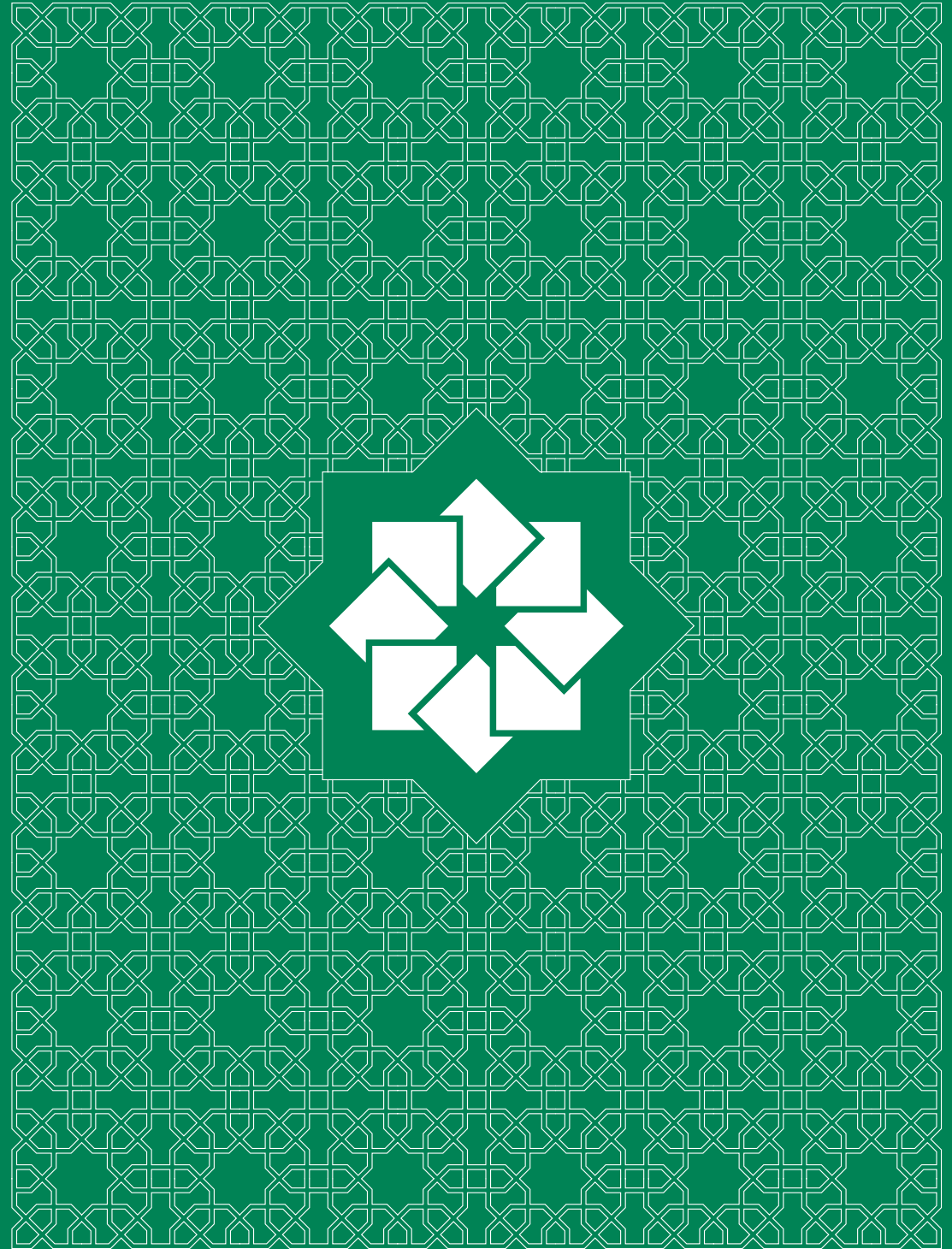
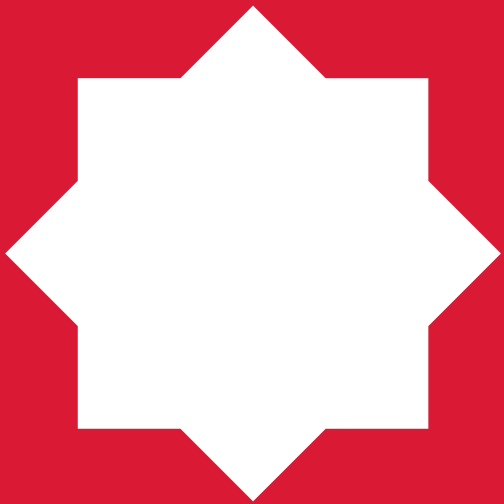




Sustainability Report
2011 - 2012
Towards Integrity,
Quality and Profitability







Contents

Introduction by Chairman of the Supervisory Board and Chairman of the Executive Board	1
About the Report	4
PASHA Bank in Brief	6
How We Understand Sustainability	9
Our Stakeholders	10
1 Integrity	11
1.1 Corporate governance	12
1.2 Compliance	19
Anti-money laundering programme	22
Trainings and Presentations	24
Growth Potential	24
2 Quality	25
2.1 Our people	26
Hiring process	27
Management staff recruitment process	29
Developing our people	30
Motivating our employees	33
Communication with employees	34
2.2 Our Customers	35
Customer relationships	41
Quality of services	42
Handling complaints	43
Internet Bank Service	43
3 Profitability	47
3.1 Culture of cost-saving	48
3.2 Contributing to economic development	52
Increasing Financial Literacy	53
Community Investments	54
Independent Assurance Report on the Sustainability Report 2011-2012	59
GRI Table	61
Contact Info	69

Introduction by Chairman of the Supervisory Board and Chairman of the Executive Board



“We are committed to making significant progress in our sustainability journey...”

First PASHA Bank Sustainability Report
“Towards Integrity, Quality and Profitability” demonstrates our commitment to building a sustainable organization guided by the mission and strategy based on three core values of our Bank - Integrity, Quality and Profitability.

Integrity - is the first cornerstone of our business, as we will not be able to run sustained business if people do not trust us. Quality – the second cornerstone of our business means to deliver all the tasks with excellence and not to let the trust suffer. And Profitability – the third cornerstone of the mission means mutual benefit of our business to all our stakeholders.

Five years ago when PASHA Bank started its operations the global economy was facing the severe period of the financial crisis.

It was a challenging time to start banking business and required very careful and robust approach. Despite the difficulties and challenges of the time we did not compromise any of these values. To comprise the values would mean to jeopardize our strategic goals and intention to run long-term and sustainable business.

Our sustainability focus has a direct link to our strategic priorities – tailored customer services to businesses of all sizes, technology and operational excellence, professional and highly-skilled team, community development and profitable growth.

We remain committed to our vision to become Azerbaijan’s leading corporate bank through excelling in customer services. Over the reporting period, we have supported this goal through our ongoing efforts and investment in process enhancement.

At PASHA Bank our primary responsibility is to provide financial products and services to our customers that will help their businesses to grow and prosper. By providing our customers with a sustainable financial platform we will be able to build a trusted and lasting customer relationship. We provided financing facilities for the projects that contribute to the food security and generate new job places thus fostering economic growth. We also launched a number of new products such as mobile banking and Internet Bank and organized trainings for frontline staff to help them better support our customers.



Besides our direct input as a Bank, we support different initiatives that enable growth - we join events and seminars raising awareness and improving financial literacy of both existing and potential customers.

We stay committed to the vision of the quality excellence and continued our investment in the personnel development. Almost every staff member benefited from professional and personal development opportunities by participating in the internal trainings carried out by experienced Bank officers and invited specialists, as well as attending seminars and courses on qualification improvement training overseas. We also continued supporting our employees who desire to receive post-graduation education in the universities abroad. We actively worked to support the health and wellbeing of all staff.

We are committed to a much broader role in our communities beyond our core business activities. Our community investments target sports, culture and education as guided by our strategy. We sponsor international tournaments - junior events and tennis tournament of the Women’s Tennis Association (WTA) which took place in Baku during the reporting period. Our cultural sponsorship supports promotion of mugham and jazz – music genres that were once restricted to a wider audience. We at PASHA Bank support capacity building efforts of media, who is responsible for disseminating first-hand and unbiased information to public. We also continue our established partnerships that support young entrepreneurs and students with economics background in different projects which offer an opportunity for future career development and professional growth.

We are committed to making significant progress in our sustainability journey by helping our customers to achieve their goals, supporting our community, developing our people and contributing towards the economic growth of the country and the region. We aim to further embed sustainability practices within our business and continue to finance responsibly.

We remain focused on being forward looking and committed to delivering long-term value for all our stakeholders - our customers, our people, our community, our shareholders and our country for the next years to come.

Mir Jamal Pashayev
Chairman of the
Supervisory Board

Farid Akhundov
Chairman of the
Executive Board

About the Report

PASHA Bank Sustainability Report “Towards integrity, quality and profitability” is the first sustainability report developed for governmental authorities, shareholders, customers, personnel, community and others with particular interest in the Bank’s activity and performance.

PASHA Bank Sustainability Report will cover the years of 2011 and 2012 - the end of our first strategic period with the summary of the accomplishments achieved at the first strategic period and the declaration of our aims and plans for the next strategic period, respectively.

The Bank plans to continue publishing non-financial reports on a biannual basis in accordance with the international standards.

In order to provide more comprehensive picture of the operations the Report discloses certain information from the previous periods as well. The Report makes some forward-looking statements which might occur or fail to happen in future, thus affecting the expectations and predictions made in the Report.

We will report on our operations in Azerbaijan, as during the reporting period the majority of the customers and employees are located in Baku, and we were fully functional through our four business centers – Central Business Centre, Bridge Plaza Business Centre, Port Baku Business Centre and Shuvalan Business Centre. Over the reporting period we were intensively working on the opening of our Georgia branch, which is due to be operational in early 2013.

The exclusion of the subsidiary in Georgia during the 2011-2012 period happened due to the fact that the subsidiary initiated its work only in 2013 and thus was not active as a Bank throughout the period of 2011-2012.

Report Content

In “Towards integrity, quality and profitability” we will report on our three core values (Integrity, Quality and Profitability), our commitment to the development of the economy, our support to the community and our responsibilities towards the environment. The Report aims to disclose the information on PASHA Bank’s activity that is of interest to the stakeholders defined by the Strategy of the Bank, by the strategy on the sponsorship and as a result of materiality analysis conducted during the Sustainability reporting seminar, that was attended by all departments.

For the preparation of the Report content the Bank executives were interviewed, similar reports issued by peer banks were analyzed and business media of the Azerbaijan Republic was reviewed.

Furthermore, we consulted the representatives of the different departments of PASHA Bank on the format and the content of the report. As a result of the consultations and in accordance with our core values we will focus on our Bank’s corporate governance structure, our compliance function, our people and customers, the value to the shareholders and stakeholders of our operations. For the development of this report we applied The Global Reporting Initiative Sustainability Reporting Guidelines and Financial Services Sector Supplement (version 3.1). PASHA Bank declared its reporting status to be Application Level B+. The report excludes non relevant information, such as detailed financial information, information of entities unrelated to sustainable development or ones that do not play any significant role in the activities of the Bank, some specific information that can be found in annual reports or on the website. Additionally, the report excludes the information on particular environmental performance indicators such as emissions, waste and other due to the scope and nature of the business.

We have appointed Ernst & Young team to provide independent assurance on disclosed information in our Sustainability report of 2011 and 2012.

PASHA Bank in Brief

PASHA Bank is a leading investment and corporate bank operating in Azerbaijan and Georgia. Established in 2007, it provides a full range of corporate and investment banking services. With a dedicated focus on trade and corporate finance, it offers a range of financial products backed by trade finance-related partnerships with international financial institutions and international banks.



PASHA Group Structure

Non-operational equity investment in 4 companies (shares of less than 50%):



60%



100%



60%



60%



100%



99.75%

AWARDS:

Best Investment Bank of Azerbaijan
2012 (EMEA Finance)

Best Corporate Social Responsibility
Programme in Europe 2012 (EMEA Finance)

Best Local Bank in Azerbaijan in 2012 (BNE)

Best Investment Bank in 2011 (EMEA Finance)

Our Shareholders

PASHA Holding **60%**

Ador Ltd **30%**

Mr Arif Pashayev **10%**

PASHA Bank is an open joint stock company and is a part of PASHA Holding, a major investment holding group in Azerbaijan, which also includes significant assets in insurance, property development, construction, tourism and other businesses.

The Bank is committed to establishing and developing long-term, supportive relationships with its growing customer base and delivering banking services at the highest international levels of transparency. Our customer service is built on the three core values of the Bank: quality, integrity and profitability.

Our Vision

- To become Azerbaijan's leading bank with an indisputable business reputation, committed to the highest standards of ethics, quality of services and financial strength.

Our Mission

- To add value for our customers by providing high-quality products and services tailored to their individual needs;
- To commit to training and developing personnel to further enhance their skill set;
- To remain committed to corporate social responsibility;
- To maintain our strong financial position;
- To remain committed to transparent business conduct.

Our Strategic Goals

- Be Azerbaijan's leading corporate bank;
- Establish a fully-functional Private Banking operation;
- Enhance our corporate governance system;
- Engage employees with our business philosophy;
- Strengthen the Bank's brand recognition both internally and externally;
- Enhance our IT systems;
- Optimise our human resources management system to support the corporate strategy;
- Maintain our strong financial position.



In September 2012 **PASHA Bank** was assigned credit ratings by two of the leading global rating services organisations. Standard & Poor's assigned "BB-" long-term counterparty credit rating with a stable outlook and "B" short-term counterparty credit rating. Fitch Ratings issued "B+" long-term Issuer Default Rating (IDR) with a stable outlook, and "B" short-term IDR. This is the highest rating assigned to an Azerbaijani commercial bank with 100% local capital and the second highest for a private bank in Azerbaijan.



Key Consolidated Financial Highlights

	31 December 2012 (thousand AZN)	31 December 2011 (thousand AZN)	31 December 2010 (thousand AZN)	% change from previous year (2012-2011)	% change from previous year (2011-2010)
Operating profit	43,142	31,037	30,343	39%	2%
Net profit	16,211	13,359	13,871	21%	-4%
Loan portfolio (gross)	282,837	246,769	196,081	15%	26%
Total capital	157,000	123,475	115,407	27%	7%
Total assets	721,075	573,880	512,304	26%	12%
Return on assets*	3.84	3.40	4.10	13%	-17%
Return on equity*	17.62	15.80	18.20	12%	-13%
Total customer accounts	457,067	371,499	338,599	23%	10%
Cost per employee	84	78	81	12%	-4%
Total capitalization by equity	157,000	123,475	115,407	27%	7%

*calculated on the basis of profit before tax and provision

How We Understand Sustainability

The Brundtland Commission states that “sustainable development meets the needs of the present without compromising the ability of future generations to meet their own needs.” In this regard, PASHA Bank is fully aware of its impact, and is also conscious of its social role and responsibility in contributing to Azerbaijan’s growth and development. Therefore, PASHA Bank actively pursues opportunities promoting sustainability, both within the Bank and in the wider community. PASHA Bank is currently working towards establishing a unified approach which would structure its direct and indirect sustainability goals and commitments.

PASHA Bank is aware of the risks associated to its activities and pays serious attention to managing

these. This can be seen through PASHA Bank’s ever-improving governance, as well as through its renewed focus on the Risk Management function. Our Loan Policy contains goal to exclude all interaction with companies involved in activities we deem socially irresponsible.

Diverse areas of risk and opportunities are recognized by PASHA Bank in its day-to-day operations. As such, our corporate structure and policies, as well as our work in the wider community, reflect the Bank’s values. This, along with developing risk management tools and techniques, feeds into our longer term vision and guides our strategy to continue to solidify our leading position in Azerbaijan.



Our Stakeholders

We have established our sustainability process through the engagement of our stakeholders guided by our strategy. Different stakeholders are engaged via the approach which is appropriate and relevant to the specific stakeholder group.

Customers

We serve customers of different sizes from corporate to commercial and to business. We engage with our customers via different channels, one-to-one meetings, customer satisfaction surveys, Bank events, where we invite the customers. Customers are the driving force of our business and we build our business around their feedback. Our strategic aim is to contribute to the growth of the customer base by providing high quality products and services tailored to the customers’ needs.

Employees

We listen to our employees via surveys and campaigns conducted by our internal communication function and employee surveys conducted by human resources department annually. These tools help us to identify the progress we have achieved and shortcomings that we have to tackle. Our strategic aim is to employ, train and nurture competent and devoted personnel.

Shareholders

We engage shareholders through regular meetings, communicating all significant issues related to the Bank’s management and business. We are committed to transparent and prudent conduct of business and aim to maintain strong financial position.

Community

We work with a wide range of community representatives – journalists, students, sportsmen, young and perspective entrepreneurs. We are partners with Junior Achievement Programme, we support the capacity building of journalists through initiatives managed by British Council, we support children’s mugham festival. In 2012 in partnership with IFC and Central Bank of Azerbaijan we organized a seminar for small and medium sized entrepreneurs.

Governments and regulators

Chief Executive Officer of our Bank, and other executive officers regularly communicate with the government officials and regulators in order to create a sustainable financial system in the country. We invite them to our events or join government and regulators in their efforts to improve the transparency in the financial sector and create sustainable and vibrant financial sector. We take part in educational and economic projects initiated by the State Securities Committee, we co-operate with Central Bank in their efforts aimed at improvement of financial literacy and financial inclusion.

