
	1,787	811
Other non-financial liabilities		
Deferred income	778	137
Payable to employees	564	2,078
Taxes, other than income tax	22	78
	1,364	2,293
Other liabilities	3,151	3,104

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16. Amounts due to the banks and government funds

Amounts due to banks and government funds comprise:

	31 December 2014	31 December 2013
Short-term deposits from banks	81,424	69,882
Loans from the National Fund for Support of Entrepreneurship	44,767	35,816
Long-term deposits from banks	40,404	–
Correspondent accounts with other banks	4,139	16
Amount due to Azerbaijan Mortgage Fund	1,643	1,572
Amount due to IT Development Fund	2,000	–
Amounts due to the banks and government funds	174,377	107,286

As at 31 December 2014, the Bank received short-term funds from five resident commercial banks (2013 – one) and one non-resident commercial bank (2013 – one) comprising AZN 81,424 thousands (2013 – AZN 69,882 thousands) maturing on 19 November 2015 (2013 – 19 November 2014) and with annual interest rate of 3%-5% p.a. (2013 – 3% 5% p.a.).

As at 31 December 2014, the Bank had loans received from the National Fund for Support of Entrepreneurship amounting to AZN 44,767 thousands (2013 – AZN 35,816 thousands), maturing through May 2023 (2013 – through May 2023), and bearing annual interest rate of 1% 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 6%-7% p.a. (2013 – 6%-7% p.a.).

As at 31 December 2014, the Bank received long-term funds from one resident commercial bank (2013 – none) and one non-resident commercial bank (2013 – none) comprising AZN 40,404 thousands (2013 – none) maturing on 26 May 2015 (2013 – none) and interest rate ranging between 4% and 5% p.a. (2013 – none).

As at 31 December 2014, the Bank had loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 1,643 thousands (2013 – AZN 1,572 thousands), maturing through November 2037 (2013 – through August 2037) and bearing annual interest rate of 4% p.a. (2013 – 4% p.a.).

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17. Amounts due to customers

The amounts due to customers include the following:

	31 December 2014	31 December 2013
Demand deposits	558,229	183,471
Time deposits	144,829	119,346
Amounts due to customers	703,058	302,817
Held as security against guarantees issued (Note 21)	2,500	380

An analysis of customer accounts by economic sector follows:

	31 December 2014	31 December 2013
Investment holding companies	289,970	99,511
Individuals	194,757	118,701
Trade and services	125,256	37,449
Insurance	27,154	15,052
Transport and communication	15,110	2,501
Hotel business	13,696	4,243
Public organizations	10,925	6,814
Construction	10,463	9,328
Non banking credit organizations	8,407	802
Manufacturing	1,864	3,930
Mining	329	–
Agriculture	198	30
Energy	37	102
Other	4,892	4,354
Amounts due to customers	703,058	302,817

As at 31 December 2014, customer deposits included balances with five largest customers comprised AZN 370,629 thousands or 53% of the total customer deposits portfolio (2013 – AZN 168,872 thousands or 56% of the total customer deposits portfolio).

18. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	31 December 2014	31 December 2013
Commerzbank Aktiengesellschaft	26,737	26,437
Raiffeisen Bank International Aktiengesellschaft	4,554	7,422
Landesbank Baden-Württemberg	3,209	3,254
Ubi Banca (Unione Di Banche Italiane) S.C.P.A.	19,093	117
Banco Popolare Group	1,284	–
Banca Popolare Di Vicenza S.C.P.A	574	–
Amsterdam Trade Bank N. V.	–	22
Amounts due to credit institutions	55,451	37,252

As at 31 December 2014, amounts due to credit institutions included balances with six (2013 – five) foreign banks amounting to AZN 55,451 thousands (2013 – AZN 37,252 thousands), maturing through April 2021 (2013 – through April 2021) and bearing annual interest rate of 1.45%-10.13% p.a. (2013 – 1.40%-37.05% p.a.). These unsecured borrowings are for trade finance of import operations (letters of credit) of the customers of the Bank.

