



Annual Report 2017



Leila Mamedbekova

The Azerbaijani pilot, the first female pilot in the Caucasus, as well as throughout Southern Europe and the Near East. Founded a school of paratroopers, where about 4 thousand paratroopers and hundreds of pilots were graduated during the war.

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The background of the page is a watercolor-style wash. It features large, soft-edged areas of light green and pale pinkish-red, with some darker, more saturated patches of the same colors. The overall effect is a textured, painterly background.

GENERAL INFORMATION

ABOUT PASHA BANK

PASHA Bank is a leading investment and corporate bank in Azerbaijan. Established in 2007, it provides a range of corporate banking services – lending, transaction banking, capital markets services and financial advisory – to both domestic clients and foreign companies looking to do business in the region.

The Bank offers an array of financial products backed by trade finance-related partnerships with international banks and financial institutions. The Bank also provides underwriting services to legal entities and is the first in the local securities market to act as a market maker. PASHA Bank has delivered private banking services to HNWIs since 2011, including deposits, loans and financial planning.

PASHA Bank's authorized capital amounts to AZN 333 million, which makes it the most capitalized privately-owned bank in Azerbaijan. PASHA Bank employs about 600 personnel at its headquarters, five branches in Baku and two regional branch locations in the cities of Ganja and Zaqatala. In February 2013, the Bank opened its first subsidiary bank – PASHA Bank Georgia. In December 2014, the Turkish regulatory authority granted PASHA Bank permission to start operations in Turkey. From March 2015, the Bank has been operating in Turkey with the trade name PASHA Yatırım Bankası A.Ş.

In August 2017, Fitch Ratings affirmed PASHA Bank's long-term foreign currency Issuer Default Rating (IDR) as 'B+' and short-term IDR as 'B'. In January 2018, the international rating agency Standard & Poor's reaffirmed the long-term counterparty credit rating of PASHA Bank as 'BB-'. PASHA Bank also retained its 'B' short-term counterparty credit rating. These ratings are among the highest of all privately-owned banks in Azerbaijan with 100% local capital.

PASHA Bank was named "Best Investment Bank in Azerbaijan" in 2011, 2012 and 2013 by EMEA Finance, the international financial journal. In addition, PASHA Bank was named "Best Commercial Bank in Azerbaijan," "Best Banking Group in Azerbaijan" and "Best Private Bank in Azerbaijan" in 2014 by World Finance Magazine. PASHA Bank also received the "Best Bank in Azerbaijan" designation in 2016 from Global Finance Magazine. EMEA Finance presented PASHA Bank with the "Best Bank in Azerbaijan," "Best Investment Bank in Azerbaijan" and "Corporate Social Responsibility in CEE & CIS" awards at the Europe Banking Awards 2016. In 2017, PASHA Bank was named "Best Bank in Azerbaijan" by Euromoney financial magazine. Additionally, PASHA Bank was deemed the "Best Bank in Azerbaijan" in 2017 by Global Finance Magazine.

PASHA Bank is part of PASHA Group, a major investment holding group in Azerbaijan. The Group includes significant assets in insurance, real estate development, construction, tourism and other businesses. Kapital Bank, one of the largest retail banks in Azerbaijan, is also owned by PASHA Group.

The Bank is committed to establishing and developing long-term, supportive relationships with its growing customer base. It aims to deliver banking services at the highest international levels of transparency and service built on five core values: Integrity, Quality, Collaboration, Entrepreneurship and Profitability.

Shareholding Structure

PASHA Holding Ltd. (60%)
Ador Ltd. (30%)
Arif Pashayev (10%)



Shovket Mamedova

The first Azerbaijani opera singer, teacher, musician. In 1923, Shovket Mammadova founded the first theater technical school in Azerbaijan (now the Azerbaijan State University of Culture and Arts), where she was the director in 1923-1925, and at the same time she was the head of the republican musical publishing house organized by her in 1924.

ABOUT PASHA HOLDING

TOTAL ASSETS:	USD 4.8 billion
TOTAL EQUITY:	USD 1 billion
EMPLOYEES:	4,200+

PASHA Holding has two types of investment assets: Controlling stakes in PASHA Group companies and minority private equity investments.

Established in 2006, PASHA Holding LLC has built its business on the solid foundation of effective management, strong corporate governance and prudent investment decisions.

Via its subsidiaries, PASHA Holding invests in the banking, insurance, construction, real estate development and tourism sectors – key pillars of the developing Azerbaijani economy.

As of 31 December 2017, PASHA Holding reported total assets of about USD 4.8 billion, and total equity of USD 1 billion (based on audited IFRS financial statements and an exchange rate of USD/AZN 1.7001). The Group operates in three countries – Azerbaijan, Georgia and Turkey – and has more than 4,200 employees.





PASHA Insurance is the first member of PASHA Holding, incorporated in early 2006. The company is the largest insurance services provider in Azerbaijan. PASHA Insurance reported gross written premium (GWP) of USD 62 million as of 31 December 2017 (based on audited IFRS financial statements and an average exchange rate of USD/AZN 1.7205).



The life insurance business line was added to PASHA Insurance's existing offerings in 2010 and incorporated as a separate legal entity - PASHA Life. PASHA Life is the leading life insurance provider in Azerbaijan with a gross written premium of USD 88 million as of 31 December 2017 (based on audited IFRS financial statements and an average exchange rate of USD/AZN 1.7205).



PASHA Travel, founded in 2003, provides a wide range of travel and hospitality services to corporate and retail customers. Today, PASHA Travel is one of the most widely-recognized and well-respected corporate travel agencies in Azerbaijan.



PASHA Investments is a captive private equity firm with a focus on growth equity-type investments. The company has a total commitment from PASHA Holding amounting to USD 94 million. Initially, the entity launched as the Investments and Projects Department (IPD) of PASHA Holding. In January 2018, IPD was spun-off from PASHA Holding into a separate legal entity, PASHA Investments LLC. The company's immediate parent is PASHA Holding LLC.



PASHA Investments is a captive private equity firm with a focus on growth equity-type investments and with total commitment from PASHA Holding amounting to USD 94 million. Initially the entity launched its business as the Investments and Projects Department (IPD) of PASHA Holding. In January 2018, IPD was spun-off from PASHA Holding into a separate legal entity, PASHA Investments LLC. The Company's immediate parent company is PASHA Holding LLC.



PASHA Construction is one of the largest businesses in its sector in Azerbaijan. The company posted total revenue of USD 168 million as of 31 December 2017 (based on audited IFRS financial statements and an average exchange rate of USD/AZN 1.7205). At year-end 2016, the company's completed project portfolio totaled 1,180,000 m², with an additional 830,000 m² currently underway. These projects include retail, residential, office space, hotels and large -scale mixed-use properties. Successfully completed projects include Absheron JW Marriott Hotel & Residences, Four Seasons Hotel, Port Baku Towers, Shuvelan Shopping Center, Nizami Residence, Baku Business Center and Chinar Restaurant.



Kapital Bank is a universal bank providing a wide range of banking services both to corporate and individual clients, with a focus on the retail side. Kapital Bank boasts the most extensive branch network in Azerbaijan. The bank is rated 'BB-' by Standard & Poor's Ratings (as of July 2016) and 'Ba3' by Moody's Investors (as of July 2017).