1 Integrity

The Bank has always been committed to preserving its strong reputation by maintaining its commitment to corporate social responsibility.

Since we are committed to transparency principles, we fully comply with national legislation and internal regulations, and with international corporate governance standards. We ensure we are completely transparent to the public by closely cooperating with both local and foreign media and disclosing information in monthly public financial reports and other publications.

We strive to implement the most advanced technologies based on the western banking model. We have strengthened the Bank's regulation of business processes and have developed a quality control system monitoring the performance of internal procedures.



1.1 Corporate governance

We strongly believe that a transparent governance system serves as the foundation for sustainable development and demonstrates our commitment to active and inclusive stakeholder dialogue. The way we interact with our stakeholders is fundamental for our business and our success.

The Bank's corporate governance complies with internationally accepted standards and Azerbaijani legislative requirements. We recognise the importance of good corporate governance and know that transparent disclosure of our governance helps stakeholders to assess the quality of the Bank's services and our management, and assists investors in their analysis of the Bank decisions.

Complying With Rules and Regulations

We fully adhere to the principles set out in the Azerbaijan legislative and normative acts.

Our Corporate Governance Framework

Our corporate governance policies and procedures are laid out in a series of documents governing the Bank's organisation and management. The Supervisory Board has adopted a set of corporate governance guidelines aimed at explaining and promoting an understanding of our governance structure. The most important corporate governance documents include: the Bank's Charter; the Regulations of the General Meeting of Shareholders, the Supervisory Board, Executive Board and internal committees; the Code of Conduct; and the Bank's Corporate Governance Policy.

Shareholder Rights

As part of our continued efforts to ensure we have good corporate governance, we encourage all shareholders to actively participate in the General Meeting and to exercise their voting rights. To support their decision-making process, we ensure that our reporting publications are both accurate and transparent. We are committed to producing precise, reliable and comprehensible financial reports that clearly explain our performance, mission and strategic rationale.

Managing Risk

Our Risk Management function plays a central role in our organisation as it fosters a disciplined

risk culture and creates appropriate transparency, providing a sound basis for management to define a suitable risk profile. Risk Management is instrumental in ensuring that we take a prudent and intelligent approach to risk-taking that appropriately balances risk and return, and optimises the allocation of capital throughout the Bank. Moreover, through a proactive risk management culture and the use of state-of-the-art quantitative and qualitative tools, we strive to minimise the potential for unnecessary risk exposure in our operations.

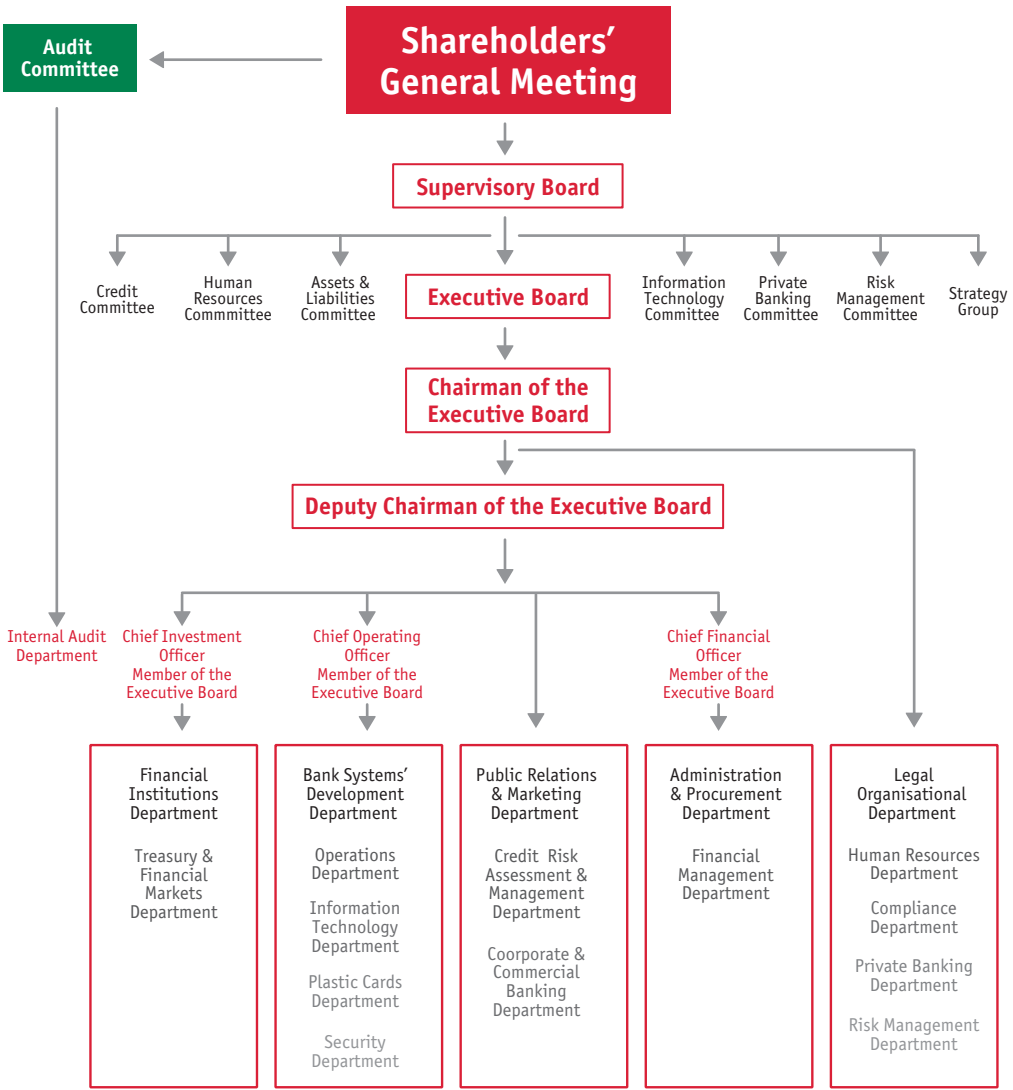
Committed to Compliance

We place utmost care on ensuring that our employees maintain the highest standards of compliance with all legal, regulatory and internal requirements. Our employees are asked to observe strict standards of professional conduct at all times. Compliance considerations are critically important when selecting employees, developing training tools, defining processes and rules and are a vital element of all our supervisory and control systems.

Rewarding Excellence

Our Compensation Policy highlights our commitment to rewarding excellence. By engaging our employees with the Bank's vision and actively encouraging them to develop professionally, we are adding shareholder value. Long-term corporate success in the financial services industry depends on the strength of our staff, and our goal is to be the top employer in the markets and business segments in which we operate.

Our organisational structure helps us to manage our business more effectively:



Good corporate governance requires strong relations with our shareholders and effective cooperation between the Supervisory Board and the Executive Board.

The General Meeting of Shareholders is the highest management body that makes decisions on the main issues relating to the Bank's business. The General Shareholders' Meeting takes place annually, within two months of the audited consolidated financial statements being issued.

The Supervisory Board is responsible for general management issues and decides on the Bank's business agenda. It also arranges General Shareholders' Meetings, recommends the amount of dividends to be distributed and the distribution procedure. It also hears the CEO's and CFO's reports on the Bank's financial results and progress in regards to the achieving strategic goals on a regular basis. The roles and responsibilities of the Supervisory Board are defined by Bank's Charter. The Supervisory Board's agenda consists of a wide range of issues. It reviews compliance with the applicable

legislation, the Central Bank's regulatory acts, and the Bank's internal rules and policies.

As part of reviewing compliance with Bank's Strategic Plan, the Supervisory Board pays attention to the goal of improving the Bank's brand recognition. In this respect, the Supervisory Board reviews the possible social and reputational impact of all the Bank's activities.

During the reporting period, the Supervisory Board consisted of three members. In 2013, two new members were added to expand the Supervisory Board.

The members of the Supervisory Board must have higher education in economics or law, or relevant work experience (irrespective of education) which qualifies them to determine the strategy and decision-making process in financial institutions.

Persons who are members of more than three legal entities or members of management bodies of other banks cannot be members of the Supervisory Board of PASHA Bank.

Total headcount of the Supervisory Board in 2011-2012

Total headcount at the end of the period	2011	2012
Female	0	0
Male	3	3
30 y.o. or younger		
30-50 y.o.	2	2
51 y.o. or older	1	1
Average age of employees, yrs.	51	51

During 2011 and 2012, the Supervisory Board held 34 and 26 meetings respectively, where it deliberated how to enhance the Bank's risk management. Other matters that were discussed included the Bank's interim operating results and the progress the Bank had made on implementing simplified loan procedures for small and medium-sized enterprises.

Evaluating the performance of the Supervisory Board is a part of PASHA Holding's internal corporate governance and is conducted in accordance with the internal rules and regulations of the Holding.

In accordance with the Bank's Compensation Policy, the remuneration package for the members of the Supervisory Board and Audit Committees is set by the General Meeting of Shareholders.

Executive Board consists of five members

The **Executive Board** is responsible for prudent management of the Bank and the implementation of the strategy of the organization. It oversees the financial management and accounts as well as bears responsibility for budget execution and compliant operations of the Bank.

The Bank Charter on Executive Board defines clearly and thoroughly all the areas that belong to their competency, including, but not limited to, preparing the organizational structure of the Bank and the salary range and grading of the personnel, appointing or releasing the heads of the departments, confirming new or enhanced bank products and services, leading the strategic development plan of the Bank,

and submitting it to the Supervisory Board. The only way we assess competencies of the Executive board is their professional skills and expertise. Professional requirements are the degree in economics or law, and minimum two years experience in banking; or a degree and four years experience in banking. We strive to provide equal rights to all genders, nationalities and age groups.

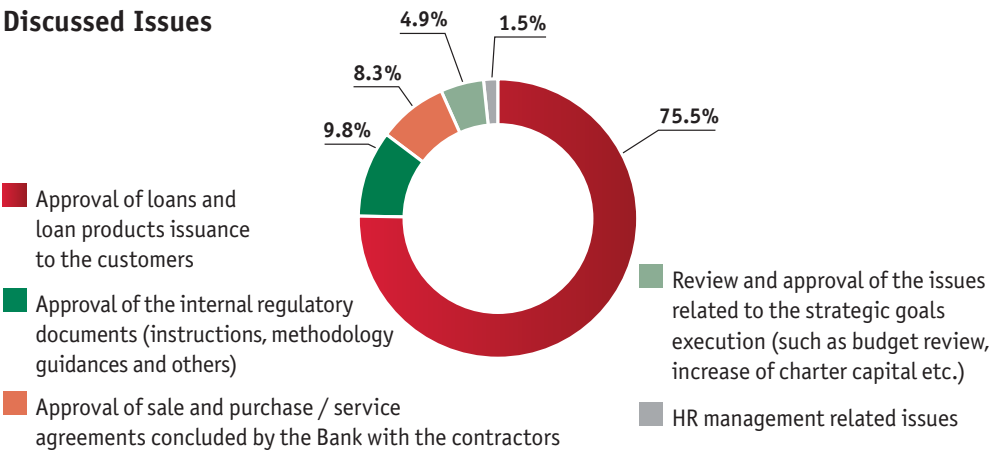


Total headcount of the Executive Board in 2011-2012

Total headcount at the end of the period	2011	2012
Female	0	0
Male	4	5
30 y.o. or younger	1	1
30-50 y.o.	3	4
51 y.o. or older	-	-
Average age of employees, yrs.	38.5	36.8

The Executive Board meets once a week. In 2012, the Executive Board discussed the following issues:

Discussed Issues



We have established seven committees to work under the Bank's highest governance to oversee specific tasks and enhance the organisation's overall management function:

- Credit Committee;
- Assets and Liabilities Committee (ALCO);
- Human Resources Committee (HRC);
- Risk Management Committee (RMC);
- Information Technologies Committee (ITC);
- Private Banking Committee;
- Audit Committee.

Committees	Responsibilities	Meetings are held
Credit Committee	Takes decisions on loans and loan products issuance and related issues	Twice a week
Assets and Liabilities Committee (ALCO)	Takes decisions on the management of the Bank's assets and liabilities, liquidity risk management and market risks	At least once a month
Human Resources Committee (HRC)	Reviews the Bank's human resources management and submits additional organisational structures and manning tables for approval	At least once a month
Risk Management Committee (RMC)	Prepares internal rules on risk management, periodically assesses risk management guidelines and renews them if necessary, reviews internal regulatory documents prior to their submission for final approval	At least once a quarter
Information Technologies Committee (ITC)	Takes decisions on technological development, manages the IT project portfolio	At least once a quarter
Private Banking Committee	Controls correct execution of the private banking policy in accordance with the Strategic Plan, takes decisions on loan issuance for private banking clients within the authority limits	At least once a month
Audit Committee	Defines the Bank's audit policy and strategy, approves the internal audit plan, organises and controls the Internal Audit Department's activities	At least once every three months

Regulations of the Bank

The Regulations of the Bank (statutes, policies, internal rules and procedures) are the internal documents which cover the Bank's purposes, functions, areas of authority, dependence on and relations with other structural units, position in the reporting system and other information related to the Bank's management bodies and structural units (i.e. committees, departments, divisions, branches and representative offices).

The Bank has the **Statutes** which govern the activity of the management bodies and structural units of the Bank. The Statute provides for the content, functions, areas of authority and rules of activity of the respective management body and structural unit.

Policy is the fundamental document which reflects the Bank's strategic vision on the main directions of its banking activity. The purpose of this document is to improve the Bank's competitive advantage. It is approved by the Supervisory Board.

The **Internal Rules** are the guidelines on how certain banking operations should be carried out. The Internal Rules are approved by the Executive Board.

Procedure is a document which describes the task-oriented progress of any kind of business activity, the specific requirements of that process and the sequence of its actions. Procedures should be established in the form of block-scheme. Procedures illustrate phases of the business process, its participants and time frame. Procedures are approved by the Executive Board.

Internal Instructions is also a part of Bank's Regulations. Internal Instructions set out how activities should be conducted when executing certain functional responsibilities. Internal Instructions are approved by the Executive Board.

Job Descriptions form part of the Bank's Regulations. A Job Description is a document which outlines the scope of responsibilities of new employees, the professional knowledge required to carry out a specific role and employees' personal information.

Limits on Decision Making and Signature Authorities. This document is approved by the Supervisory Board and defines the limits for the decision making and signature authorities of the management bodies and respective authorised persons of the Bank.

Employees and governance process

Employees play an important role in the governance process. The Bank aims to involve its employees in this process as much as possible.

For example, employees are proactively participating in establishing internal rules and procedures. The Trade Finance Division of the Financial Institutions Department serves as an example.

Employees of this Division (Marat Dustaliyev and Leyla Mammadova) prepared the internal procedures on the trade finance processes and submitted them to the Bank's highest authority for review and approval.

The actions of the Corporate Secretary Division of the Legal Organisational Department also exemplify this internal employee engagement. An employee of this Division, Guler Pashayeva, prepared the Internal Instructions on document control and book-keeping for further review and approval.

1.2 Compliance

Compliance forms part of the Bank's corporate culture and emphasises standards driven by one of our core values – integrity. This is a key element of the Bank's business activities. We are aware that failure to comply with legislative requirements and to adhere to international best practice may have an adverse impact on our shareholders, customers and employees. We strive to meet high standards of business conduct, as the opposite may cause reputational damage, even if no law is broken.

Although our corporate culture is driven by integrity, we established a compliance function in 2011 in order to manage our compliance risks more effectively and to ensure we are meeting the demands of regulatory agencies and adhering to banking industry laws, standards, guidelines and best practices.

In accordance with Azerbaijani legislation, our compliance policy, approved in 2012, establishes the compliance function and its objectives, identifies key compliance risks and explains the principles that were laid down by the Supervisory Board. The compliance function was established by the Supervisory Board to ensure that the compliance policy is followed. The

compliance function is independent and ensures that the Bank's activities are compliant with all relevant legislation. This function is also responsible for assisting senior management in ensuring ethical rules are adhered to, identifying and assessing the compliance risks, and informing and educating staff. The main compliance risks identified in accordance with the Bank's strategy and operational priorities are as follows:

- risk of breaching ethical rules;
- legal and regulatory risks;
- risk of sanctions;
- reputational risk.

The primary responsibilities of our compliance department are to monitor risks and prevent the Bank's involvement in suspicious operations (terrorist financing or holding assets acquired via crime), to investigate documents relating to sanctions and submit them to the relevant departments for execution, to prepare reports on anti-money laundering and terrorist financing activity as required by law and submit them to the relevant organisations, to respond to the compliance enquiries of correspondent banks and to conduct due diligence on accounts to be opened with the Bank (if required).

By ensuring compliance with anti-money laundering principles, we were the first bank in Azerbaijan to implement the SafeWatch filtering programme, which enabled us to become one of the leading banks not only in the Caucasus, but also in the Commonwealth of Independent States (CIS).

Our compliance department monitors whether the Bank's operations are compliant with the relevant laws and regulations, that the Bank's operations are regulated by the regulatory documents, provides advice to the Bank's management, recommends changes to the banking legislation to the Central Bank of Azerbaijan and the Association of Banks when required, participates in corporate strategy preparation and is responsible for supporting the Bank and building commercial confidence.