19. Taxation

The corporate income tax expense comprises:

	Year ended 31 December 2014	Year ended 31 December 2013
Current tax charge	(3,062)	(4,254)
Prior year tax expense actualisation	–	(139)
Deferred tax credit	3,018	302
Income tax expense	(44)	(4,091)

Deferred tax related to items credited to other comprehensive income during the year is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
Net (losses)/gains on investment securities available-for-sale	(36)	56
Income tax (charged)/credited to other comprehensive income	(36)	56

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2014	Year ended 31 December 2013
(Loss)/Profit before income tax expense	(2,752)	16,119
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	550	(3,224)
Tax effect of non–deductible expenses	(394)	(345)
Unrecognized deferred tax assets	(386)	(265)
Prior year tax expense actualisation	–	(139)
Effect of different tax rates in other country	–	(86)
Tax effect of tax–exempt income	192	21
Other	(6)	(53)
Income tax expense	(44)	(4,091)

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Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

		Origination and reversal of temporary differences			Origination and reversal of temporary differences		
	2012	In the statement of profit or loss	In other compre-hensive income	**2013**	In the statement of profit or loss	In other compre-hensive income	**2014**
Tax effect of deductible temporary differences							
Tax losses carried forward	–	–	265	265	689	–	954
Loans to customers	172	5	–	177	1,094	–	1,271
Investment securities available-for-sale	–	–	11	11	–	(11)	–
Property and equipment	–	–	–	–	55	–	55
Intangible assets	–	–	–	–	15	(3)	12
Other assets	12	(12)	–	–	–	–	–
Provision for guarantees and letters of credit	–	–	–	–	185	–	185
Other liabilities	449	91	–	540	(329)	–	211
Gross deferred tax assets	633	84	276	993	1,709	(14)	2,688
Unrecognised deferred tax asset	–	–	(265)	(265)	(386)	–	(651)
Deferred tax asset	633	84	11	728	1,323	(14)	2,037
Tax effect of taxable temporary differences							
Trading securities	(208)	89	–	(119)	72	–	(47)
Amounts due from credit institutions	(164)	96	–	(68)	(154)	–	(222)
Investment securities available-for-sale	(45)	–	45	–	(2)	(22)	(24)
Loans to banks	(4)	(52)	–	(56)	56	–	–
Loans to customers	(1,946)	150	–	(1,796)	1,085	–	(711)
Property and equipment	(89)	(214)	–	(303)	283	–	(20)
Intangible assets	(19)	(27)	–	(46)	46	–	–
Provision for guarantees and letters of credit	(485)	176	–	(309)	309	–	–
Deferred tax liabilities	(2,960)	218	45	(2,697)	1,695	(22)	(1,024)
Net deferred tax assets/(liabilities)	(2,327)	302	56	(1,969)	3,018	(36)	1,013

20. Equity

As at 31 December 2014, the Bank authorized, issued and fully paid capital amounted to AZN 333,000 thousands (2013 – AZN 228,000 thousands) comprising of 10,000 ordinary shares with a par value of AZN 33,300.00 per share (2013 – AZN 22,800.00). Each ordinary share entitles one vote to the shareholder.

On 4 February 2013, the shareholders of the Bank declared dividends totalling AZN 20,515 thousands. The dividends were paid to the shareholders of the Bank on 9 April 2013.

On 18 February 2013, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting to AZN 21,000 thousands. Increase of share capital was finalized on 14 June 2013. The increase was carried out by converting 10,000 shares with a par value of AZN 15,700.00 per share into an equal number of shares with a par value of AZN 17,800.00 per share.

On 25 June 2013, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting to AZN 50,000 thousands. Increase of share capital has been finalized on 30 July 2013. The increase was carried out by converting 10,000 shares with a par value of AZN 17,800.00 per share into an equal number of shares with a par value of AZN 22,800.00 per share.

On 24 December 2013, the Shareholders of the Bank declared its intention to pay dividends in the amount of 100% of the statutory net profit of the Bank earned based on the results of 2013. Based on the decision the Bank accrued dividends of AZN 14,992 thousands as at 31 December 2013.