AWARDS

Since its founding, PASHA Bank and its subsidiaries have received numerous awards and accolades from prestigious international and domestic platforms.

2017

“Best Bank in Azerbaijan” – Euromoney
 “Best Bank in Azerbaijan” – EMEA Finance
 “Best Investment Bank in Azerbaijan” – EMEA Finance
 “Corporate Social Responsibility in CEE & CIS” – EMEA Finance
 “Best Bank in Azerbaijan” – Global Finance Magazine

2016

“Best Bank in Azerbaijan” – Global Finance
 “Best Banking Group in Azerbaijan” – World Finance
 “Best Commercial Bank in Azerbaijan” – World Finance

2015

“Best Banking Group in Azerbaijan” – World Finance
 “Best Private Bank in Azerbaijan” – World Finance
 “Best Commercial Bank in Azerbaijan” – World Finance
 “Best Bank in Azerbaijan” – World Finance
 “Best Bank in Azerbaijan” – EMEA Finance
 “Participant of the Year” – Azerbaijan Microfinance Association (AMFA)
 “Leading Company Promoting Gender Equality” – Azerbaijan Microfinance Association

2014

“Best Bank in Azerbaijan” – EMEA Finance
 “Best Bank in Azerbaijan” – International Finance Magazine
 “Best Investment Bank in Azerbaijan” – International Finance Magazine
 “Best SME Bank” – International Finance Magazine
 “Best Investment Bank in Azerbaijan” – EMEA Finance
 “Best Private Bank” – World Finance (PASHA Bank Georgia)
 “Bank of the Year” – Caspian Energy Forum (PASHA Capital)
 “Best Broker in Azerbaijan” – EMEA Finance

2012

“Best Investment Bank in Azerbaijan” – EMEA Finance
 “Best Bank in Azerbaijan” – BNE Survey
 “Best Corporate Social Responsibility (CSR) Program in Europe” – Europe Banking Awards

2011

“Best Investment Bank in Azerbaijan” – EMEA Finance

VISION, MISSION, VALUES AND STRATEGIC GOALS

Our Vision

Our vision is to be a leading Azerbaijani bank committed to the highest ethical standards with an indisputable business reputation, high quality services and financial strength.

Our Mission

Contributing to the growth of our customers by delivering high quality products and services tailored to meet their needs

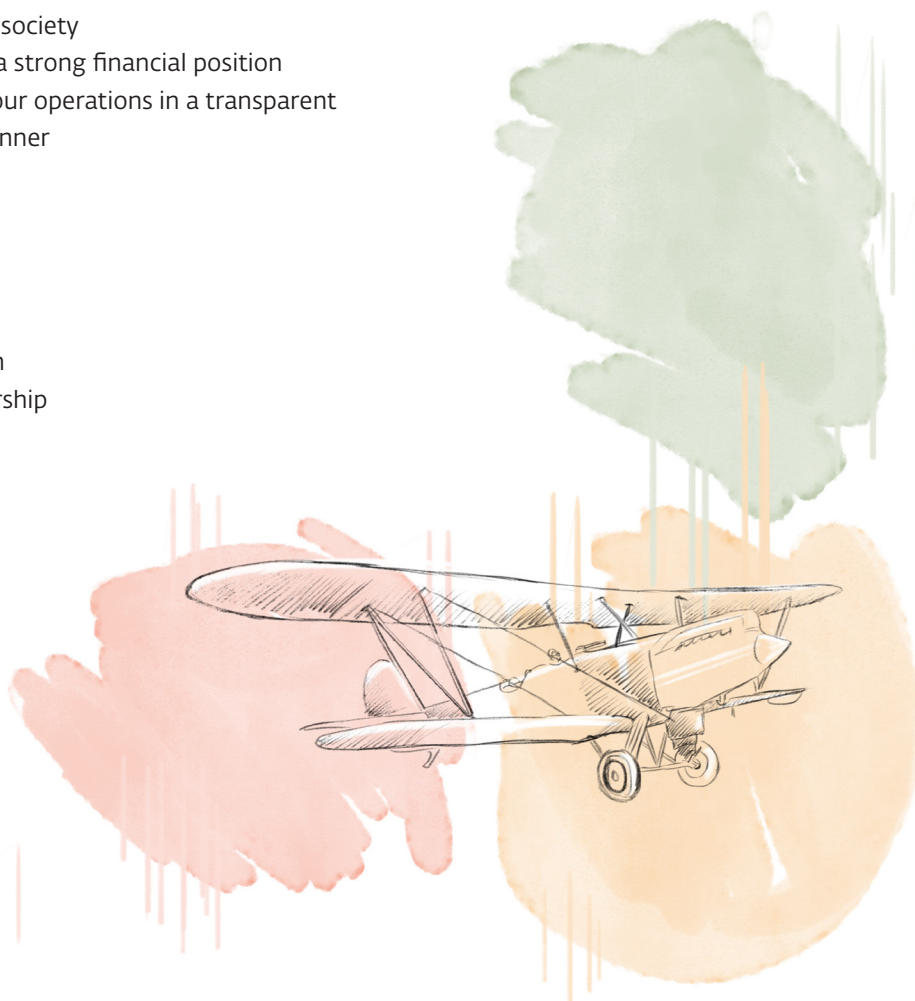
- Employing, training and cultivating highly competent and dedicated personnel
- Boosting the welfare and cultural development of society
- Maintaining a strong financial position
- Conducting our operations in a transparent and prudent manner

Our Values

- Integrity
- Quality
- Collaboration
- Entrepreneurship
- Profitability

Our Strategic Goals

- Enhancing our capital and organizational efficiency
- Strengthening core capabilities
- Expanding PASHA Bank's market position
- Bolstering our customer service
- Creating synergies with the Group



FINANCIAL AND OPERATIONAL INDICATORS

Key Financial Highlights (consolidated, AZN million)