The key documents that define our compliance policy are as follows:

- **Compliance Policy**, including its six thematic supplements (Know Your Customer, Know Your Employee, reporting to the Central Bank – policy and rules, Rules on the revealing and prevention of suspicious transactions and introduction of the related information to the Financial

Monitoring Service, Procedures on the opening bank accounts, relationship between the compliance and customer services departments, risk-based approach to the customers, automated processes, control over customer accounts),

promotes honest, ethical conduct and ensures compliance with laws, regulations, rules and professional standards, as well as with the Bank's Code of Conduct and group policies, in order to protect the integrity of the financial market.

Compliance Policy

Appendix 1

Know Your Customer

Appendix 2

Risk-based approach to the customers, automated processes, control over the customer accounts

Appendix 3

Rules on the revealing and prevention of suspicious transactions and introduction of the related

information to the Financial Monitoring Service

Appendix 4

Procedures on the opening bank accounts

Appendix 5

Reporting to Central Bank – policy and rules

Appendix 6

Know Your Employee

- **Conflict of Interest Policy**, approved on 26th December 2011, states all the reasonable steps that should be taken to maintain and operate effective organisational and administrative arrangements, and to identify and manage relevant conflicts of interests.

Conflict of interest practices

As a financial services provider, the Bank periodically faces actual and potential conflicts of interest.

and will take into account, inter alia, whether the Bank, Vendor or a Related Person:

Senior management within the Bank is responsible for ensuring that the Bank's systems, controls and procedures are adequate for identifying and managing conflicts of interest. The Bank's Compliance and Legal Organisational Departments assist in identifying and monitoring actual and potential conflicts of interest.

The Bank has business-specific procedures in place that address the identification and management of actual and potential conflicts of interest that may arise in the course of the Bank's business.

In identifying conflicts of interest, the Bank will consider all of the factual circumstances

- is likely to make a financial gain, or avoid a financial loss, at the expense of the Client;
- has an interest in the outcome of a service provided to the Client or of a transaction carried out on behalf of the Client, which is distinct from the Client's interest in that outcome;
- has a financial or other incentive to favour the interest of a Client or group of Clients over the interests of another Client;
- receives or will receive from a person other than the Client an inducement in relation to a service provided to the Client, in the form of monies, goods or services, other than the standard commission or fee for that service.

Should a conflict of interest arise, it must be managed promptly and fairly. As a minimum standard the Bank has arrangements in place designed to ensure that:

- all the structural divisions of the Bank operate with appropriate independence from one another;
- there are effective procedures in place to control the flow of information where, otherwise, the risk of a conflict of interest may harm the interests of a client;
- supervisory arrangements provide for separate supervision of staff where necessary for the fair management of conflicts of interest;
- there are appropriate control mechanisms in place to identify and manage cross-board memberships and outside business interests of the related persons;
- relevant information is recorded promptly in a secure environment to enable identification and management of conflicts of interest;

- an appropriate disclosure may be made to the client in a clear, fair and not misleading manner to enable the client to make an informed decision;
- appropriate inter- and intra-divisional escalation processes are in place and complied with where a conflict of interest has been identified or may be identified;
- adequate records of the Bank's services and activities are maintained where a conflict of interest has been identified;
- where necessary, related persons may be asked to step aside from working on a specific transaction or participating in the management of a potential conflict of interest;
- where necessary, related persons are subject to personal account transaction rules; and there is a periodic review of the adequacy of the Bank's systems and controls.

Code of Conduct

We also established a Code of Conduct that regulates the behaviour of our employees. The Code of Conduct is based on our corporate values and is in compliance with local legislation and best practices. The document covers issues including loyalty to the Bank, professionalism, integrity, social justice and awareness of legislation relating to the Bank's activities. The Code of Conduct also regulates:

- Non-compliance with the Code of Conduct;
- Personal interests and profits;
- Usage of information;
- Reporting internal offensive behaviour.

Our employees are not permitted to accept expensive gifts from our customers. Any present that is accepted by an employee of the Bank and costs more than 200 AZN has to be declared. We have not witnessed any serious violations thus far.

According to the Compliance Policy, employees are required to work in a professional and ethical manner; comply with laws, regulations and professional standards; avoid conflict of interests; take all necessary steps to follow confidentiality; and to protect the Bank's assets and customers' interests. We have implemented compliance programmes and follow them rigorously to help us to manage and minimise compliance risks.

The Compliance Department advises departments and responsible managers across the Bank on ethical conduct. The team is independent of the business units and helps us to identify regulatory solutions and also safeguards the Bank's integrity and reputation. In cooperation with the business divisions, it promotes the culture of compliance.

"Need to Know" approach

The Bank respects the confidentiality of the information it receives about its clients and operates a "Need to Know" approach and complies with all applicable laws. Access to confidential information is restricted to those who have to handle such information to fulfill the legitimate interest of a Client or the Bank. The principal way in which the Bank structures its business to manage Conflicts of Interest is by implementing information barriers, or "Chinese Walls", in accordance with the Bank's Chinese Wall policies. These policies are designed to restrict information flows between different areas of the Bank. Chinese Walls and other measures are put in place to enable the Bank and Related Persons to carry out business on behalf of Clients without being influenced by other information held within the Bank that may give rise to a potential Conflict of Interest.

In managing a Conflict of Interest, it may be appropriate to use additional measures in the event that existing measures are not sufficient to adequately manage it, such as the following:

- implementation of ad hoc transaction-specific Chinese Walls or other additional information segregation methods following consideration of all of the facts available to relevant management;
- escalation to senior management who have responsibility for the Bank's strategy and an appreciation of the relationship and reputation risks that may arise;
- declining to act.

All employees share responsibility for the compliance culture, because failure to comply with regulations can jeopardise the Bank's business and its reputation, or lead to legal or regulatory sanctions, as well as financial penalties.

Anti-money laundering programme

"Know Your Customer," our standards and procedures for accepting new clients, help us to prevent money laundering, the financing of terrorist activities, and similar acts of commercial crime from taking place within our system.

The Know Your Customer principle – KYC – is one of the key ways we manage and minimise risks. Applying the KYC principle ensures that the Bank complies with the laws of the Republic of Azerbaijan, including legislation on combating money laundering and the financing terrorism, and that the Bank's activities adhere to business practice and the

principles of professional ethics. Adopting the KYC principle also helps the Bank to safeguard its financial stability. The Bank has prepared internal rules and regulations related to carrying out banking transactions and other operations. All the Bank's structural divisions should comply with the KYC principle, as well as with the requirements of the other internal regulatory documents.

Our anti-money laundering programme is in line with international efforts to combat money laundering, the financing of terrorism and other criminal acts. Our Anti-Money Laundering (AML) initiatives are described in our regulations, which meet the

requirements of the Financial Monitoring Service of the Central Bank of Azerbaijan Republic. The Bank has several red flag indicators. Based on these indicators, employees often refer to the Compliance Department with AML issues. In parallel to this, in accordance with the Compliance Policy, the Bank prohibits retaliation against an employee who reports a violation of the Compliance Policy in good faith (including AML issues), excluding the facts relating to violations of the Policy that occurred due to employee performance. As part of the above initiatives, we send all reports centralised by the Compliance Department to the Financial Monitoring Service



Our Bank is the first among its counterparts in Azerbaijan to start applying the SafeWatch Filtering anti-money laundering tool that helps to combat money laundering and suspicious financial activity. Different features of this programme filter transactions and files recorded by the Financial Action Task Force/Groupe d'action financière (FATF/GAFI), European Union (EU), United Nations (UN), Office of Foreign Assets Control (OFAC) online. This system aims to prevent money laundering operations and analyse preventive measures, to create customer profiles, monitor the customers operations, and provide reports in accordance with the required parameters. This allows all the required information to be found on one platform, which enables the Bank to analyse all possible money laundering risks.

We identified one operation during the reporting period and reported it to the Financial Monitoring Service. The system generally filters any duplicates with the black lists and we report all duplicates on

a monthly basis (even safe ones). The number of duplicates depends on the quantity of transactions that have taken place within a month.

World-Check is another anti-money laundering initiative used by PASHA Bank. This enables us to conduct due diligence of the customers, their existing accounts, the history of those accounts, "black listed" transactions, and so on. If any suspicions arise from this due diligence, we start our own investigation. We block and put sanctions on the suspicious transactions while the investigation is carried out. During the reporting period, we identified three suspicious cases. We conducted our own internal investigation and sent the results to the Financial Monitoring Service.

Bankers' Almanac is a tool that allows us to conduct due diligence on customers who wish to open accounts with us and helps us to prevent opening accounts for parties who are under sanctions. We have not revealed any suspicious activities related to the software use during the reporting period. We identified a number of issues regarding some financial institutions and we asked for more documents in order to investigate the issue further. This system helps us to obtain information about the financial institutions.

All these programmes and tools are designed to minimise human involvement in the compliance process.

Employing these adequate and efficient measures demonstrates our commitment to complying with local and international anti-corruption and anti-bribery laws. This includes the Bank's strict prohibition against acts of accepting an offer or payment, or authorising any bribe or any other form of corruption. We instill transparency and integrity in all of our business processes to avoid any improper advantage or the appearance of questionable conduct by our employees or by any third parties which we cooperate with.

We have established a business process that allows employees to anonymously report ethical violations within the Bank (the 'whistle blowing hotline' on the Intranet). The policy of this process will be finalised in 2013. However, the system has been active since April 2012 and four reports have been recorded by Compliance Department. The Compliance Department conducted a presentation to all staff where they explained how the "whistle blowing hotline" and the Centralised System on Violations work.

Trainings and Presentations

We conducted two anti-money laundering training sessions for our employees during the reporting period. The first session on how to identify terrorist financing and the illegal acquisition of money and other assets was conducted on December 15, 2011. The number of attendees was 38, representing 11.8% of management and 29.8% of specialists and other staff. The second training session on the role of IT in fighting against money laundering and terrorist financing was conducted on December 18, 2012. The number of attendees was 30, representing 12.8% of management and 17.1% of specialists and other staff.

Our Compliance Department prepared an electronic presentation on FATCA (Foreign Account Tax Compliance Act) for all management and disseminated the information to the managers in order to raise awareness. We also give all our new employees comprehensive compliance training.

Growth Potential

We continually review our anti-money laundering objectives. This enables us to prevent any abuse of our Bank, products, and services in terms of potential money laundering and financing of terrorist activities. We are planning to implement new tools and programmes that will enhance our compliance function. The planned actions are as follows:

- Purchasing the SafeWatch Profiling programme. In order to advance the functions of the SafeWatch Filtering programme, we signed a deal with the provider of the programme and will start to implement the SafeWatch Profiling programme in 2013. This will enhance our continued efforts to combat money laundering and terrorist financing. It is an analytical tool that creates customer profiles and monitors their transactions. This programme is a universal solution that gathers all the required information onto one platform, which helps us to analyse all the potential risks. That said, we are keen to ensure regulatory compliance and to streamline the processes.
- To automate other processes within the Bank. We intend to acquire the Card Fraud Suite programme which will insure our customers against all types of online card fraud.
- To run a more systematic compliance function and involve Heads of Departments in reporting on compliance issues to the Compliance Department.
- To sign the Foreign Account Tax Compliance Act with the Internal Revenue Service (USA). We have already identified all our American customers and the contracts were amended with special appendices.

2 Quality

Quality is a key factor for our success. By quality, we mean the professionalism and competence of our employees, efficient internal processes, effective customer relations and risk management.

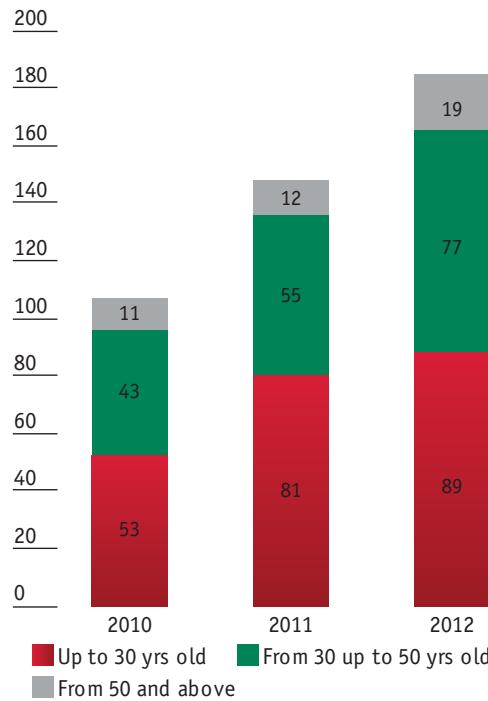


2.1 Our people

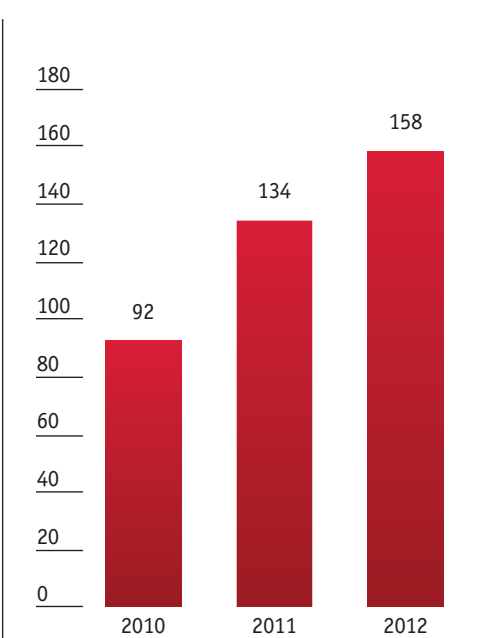
PASHA Bank's Human Resources (hereinafter HR) Management Policy was launched in 2010 in compliance with national labour requirements. The HR Management Policy aims to equip employees with essential skills that will help them in their professional development. Personnel development is a fundamental pillar of the Bank. Continuous performance improvement and regular personnel training sessions are central to maintaining the quality of the Bank's services and ensuring the Bank's rapid adaptation to labour market requirements. With respect to personnel development, the Bank strictly follows its Methodological Guidance on Training and Development and establishes an individual training plan for each employee.

The Bank's HR Department acts in accordance with the Department on HR Regulation. The Department is responsible for manpower planning, job analysis, recruitment and performance appraisal, training and development, employee welfare and motivation, labour management relations, and organisational policy implementation. The Department benchmarks the Bank's HR Management Policy against international best practice and coordinates the Bank's activity with regards to personnel. The Department reports to the Executive Body of the Bank.

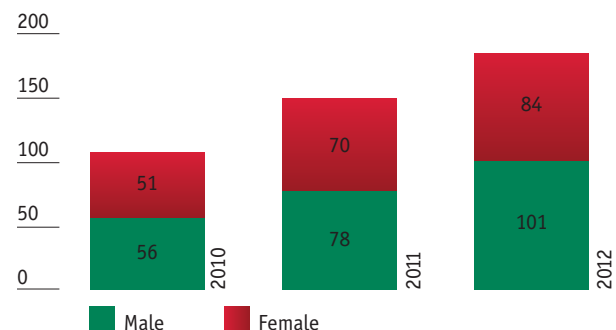
Full-time employees
(average headcount at the end of the period), ppl



Number of employees with higher education, ppl



The personnel breakdown at the end of the reporting period comprised 101 male and 84 female employees.



All of our staff are full-time employees who benefit from a staff package which provides health insurance for both the employee and their family in addition to offering a wellness programme and subsidised loan packages.

With respect to labour requirements, we operate in accordance with the Code of Conduct which adheres to the principles of inclusiveness and guarantees equal rights to all genders, nationalities and age groups. We have introduced a "whistle blowing hotline" on the Bank's intranet, which enables personnel to anonymously report any discrepancies or violations of norms to the Compliance Department.

Hiring process

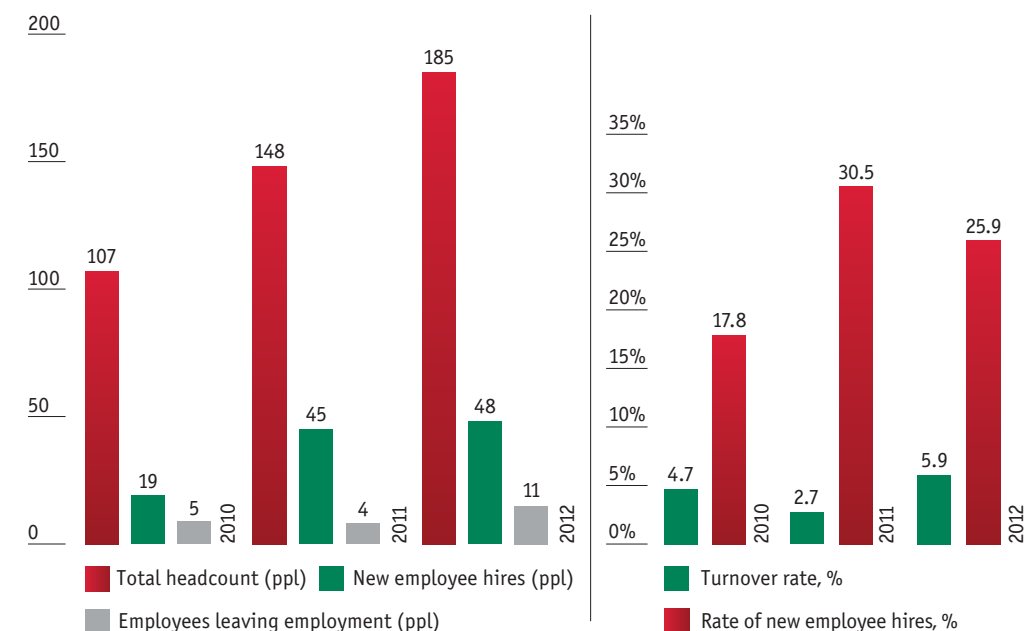
We are committed to hiring highly professional and competent staff who share our values and goals. We strive to foster the development of our employees' skills and competencies, which underpins the Bank's strategy and gives us a competitive advantage in both short and long-term.