On 14 February 2014, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting to AZN 105,000 thousands. Increase of share capital has been finalized on 22 April 2014. The increase was carried out by converting 10,000 shares with a par value of AZN 22,800.00 per share into an equal number of shares with a par value of AZN 33,300.00 per share.

On 7 May 2014 the Bank paid dividends to shareholders totalling AZN 14,992 thousands. On 25 December 2014, the shareholders of the Bank declared dividends totalling AZN 10,832 thousands which is payable as at 31 December 2014.

Foreign currency translation reserve

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

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

21. Commitments and contingencies

Operating environment

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Considering the significant drop in crude oil prices during the second half of 2014, there continues to be uncertainty regarding economic growth, access to capital and cost of capital, which could negatively affect the Bank's future financial position, results of operations and business prospects. In addition, as described in Note 27, the Azerbaijani Manat has been devalued against major currencies by approximately 34% on 21 February 2015.

While the Bank has taken appropriate measures to support the sustainability of the Bank's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Bank's results and financial position in a manner not currently determinable.

Legal

In the ordinary course of business, the Bank 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 Bank.

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 Bank 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 proceeding the year of review.

Management believes that its interpretation of the relevant legislation as at 31 December 2014 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

Compliance with the CBAR ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2014, the Bank was in compliance with these ratios except for ratio of maximum credit exposure of a bank per a single borrower or a group of connected borrowers that should not exceed 7 percent of the bank's total capital when the market value of the security of credit exposures is less than 100 percent of such credit exposures, or the market value of real estate collateral of loans is below 150% of the loan value. As at 31 December 2014, the Bank's ratio was 20.32%.

As a result of this non-compliance the Bank provided to CBAR an action plan on how this breach is going to be rectified. The plan contains a complete list of measures that would rectify current breach and will bring the Bank into compliance with the CBAR statutory requirement by 01 July 2015. Subsequently on 16 February 2015 the Bank received a clearance letter from the CBAR regarding acceptance of the action plan and non-application of sanctions against the Bank.

The Bank 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 Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank 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.

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Financial commitments and contingencies comprise:

	31 December 2014	31 December 2013
Credit-related commitments		
Guarantees issued	66,994	44,160
Unused credit lines	28,912	26,635
Letters of credit	24,604	11,093
	120,510	81,888
Operating lease commitments		
Not later than 1 year	2,072	726
Later than 1 year but not later than 5 years	6,500	1,471
Later than 5 years	4,597	150
	13,169	2,347
Less – provisions (Note 22)	(2,683)	(150)
Commitments and contingencies (before deducting collateral)	130,996	84,085
Less – cash held as security against guarantees issued (Note 17)	(2,500)	(380)
Commitments and contingencies	128,496	83,705

22. Impairment losses on interest bearing assets, and provision for guarantees and letters of credit

The movements in allowance for impairment losses on interest bearing assets, and provision for guarantees and letters of credit were as follows:

	Year ended 31 December 2014			
	Corporate lending	Individual lending	Total loans to customers	Guarantees and letters of credit
At 1 January	(21,486)	(252)	(21,738)	(150)
Charge for the year	(30,818)	(274)	(31,092)	(2,534)
Amounts written off	17,903	160	18,063	1
At 31 December	(34,401)	(366)	(34,767)	(2,683)

	Year ended 31 December 2014			
	Corporate lending	Individual lending	Total loans to customers	Guarantees and letters of credit
At 1 January	(8,066)	(630)	(8,696)	(967)
Charge for the year	(13,832)	117	(13,715)	817
Amounts written off	412	261	673	–
At 31 December	(21,486)	(252)	(21,738)	(150)

Allowance for impairment of assets is deducted from the carrying amount of the related assets. Provision for guarantees and letters of credit is recorded in liabilities.