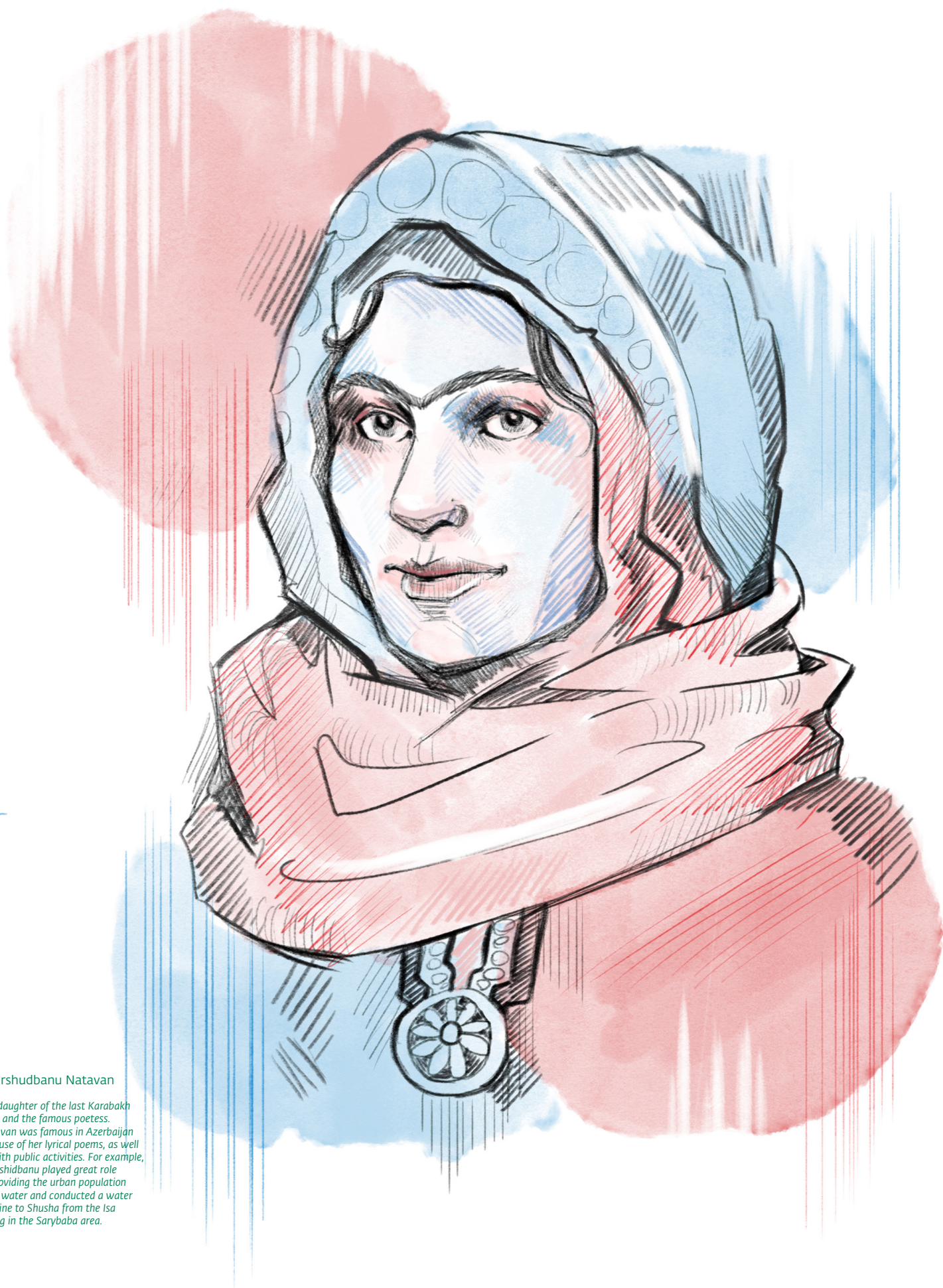
	2015	2016	2017
Total Assets	2,292.7	3,289.8	3,958.4
Loans (net)	902.2	1,107.3	1,350.7
Deposits	1,374.1	2,350.7	2,890.0
Customer Time Deposits	472.9	1,352.3	1,033.4
Customer Current Accounts	901.2	998.9	1,856.6
Shareholders' Equity	432.4	487.3	499.1
Interest Income	100.3	157.5	231.1
Fee & Commission Income	12.7	20.7	24.8
Operating Profit	116.3	186.5	194.3
Total Operating Expenses	47.4	75.5	82.3
Net Profit	14.4	69.3	89.1

Key Financial Ratios (%)

	2015	2016	2017
Loans/Total Assets	39.4	33.7	34.1
Loans/Deposits	65.7	47.1	46.7
NPL Ratio	3.82	8.25	7.23
Demand Deposits/ Total Deposits	65.6	42.5	64.2
Shareholders' Equity/ Total Liabilities	23.2	17.3	14.4
Capital Adequacy Ratio	17	20	15

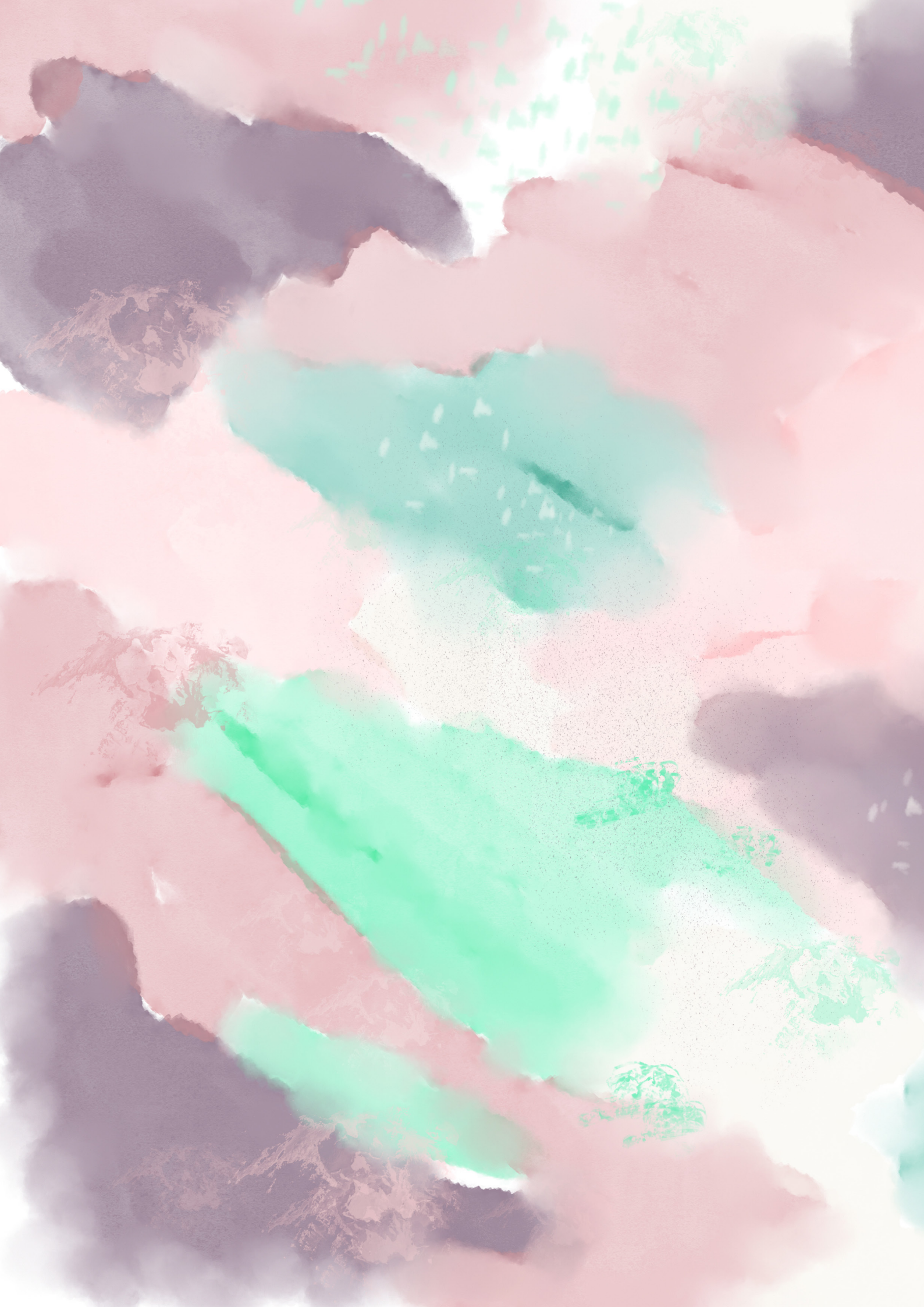
Operational Highlights (PASHA Bank Azerbaijan)

	2015	2016	2017
Number of Personnel	414	475	608
Percentage of Women Employees (%)	39.8	39.5	42
Number of Branches	10	7	7
Number of ATMs	30	35	44



Khurshidbanu Natavan

The daughter of the last Karabakh khan and the famous poetess. Natavan was famous in Azerbaijan because of her lyrical poems, as well as with public activities. For example, Khurshidbanu played great role in providing the urban population with water and conducted a water pipeline to Shusha from the Isa spring in the Sarybaba area.