We aim to recruit educated, talented and dedicated personnel and provide competitive rewards and transparent career development opportunities. In 2011, our Bank unveiled a multi-stage online recruitment process, which provided the opportunity for graduates

and young professionals to apply online. This helped us to improve the transparency and efficiency of our recruitment process.

The Bank's hiring process is outlined in the Rules on Recruitment. All applicants are required to take an online test after which all successful candidates are invited to the second stage, a computer based examination. After successfully completing both of these stages, candidates then proceed to the final stage, an interview with the Chairman of the Executive Board and an adviser to the Board on Human Resources.

Rate of new employee hires and turnover rate



Total number and rate of employee turnover

	2010	2011	2012
New employees hired at the end of the period, ppl:	19	45	48
female employees	10	22	16
male employees	9	23	32
30 y.o. or younger	11	31	26
30-50 y.o.	5	14	16
51 y.o. or older	3	-	6
Employee turnover, ppl:	5	4	11
female employees	-	3	2
male employees	5	1	9
30 y.o. or younger	2	2	5
30-50 y.o.	2	2	6
51 y.o. or older	1	-	-
resignation (employee's own initiative)	5	4	11
Number of retirees (working at the Bank), ppl	1	1	1

Management staff recruitment process

Our management staff includes Directors and Executive Board members, who are responsible for resource management (both human and financial) and planning and supervising strategy implementation. When hiring personnel for managerial roles, the Bank follows various procedures. When hiring for these positions externally, the Bank posts job advertisements on its own website, in newspapers and other relevant media publications. The shortlisted candidates must pass through several stages of interviews.

We employ headhunters for recruiting managers in specific sectors with a relevant skillset. We also look internally to fill vacant managerial positions. One of the motivational drivers for employees is the opportunity to apply for more senior roles across the various divisions or be rotated to other departments within the Bank. Performance-based advancements enable us to promote more junior-level employees into managerial roles.



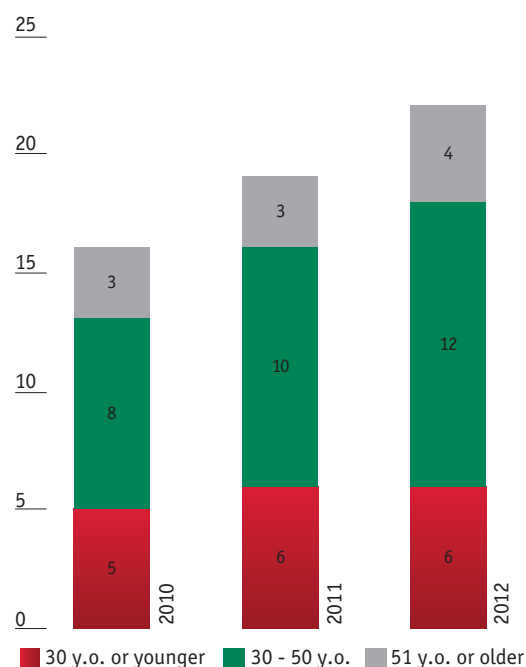
Developing our people

Our employees and their performance have a direct impact on our service quality. Investment in human capital is a major driver in our commitment to safeguarding the Bank's sustainable future. Investing in the next generation of leaders is critical to maintaining our competitive advantage and achieving growth in the long term.

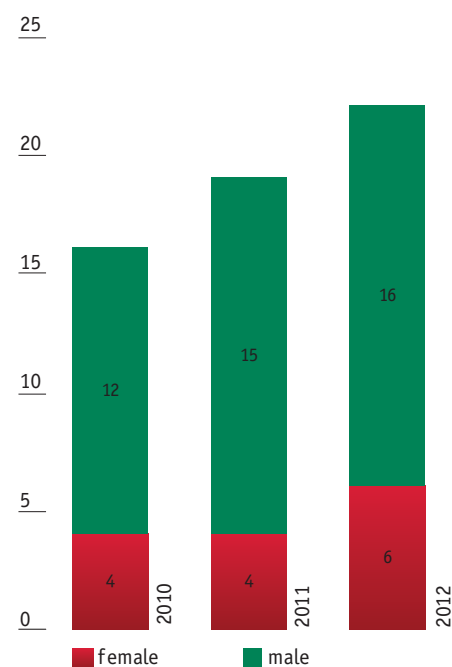
Our employees participated in intensive training programmes organised by leading institutions such as The International Faculty of Finance, Euromoney, MasterCard and Oxford Management Centre.

Locally, almost all of PASHA Bank employees participated in workshops in a variety of disciplines, including finance and accounting, customer service and project management.

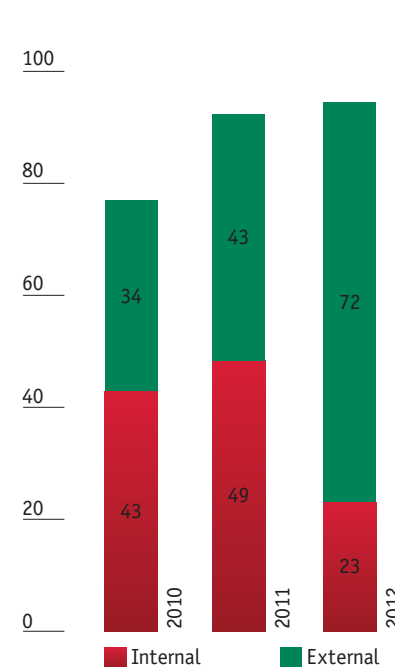
Management Staff by age



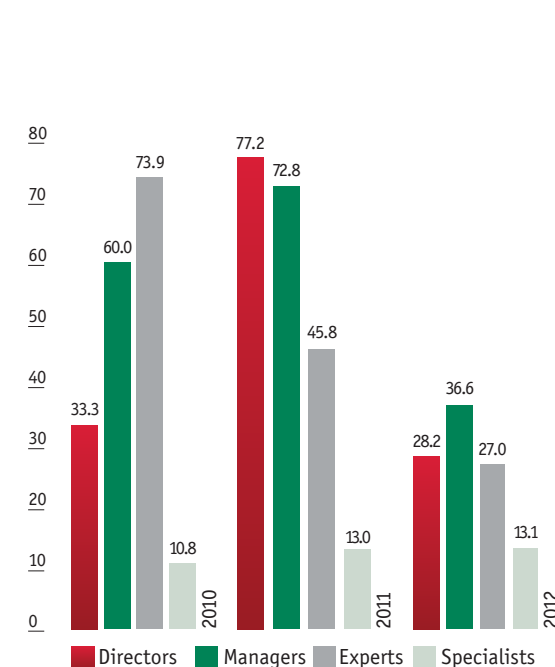
Management Staff by gender



Number of training sessions



Average hours of training per employee (by rank)

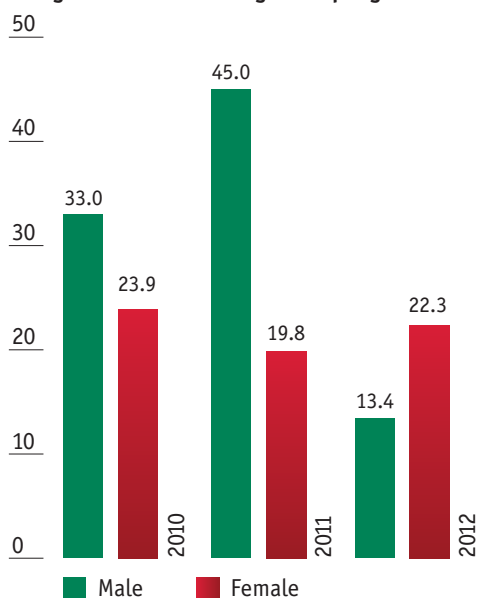


Executive Training

Although Azerbaijan did not suffer from the financial crisis, the post-crisis period and the subsequent changes in the macroeconomic situation mean that we need to think globally and address potential risks. We have to develop skills and expertise guided by our objectives in order to successfully address various challenges. We are committed to empowering our organisation with knowledge and skills that will ensure continuous growth and profitability. We constantly assess our performance to ensure we are adhering to latest international practice and building a strong corporate culture. We remain committed to the belief that our employees are our biggest asset, where continuous investment into personnel development is the key driver of our business. During the reporting period, two senior members of staff attended executive training courses at prestigious business schools:

- Our Chief Investment Officer attended the Senior Executive Programme at London Business School. The course targets executive leadership skills crucial for a variety of industries and helps to balance the priorities of organisational challenges such as strategy, leadership and transformation.
- Our Chief Finance Officer attended the Programme for Leadership Development (PLD) at Harvard Business School. The programme equips managers with advanced decision-making and executive skills to excel as multifaceted leaders. The programme helps to identify cross-functional responsibilities, facilitate change and innovation and improve performance throughout an organisation.

Average number of training hours per gender



Furthermore, 10 employees attended training specifically arranged by Switzerland ISFB with the aim of improving PASHA Bank's Private Banking operations. These employees were the first in Azerbaijan to receive such training.

Fuad Babayev, Relationship Manager, Private Banking

In November 2011, I completed a course held at Swiss Banking School in Geneva. The purpose of the course was to enhance fundamental knowledge in wealth management and portfolio construction. For the past several decades, the global private banking industry has been debating the level of professional expertise in the field. As a result of rapid globalisation, emerging markets have vigilantly picked up on this trend and started to integrate this relatively new financial service line.

Aside from the financial aspects of the course, professors of the school also enriched my knowledge on other important fields of private banking such as taxation and legal matters.

After completing this intensive course, I received a Diploma in Private Banking from Swiss Banking School.

Switzerland is widely recognised as hub of the private banking industry and having the opportunity to study there greatly enhanced my professional development. The course also added to the practical knowledge I had already gained by working on the local market.

I personally greatly value PASHA Bank's initiative to develop Azerbaijan's private banking industry. Despite our achievements thus far, we still have a lot to learn in order for us to fully realise our potential in the private banking sector. This industry has proven itself to be sustainable and self-efficient over its history. In time, we will all remember 2009, the year when PASHA Bank launched its Private Banking division, as the year when the foundation of Azerbaijan's private banking industry was laid.

Since 2010, five Bank employees attended a postgraduate course at a leading educational institution in the United Kingdom with financial support of the Bank. After attending these courses, they returned back to Baku and started to implement their newly acquired knowledge.

With regard to the Bank's on-site training sessions, we regularly invite independent training consultants from the UK with experience in the banking industry, specifically in customer service, relationship management, leadership and management skills.

During the reporting period, the Bank continued to offer language courses to its employees. At the end of 2012, approximately 40 employees participated

in the evening English language courses offered by the Bank. In addition to English, we also offer courses in Azeri language.

Performance review

We conduct performance reviews twice a year in order to evaluate progress and review performance, motivate personnel with respect to meeting established objectives, as well as to identify gaps and staff development needs.

The performance review process is regulated by the Bank's Appraisal Policy, which is crucial for efficient management with respect to defining objectives and evaluating personnel. The performance review enables us to improve the Bank's performance and enhance our business plans.

The performance review process helps us to assess the scale of annual salaries and evaluate the grading system within the Bank. The process assesses each employee against a set of generic and individual objectives and evaluates results achieved throughout the year. Personal development plans for each employee are designed as a result of the performance review, and later these serve as the basis for establishing the training needs of each staff member. Apart from offering a variety of training, the Bank allocates a special allowance for employees to purchase reading materials in order to further develop job-related knowledge.

The Bank recognises how strong staff performance is important for achieving continued success and a sustainable future. This is why the Bank is committed to providing various training and development opportunities to its personnel.

Motivating our employees

We have created an employee motivation system based on best practice. We have established a modern employee evaluation system which assesses employees' performance and sets plans for their future development (as described in the Methodological Guidance on staff motivation). We invited experts from the UK in order to share best practices with respect to setting performance objectives and running appraisal workshops for our staff. All the Bank's employees attended the workshops and were introduced to the new performance appraisal system. Additionally, the Bank ran the "Train the Trainers" programme that will set the foundation for the future "PASHA Bank Academy".

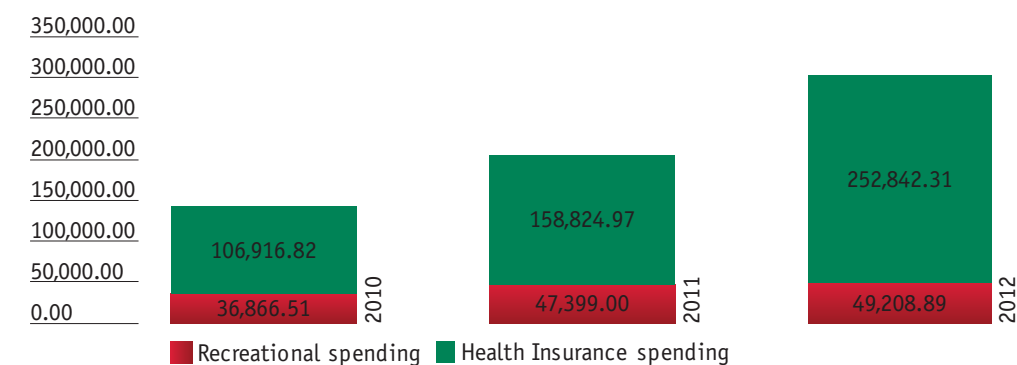
Average Salary per employee category per year (AZN)

Grade/Position	2010		2011		2012	
	Male	Female	Male	Female	Male	Female
Executive board*	10,540	-	13,125	-	9,060	-
Directors	3,522	3,650	4,272	5,000	5,865	4,950
Managers	2,466	2,633	2,900	3,227	2,750	3,850
Experts	1,555	1,558	1,766	1,700	1,885	1,854
Specialist	847	850	960	907	984	1,006
Technical specialist	633	450	688	500	757	550

*Our Executive Board consists of male employees only

In addition to a competitive salary, we offer additional benefits which include medical insurance for employees and their families, subsidised loans and access to recreational facilities. Our employees also benefit from the Bank's bonus system which is linked to each employee's annual performance.

Expenditures on benefits packages (AZN)



The Remuneration Policy is one of the key components of the Bank's corporate governance structure. In accordance with the Remuneration Policy, job descriptions outline each employee's obligations to adhere to all the compliance rules, procedures, and instructions applicable to their specific job function.

Most of the benefits available for employees are stated in PASHA Bank's Remuneration Policy, which was prepared in accordance with the Bank's Charter and national legislation, including the Labour Code of Azerbaijan Republic. The Bank's Remuneration Policy is aimed at attracting and retaining talent by providing competitive working conditions.

The remuneration system is formalised and executed by the Supervisory Board, Executive Board and the HR Committee.

Communication with employees

PASHA Bank works tirelessly to build a highly efficient team where every member shares the same values and vision. We established a function within the PR & Marketing team that is responsible for establishing effective internal communication through a variety of methods including the intranet, internal events and internal communication campaigns which constantly communicate the Bank's strategy and values to its staff. The team conducts employee satisfaction surveys and opinion polls in order to regularly evaluate its performance.

In the past year, we have organised a breakfast event with the Bank's Chief Executive and junior employees. We have also held an intranet forum entitled "Hero of the day without a tie," where employees were invited to present their questions to the colleagues. We organised two team retreats in order to come up with creative solutions to routine tasks, discuss challenges faced by the organisation and identify ways to address these challenges through team building games. We are proud to say that we are among the few local companies who have a dedicated internal communications function, which creates a powerful dialogue between the Bank and its employees.

"Hero of the day without a tie" practice

In 2012, as a part of our internal communications function, we initiated a new campaign entitled "Hero of the day without a tie" with the aim to "get to know your colleague". Throughout the year, every Tuesday, a "hero" addresses various non-job related questions from colleagues in an online forum. One of the "heroes" was Chief Executive Farid Akhundov and his interview attracted enormous interest in the Bank, with the forum viewed nearly 5000 times.

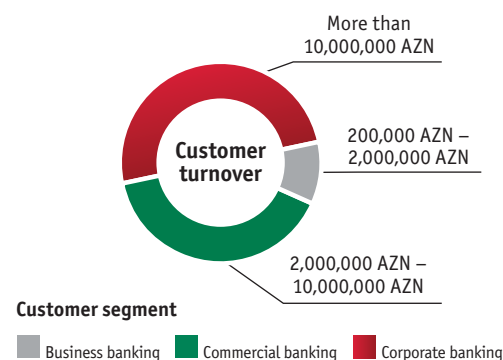
2.2 Our Customers

In accordance with its Strategy, the Bank has two key business functions: corporate banking and private banking.