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23. Net fee and commission income

Net fee and commission income comprise:

	Year ended 31 December 2014	Year ended 31 December 2013
Guarantees and letters of credit	2,615	2,179
Servicing plastic card operations	1,499	1,125
Settlements operations	1,482	1,199
Cash operations	981	692
Securities operations	785	800
Other	37	10
Fee and commission income	7,399	6,005
Servicing plastic card operations	(1,604)	(1,414)
Guarantees and letters of credit	(749)	(606)
Settlements operations	(556)	(798)
Securities operations	(134)	(99)
Cash operations	(59)	(8)
Other	(94)	(42)
Fee and commission expense	(3,196)	(2,967)
Net fee and commission income	4,203	3,038

24.Personnel, general and administrative expenses

Personnel expenses comprise:

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries and bonuses	(7,517)	(7,851)
Social security costs	(1,513)	(1,626)
Other employee related expenses	(1,976)	(1,424)
Total personnel expenses	(11,006)	(10,901)

General and administrative expenses comprise:

	Year ended 31 December 2014	Year ended 31 December 2013
Operating leases	(4,009)	(2,181)
Professional services	(3,150)	(2,170)
Charity and sponsorship	(1,873)	(689)
Advertising costs	(1,672)	(1,266)
Software cost	(953)	(578)
Transportation and business trip expenses	(453)	(386)
Utilities	(357)	(336)
Insurance	(296)	(274)
Repair and maintenance	(274)	(148)
Communications	(251)	(140)
Security expenses	(215)	(161)
Stationery	(114)	(111)
Membership fees	(61)	(37)
Printing expenses	(46)	(55)
Taxes, other than income tax	(35)	(114)
Other expenses	(861)	(449)
Total general and administrative expenses	(14,620)	(9,095)

25. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for the fundamental audit issues and monitoring Internal Audit's activities.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions

Risk Management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions and liquidity ratios. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilisation of market limits and liquidity, plus any other risk developments.

Risk mitigation

Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit and customer's deposit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific

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notes.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank internal credit ratings. The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Bank's credit rating system.

	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total
31 December 2014							
Cash and cash equivalents (excluding cash on hand)	5	–	277,987	–	–	–	277,987
Trading securities	6	–	28,599	–	–	–	28,599
Amounts due from credit institutions	7	–	51,070	–	–	–	51,070
Investment securities available-for-sale	8	209,467	–	–	–	–	209,467
Loans to banks	9	–	21,621	–	–	–	21,621
Loans to customers	10						
Corporate lending		–	366,295	47,199	32,121	60,936	506,551
Individual lending		–	64,166	1,079	1,079	767	67,091
Total		209,467	809,738	48,278	33,200	61,703	1,162,386

	Notes	Neither past due nor impaired: High grade	Standard grade	Sub-standard grade	Past due but not impaired	Individually impaired	Total
31 December 2013							
Cash and cash equivalents (excluding cash on hand)	5	–	36,288	–	–	–	36,288
Trading securities	6	–	51,717	–	–	–	51,717
Amounts due from credit institutions	7	–	32,639	–	–	–	32,639
Investment securities available-for-sale	8	135,521	–	–	20,605	–	156,126
Loans to banks	9	–	14,107	–	–	–	14,107
Loans to customers	10						
Corporate lending		–	266,004	3,717	32,018	27,200	328,939
Individual lending		–	21,440	–	–	577	22,017
Total		135,521	422,195	3,717	52,623	27,777	641,833

The Bank classifies its loan related assets as follows:

High grade – counterparties with excellent financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Standard grade – counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Sub-Standard grade – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Past due but not impaired – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

Individually impaired – counterparties with satisfactory and unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	31 December 2014				31 December 2013			
	The Republic of Azerbaijan	OECD countries	CIS and other non-OECD countries	**Total**	The Republic of Azerbaijan	OECD countries	CIS and other non-OECD countries	**Total**
Financial assets								
Cash and cash equivalents	89,584	253,478	4,918	347,980	26,588	19,013	2,455	48,056
Trading securities	28,599	–	–	28,599	51,717	–	–	51,717
Amounts due from credit institutions	38,650	6,609	5,811	51,070	25,907	342	6,390	32,639
Investment securities available-for-sale	177,120	–	32,347	209,467	129,996	–	26,130	156,126
Loans to banks	21,621	–	–	21,621	14,107	–	–	14,107
Loans to customers	516,876	–	21,999	538,875	321,232	–	7,986	329,218
Other financial assets	1,269	–	–	1,269	849	–	–	849
	873,719	260,087	65,075	1,198,881	570,396	19,355	42,961	632,712
Financial liabilities								
Amounts due to banks and government funds	165,486	4,723	4,168	174,377	106,474	812	–	107,286
Amounts due to customers	700,853	–	2,205	703,058	302,621	–	196	302,817
Amounts due to credit institutions	–	55,451	–	55,451	–	37,252	–	37,252
Other financial liabilities	1,636	37	114	1,787	755	27	29	811
	867,975	60,211	6,487	934,673	409,850	38,091	225	448,166
Net assets	5,744	199,876	58,588	264,208	160,546	(18,736)	42,736	184,546

Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains obligatory reserves with the CBAR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. As at 31 December 2014 and 2013, these ratios were as follows:

	31 December 2014, %	31 December 2013, %
Instant Liquidity Ratio	101	125
(30% is the minimum required by the CBAR) (assets receivable or realisable within one day/ liabilities repayable on demand)		

As at 31 December 2014 the Subsidiary's liquidity ratio (average volume of liquid assets/average volume of liabilities) based on requirements established by NBG was 103%.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

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Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2014
As at 31 December 2014					
Amounts due banks and government funds	40,883	95,302	26,494	16,181	178,860
Amounts due to customers	607,406	68,611	39,521	–	715,538
Amounts due to credit institutions	8,273	20,225	27,019	3,329	58,846
Dividends payable to shareholders	10,832	–	–	–	10,832
Other financial liabilities	1,787	–	–	–	1,787
Total undiscounted financial liabilities	669,181	184,138	93,034	19,510	965,863

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2013
As at 31 December 2013					
Amounts due to banks and government funds	32,851	48,476	21,413	14,079	116,819
Amounts due to customers	223,366	63,214	23,756	–	310,336
Amounts due to credit institutions	5,495	16,734	694	17,963	40,886
Dividends payable to shareholders	14,992	–	–	–	14,992
Other financial liabilities	822	12	–	–	834
Total undiscounted financial liabilities	277,526	128,436	45,863	32,042	483,867

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Maturity undefined	Total
As at 31 December 2014	44,043	48,009	28,579	312	120,943
As at 31 December 2013	34,786	24,089	4,681	18,332	81,888

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from organizations of related parties in the period of one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

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Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank manages exposures to market risk based of sensitivity analysis. The Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's current year profit.

The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2014. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets at 31 December 2014 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. However, as interest rate of available-for-sale securities in the local market is based on the carried accrued discount or premiums on these securities at the time of purchase or sale (as included in actual price of purchased or sold securities), thus, any change in the rates to be applied to the fixed-rate available-for-sale financial assets does not have any impact or effect on equity.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its statement of financial position and statement of cash flows.

The Assets and Liabilities Management Committee controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rates fluctuations toward its national currency The Treasury Department performs daily monitoring of the Bank's open currency position with the aim to match the requirements of the CBAR.

As at 31 December 2014, the Bank had the following exposure to foreign currency exchange rate risk:

	AZN	USD	EUR	Other	Total 2014
Financial assets					
Cash and cash equivalents	43,004	48,412	251,427	5,137	347,980
Trading securities	28,599	–	–	–	28,599
Amounts due from credit institutions	27,054	8,855	10,448	4,713	51,070
Investment securities available-for-sale	177,120	1,619	–	30,728	209,467
Loans to banks	15,001	6,620	–	–	21,621
Loans to customers	423,444	63,470	42,392	9,569	538,875
Other financial assets	482	213	574	–	1,269
Total financial assets	714,704	129,189	304,841	50,147	1,198,881
Financial liabilities					
Amounts due to banks and government funds	112,687	61,567	47	76	174,377
Amounts due to customers	366,241	61,348	274,829	640	703,058
Amounts due to credit institutions	–	19,890	35,386	175	55,451
Other financial liabilities	1,430	36	182	139	1,787
Total financial liabilities	480,358	142,841	310,444	1,030	934,673
Net financial position	234,346	(13,652)	(5,603)	49,117	264,208

As at 31 December 2013, the Bank had the following exposure to foreign currency exchange rate risk:

	AZN	USD	EUR	Other	Total 2013
Financial assets					
Cash and cash equivalents	16,977	19,572	9,408	2,099	48,056
Trading securities	51,717	–	–	–	51,717
Amounts due from credit institutions	9,374	10,039	9,829	3,397	32,639
Investment securities available-for-sale	129,996	20,605	–	5,525	156,126
Loans to banks	1,510	12,209	388	–	14,107
Loans to customers	251,403	32,181	44,872	762	329,218
Other financial assets	223	127	499	–	849
Total financial assets	461,200	94,733	64,996	11,783	632,712

	AZN	USD	EUR	Other	Total 2014
Financial liabilities					
Amounts due to banks and government funds	59,393	47,891	2	–	107,286
Amounts due to customers	227,578	39,284	35,791	164	302,817
Amounts due to credit institutions	–	21,778	15,474	–	37,252
Other financial liabilities	735	32	36	8	811
Total financial liabilities	287,706	108,985	51,303	172	448,166
Net financial position	173,494	(14,252)	13,693	11,611	184,546

Currency risk sensitivity

The following table details the Bank's sensitivity to a 35% increase and 8.74% decrease in the USD and 35% increase and 10.70% decrease in the EUR against the AZN. These are the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for specified changes in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on profit before tax based on assets value as at 31 December 2014 and 2013:

	31 December 2014		31 December 2013	
	AZN/USD +8.74%	AZN/USD -35%	AZN/USD +10%	AZN/USD -10%
Impact on profit before tax	1,193	(4,778)	1,425	(1,425)

	31 December 2014		31 December 2013	
	AZN/USD +8.74%	AZN/USD -35%	AZN/USD +10%	AZN/USD -10%
Impact on profit before tax	600	(1,961)	(1,369)	1,369

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26. Fair values of financial instruments

Fair value hierarchy

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

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Trading securities	31 December 2014	28,599	–	–	28,599
Investment securities available-for-sale	31 December 2014	160,120	21,604	27,743	209,467
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	347,980	–	–	347,980
Amounts due from credit institutions	31 December 2014	–	–	51,070	51,070
Loans to banks	31 December 2014	–	–	21,621	21,621
Loans to customers	31 December 2014	–	–	538,875	538,875
Investment property	31 December 2014	–	–	2,342	2,342
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2014	–	–	174,377	174,377
Amounts due to credit institutions	31 December 2014	–	–	55,451	55,451
Amounts due to customers	31 December 2014	–	–	703,058	703,058

		Fair value measurement using			
	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Trading securities	31 December 2013	51,717	–	–	51,717
Investment securities available-for-sale	31 December 2013	146,101	4,500	5,525	156,126
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2013	48,056	–	–	48,056
Amounts due from credit institutions	31 December 2013	–	–	32,639	32,639
Loans to banks	31 December 2013	–	–	14,107	14,107
Loans to customers	31 December 2013	–	–	329,218	329,218
Investment property	31 December 2013	–	–	2,074	2,074
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2013	–	–	107,286	107,286
Amounts due to credit institutions	31 December 2013	–	–	37,252	37,252
Amounts due to customers	31 December 2013	–	–	320,817	302,817

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 Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Fixed 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.

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 Bank'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.

	Carrying value 2014	Fair value 2014	Unrecognized gain/(loss) 2014	Carrying value 2013	Fair value 2013	Unrecognized gain/(loss) 2013
Financial assets						
Cash and cash equivalents	347,980	347,980	–	48,056	48,056	–
Amounts due from credit institutions	51,070	51,070	–	32,639	32,639	–
Loans to banks	21,621	21,621	–	14,107	14,107	–
Loans to customers	538,875	538,500	(375)	329,218	329,218	–
Financial liabilities						
Amounts due to banks and government funds	174,377	174,377	–	107,286	107,286	–
Amounts due to customers	703,058	703,058	–	302,817	302,817	–
Amounts due to credit institutions	55,451	55,451	–	37,252	37,252	–
Total unrecognised change in unrealised fair value			(375)			–

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.