The background is an abstract watercolor composition. It features large, soft-edged washes of color. A prominent light pink wash covers much of the right and bottom areas. A vibrant green wash is concentrated in the upper and lower-left quadrants. There are also smaller, darker purple and blue washes scattered throughout, particularly in the top-left and bottom-right corners. The overall effect is ethereal and artistic.

MANAGEMENT

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

Dear Colleagues, Customers and Stakeholders,

A cyclical recovery is currently underway in the global economy; investment, manufacturing activity and trade are rebounding worldwide. Global GDP growth is estimated to have picked up from 2.4% in 2016 to 3% in 2017. Advanced economies are forecasted to have expanded 2.3% in 2017. Meanwhile, economic growth in emerging markets is expected to have jumped to 4.3% for the year, reflecting a stabilized performance among commodity exporters and ongoing solid growth among commodity importers.

Azerbaijan's economy also stabilized in 2017, recording GDP growth of 0.1% for the year. The oil/gas segment of the economy declined 5.3%, while non-oil GDP increased 2.7%. External domestic demand contributed to positive growth during the year. In addition, government spending climbed 11% in 2017, including a double digit rise in capital expenditures.

The currency stabilized after a period of volatility and the economy started to rebound thanks to major reforms under the Strategic Road Map implementation. The Strategic Roadmap, formulated to further develop the financial services industry in Azerbaijan, comprised short-medium- and long-term action plans. These included consolidating financial institutions in order to solve the problems of liquidity and capitalization and establishing a new infrastructure (e.g. Credit Bureaus) in the Azerbaijani banking sector in 2017.

However, banking assets still fell 11.2% year-on-year, from AZN 31.4 billion to AZN 27.9 billion. This decline can be explained by negative factors affecting the domestic banking industry during the year, such as banking license revocations,

voluntary debt restructurings, among others. As a result, the total loan portfolio of the Azerbaijani banking system contracted 22% during the year, decreasing from AZN 16.4 billion in 2016 to AZN 11.8 billion in 2017.

Meanwhile, non-performing loans increased 10.5% year-on-year, from AZN 1,472.6 million to AZN 1,626.7 million, accounting for 13.8% of total loans in 2017. The corporate lending portfolio decreased 34.7% from a year earlier, from AZN 10.1 billion to AZN 6.6 billion. In comparison, the individual loan portfolio declined 18.6% year-on-year, from AZN 6.33 billion to AZN 5.15 billion.

In 2017, total deposits decreased 6.8%, falling from AZN 22.09 billion to AZN 20.60 billion. During the year, FX deposits decreased by 10.3% from AZN 16.6 billion to AZN 14.9 billion, while AZN deposits increased by 4.2% from AZN 5.5 billion to 5.7 billion. However, corporate deposits increased 21.8% and household deposits ticked up 1.5% in December 2017, year-on-year. Deposits from financial institutions fell 65%, to around AZN 1.9 billion.

Despite this very challenging period for Azerbaijan's banking industry, PASHA Bank demonstrated a solid performance in 2017. We made real progress during the year toward becoming a modern, customer-focused multi-channel bank and digitalizing our internal business processes. This was a result of our strategic focus on corporate governance, customer centricity and continuous improvement of business processes.

PASHA Bank recorded asset and profit growth while the domestic banking sector experienced shrinking investment portfolios and loss of profitability in 2017. The Bank's operating profit increased 4% to AZN 194 million (2016:

AZN 186 million) while net profit grew 29% to AZN 89 million (2016: AZN 69 million). Our asset base expanded 20% to AZN 3,958 million and loans to customers rose 21% to AZN 1,414 million (2016: AZN million 1,170). Customer deposits increased 23%, from AZN 2,351 million in 2016 to AZN 2,890 million in 2017.

PASHA Bank remains focused on delivering innovative products and services to its corporate clients in the large and commercial segments as well as to SMEs. Our unique relationship management model and customized products and services are designed to serve the interests of customers across these segments. This is the heart of PASHA Bank's strategic positioning in the domestic market.

In 2017, PASHA Bank proudly achieved major milestones while recording numerous "firsts" in Azerbaijan's banking industry.

Joining the ranks of the world's top tier financial institutions, PASHA Bank deployed the Oracle FLEXCUBE financial platform during the year. In use at most A-class banks worldwide, the platform allows us to manage evolving customer expectations more effectively. This new platform facilitated the Bank in designing a new online banking system with better equipped and more customer-centric tools and services. As a result of this effort, the usage ratio of Internet Banking maintained an upward trajectory; by year's end, 86% of all customer operations were processed through online banking.

PASHA Bank also further enhanced its competitive position when we introduced a B2B platform for our large and commercial clients – including Coca-Cola Azerbaijan, Azercell and SOCAR. The system allowed integration of clients' ERP systems with that of the Bank,

which resulted in drastic improvement of the speed of clients' transactions. PASHA Bank was the first bank in the country to launch such an advanced technology platform.

Established just three years ago, our Investment Banking Department recorded major firsts in 2017 as it continued to carve out a niche in a challenging market environment. During the year, the Department executed the first ever syndication deal in the local market. The Department syndicated and structured a USD 13.5 million two-year term loan facility at 7% for Anglo Asian Mining plc to refinance the majority of its existing debt, releasing USD 8.4 million of capital to accelerate 2018 expansion and optimization plans. PASHA Bank Investment Banking acted as a mandated lead arranger and structured the facility in a syndicate with one local and one foreign bank. In 2017, the Investment Banking Department executed the first ever USD 25 million Eurobond placement in the Azerbaijani securities market. The bond has a five-year maturity with a 4.85% coupon rate. This transaction was a private placement with domestic institutional investors primarily. However, we are currently working with PASHA Capital to transfer the Eurobond to the local bond market to be publicly traded. In addition, our Investment Banking Department intermediated the first repo deal between non-banking financial organizations in 2017. This groundbreaking deal was worth nearly USD 1 million with a 30-day maturity. PASHA Bank plans to continue leading the industry with additional "firsts" in the coming year.

Despite the macroeconomic challenges in 2017, PASHA Bank maintained its creditworthiness, which was recognized by international ratings agencies. In August 2017, Fitch Ratings affirmed PASHA Bank's long-term foreign currency Issuer Default Rating (IDR)



as 'B+' and short-term IDR as 'B', with a stable outlook. In January 2018, the international rating agency Standard & Poor's affirmed the long-term counterparty credit rating of PASHA Bank as 'BB-'. PASHA Bank also retained its 'B' short-term counterparty credit rating. These ratings are among the highest of all private banks in Azerbaijan with 100% local capital.