	2010	2011	2012
Total number of customers (all cardholders of the Bank including salary projects)	2,015	3,605	7,869
Corporate banking	445	576	746
Private banking	1	3	34

During the reporting period, our Bank mainly provided services to domestic clients. However, our clients often have business interests outside Azerbaijan, including in Turkey, Ukraine, Georgia and Turkmenistan. In order to support businesses in the regions, we are planning to open business centres in Ganja and Zakatala, with longer-term plans for Guba and Lenkoran. Since 2011 we have been working on opening a representative office in Tbilisi, Georgia.

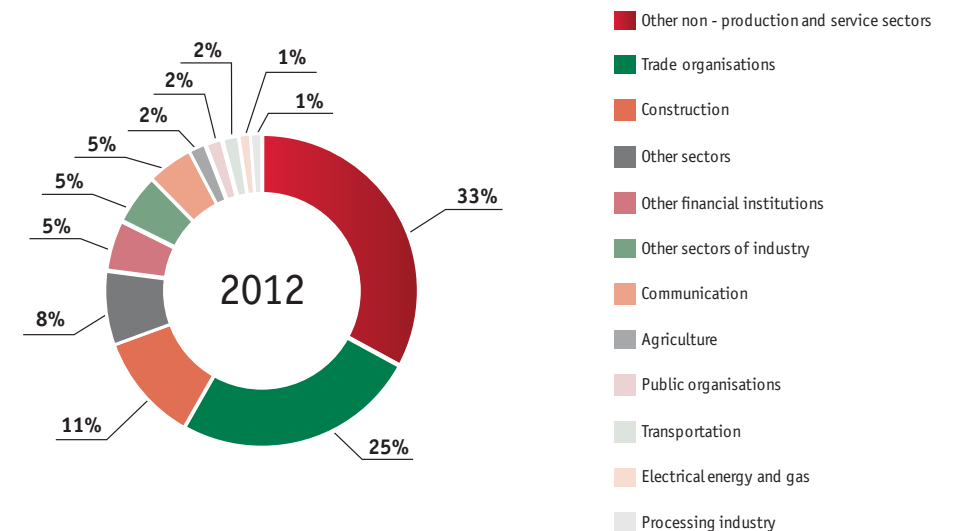
We are applying a tailored approach to each customer segment. The requirements and tariffs applicable to customers vary depending on which service they are using, due to the nature of the different segments and the respective risks associated with them.



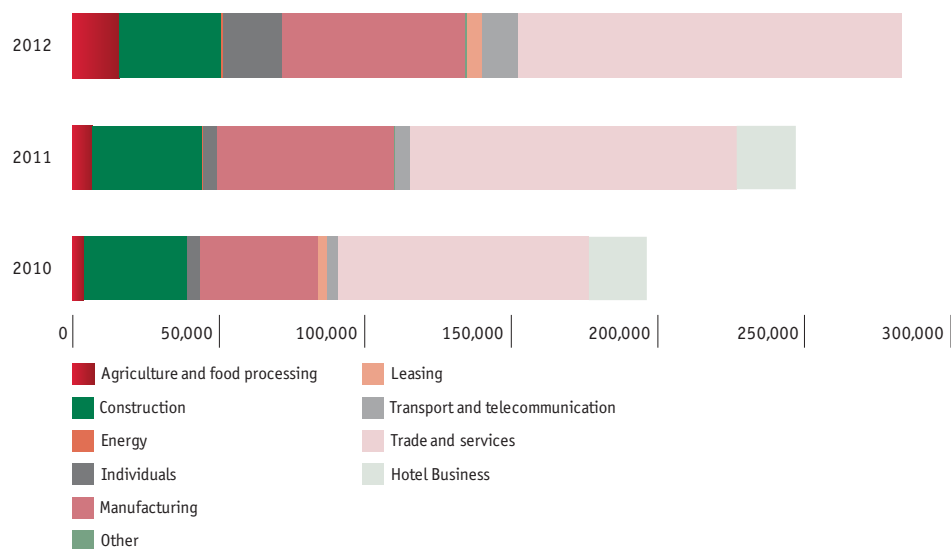
As specified in our corporate strategy, we identify our business customers according to their size. Our business banking clients are small enterprises with a turnover of 200,000 AZN – 2,000,000 AZN, our commercial banking clients are medium enterprises with a turnover of 2,000,000 AZN to 10,000,000 AZN and our corporate banking clients are larger corporates with a turnover of over 10,000,000 AZN.

Number of clients in Corporate Banking segment

Sectors	2010	2011	2012
Other non-production and service sectors	90	40	56
Trade organisations	120	49	43
Construction	39	13	19
Other sectors	95	8	13
Other financial institutions	32		9
Other sectors of industry	20	7	9
Agriculture	10	6	8
Communication	6	1	3
Public organisations	4	1	3
Transportation	11	3	3
Electrical energy and gas	3	1	2
Processing industry	11	2	2
Central government bodies	1		
Mining industry	3		



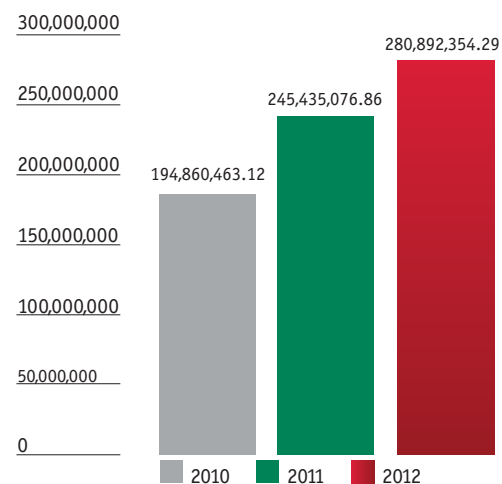
Loan Portfolio by sectors, ths. AZN



Loan Portfolio

The Bank works closely with large borrowers, as well as with small and medium-sized businesses. Preference is given to borrowers with a good credit history that conduct a substantial part of their business through PASHA Bank.

Loan Portfolio at the end of each year, AZN



Support to Small and Medium Businesses

During the first strategic period, which was completed in 2011, the Bank's operations focused on large corporate clients. During the second strategic period, PASHA Bank will focus on developing its SME client base, as well as specific products and services for this segment.

One of the priorities for 2012-2014 is to increase our small and medium-sized enterprises client base. We conducted a market survey (which was outsourced to an independent research company, SIAR) to identify what SMEs need and expect from financial institutions. We used these research results to formulate our SME strategy.

In September 2012, we introduced a new, simplified lending procedure and scoring system for SMEs. The new lending procedure simplifies the process of receiving a loan for companies that achieve the required score and provide all the required documents on time.

In order to check whether a company is entitled to receive a loan, SMEs can assess themselves against the scoring system, which is available in the Bank's business centres. Prospective clients can also ask for the list of the documents required for the loan application at our business centres. Besides the

banking products and services which are available for this segment, we also contribute to the financial education of Azerbaijan's SMEs. In November 2012, in co-operation with the Central Bank of Azerbaijan and the International Finance Corporation, we conducted a seminar for SMEs called "Access to Finance".

"New world of opportunities" on trade financing for SME

PASHA Bank, in partnership with Commerzbank, held a seminar on trade finance for small and medium enterprises. One of the main challenges that SMEs face is limited access to financing, especially in trade operations. We believe that improved communication with clients, as well as innovative financing schemes that banks can offer to SMEs, could increase demand for financing. At the event, representatives of both banks informed the audience about risk guarantees and import/export financing instruments. Commerzbank shared its experience of providing

SMEs with export and trade financing products in Germany. PASHA Bank also talked about its expertise in trade financing and documentary operations, highlighting its advantages over short-term documentary operations. Trade financing instruments protect the rights of both the seller and the buyer. While negotiating a deal, it is important to consider not only the technical aspects of the deal, but also its future financing. In order to get the most out of the project, the event encouraged businessmen to involve the banks in their deals at the early stages of negotiations.

The Loan Policy is the key document that governs the Bank's relationships with its customers. It is formed on the basis of the Bank's strategy and regulates our lending process. The objectives of the lending process are to enhance and diversify the products offered to customers, attract new customers and enhance customer loyalty. By specifying the Bank's preferred sectors, the policy helps to diversify our customer base and provide services to various industry sectors:

- Preferential sectors (e.g. non-oil and gas sector, trade and services, agri-business)
- Restricted sectors (oil and gas sector)
- Forbidden sectors (gambling, arm manufacturing)

Our lending procedures meet the regulatory requirements, are compliant with international best practice, are not used for financing crime or terrorism and are managed by a robust risk management process.

Sustainability risks review

We pay attention to sustainability risks and potential impacts when reviewing loan applications.

Key sustainability topics (including, but not limited to, those mentioned below) are reviewed by the Bank when reviewing loan applications for heavy industrial production projects:

- Energy efficiency;
- Environmental impact assessment plans approved by the respective state authorities;
- Green infrastructure in the field of supply change management etc.

PASHA Bank does not have a dedicated Sustainability Risk Manager at present and, as such, clearance for any such transaction is provided by the Head of CRAM. However, Risk Managers need to ensure that sustainability risks are carefully managed and that the Bank's reputation is not damaged by providing financing or other facilities to companies or projects, which do not meet sustainability legislation or accepted standards. For prohibited/restricted sectors, employees should refer to the Compliance Department or the relevant intranet sites for guidance.

We are committed to contributing to the diversification of the economy and increasing the share of the non-oil and gas sector in Azerbaijan's GDP. We strive to increase the financial products and services provided to customers who are developing green infrastructure; such as local food producers, and developers of farming and agribusiness in the regions.

ATENA Dairy Plant

ATENA Dairy Plant is one of the investment projects financed by the Bank. The milk processing plant, belonging to "Atropatena LTD" CJSC, has been constructed in the Agcabedi region. The project was supported by our Bank as it meets the requirements of our Loan Policy and the Corporate Strategy. It provides the population with a local, natural and high-quality product. As the demands for dairy products are increasing in Azerbaijan, Atena plant's products are helping to supply this demand. It also helps to develop agribusiness in the country's regions.

Saglam Gida – Healthy Food

Saglam Gida is an industrial bakery which will be built in Sumgayit, a city located 31 km north-west from Baku. The bakery will be equipped with state-of-the-art bakery manufacturing equipment (five product lines), which will be backed by a EUR 5.26 million Individual Loan Agreement agreed between PASHA Bank and the German bank, Commerzbank AG. This

deal is the first one to be concluded within the EUR 20 million Basic Loan Agreement with ECA-cover signed between PASHA Bank and Commerzbank AG. Equipment is purchased from the world-renowned industrial bakery equipment manufacturer, Werner and Pfleiderer Industrielle Backtechnik GmbH. The production process is expected to meet the German manufacturer's requirements, as well as all the international quality standards. Bread and bakery products will also meet HACCP hygienic quality standards. The plant's target is to provide high-quality bakery products at affordable prices. The construction work will be carried out by a Turkish company, Meytek. Around 500 people are expected to work at the plant. The daily production at the plant will be 124 tons per day, which is expected to increase to 200 tons per day.

While supporting the project PASHA Bank aims to contribute to the developing economy of the country thus supporting the companies of different sizes and of different industries.

Cement Plant

In 2012, PASHA Bank and the German bank, Commerzbank AG, signed a EUR 17 million Individual Loan Agreement for financing the purchase of equipment from Germany for the Qizildash Cement Plant Project to be built in Garadagh, Baku. The total value of the project is USD 240 million. The Individual Loan Agreement has ECA-cover, which is provided by EULER HERMES AG.

The equipment was purchased from various well-known industrial equipment manufacturers, such as Hazemag, Pfeiffer, Claudius Peters, Siemens, Aumund və Haver&Boecker.

This project helps to promote trade relations between the Republic of Azerbaijan and the Federal Republic of Germany. The contract is for the partial financing of export contracts for the deliveries made/services rendered by companies from Germany or other countries of the OECD and Azerbaijani importers involved in Qizildash Cement Plant Construction. A full Environmental Impact Assessment of the cement plant's construction and operations was conducted, which was analysed before signing the agreement.

The project aims to supply the construction material (cement and clinker) for the increasing number of development and infrastructure projects.

We also provide our customers with several types of trade finance transactions: letters of credits, standby letters of credit, guarantees, pre-export/pre-import financing and post-financing. In 2011 and 2012, the Bank executed over 400 (179 in 2011, 247 in 2012) trade finance transactions using various instruments for a total amount of AZN 83,616,270. Our corporate trade finance portfolio expanded from 43,381,261 AZN in 2011 to 101,343,088 AZN in 2012, respectively.

Documentary and Trade Finance, AZN

	2012	2011	Growth
Letters of credit	15,918,759.07	13,055,621.40	22%
Guarantees	54,794,317.70	16,525,657.30	232%
Post-finance amounts	19,183,036.89	12,832,155.24	49%
Deals covered by the Export Credit Agency	11,446,974.80	967,827.06	1083%
Total trade finance portfolio	101,343,088.46	43,381,261.00¹	134%

Most of Letters of credits were opened in Construction, Manufacturing and Trade sectors.

1. This number does not include the accrued interest, which is equal to 307,898 AZN. If the accrued interest was included, the Total Trade Finance Portfolio in 2011 would be 43,689,159 AZN.

Customer relationships

The operations of the Customer Services Department are governed by the Customer Service Policy, which is prepared in accordance with the Bank's strategy and is developed to provide customers with high-quality services, tailored to their needs. The policy's ultimate goal is to outline the service quality. It also identifies ways to develop and enhance these services.

As a governing document, the policy outlines how the Bank should relate to its customers. Our key performance indicators require the policy to be implemented and the objectives set by the Strategy to be achieved.

The Customer Services Department ensures that the Bank provides products and services to meet customer needs and requirements. It is also responsible for maintaining the high quality of the Bank's customer service, as well as handling any customer complaints.

We understand that in order to have a sustainable business and to attract capital in long-term, we have to provide tailor-made products and services to our customers.

When the Bank was established in 2007, it employed a network of relationship managers to better serve our customers. This is a new concept for the Azerbaijani market and has been designed to promote mutually beneficial relationships with corporate customers. Each relationship manager is assigned a portfolio and their customer base is divided in accordance with the size of the business (see the above table). Relationship managers are the first interaction point for customers who require loan products. In order to enhance services and satisfy customer needs, financial analysts work in co-operation with

relationship managers to identify corporate customers' capital needs and provide value added services. It means that our relationship managers know which loan programmes and capital sources might help the corporate client to inject capital into their business, as each company has its own business conditions requiring a different mix of capital loans from our Bank.

Our relationship managers help to initiate and sustain an efficient customer service policy at all levels of the organisation. Typically, our relationship managers delegate services to a customer service team, thus maintaining interaction with clients who use the loan facilities.

Customers who require other financial products rather than a loan approach branch managers, who head our Bank's business centres. During the reporting period, we had four business centres operating in Baku.

	Opened	Number of personnel	
		2011	2012
Central Business Centre	2007	16	9
Shuvalan Business Centre	2009	3	3
Bridge Plaza Business Centre	2012	9	12
Port Baku Business Centre	2012	0	13

In order to provide better financial services to our customers, we are continually developing and enhancing our relationships with international financial institutions including Commerzbank, Raiffaisen, LBBW, Wells Fargo, Ubi Banca and Türk Ekonomi Bankası.

Quality of services

The Bank's ultimate goal is to achieve high levels of customer satisfaction, because we believe this indicator is the foundation for long-term business development and mutually beneficial cooperation. Thus, it is essential for us to collect customer opinions on the quality of the products and services we offer. The focus in 2012 was on generating customer loyalty by improving service quality. We ran different programmes throughout the year in order to measure customer satisfaction and service quality. In order to control and improve the quality of the services provided to our customers, we established a Quality Assurance Division. This division co-ordinates the activity of the Customer Services Department and manages relationships with other departments of the Bank.



The main instruments for measuring service quality include:

- Customer Satisfaction Survey (questionnaire);
- Evaluation of customer service quality at the Bank's branches (using "mystery shoppers");
- Evaluation of call centre service quality (using "mystery shoppers");
- Internal inspections to gauge the quality of service at customer service outlets;
- A range of customer feedback channels.

In order to evaluate customer satisfaction, we use key performance indicators that help us to measure the level of satisfaction and customer loyalty. This includes analysing our existing customer base to identify the number of the customers who left the Bank.

We conduct regular customer satisfaction surveys, which will be even more structured when the survey is launched electronically in 2013. We have also designed feedback and comments forms that customers can fill in anonymously and deposit in the Bank's branches.

Launching our "Mystery Shopper" programme was an important event in 2012. This allowed us to evaluate the quality of PASHA Bank's customer interactions at different sales channels.

The Bank tests customer satisfaction by collecting and analysing customer feedback on our products and services. Based on the results of the analysis, we identify areas where we need to improve.

According to the results of customer satisfaction and service quality surveys, the overall level of customer satisfaction increased during 2012. Most key customer satisfaction indicators have also increased significantly. Service quality at the Bank's business centres increased during 2012 due to the full functioning of the Quality Assurance Division. In 2013, we plan to introduce more rigorous approaches towards evaluating service quality, focusing on employee compliance with service standards and sales techniques.

We implemented a number of activities in 2011 and 2012 in order to improve customer service quality, such as:

- Training all front office employees in service standards and complaint handling procedures;
- Training all business centre managers in the day-to-day monitoring of service quality.