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Movements in level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which are recorded at fair value:

	At 1 January 2014	Purchases	Interest income	Currency translation Settlements	At 31 December difference	2014
Assets						
Investment securities available-for-sale	5,525	27,743	–	(5,525)	–	27,743
	(5,525)	27,743	–	(5,525)	–	27,743

	At 1 January 2014	Purchases	Interest income	Currency translation Settlements	At 31 December difference	2013
Assets						
Investment securities available-for-sale	–	12,980	141	(7,268)	(238)	5,525
	–	12,980	141	(7,268)	(238)	5,525

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27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled See Note 25 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	31 December 2014			31 December 2013		
`	Within year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	347,980	–	347,980	48,056	–	48,056
Trading securities	10,047	18,552	28,599	35,465	16,252	51,717
Amounts due from credit institutions	51,070	–	51,070	32,639	–	32,639
Investment securities available-for-sale	37,198	172,269	209,467	10,228	145,898	156,126
Loans to banks	21,621	–	21,621	14,107	–	14,107
Loans to customers	268,048	270,827	538,875	158,731	170,487	329,218
Investment property	–	2,000	2,000	–	2,000	2,000
Property and equipment	–	16,244	16,244	–	14,389	14,389
Intangible assets	–	4,126	4,126	–	3,989	3,989
Current income tax assets	1,367	–	1,367	–	–	–
Deferred income tax assets	–	1,055	1,055	–	–	–
Prepayment for equity investment	–	41,971	41,971	–	41,971	41,971
Other assets	4,317	4,608	8,925	3,533	6,310	9,843
Total assets	741,648	531,652	1,273,300	302,759	401,296	704,055
Amounts due to banks and government funds		133,005	41,372	174,377	78,921	28,365107,286
Amounts due to customers	670,890	32,168	703,058	282,583	20,234	302,817
Amounts due to credit institutions	27,807	27,644	55,451	32,442	4,810	37,252
Current income tax liabilities	–	–	–	1,562	–	1,562
Deferred income tax liabilities	–	42	42	–	1,969	1,969
Provision for guarantees and letters of credit	2,666	17	2,683	150	–	150
Dividends payable to shareholders	10,832	–	10,832	14,992	–	14,992
Other liabilities	2,517	634	3,151	3,034	70	3,104
Total liabilities	847,717	101,877	949,594	413,684	55,448	469,132
Net	(106,069)	429,775	323,706	(110,925)	345,848	234,923

Negative gap will not affect the Bank's liquidity position considering high liquidity of available-for-sale securities (securities issued by Azerbaijan Mortgage Fund, classified as noncurrent).

Long-term loans are generally not available in Azerbaijan except for programs set up by the Azerbaijan Government and international financial institutions. In addition, the maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due on demand in the tables above. While trading securities are shown at demand, realizing such assets upon demand is dependent upon financial market conditions. Significant security positions may not be liquidated in a short period of time without adverse price effects.

28. 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:

	31 December 2014					31 December 2013				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Amounts due from credit institutions	–	22,070	–	–	22,070	–	9,724	–	–	9,724

	31 December 2014					31 December 2013				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Loans outstanding at 1 January, gross	25	13,467	1,003	–	14,495	23	8,872	475	–	9,370
Loans issued during the year	40	32,964	2,367	3	35,374	–	20,063	2,055	–	22,118
Loan repayments during the year	(55)	(26,628)	(1,735)	(3)	(28,421)	–	(15,685)	(1,530)	–	(17,215)
Interest accrual	–	–	9	–	9	2	217	3	–	222
Loans outstanding at 31 December, gross	10	19,803	1,644	–	21,457	25	13,467	1,003	–	14,495
Less: allowance for impairment at 31 December	–	(364)	(30)	–	(394)	–	(35)	–	–	(35)
Loans outstanding at 31 December, net	10	19,439	1,614	–	21,063	25	13,432	1,003	–	14,460
Interest income on loans	1	2,405	123	–	2,529	2	1,051	65	–	1,118