Our achievements in the domestic market also attracted significant attention abroad. PASHA Bank garnered the "Best Bank in Azerbaijan" award from Euromoney financial magazine in 2017. In addition, EMEA Finance awarded PASHA Bank with the "Best Bank in Azerbaijan," "Best Investment Bank in Azerbaijan" and "Corporate Social Responsibility in CEE & CIS" designations at the Europe Banking Awards. Furthermore, PASHA Bank was named the "Best Bank in Azerbaijan in 2017" by Global Finance Magazine.

One key competitive differentiator of PASHA Bank is our commitment to further developing new digital products and services based on our digital strategy. The Bank uses the design-thinking methodology to develop its product and service portfolio. This approach provides important information on customer needs and preferences, which is used in the design of products and processes.

In 2017, PASHA Bank formulated its digital strategy in the coming three-year period, from 2018 to 2020. Under our 2020 Strategy, the Bank will focus on operating its core businesses and digitalizing its most relevant business processes. This approach will help PASHA Bank achieve significant efficiency gains and boost its profitability on a sustainable basis by year-end 2020.

To this end, we developed a holistic digital business model in 2017. This commitment to digitalization will bolster the Bank's appeal to all customers with strong digital offerings. We strongly believe that new digital products and services will make PASHA Bank more attractive to new customers and increase the loyalty of existing ones.

Looking to the year ahead, we see Azerbaijan's economy starting to percolate more, with growth upwards of 2% according to IMF forecasts. Large-scale reforms across the financial and real sectors coupled with stronger GDP growth might improve the domestic banking industry in 2018. We expect banks to embrace digital transformation as a business priority in the coming year.

For us, investment in technology will help drive efficiency, manage evolving risks and allow us to benefit from growth opportunities, all of which will be critical for sustainable success in 2018. Against this backdrop, PASHA Bank targets sustainable growth of 24% in loans and 19% in deposits in the coming year.

At PASHA Bank, customers remain our number one priority. We continuously ensure that our future digital services and solutions will be designed with customer comfort, ease of use and convenience at the center. As always, our goal is to deliver the highest customer satisfaction in every facet of our operations.

Thanks to our innovative and customer-oriented approach, PASHA Bank continues to lead Azerbaijan's financial industry, as we have since our founding. We understand that customers need a strong partner, especially during challenging times. From day one, we have always stood by our customers, whether they

face adversity or want to expand and grow. The positive feedback we continue to receive and our solid year-end results indicate we are on the right path.

We would like to express our gratitude to our loyal customers, dedicated employees, valued shareholders and other stakeholders for their ongoing support and the respective parts they play in PASHA Bank's ongoing success. May we all achieve even greater successes in the future – together.

Respectfully yours,

Mir Jamal Pashayev
Chairman of the Supervisory Board

Taleh Kazimov
Chairman of the Executive Board

PASHA BANK MANAGEMENT

Supervisory Board

Mir Jamal Pashayev Chairman of the Supervisory Board

Mir Jamal Pashayev graduated from Moscow State University, Physics Department in 1993. He went on to obtain his Master of Science in Engineering from the University of California in 1996, followed by a Master of Business Administration from American University in Washington, DC in 1998. He joined Mobil Corporation as a business project consultant to the company's Dallas and Washington offices in 1998. He arrived in Baku in 1999, where he assumed the position of consultant to the Central Bank of Azerbaijan. In 2000, Mir Jamal Pashayev joined the European Bank for Reconstruction and Development (EBRD) as financial analyst and was soon promoted to the position of banker on infrastructure projects. From 2005 to 2008, he was engaged in consulting activities for large-scale investment projects in the areas of infrastructure, telecommunications and financial services. Mir Jamal Pashayev has been the Managing Director at PASHA Holding since 2006. He is also the Chairman of the Board of Directors of PASHA Insurance.

Farid Akhundov Member of the Supervisory Board

Farid Akhundov graduated from the Institute of Economics of Azerbaijan in 1992. He also completed Management coursework at Nottingham Trent University. In 1994, Farid Akhundov was one of the first Azerbaijani citizens to win the Chevening Scholarship – a prestigious UK Government award administered by the British Foreign and Commonwealth Office. In 1995, he obtained an MBA degree from Salford University, Manchester, UK. He began his professional career in 1991 as an economist at a metal

manufacturing facility. After a year, he moved on to the Azerbaijan Republic State Committee on Economics and Planning as a senior economist responsible for foreign economic relations. From 1996 to 2003, Farid Akhundov held several key positions at the British Bank of the Middle East (subsidiary of HSBC). There, he moved from the position of financial control manager to the head of the customer services and corporate banking departments; subsequently, he was promoted to Deputy CEO of HSBC Azerbaijan. In 2003, Farid Akhundov joined Most Bank Azerbaijan as the Chairman of the Executive Board where he had overseen the restructuring and rebranding of Most Bank Azerbaijan to Bank Standard JSC – one of the largest commercial banks in the country at that time. Farid Akhundov joined PASHA Bank in 2007 as Chairman of the Executive Board and was appointed to the Supervisory Board on 1 July 2015.

Vadim Shneyer Member of the Supervisory Board

Vadim Shneyer graduated from Baku State University, Department of Law with an Honors Diploma in Law in 1991. From 1991 to 1997, he worked as an attorney in different Azerbaijani and foreign companies, including Baku Interbank Currency Exchange and Far East Livingston Shipbuilding. Between 1997 and 2001, Vadim Shneyer was a Managing Partner in the Baku office of Dr. Entezari & Associates law firm. In 2001, he joined the Almaty office of Michael Wilson & Partners law firm, working there until 2005. In 2005, he joined BM Law Firm Baku office, where he worked until 2007. In 2007, Vadim Shneyer started work at PASHA Holding LLC as Head of the Legal Department; in 2011, he was appointed Deputy Director of PASHA Holding LLC. From 2008 to 2013, Vadim Shneyer

was Chairman of the Supervisory Council of Kapital Bank OJSC.

Kamala Nuriyeva
Member of Supervisory Board

Kamala Nuriyeva graduated from Western University with a Bachelor's degree in Banking Management in 1998. She went on to earn a Master in Finance from Azerbaijan State Economic University in 2002. In 1996, Kamala Nuriyeva commenced her professional career at Postbank OJSC as IT Specialist. During her seven-year tenure there, she rose to the Head of Credit Department. In 2003, she joined Agricultural Rural Investment Fund, established under the TACIS program, for development of the agricultural industry in regions of Azerbaijan, working as Loan Officer responsible for customer acquisition, loan origination and management. In the same year, she moved to Unibank OJSC for the position of Treasury Control, where she was responsible for currency and market risk management. From 2004 to 2005, Kamala Nuriyeva worked at McDermott Caspian Contractors Inc. as Cost Controller on the project of fabrication and installation of Central Azeri Offshore Platforms. In 2005, she joined Bank of Baku OJSC where she served as Deputy Chief Accountant until 2007. In that position, Kamala Nuriyeva was responsible for accounting activities and management reporting. In 2007, she started work at PASHA Bank as Internal Auditor; in 2010, she headed the Risk Management Department. In 2011, Kamala Nuriyeva moved to PASHA Holding as Group Internal Auditor; she was also appointed to the position of Chairman of PASHA Bank's Audit Committee. In 2013, she was appointed Head of Group Risk Management at PASHA Holding. On 11 June 2013, Kamala Nuriyeva became a Member of the Supervisory Board of PASHA Bank OJSC.