Handling complaints

The Bank's Complaints Policy was prepared in accordance with its Charter and internal procedures. Pursuant to the Rules, all customer complaints have to be addressed by the Customer Services Department. The Head of Customer Services and the Quality Assurance Manager are responsible for managing this. Customers may express their complaint about the Bank's products and services either orally or in writing. The complaint form may be accessed on our website. Alternatively, customers may send an email to the e-mail address provided on the Bank's official website. The Customer Services Department should also send copies of the complaints to the Compliance Department. Monthly reports on customer complaints are sent to the Supervisors of the Customer Services and Compliance Departments.

Internet Bank Service

We have developed an Internet Bank Service for customers who prefer using remote banking services. Internet Bank was launched in 2012 and around 118 customers were using the service by end of the year.

Our Internet Bank is a web-based application and enables customers to manage their accounts 24 hours a day. Our customers can use Internet Bank from any part of the world, as long as they have access to the internet.

Currently, Internet Bank allows our customers to perform a range of tasks, including:

- Local payments – payments within the Republic of Azerbaijan;
- Cross-border payments – payments in foreign currency outside the country;
- Exchange – currency sale and purchase;
- Communication with the Bank – a private communication system with the manager responsible for the required customer service.

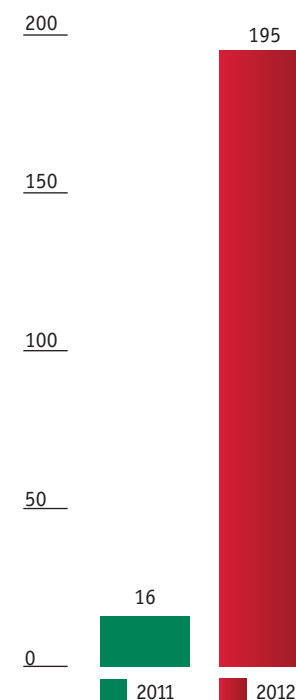
Our customers can view a range of account information via Internet Bank, including:

- Account balance;
- Credits;
- Deposits;
- Currency exchange rates;
- Card balance.

We apply the highest standards, analyse current developments, and install the corresponding technologies to ensure the security of banking transactions. We inform clients comprehensively about possible security risks and necessary precautions. We deploy internal security mechanisms to prevent improper transactions. New technology helps us to reduce skimming and cash trapping attacks on our ATMs.

PASHA Bank aims to be one of the top banks in terms of infrastructural development. The Bank has invested significant resources in constructing electronic payments processing infrastructure in-house, and constantly upgrades and develops its infrastructure. In terms of secure payments, the Bank has all the capabilities to define its own risk limits and setup electronic transaction rules to minimise possible risks. These limits include direct and online transactions. Additionally, to make it even safer for cardholders to use their cards online, the Bank issues a password for each transaction, which is sent to customers' mobile phones. In 2013, a new multifunctional system of Fraud Management will be implemented. It includes detection and prevention phases in order to further optimise fraud management.

Mobile Banking Users



We are improving the accessibility of our branches and ATM machines for people with disabilities. During 2012, PASHA Bank opened two business centres designed and built in accordance with international best practice. Both centres are very easy to access and convenient for customers who prefer face-to-face interaction with the Bank to a remote communication.

Most of our ATMs are wheelchair accessible. Additionally, ATM keyboards are especially equipped for people who are visually impaired. The total number of ATMs installed by the Bank reached 15 (as of December 2012). Most of the ATMs are installed in the places where the Bank's corporate customers are located. The Bank is more interested in developing non-cash payments rather than widening its ATM network.

Fraud detection

All service centres accept cardholders' requests regarding suspicious or disputed transactions. The Bank provides advisory services as to whether or not an instance of fraud can be disputed with a counterparty bank/merchant. The Bank's call centre can urgently block cards in case of suspected fraud. Additionally, customers who use the Bank's Mobile Banking service can block their cards by sending an SMS with the word "STOP". We currently use the Card Suite system to monitor card authorisations after fraud has occurred. This means that the system is able to generate reports based on parameters entered by operator. The statistics are then used to analyse various transactions and assess whether or not fraud has taken place. When suspicious activity is detected, the Bank contacts the customer to ascertain whether the transactions represent normal cardholder behaviour.

We will be enhancing the system in 2013 in order to prevent fraudulent activity at an early stage. Card Suite System expenses:

CardSuite System expenses:

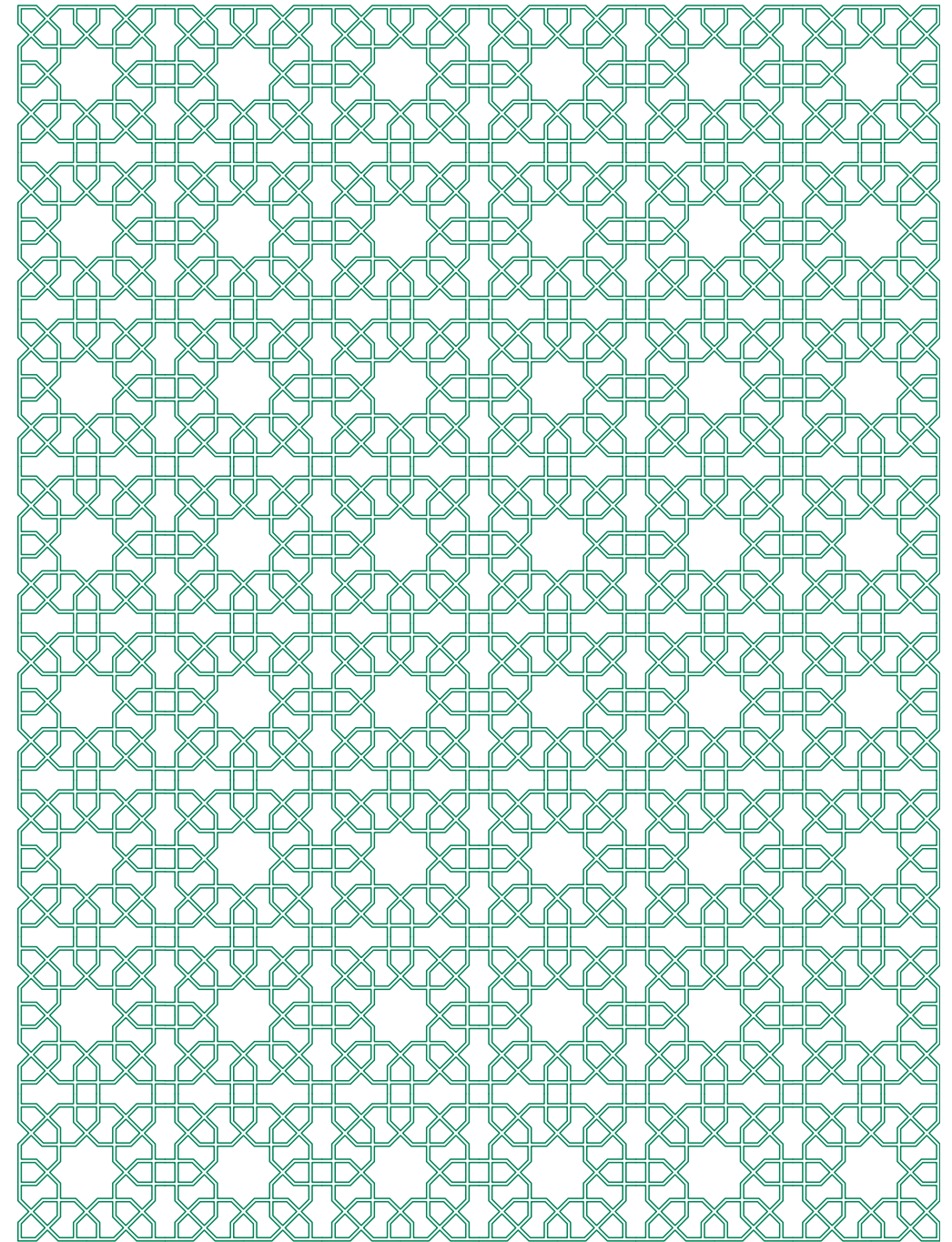
Year	Expenses (EUR)
2010-2011	707,728
2012	82,740

Planned Activities

- Application of a new system of fraud prevention through online monitoring;
- Implementation of new fraud detection/prevention software in 2013 to enhance the security of card transactions and minimise the level of fraud. The system will be monitoring authorisations online and, based on the predefined parameters, perform appropriate actions, such as, declining the transaction or blocking the card. This will greatly increase the security of card operations and minimise the risk of potential fraud;
- Introduction of the 3D Secure system for Visa and MasterCard.

The Bank is planning to launch the 3D Secure Issuing programme with the Visa (VbV) and MasterCard (Secure Code). This programme provides extra protection for online shoppers by providing additional online authentication before purchases are completed. This technology provides a code (a one-time-password that is generated and sent to customers' mobile phones) that protects the card account from unauthorised usage while shopping online. This greatly decreases the chargeback level and their processing costs.

The Bank plans to start implementing the software that will support 3D Secure payments online in 2013.



3 Profitability

We consider profitability to be for the benefit of both the Bank and its customers, as well as for the economy of our country as a whole.

A profitable business will enable our Bank to create value for our stakeholders and contribute to the economy through paying dividends to our shareholders, competitive salaries to our employees, tax revenues to the government and payments to our suppliers.



3.1 Culture of cost-saving

In accordance with the values embedded in our strategy, we adhere to the culture of prudent and reasonable cost-saving. We understand that the objectives set in our Strategy can be achieved not only by actively attracting new customers, but also through effective resource management. The Bank's current focus is on realising the financial and environmental benefits of reducing energy consumption. By focusing on strategies to improve resource management, we have the potential to reduce operating costs and further enhance shareholders' confidence in our work.

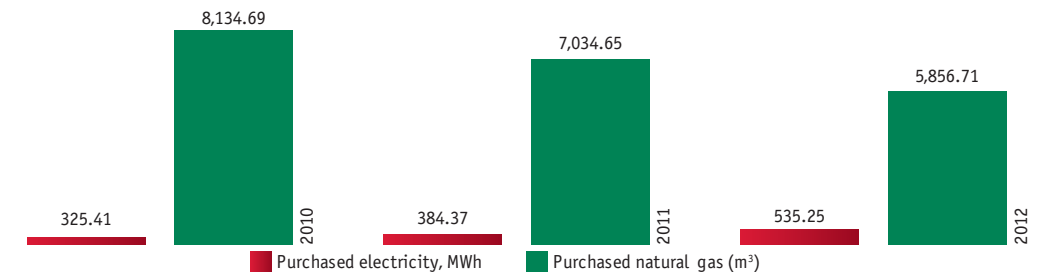
Energy consumption

The Bank closely monitors the consumption of heat and electricity. The Bank monitors the energy it consumes, identifies cases of energy loss and implements

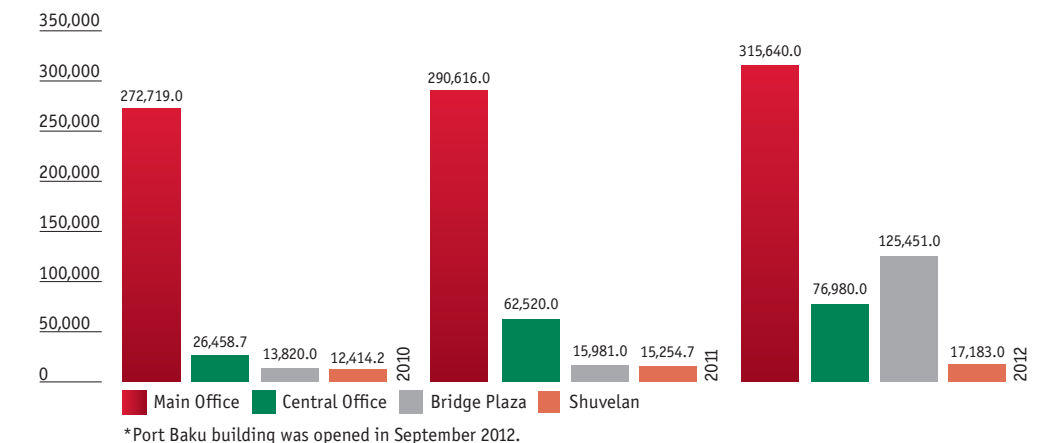
precautionary measures in order to prevent such situations. This allows us not only to optimise the costs of public services in the short term, but also to reduce the Bank's overall direct environmental impact.

We launched an energy reduction programme, which involved comparing the average electricity consumption per employee. This programme has allowed us to identify a number of areas for improvement. We have also replaced old equipment with equipment corresponding to the international certificate of energy efficiency, Energy Star. Finally, the bigger sites, such as Port Baku and Bridge Plaza, are now equipped with a Building Management System that automatically regulates heating, air conditioning and lighting according to need, and monitors the consumption rate.

Results from energy efficiency efforts



Breakdown of electricity use in kWh by branches



We also closely monitor the Bank's gas consumption. For example, in 2010, we abandoned the use of gas stoves, and currently use natural gas for heating purposes only in the Bank's main building. Hence, we achieved a 88.9 GI reduction in natural gas consumption from 2010 to 2012. Annually, before the beginning of the autumn-winter season, we undertake necessary measures to reduce heat loss in the Bank's buildings and to restore insulation of the heating systems. The Bank is doing everything possible to reduce heat loss and thus avoid wasteful practices with respect to the use of natural resources. In all its offices, the Bank is gradually replacing old air conditioning equipment with more modern, efficient

and safe units. In addition, we are implementing programmes aimed at increasing employees' awareness of the need to save power and reduce energy consumption across the Bank. Our main rules include switching off idle equipment, replacing incandescent bulbs with energy-saving lamps and LED, as well as installing more efficient air-conditioning. We are committed to reducing our greenhouse gas emissions (GHG) not only to limit our environmental footprint, but also because of the potential this has to significantly reduce annual operating costs. These savings can be achieved through improved energy management in buildings, reduced fuel consumption in vehicles and stabilising travel emissions.

Total CO₂ emissions (tCO₂):²



	Electricity		Natural Gas	
	kWh	tCO ₂	Total use (m ³)	tCO ₂
2010	325,411.90	144.16	8,134.69	15.37
2011	384,371.66	170.28	7,034.65	13.29
2012	535,254.00	237.12	5,856.71	11.07

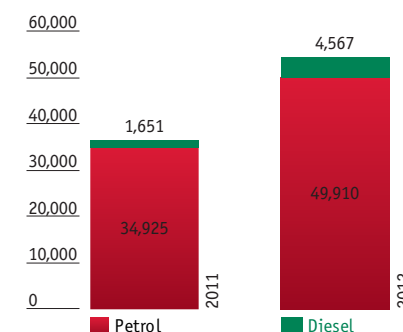
2. In the table above, we used following ratios: 0.000443 ton of Carbon Dioxide against 1 kWh, 0.001889 ton for 1 m³ of gas (GHG Protocol)

Additionally, we aim to reduce energy consumption through optimising energy use on weekends and public holidays. The Bank's fleet of vehicles is one of the largest energy consumers. The Bank pays special attention to the environmental performance of its vehicles. The major factors that affect fuel efficiency include the age of the vehicle, the size of the engine, how well it is maintained and how it is driven. Driver training and fleet renewal are key areas of the fleet management strategy. More than 70% of the Bank's cars were purchased in 2011-2012 and run on petrol; only armoured vehicles use diesel. At the end of 2012, the Bank had 3 armoured Mercedes vehicles thus increasing the total number of vehicles to 23.

The fuel efficiency for each individual vehicle is calculated by dividing monthly fuel consumption by the number of kilometres travelled. The lower ratio, the more efficient the vehicle. The table below demonstrates a breakdown of petrol and diesel usage in 2011 and 2012, and calculates respective GHG emissions by fuel type. In order to account for GHG emissions from petrol and diesel, we applied 0.002271 and 0.002676 respectively as the conversion ratios.

	Number of vehicles
2011	18
2012	23

Fuel consumption, liters



Year	Fuel by type	Litres	GJ	tCO ₂
2011	petrol	34,925	1,207.08	79.32
	diesel	1,651	60.05	4.42
Total				83.74
2012	petrol	49,910	1,676.97	113.37
	diesel	4,567	166.23	12.22
Total				125.59

The increase in fuel consumption in the above table is explained not only by the rise in the number of vehicles and staff members, but also by growing numbers of trips to the districts to meet with clients and to visit the sites of the future Ganja and Zagatala branches. To try and

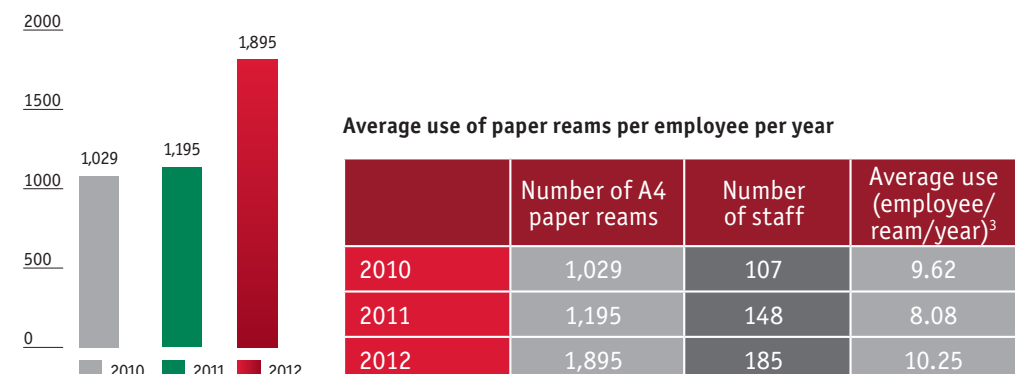
reverse this trend, we are gradually switching to using courier services for delivering packages within the city. We have also installed GPRS devices on several vehicles in order to monitor their movement. Drivers are always instructed to follow traffic regulations and to not speed.