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	31 December 2014					31 December 2013				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Deposit at 1 January	988	12,044	272	68,196	81,500	47,618	5,230	374	91,941	145,163
Deposits received during the year	24,200	20,766	96	87,813	132,875	25,984	6,800	350	83,332	116,466
Deposits repaid during the year	(20,143)	(6,744)	(79)	(98,493)	(125,459)	(72,554)	–	(453)	(107,017)	(180,024)
Interest accrual	17	173	–	–	190	(60)	14	1	(60)	(105)
Deposits at 31 December	5,062	26,239	289	57,516	89,106	988	12,044	272	68,196	81,500
Current accounts at 31 December	11,701	332,746	104	93,125	437,676	15,178	97,279	477	26,011	138,945
Interest expense on deposits	(1,144)	(2,400)	(29)	(2,950)	(6,523)	(2,046)	(1,224)	(31)	(3,090)	(6,391)
Guarantees issued	–	19,500	–	–	19,500	–	–	–	–	–
Letters of credit issued	–	1,609	–	–	1,609	–	–	–	–	–
Unused credit lines	153	4,369	516	44	5,083	73	969	62	11	1,115
Fee and commission income	15	558	12	1	586	13	615	1	2	631
Net gains/(losses) from foreign currencies: dealing	8	306	8	1,737	2,059	40	546	1	93	680
Other operating expenses	(17)	(4,003)	–	30	(3,990)	(59)	(2,220)	–	(35)	(2,314)

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

	Year ended 31 December 2014	Year ended 31 December 2013
Salaries and other benefits	(1,966)	(2,176)
Social security costs	(277)	(379)
Total key management compensation	(2,243)	(2,555)

29. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the CBAR.

During the past year, the Bank had complied in full with all its externally imposed capital requirements.

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

The Bank 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 Bank 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 12% of risk-weighted assets for regulatory capital. As at 31 December 2014 and 2013 the Bank's capital adequacy ratio on this basis was as follows:

	31 December 2014	31 December 2013
Tier 1 capital	333,000	228,000
Tier 2 capital	10,793	7,336
Less: Deductions from capital	(51,141)	(20,140)
Total regulatory capital	292,652	215,196
Risk-weighted assets	883,623	591,258
Capital adequacy ratio	33%	36%

NBG capital adequacy ratio

NBG requires banks to maintain a minimum total capital adequacy ratio of 12% of risk-weighted assets for regulatory capital. As at 31 December 2014, the Subsidiary's capital adequacy ratio was 71%.

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30. Events after the reporting period

Acquisition of TAIB Yatirim Bank

On 27 January 2015, the Bank acquired 79.47% of the voting common shares of TAIB Yatirim Bank. The Bank also acquired the put/call option for purchase of the reaming 20% of voting shares that are held by a minority shareholder. In February 2015 the Bank made USD 80,000 thousand contribution to the share capital of TAIB Yatirim Bank in accordance with Share Sale and Purchase agreement.

Preliminary estimated fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

Fair value recognised on acquisition	
Cash and cash equivalents	45
Due from credit institutions	365
Loans to customers	17,077
Investment securities available-for-sale	587
Property and equipment	97
Intangible assets	64
Tax assets	1,113
Other assets	989
	20,337
Borrowings	2,196
Money markets	366
Funds	798
Provisions	276
Other liabilities	1,100
	4,736
Total identifiable net assets	15,601
Non-controlling interests	13
Goodwill arising on acquisition	24,697
Purchase consideration transferred	40,311

Devaluation of AZN

On 21 February 2015, the Azerbaijani Manat has been devalued against the US Dollar and other major currencies by approximately 34%. The exchange rates before and after devaluation were AZN 0.786 and AZN 1.050 to USD 1, respectively. This event could adversely affect the Bank's future results and financial position, including the quality of the loan portfolio. The Bank has taken precautionary measures it considered necessary in order to support the sustainability and development of the Bank's business in the foreseeable future.

Borrowing of a new loan

On 2 March 2015, the Bank concluded a USD 20,000 thousand long-term revolving loan agreement with a foreign bank.

PASHA Bank

15, Yusif Mammadaliyev Street.
Baku, AZ1005, Azerbaijan
T: (+994 12) 496 50 00
F: (+994 12) 496 50 10
E: office@pashabank.az
www.pashabank.az