Nariman Sardarli
Member of Supervisory Board

Nariman Sardarli graduated from Brooklyn College – City University of New York with a Bachelor's degree in Business, Management and Finance in 2004. The same year, he commenced his professional career as Audit Associate at Deloitte Azerbaijan. In 2005, Nariman Sardarli joined PwC Baku office as Auditor. In 2007, he joined the newly established PASHA Bank as MIS Expert in the Financial Management Department with responsibility for internal and external financial reports. In 2009, Nariman Sardarli moved over to PASHA Holding where he joined the Investments and Projects Department as Investment Manager responsible for developing the Holding's PE/VC financing vehicle. In March 2009, he was appointed Chairman of the Audit Committee at PASHA Bank; in 2010, he was appointed member of PASHA Bank's Supervisory Board. In 2012, Nariman Sardarli received a scholarship from the State Program to obtain his MBA from IE Business School (Spain). There, he participated in an exchange program with Kellogg School of Management at Northwestern University (USA). On 1 February 2015, Nariman Sardarli was appointed Director of the Investments and Projects Department at PASHA Holding.

Executive Board

Taleh Kazimov
CEO and Chairman of the Executive Board

Taleh Kazimov joined PASHA Bank in 2007 as Risk Manager and was subsequently promoted to Treasury Director in 2009. In 2011, Mr. Kazimov was appointed Chief Investment Officer of the Bank and member of the Executive Board. He started his

career in the financial sector in 2004 at CJSC Bank Standard as Specialist in the Treasury Department. Later, he was promoted to Head of the Accounting, Budget Management and Planning Division and further to Deputy Director of the Corporate Credits Department. In 2006, Taleh Kazimov joined EY as Auditor; from 2007, he worked as General Director at "FinEco" Informational Analytical Agency. Taleh Kazimov attended Azerbaijan Technical University from 2000 to 2004, where he majored in Automation and Computer Engineering. Mr. Kazimov also holds an MBA from Azerbaijan State Oil Academy and a Business degree with a major in Finance from Georgia State University. He is an alumnus of London Business School and Harvard Business School.

Javid Gouliyev
Deputy Chairman of the Executive Board

Javid Gouliyev began his professional career in 1996 as Head of the Clients Department at British Bank of the Middle East, a subsidiary of HSBC; in 1999, he served as Head of the Financial Control Department of that bank. In 2003, Mr. Gouliyev joined Unibank first as Advisor to the Board; in 2004, he was appointed First Deputy Chairman of the bank. Between 2005 and 2012, Mr. Gouliyev was First Deputy Chairman of Bank Standard. In 2012, he was appointed Executive Finance Director at Capital Resources Advisors – Azerbaijan Branch. In 2014, he joined PASHA Holding as Chief Advisor. Javid Gouliyev began his career at PASHA Bank in 2015 as Business Development Advisor to the Chairman of the Board. On 22 February 2016, he was appointed Deputy Chairman of the Executive Board at PASHA Bank. Mr. Gouliyev graduated from Azerbaijan University of Languages and Azerbaijan State Economic

University majoring in Finance and Credit. In 1999, he also completed study at the Higher School of Management of HSBC Group.

Shirin Aliyeva
Member of the Executive Board, Chief Legal Officer

Shirin Aliyeva joined PASHA Bank in 2011 as Director of the Legal Department; she was appointed Chief Legal Officer in 2015. Previously, she held various positions at a company in the oil and gas industry, ultimately serving as Legal Advisor at Nobel Oil Limited from 2005 to 2007. Between 2007 and 2011, Mrs. Aliyeva worked in the gold mining sector as Head of Legal at Azerbaijan International Mineral Resources Operating Company (AIMROC). Shirin Aliyeva graduated from Baku State University, Department of Law in 2004. In addition, she has completed executive education programs at several leading graduate business schools; these include London Business School as well as Harvard Business School's High Potential Leadership Program.

Aydin Atakishiyev
Member of the Executive Board, Chief Strategy Officer

Aydin Atakishiyev received an undergraduate degree in Mathematical Economics from Baku State University in 2002 and a Master of Arts in Economics from Central European University of Budapest, Hungary in 2006. Mr. Atakishiyev obtained his Master of Business Administration from Rotterdam School of Management in the Netherlands in 2013. He was also an International Business Exchange scholar at the University of Chicago Booth School of Business in 2012. Mr. Atakishiyev started his professional career in sports event management in 2002 before joining the

financial services industry as a loan officer in 2006. He worked at PASHA Holding LLC from 2007 to 2011 as Investment Analyst and Project Manager. Mr. Atakishiyev joined PASHA Bank in 2013 as Head of Strategic Marketing and was appointed Chief Strategy Officer in 2015.

Hayala Naghiyeva
Member of the Executive Board, Chief Financial Officer

Hayala Naghiyeva joined PASHA Bank in 2015 as Credit Risk Assessment Director and was later appointed Chief Financial Officer and Member of the Executive Board. Previously, she worked as Investment Manager at PASHA Holding LLC from 2009 and has served as a Member of PASHA Bank's Audit Committee since 2010. Ms. Naghiyeva started her professional career in 2003 as Auditor in the financial services industry with Deloitte CIS. Subsequently, she was promoted to Senior Advisor in Financial Advisory Services at Deloitte CIS and seconded to Almaty, Kazakhstan, where she managed numerous local and regional projects. Ms. Naghiyeva holds a degree from Azerbaijan State Economic University, where she graduated in 2004 with distinction. She attended Slippery Rock University (Pennsylvania, USA) for part of her undergraduate education. Ms. Naghiyeva is an alumna of Harvard Business School, London Business School, Ashridge Business School (UK) and IE Business School (Spain).

PASHA Bank Georgia

Shahin Mammadov
Chairman of PASHA Bank Georgia Board of Directors, CEO

Shahin Mammadov graduated from Azerbaijan State Economic University in 2002

with an undergraduate degree in Accounting. In 2004, he was awarded a Master's degree from the same university and he obtained a Ph.D. in Economics in 2010. Mr. Mammadov started work at Koçbank Azerbaijan Ltd. in 2003, serving as Accountant and Deputy Chief Accountant. He joined Deloitte & Touche in 2005 as Associate Auditor and was subsequently promoted to Audit Manager. Mr. Mammadov has been ACCA certified since 2014. In 2009, Shahin Mammadov was appointed Director of the Financial Management Department at PASHA Bank headquarters; he became a Member of the Executive Board in 2011. In 2013, he moved to PASHA Bank Georgia to hold the position of Business Development Director. Since July 2014, Shahin Mammadov has served as CEO at PASHA Bank Georgia.

Goga Japaridze
Member of PASHA Bank Georgia Board of Directors, CCO

Goga Japaridze joined PASHA Bank as Commercial Director in January 2014. Since April 2015, he has served as a Member of the Board of Directors at PASHA Bank Georgia. Mr. Japaridze began his banking career in 2003 as Associate at BG Capital, the investment banking subsidiary of Bank of Georgia. He went on to work as Senior Equity Banker at Bank of Georgia in 2005. Later, Mr. Japaridze served as Principal Banker at the EBRD's private equity facility in Tbilisi and London from 2006 to 2011. Subsequently, he was the Head of Corporate Banking at Bank Republic Société Générale Group. Goga Japaridze graduated from Tbilisi State University in 1996. He obtained an MBA degree from Hofstra University's Zarb Business School in 2002.