Paper consumption

Paper is one of the Bank's main consumables. In accordance with the Bank's Strategy, we are working towards improving internal processes by increasing automation and reducing paper consumption. Through the introduction of

electronic documents, the use of modern banking technology, as well as through a number of measures aimed at saving paper resources, the amount of paper consumed in the Bank was significantly reduced in 2010-2011; however in 2012 the paper consumption increased⁷.

Paper consumption (A4 reams)



The Bank's energy efficiency measures aim to encourage paper, as well as other consumables, to be reused. The Bank's staff collects used paper, and also ensures that fluorescent lamps, as well as obsolete electrical equipment and car batteries, are properly disposed of by sending them to specialised facilities for further processing. Old printer cartridges are also collected by the IT Department so that they can also be reused.

Procurement

The aim of the Bank's procurement practices is to add value to the work and reputation of the Bank by executing purchasing process which respect the principles of equality, integrity and transparency via competition. We are committed to achieving value for money when purchasing goods. We also consider other parameters, such as social and environmental sustainability.

PASHA Bank, being one of Azerbaijan's leading banks, maintains a policy of buying goods and services from locally based suppliers. "Local" refers to suppliers of goods and services having offices in Baku, regardless of the location of their parent

organisation. When doing businesses in Tbilisi, the Bank has contracted mainly Georgian companies. Buying locally means more secure supply chains while simultaneously supporting SMEs and stimulating Azerbaijan's economy. When buying locally, the Bank is significantly benefiting local employment figures and the country's economic growth. The benefits of buying locally include fast delivery and availability of goods and services, access to technical support, lower stock holdings, corporate image/reputation, facilitated customs clearing procedures and reduced import taxes, and no currency risk.

We regard the contract as the most important document for doing business and so we pay particular attention to making sure that all contracts meet national legislative requirements. All contracts signed by suppliers are subject to the review of the Legal Department. Contracts are endorsed in a special form by all involved departments: Procurement (to confirm the proper proceedings), Legal and Finance (to ensure availability of funds). Moreover, our suppliers are continuously assessed with respect to compliance with the Bank's internal Code of Conduct.

3. Total weight of purchased paper constituted 2,535.15 tonnes (2010), 2,941.85 tonnes (2011) and 4,656.85 tonnes (2012)

3.2 Contributing to economic development

Our business is guided by the Bank's mission and we are committed to the welfare and cultural development of our society. Our corporate social responsibility activities are guided by our corporate and sponsorship strategies, developed in 2009. We conduct these activities through commercial sponsorship and projects that contribute to the country's socio-economic development. We invest in human capital and pay special attention to developing our junior personnel.

Contributing to economic development

Component	2012	2011	2010
Direct Economic Value generated			
Revenues	48,141	36,201	33,842
Economic Value Distributed			
Operating Costs	5,485	3,372	2,286
Employee wages and benefits	7,438	6,110	5,680
Payments to providers of capital	982	981	0
Payments to government	4,551	1,791	681
Community Investments	1,246	1,140	650
Economic Value retained	16,211	13,359	13,871

The priority areas of our corporate social responsibility programme are as follows:

- Investing in the country's securities market;
- Fostering the country's economic development with banking products and services that support small and medium-sized businesses and contributing to diversification of the economy with a focus on the non-oil industries;
- Contributing to the country's human capital via long-term projects aimed at improving journalists' capabilities, supporting students and increasing the population's financial literacy.

Our Bank plays a significant role in developing the emerging securities market as it helps to boost the economy. The ability to trade securities may facilitate investments, promote the efficient allocation of capital, and stimulate long-term economic growth. In addition, economies with a strong banking industry require developed stock markets in order to provide

the economy with liquidity. We provide underwriting services on bond issuances and, in the majority of cases, we act as market maker on those issues.

The largest underwritten issue was the AZN 40 million issue by Bakcell. The most recent transaction was the AZN 10 million public bond issuance by the Bank of Baku. PASHA Bank assists in preparing the prospectus (as the SSC demands that a prospectus is available for public offers) and conducts road-shows and gathers orders on already underwritten issues.

During 2012, we managed to arrange four bond issues with a total amount of AZN 70.4 million. We currently play a significant role in public offerings. PASHA Bank provides secondary liquidity for the following issues: AIF issue 1, Bank of Baku, Bakcell, Baghlan Group, Unibank, Unileasing. PASHA Bank began officially providing market-making services on these corporate bonds from January 2013, by signing a market-making agreement with BSE.

At the end of 2012, PASHA Bank's local securities portfolio exceeded AZN 300 mln. (over USD 382 milion), which is more than 50% of all outstanding local securities. The total securities portfolio amounted to more than AZN 335 mln (over USD 427 mln).

This is 23.7% higher than 2011's portfolio, which amounted to AZN 228.6 mln. We have also begun offering our clients put options on corporate bonds. Within this framework, PASHA Bank successfully sold two of them with various periods and with notional values of 3 million AZN.

"Raising capital in London and Baku: challenges and opportunities"

PASHA Bank, in partnership with KPMG and the Baku Stock Exchange, arranged a conference devoted to the latest trends in the area of public flotation on the Stock Exchange, as well as opportunities for raising capital in the emerging markets.

Speakers at the event included representatives from the London Stock Exchange, the Baku Stock Exchange and KPMG, as well as other experts on capital markets. Conference participants discussed a number of issues, including

cooperation between the London and Baku Stock Exchanges, capital raising opportunities for local companies, current trends in raising funds by issuing shares, the importance of financial communication, the image of companies and relationships with investors.

A range of other topics were discussed, including training for IPOs, the role of auditors and accountants responsible for preparation of reporting, the rates of development, and the latest trends in Azerbaijan's capital markets.

Increasing Financial Literacy

In order to contribute to the financial literacy of entrepreneurs running small and medium-sized businesses, we held a seminar in co-operation with the Central Bank of Azerbaijan and the International Finance Cooperation (IFC) entitled "Access to finance for representatives of small and medium enterprises."

SMEs that having a good credit history is extremely helpful when applying for financing, but that it is not the sole factor that banks pay attention to. Banks also consider the current status of the client's business, their financial statements and management methods, including the management of financial reports.

More than 60 participants from different industries attended the seminar. Participants of the seminar were introduced to the methodology of the Centralised Credit Registrar (CCR), opportunities for accessing information from the Registrar and other aspects of CCR activities, as well as the experience of the IFC in supporting the representatives of small and medium businesses.

We support the government's efforts to improve the general population's financial literacy. Our Bank collaborates closely with the State Securities Committee (SSC) in various projects that increase the general population's awareness of the securities market and educates society in the capital markets. We supported the SSC project - "Collection of articles on capital markets and the opportunities provided by capital markets" - that was implemented in line with the Presidential Decree, "Development of the Securities Market in Azerbaijan in 2011 - 2020".

We issued information on what positive credit history is and how it affects the loan borrower's business. This information was aimed at raising awareness among

Our social responsibility programme also supported a project aimed at journalists, together with the State Securities Committee, entitled "Capital markets: trends, challenges and opportunities." The aim of this project was to develop Azerbaijan's security market and advise the general population and the business community on capital markets and securities. This project supported journalists who write about capital markets and the financial sector, and awarded those who were the most successful.

As guided by our corporate strategy, we also support initiatives aimed at developing students. Our Bank, in partnership with the SSC, launched an essay competition called, "Azerbaijan 2020: the role of the capital markets in developing the economy". The aim of the competition was to engage students from economics background in current issues so that they would feel ownership of the changes taking place in Azerbaijan's economy, which will ultimately benefit them.

Participation in the changes means also sharing the responsibilities for the results. When contributing to the programs we also consider close involvement of the beneficiaries to the projects.

Community Investments

Our sponsorship activities mainly include sports tournaments and cultural events. We focus on developing tennis, which is considered to be a "noble sport". The aim of our tennis sponsorship

project is to support the youth and make the sports more accessible for the citizens of our country. We sponsored a number of international tournaments and junior events which took place in Baku. The international championships for 14 and 16-year-olds, the "PASHA Bank Cup European Tennis Tournament" and "Baku Cup," held in 2011 and 2012 and dedicated to the memory of H.Aliyev, were organised with PASHA Bank's financial support.

The "PASHA Bank Cup European Tennis Tournament" was established with the aim of promoting a healthy lifestyle among young people. It gathered 115 young sportsmen from 15 countries. Participants from Russia, Ukraine, Belarus, Georgia, Moldova, Kazakhstan, Macedonia, Bulgaria, Belgium, Turkey, Czech Republic, Luxemburg, Austria and Great Britain competed in two age groups (14 and 16). The tournaments, financed by PASHA Bank, gave students of Baku Tennis Academy the opportunity to gain experience in international tournaments.

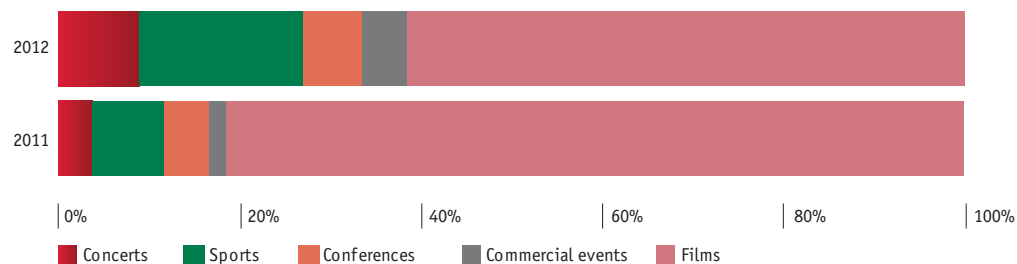
In 2012, PASHA Bank sponsored a tennis tournament from the Women's Tennis Association (WTA) series. WTA tournaments take place in different cities of the world, including Barcelona, Copenhagen, Strasburg and Seoul. Sportswomen from different parts of the world participate in these tournaments. PASHA Bank sponsored the last WTA tournament in 2012, which gave local tennis fans the opportunity to see a WTA tournament at the Baku Tennis Academy.



Culture

Culture is synonymous with civilisation; it reflects the process of the development of the nation, values and beliefs. Music is a cornerstone of national culture which knows no limits and is a powerful instrument that influences and affects people from different countries and of various ages. The success in preserving it for future generations depends on the performance – the legacy will be accepted and inherited with more enthusiasm if the young generation is involved in the process. Therefore, PASHA Bank supports cultural projects that provide the public, especially the young generation, with access to music genres, such as mugham and jazz, that were once restricted.

Commercial sponsorship, %



As a part of our corporate responsibility, we aim to contribute to preserving Azerbaijani cultural heritage for future generations. Our sponsorship projects promote Azerbaijani

culture, namely mugham, a core part of folk music. Preserving mugham helps to counteract the perceived loss of cultural identity caused by globalisation and modernisation.

Mugham music

Mugham is a complex and ancient form of music. Azerbaijan – located at the crossroads of Silk Road – was influenced by Arab, Persian and Turkish music, which eventually led to the creation of mugham. Mugham is a modal genre of music, where singing and playing are improvised based on seven basic scales. The improvisational style of mugham allows performers to express and evoke certain emotions. It is also fused with other genres of music, such as traditional songs, classical music and even jazz. In 1908, Uzeyir Hajibeyov, Azerbaijan's most famous composer, blended traditional European

opera with mugham improvisations in the opera, "Leyli and Majnun". In the 1970s, the Azerbaijani musician, Vagif Mustafazadeh, experimented by fusing mugham with improvisational jazz and gained widespread international recognition. After the collapse of the Soviet Union, modern music became popular and interest in mugham diminished. The renaissance of mugham began in 2003, when Unesco, the United Nations' cultural organisation, recognised mugham as a part of the world's "intangible cultural heritage" and granted the music a similar status to Unesco's World Heritage sites.

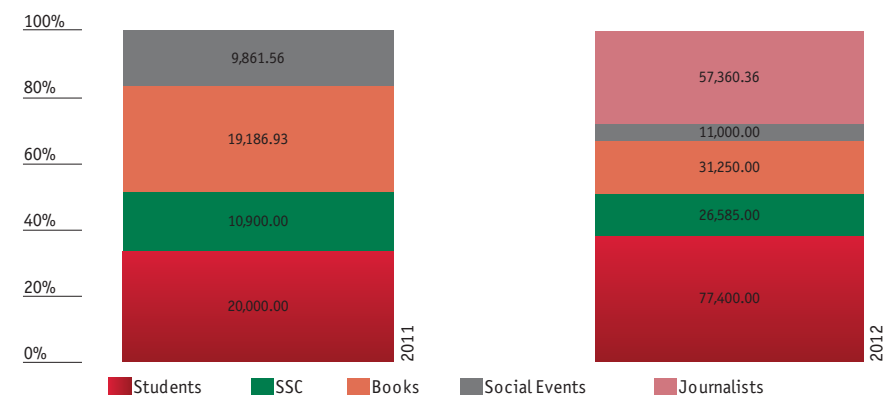
We cooperate with Buta Art Centre in the projects which are aligned with our corporate responsibility objectives in promoting cultural heritage. We supported the "Tar Concert with Aslan Novrasli" and the concerts of Nino Katamadze and Novrasli-4. At the "Tar Concert," Aslan Novrasli, the winner of numerous competitions, performed both national music pieces, as well as music by world famous composers on the tar (a long-necked lute).

Nino Katamadze, a famous Georgian jazz singer, experimented in synthesising ethno-jazz,

traditional Georgian music and even mugham and modern music at her concert. The Novrasli-4 concert was held the day before Eurovision 2012, where the Novrasli brothers - Shahin, Tarlan, Arslan and Nurlan - performed different pieces of music accompanied by the Azerbaijani Chamber Orchestra, jazz band, and artists of the pantomime theatre.

Education is crucial for securing the future of every citizen and the society as a whole. We also see our young people as the driving force behind developing a prosperous future for our country.

Social projects, %



The Best Business Case

PASHA Bank, in co-operation with the US-Educated Azerbaijani Alumni Association, organised "The Best Business Case Competition". This competition was open to students of Azerbaijan's major universities and involved

students applying their knowledge to solve real business problems. The competition has been held since 2000 and enables young people to demonstrate their potential, to develop their analytical skills and to gain practical knowledge.

When contributing to CSR programmes, we always try to closely involve the beneficiaries of the projects.

Volume of significant social investments and support of communities, AZN	2010	2011	2012
Including Commercial sponsorship (concerts, sports)	5,364.73	772,274.00	1,055,491.51
Funding for social projects (students, journalists, State Securities Committee)		59,948.49	203,595.36

Buttonwood Breakfast: Global Economics

As guided by our Strategy, we pay particular attention to international projects that showcase Azerbaijan's favourable investment climate. In 2012, our Bank, in partnership with the Economist Group, organised an international forum, "Buttonwood Breakfast: Global Economics", which was held in Baku. The event gathered experts, investors, and leaders of international companies, such as BP, Chevron, Societe Generale,

Commerzbank and Ernst & Young. Experts participating in the event shared their views on the post-crisis economic situation in the Eurozone, Asia and USA; the potential impact of various economic scenarios, and new challenges facing the global economy. The potential for investing in Azerbaijan as an emerging market that was hardly affected by the financial crisis was another key topic of focus at this event.

Entrepreneurial Education of Young Generation

Our Bank, in partnership with Junior Achievement Azerbaijan (JAA), a non-profit organisation that provides financial, business and entrepreneurship education for young students, implemented two projects focused on developing the entrepreneurial skills and financial literacy of students of Azerbaijan's universities. We also implemented the "Banks in Action" project in collaboration with Junior Achievement Azerbaijan (JAA) and the Central Bank of Azerbaijan. The projects engaged third and fourth-year students at the State Economic University in activities

which trained them in how to operate a bank in a competitive environment. Students received training on the banking industry by running a virtual bank via the computer simulation, "JA Banks in Action". Participants of the project had to make decisions which would have an impact over a three-month period. The team which ran the most profitable "Bank" was the winner of the project. The most successful participants of this project were offered an internship with the Central Bank of Azerbaijan, thus introducing students to future career opportunities.

Sustainable Enterprise Development

"PASHA Bank" OJSC and Junior Achievement Azerbaijan (JAA) implemented a joint project called "Sustainable Enterprise Development" aimed at breeding and developing the entrepreneurial skills of young people who live in Baku and Guba (a region located in the north of the country). About 60 young people aged 18-27 with a particular interest in entrepreneurial activity were shortlisted by the project and received the required training and support for establishing their own small and medium-sized enterprises. The project consulted programme participants in how to implement their business ideas and taught the young entrepreneurs how to explore distribution and sales channels, and

how to promote their products and services so that their business becomes financially sustainable. The project teaches young people to become knowledgeable consumers and responsible citizens.