Chingiz Abdullayev
Member of PASHA Bank Board of Directors, CFO

Chingiz Abdullayev obtained his Bachelor's degree in Business Administration from Western University of Baku (Azerbaijan) in 1999 and Master's degree in Finance from State Economic University of Azerbaijan in 2005. He started his career at Baku Stock Exchange as Head of the Listing Division in 2000. In 2003, Mr. Abdullayev joined the Assurance & Advisory Service of Deloitte. Over the following 10 years, he worked in senior positions with KPMG Russia, Moore Stephens CIS and RSM Georgia with a primary focus on financial institutions, energy, trade and other industrial sectors. Chingiz Abdullayev joined JSC PASHA Bank Georgia in 2014 as Head of the Financial Management Department. He became a Member of the Board of Directors and Chief Financial Officer on 13 January 2016.

PASHA Bank Turkey

H. Cenk Eynihan
Member of PASHA Yatırım Bankası A.Ş. Board of Directors, General Manager

H. Cenk Eynihan received an Associate's degree in Economics from Erasmus University (Netherlands), a Bachelor's degree in Management from Monroe College (New York, USA), and an Executive MBA from Koç University. Between 1994 and 2013, he worked in Turkey and abroad in mid- to executive-level managerial positions with banks and other financial institutions. He joined PASHA Bank as General Manager on 2 August 2013. He has 21 years of experience in banking and business administration.

Ali İhsan Tokkuzun
Deputy General Manager of PASHA Yatırım Bankası A.Ş.

Ali İhsan Tokkuzun joined PASHA Yatırım Bankası A.Ş. as Deputy General Manager in June 2014. Previously, he served as a Member of the Executive Committee and Finance Coordinator at Istanbul Gemi İnşa San. Tic. Mr. Tokkuzun started his professional career at Esbank T.A.Ş. on the Board of Auditors; later, he moved on to Esbank AG in Vienna where held various key positions, including Deputy Chair of the Audit Committee, until 2000. From 2000 to 2002, he worked at Kentbank A.Ş. as Manager of the Financial Institutions and International Marketing Group. Subsequently, he served as Deputy General Manager at DenizBank AG, Vienna until 2010. From 2010, he worked as General Manager at SK Danube AG, Vienna. Mr. Tokkuzun holds a Bachelor's degree from Gazi University, Department of Management and an MBA from Istanbul Technical University.

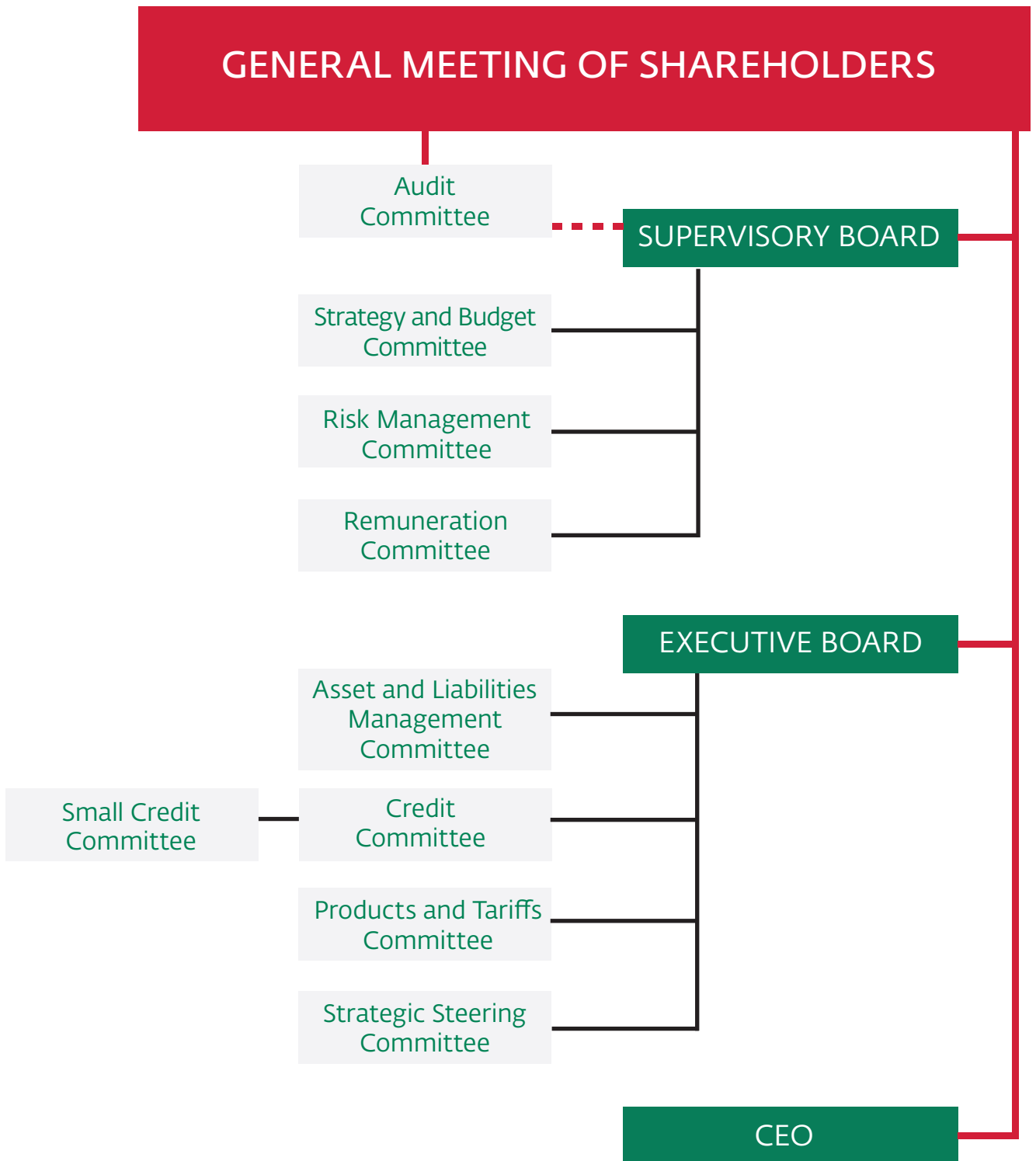


Khadija Alibekova

In 1911 she published "Ishig", the first women's magazine in the Azerbaijani language, actualizing educational ideas and uniting women-intellectuals of that time. The first newspaper was published on January 22, 1911. In weekly newspaper that was publishing in 8-12 pages, were articles in Russian language also. Unfortunately, the newspaper did not last long, only two years. But during this period it became popular among women of Azerbaijan, and letters to the editorial staff came from Tiflis, Kiev, Ashgabat, Dagestan.

From the idea of enlightenment, the newspaper gradually switched to the promotion of women's solidarity and association. In particular, Minaver Alikhanova in the article "The first letter to my sisters" wrote: "We must know that a loner can do nothing, union plays a big role everywhere and in everything".

Governance Structure*



*C-level employees may be appointed as Executive Board members without change of the functions they perform.