"I am a PASHA Bank Scholarship Holder"

Since 2012, our Bank runs a scholarship programme in partnership with the Union of Youth Student Organisations of Azerbaijan aimed at nurturing talented and socially active students of local universities, and generating future leaders for both the private and public sectors. The project supports talented young people – students who demonstrate academic excellence, leadership potential, and are socially active. We provide

scholarships for students majoring in mathematics, economics, finance, audit and related subjects. In the selection process for the scholarship programme, preference is given to students who actively participate in student competitions, are engaged in social activities and strive for continuous development both as an individual and a professional. Our scholarship programme encourages the best students by motivating them to work harder, whilst simultaneously shaping a more socially responsible future generation. The main purpose of the scholarship programme is to develop youth awareness, and to recognise and reward talented individuals whose intellectual potential will serve the further development and achievement of the country. In 2012, we selected 12 students who received a monthly scholarship of 100 AZN throughout the year.

Essay competition

In 2011, our Bank, in partnership with the Embassy of Kingdom of Norway, held a student essay competition entitled "Corporate identity: why is the reliability of companies so important?" The winners of the contest were awarded with a 4-month summer education programme at Oslo Business College. After the success of the event, we continued this tradition by announcing a second essay competition in 2012 in partnership with The British Council with the aim of addressing the issues of economic growth, reform and development, and of encouraging young people to become more actively involved in shaping future development. The winners of the competition were awarded with the opportunity to attend a summer school at King's College London in 2012.

Supporting Media

In partnership with the British Council, we have started a three-year project for developing business journalism in Azerbaijan. The project is focused on promoting the professional abilities and skills of local mass media representatives who cover economics-related issues. As an institution providing financial services, we adhere to a transparent business policy and are keen that Azerbaijani journalists covering economics issues have the highest level of knowledge and are able to learn directly from their foreign counterparts. As part of the project, a number of specific media courses, run by professional foreign experts, were organised for the journalists. A study trip to Great Britain was also arranged for these journalists, where they had the opportunity to meet with British journalists from leading publications and media organisations to learn from their experience. The programme is implemented in cooperation with the Thomson Foundation, which is one of Europe's biggest media organisations. It empowers thousands of journalists worldwide to generate and sustain a diverse media. This programme works towards

encouraging the highest ethical and practical standards in media in over 100 countries. The main objective of the project was to create a leading group of economics journalists who are aware of European best practices and would be able to use their new-found skills to analyse economic reforms and business processes taking place in Azerbaijan in order to provide more professional information content. 11 journalists from Azerbaijan's print and electronic media, as well as from radio and television, including representatives from "AzerTaj", ANS TV, AzTV, İTV, radio "Azadlig", "Echo", 1 news, "Turan", "Trend", ANN, "Caspi", were selected to participate in this project organised jointly by PASHA Bank and the British Council.

The employees of our Bank have also established PASHA Bank Rotary Club at their own expense. We pay regular visits to orphanages under our patronage and attempt to meet their needs. The Rotary Club supports various initiatives of the orphanages by investing in promising young talent.

Independent Assurance Report on the Sustainability Report 2011-2012



To the Board of Directors and Stakeholders of OJSC PASHA Bank

Identification and description of the subject matter

At the request of OJSC PASHA Bank (hereinafter 'the Bank') we have provided a limited level assurance on the qualitative and quantitative information disclosed in the PASHA Bank's Sustainability Report 2011-2012 'Towards integrity, quality and profitability' (hereinafter 'the Report') except for forward-looking statements on performance, events or planned activities of the Bank.

Identification of the criteria

The criteria of our engagement were the GRI Sustainability Reporting Framework (hereinafter 'the GRI Framework'), including version 3.1 of the Sustainability Reporting Guidelines (hereinafter 'the GRI G3.1 Guidelines') and the Bank's sustainability reporting principles as set out in section 'About the report' on page 4 of the Report. We believe that these criteria are appropriate given the purpose of our assurance engagement.

Management's responsibilities

The management of the Bank is responsible for the preparation of the Report and the information therein in compliance with the GRI Framework and the Bank's sustainability reporting principles. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of a sustainability report that is free of material misstatements, selecting and

applying appropriate reporting principles and using measurement methods and estimates that are reasonable in the circumstances.

Our responsibilities

Our responsibility is to independently express conclusions that:

- the information in the Report is, in all material respects, a reliable and sufficient representation of sustainability policies, activities, events and performance of the Bank for the years ended December 31, 2011 and December 31, 2012;
- the Report is consistent with the principles and the requirements of 'B+' Application level of the GRI G3.1 Guidelines.

Summary of work performed

Our engagement was conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by IFAC, and accordingly included the following procedures:

- Interviews with representatives of the Bank's management responsible for its sustainability policies, activities, performance and relevant reporting,
- Analysis of key documents related to the Bank's sustainability policies, activities, performance and relevant reporting,

- Benchmarking of the Report against sustainability reports of selected international and Azerbaijani peers of the Bank,
- Review of a selection of corporate and external publications with respect to the Bank's sustainability policies, activities, events, and performance in 2011 and 2012,
- Identification of sustainability issues material for the Bank based on the procedures described above and analysis of their reflection in the Report,
- Review of data samples regarding human resources, energy, environment and sponsorship contributions for key indicators as well as data collection processes to assess whether these data have been collected, prepared, collated and reported appropriately,
- Collection on a sample basis of evidence substantiating the qualitative and quantitative information included in the Report,
- Assessment of compliance of the Report and its preparation process with the Bank's sustainability reporting principles, and
- Assessment of compliance of information and data disclosures in the Report with the requirements of 'B+' Application level of the GRI G3.1 Guidelines.

We believe that our procedures provide a basis on which we can provide limited assurance. Our evidence gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

Conclusions

Based on our work described in this report, nothing has come to our attention that causes us to believe that the information in the Report, in all material aspects does not provide reliable and sufficient representation of sustainability policies, activities, events and performance of the Bank for the years ended December 31, 2011 and December 31, 2012 in accordance with the GRI Framework and the Bank's sustainability reporting principles.

Nothing has come to our attention that causes us to believe that the Report does not meet the requirements of 'B+' Application level of the GRI G3.1 Guidelines.

Ernst & Young Holdings (CIS) B.V.

**Baku
30 August 2013**

GRI Table

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
1. Strategy and Analysis				
1.1	Statement from the most senior decision-maker of the organisation about the relevance of sustainability to the organisation and its strategy	Disclosed	Introduction by Chairman of the Supervisory Board and Chairman of the Executive Board	1-2
1.2	Description of key impacts, risks, and opportunities	Disclosed	Introduction by Chairman of the Supervisory Board and Chairman of the Executive Board 1.1 Corporate Governance, 1.2 Compliance, 2.2 Our Customers	1-2, 11-12, 19-21, 35-45
2. Organizational profile				
2.1	Name of the organisation	Disclosed	PASHA Bank in Brief (PASHA Bank, OJSC)	6
2.2	Primary brands, products and/or services	Disclosed	PASHA Bank in Brief 2.2 Our customers	6, 35-45
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	Disclosed	PASHA Bank in Brief 1.1 Corporate Governance	6, 13
2.4	Location of organisation's headquarters	Disclosed	Contact information	69
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	Disclosed	PASHA Bank in Brief	6
2.6	Nature of ownership and legal form	Disclosed	PASHA Bank in Brief	6
2.7	Markets served by the organisation	Disclosed	PASHA Bank in Brief 3.2 Contributing to economic development	6, 52
2.8	Scale of the reporting organisation	Disclosed	About the report PASHA Bank in Brief	4, 6
2.9	Significant changes during the reporting period regarding size, structure or ownership	Disclosed	PASHA Bank in Brief 1.1 Corporate Governance	6-8, 14
2.10	Awards received in the reporting period	Disclosed	PASHA Bank in Brief	6
3. Report Parameters				
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	Disclosed	About the Report	4
3.2	Date of most recent previous report (if any)	Disclosed	About the Report (this is the first sustainability report of the Bank)	4
3.3	Reporting cycle (annual, biannual, etc)	Disclosed	About the Report	4
3.4	Contact point for questions regarding the report or its contents	Disclosed	Contact information	69
3.5	Process for defining report content	Disclosed	About the Report	4
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, etc.)	Disclosed	About the Report	4
3.7	Limitations on the scope or boundary of the report	Disclosed	About the Report	4
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	Disclosed	About the Report	4
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	Disclosed	About the Report 3.1 Culture of cost-saving	4, 48-51

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	Disclosed	This is the first sustainability report of the Bank.	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Disclosed	This is the first sustainability report of the Bank.	
3.12	Table identifying the location of the Standard Disclosures in the report	Disclosed	GRI table	61-68
3.13	Policy and current practice with regard to seeking external assurance for the report	Disclosed	About the Report, Independent Assurance Report	4, 59-60
4. Governance, Commitments, and Engagement				
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	Disclosed	Our stakeholders 1.1 Corporate Governance	10, 12-18
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	Disclosed	1.1 Corporate Governance	12-15
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Not Applicable	Not applicable	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	Disclosed	PASHA Bank in Brief 1.1 Corporate Governance	6-10, 18
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	Disclosed	1.1 Corporate Governance 2.1 Our People	14, 33
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Disclosed	PASHA Bank in Brief 1.2 Compliance	6, 19-24
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics	Disclosed	PASHA Bank in Brief 1.1 Corporate Governance	6-9, 14-16
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	Disclosed	PASHA Bank in Brief	6-7
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Disclosed	PASHA Bank in Brief 1.1 Corporate Governance	6, 14-18
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	Disclosed	1.1. Corporate Governance 2.1 Our People	14-15, 32-33
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Disclosed	The Bank does not apply the precautionary principle directly to its activities. PASHA Bank in Brief, 1.2 Compliance	6-8, 19-24

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Disclosed	During the reporting period the Bank did not subscribe or endorse to externally developed economic, environmental, and social charters, principles, or other initiatives.	
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations	Disclosed	During the reporting period the Bank was not a member of any associations (such as industry associations) and/or national/international advocacy organisations.	
4.14	List of stakeholder groups engaged by the organisation	Disclosed	Our stakeholders	10
4.15	Basis for identification and selection of stakeholders with whom to engage	Disclosed	Our stakeholders	10
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Disclosed	Our stakeholders 2.1 Our people 3.2 Contributing to economic development	10, 34-35, 41, 53
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	Disclosed	PASHA Bank in Brief 1.1 Corporate governance, 2.1 Our people, 2.2 Our customers, 3.2 Contributing to economic development	6, 11-12, 41-42, 52-53
FS: Financial Services Sector Supplement				
	Management Approach	Disclosed	PASHA Bank in Brief 3.2 Contributing to economic development	6-10, 52
FS1	Policies with specific environmental and social components applied to business lines	Partially	2.2 Our Customers	38-39
FS2	Procedures for assessing and screening environmental and social risks in business lines	Partially	2.2 Our Customers	39
FS3	Processes for monitoring clients' implementation of and compliance with environmental and social requirements included in agreements or transactions	Partially	2.2 Our Customers	38-40
FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/SME/large) and by sector	Disclosed	Annual Report 2011, Financial Statements 2012 (http://www.pashabank.az/static/31/lang/en/) 2.2 Our customers	35-37, 40
FS14	Initiatives to improve access to financial services for disadvantaged people	Partially disclosed	2.2. Our Customers	44
FS15	Policies for the fair design and sale of financial products and services	Partially	PASHA Bank in Brief 1.1 Corporate Governance 2.2 Our Customers	6-7, 11-12, 35-45
FS16	Initiatives to enhance financial literacy by type of beneficiary	Disclosed	3.2 Contributing to economic development	52-54

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
EC: Economic Performance Indicators				
	Management approach	Disclosed	PASHA Bank in Brief 1.1 Corporate Governance 3.2 Contributing to economic development	6-8, 11-12, 19-20, 52-53
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Disclosed	PASHA Bank in Brief 3.2 Contributing to economic development	6, 8, 52-53
EC4	Significant financial assistance received from government	Disclosed	During the reporting period the Bank did not receive any significant financial assistance received from government.	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	Partially	3.1 Culture of cost-saving	51
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Disclosed	2.1 Our People	27-29
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Disclosed	3.2 Contributing to economic development	52-58
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	Partially	PASHA Bank in Brief 3.2 Contributing to economic development	6-8, 52-58
EN: Environmental Performance Indicators				
	Management approach	Disclosed	3.1 Culture of cost-saving	47-48
EN1	Materials used by weight or volume	Disclosed	3.1 Culture of cost-saving	48-51
EN2	Percentage of materials used that are recycled input materials	Disclosed	The Bank does not use materials that are recycled input materials.	
EN3	Direct energy consumption by primary energy source	Disclosed	3.1 Culture of cost-saving	48-50
EN4	Indirect energy consumption by primary source	Disclosed	3.1 Culture of cost-saving	48-50
EN5	Energy saved due to conservation and efficiency improvements	Disclosed	3.1 Culture of cost-saving	48-49
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Disclosed	3.1 Culture of cost-saving	48-51
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Not Applicable	The Bank's offices reside in urban location thus this indicator is non-material.	
EN16	Total direct and indirect greenhouse gas emissions by weight	Disclosed	3.1 Culture of cost-saving	49-50
EN17	Other relevant indirect greenhouse gas emissions by weight	Disclosed	3.1 Culture of cost-saving	49-50
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	Partially	3.1 Culture of cost-saving	49
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	Disclosed	3.1 Culture of cost-saving	48-50

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Disclosed	During the reporting period no significant fined for non-compliance with environmental laws and regulations were received by the Bank.	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	Disclosed	3.1 Culture of cost-saving	50
LA: Labor Practices and Decent Work Performance Indicators				
	Management Approach	Disclosed	Our stakeholders 2.1 Our People	10, 26-35
LA1	Total workforce by employment type, employment contract and region	Disclosed	2.1 Our People	26-27
LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Disclosed	2.1 Our People	28
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Disclosed	2.1 Our People	29-35
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Disclosed	Notification of workers about significant changes is carried out with respect to internal regulations of the Bank and national regulations.	
LA10	Average hours of training per year per employee by employee category	Disclosed	2.1 Our People	30-31
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Disclosed	2.1 Our People	30-33
LA12	Percentage of employees receiving regular performance and career development reviews	Disclosed	2.1 Our people	32-33
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Disclosed	1.1 Corporate Governance 2.1 Our People	14-16, 28-29
LA14	Ratio of basic salary of men to women by employee category	Disclosed	2.1 Our People	33
HR: Human Rights Performance Indicators				
	Management Approach	Disclosed	2.1 Our People	25-26, 30
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Disclosed	No such trainings were carried out by the Bank.	
HR4	Total number of incidents of discrimination and actions taken	Disclosed	During the reporting period the Bank did not identify any incidents of discrimination with respect to race, gender and age.	

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	Disclosed	The Bank did not perform any activities that would be subject to significant risk for the right to exercise freedom of association and collective bargaining.	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour	Disclosed	The Bank did not perform any activities that would be subject to significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour	Disclosed	The Bank did not perform any activities that would be subject to significant risks for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour .	
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	Disclosed	No such trainings were carried out by the Bank.	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	Disclosed	During the reporting period the Bank did not carry out any activities, which would be associated with significant risks of violations involving rights of indigenous people.	
S0: Society Performance Indicators				
	Management Approach	Disclosed	1.2 Compliance 2.2 Our Customers	19-24, 35, 41-42
S02	Percentage and total number of business units analysed for risks related to corruption	Partially	1.2 Compliance	19-24
S03	Percentage of employees trained in organisation's anti-corruption policies and procedures	Disclosed	1.2 Compliance	19-24
S04	Actions taken in response to incidents of corruption	Disclosed	During the reporting period the Bank did not identify any incidents of corruption or participated in any lawsuits related to the matter.	

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
S05	Public policy positions and participation in public policy development and lobbying	Disclosed	1.1 Corporate Governance During the reporting period the Bank did not express any public policy positions and did not participate in public policy development and lobbying.	12-18
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	Disclosed	During the reporting period the Bank did not provide any financial and in-kind contributions to political parties, politicians, and related institutions by country.	
S07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Disclosed	During the reporting period the Bank did not identify any legal actions for anti-competitive behaviour, anti-trust, and monopoly practices or participated in any lawsuits related to the matter.	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Disclosed	During the reporting period the Bank did not receive any fines. The Bank complied with all applicable laws and regulations.	
PR: Product Responsibility Performance Indicators				
	Management Approach	Disclosed	Introduction by Chairman of the Supervisory Board and Chairman of the Executive Board PASHA Bank in Brief How we understand sustainability	1-2, 9
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	Disclosed	During the reporting period the Bank did not identify any incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Disclosed	2.2. Our Customers	41-43
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Disclosed	The Bank adheres to all marketing, advertising and promotional laws in the countries where it operates.	

№	GRI indicator	Disclosure	References of the Report / Comments and additional information / References to other sources	Pages
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	Disclosed	During the reporting period the Bank observed no incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship.	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Disclosed	During the reporting period the Bank did not receive any substantiated complaints regarding breaches of customer privacy and losses of customer data.	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Disclosed	During the reporting period the Bank did not receive any fines for non-compliance with laws and regulations concerning the provision and use of products and services.	



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