Board and Committee Members

Supervisory Board:

Mir Jamal Pashayev – Chairman
 Farid Akhundov – Member
 Vadim Shneyer – Member
 Nariman Sardarli – Member
 Kamala Nuriyeva – Member

Executive Board:

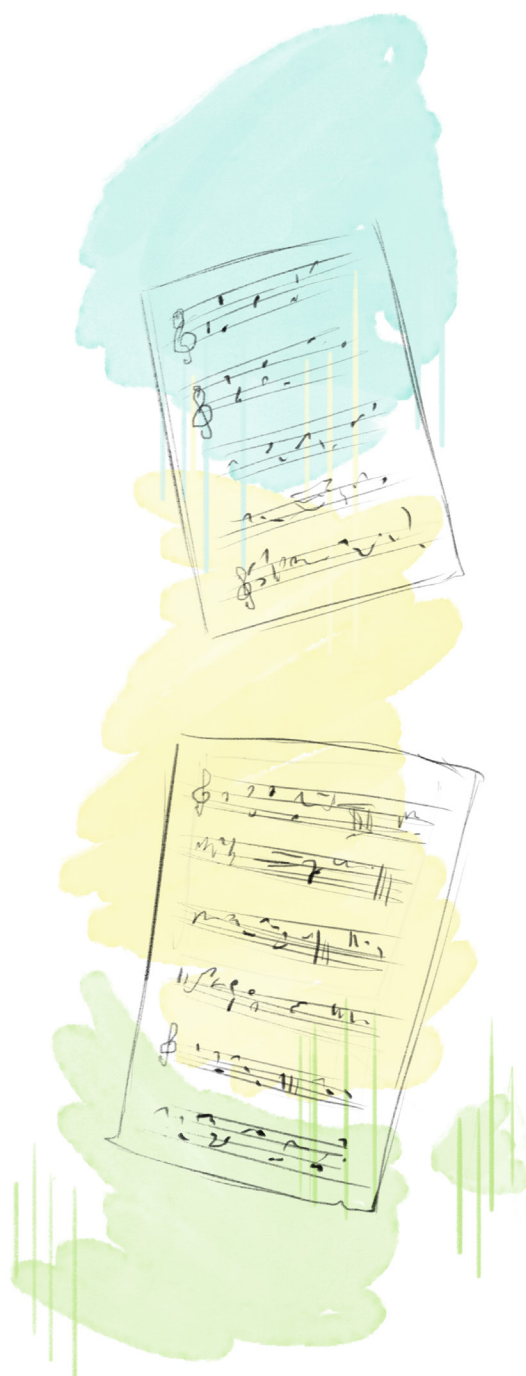
Taleh Kazimov – Chairman
 Javid Gouliyev – Deputy Chairman
 Shirin Aliyeva – Member
 Aydin Atakishiyev – Member
 Hayala Naghiyeva – Member

Strategy and Budget Committee:

Member of the Executive Board, Chief Financial Officer,
 Hayala Naghiyeva – Chairman
 Director of Treasury and Capital Market Department,
 Bahruz Naghiyev – Member
 Director of Strategy Department,
 Agshin Mirzazade – Member
 PASHA Holding Director of Business Group and Deputy
 CEO, Farid Mammadov – Independent Member
 PASHA Holding Director of Group Strategy and
 Project Management Department, Mahir Eyvazov –
 Independent Member
 PASHA Holding CFO, Azer Sadigov – Independent
 Member
 Advisor to the Chairman of the Executive Board, PASHA
 Bank, Turkhan Mahmudov – Non-voting Member

HR & Remuneration Committee:

Chairman of the Supervisory Board, Mir Jamal Pashayev
 – Chairman
 Head of the Banking Group, PASHA Holding LLC,
 Jalal Gasimov – Independent Member
 PASHA Holding Group Director of HR and
 Administration, Aytan Abbasli – Member
 Chairman of the Executive Board,
 Taleh Kazimov – Member
 Director of the Human Resources Department, Sevda
 Aliyeva – Member



Risk Management Committee:

Member of the Supervisory Board, Kamala Nuriyeva – Chairman
 Member of the Executive Board, Chief Financial Officer, Hayala Nagiyeva – Member
 Member of the Executive Board, Chief Risk Officer, Aydin Atakishiyev – Member
 Deputy Chief Technology Officer, Fuad Aslanov – Member
 PASHA Holding Director of the Business Group and Deputy CEO, Farid Mammadov – Independent Member
 PASHA Holding Specialist of the Banking Group, Vugar Akhundov – Independent Member
 PASHA Holding Representative of the Department of Investment, Ulvi Baghirov – Independent Member
 Chairman of the Audit Committee, Parvin Akhadov – Member (Non-voting Member according to the “Corporate Governance Standards in Banks”)

Steering Committee:

Chairman of the Executive Board, Taleh Kazimov – Chairman
 Deputy Chairman of the Executive Board, Javid Gouliyev – Member
 Member of the Executive Board, Chief Legal Officer, Shirin Aliyeva – Member
 Member of the Executive Board, Chief Financial Officer, Hayala Naghiyeva – Member
 Member of the Executive Board, Chief Strategy Officer, Aydin Atakishiyev – Member
 Chief Information Security Officer, Vasif Gasimov – Member
 Chief Operations Officer, Rashad Mammadov – Member
 Chief Commercial Banking Officer, Melih Mengu – Member
 Director of the Human Resources Department, Sevda Aliyeva – Member
 Director of the Strategy Department, Agshin Mirzazade – Member

Credit Committee:

Chairman of the Executive Board, Taleh Kazimov – Chairman

Deputy Chairman of the Executive Board, Javid Gouliyev – Member
 Member of the Executive Board, Chief Legal Officer, Shirin Aliyeva – Member
 Member of the Executive Board, Chief Risk Officer, Aydin Atakishiyev – Member
 Chief Commercial Banking Officer, Melih Mengu – Member
 Director of the Strategy Department, Agshin Mirzazade – Member
 Director of the Treasury and Capital Markets Department, Bahruz Naghiyev – Member

Small Credit Committee:

Head of the Corporate Banking Division of the Credit Risk Underwriting Department, Elmin Isgandarov – Chairman
 Chief Operations Officer, Rashad Mammadov – Member
 Corporate and Institutional Banking, Head of the Small and Medium Enterprises Division, Heydar Suleymanov – Member
 Corporate and Institutional Banking, Head of the Loan Origination Division, Jeyhun Baloghlanov – Member
 Director of the Legal Department, Rugiyya Hajizade – Member

Assets and Liabilities Management Committee:

Member of the Executive Board, Chief Financial Officer, Hayala Nagiyeva – Chairman
 Deputy Chairman of the Executive Board, Javid Gouliyev – Member
 Member of the Executive Board, Chief Risk Officer, Aydin Atakishiyev – Member
 Director of the Strategy Department, Agshin Mirzazade – Member
 Director of the Treasury and Capital Markets Department, Bahruz Naghiyev – Member

Audit Committee:

Parvin Ahadzade – Chairman
 Jamil Mammadov – Member
 Ramil Heydarov – Member



**Aghaeva Alexandra
Aghaverdi**

*Author of 5 monographs on increasing
the productivity of the oil industry.
The first woman - the professor of
economic sciences in Azerbaijan*





GLOBAL MACROECONOMIC OUTLOOK AND AZERBAIJAN'S ECONOMY

GLOBAL MACROECONOMIC OUTLOOK AND AZERBAIJAN'S ECONOMY

Global Macroeconomic Outlook

The global economy is currently experiencing a cyclical recovery, reflecting a rebound in investment, manufacturing activity, and trade. This improvement comes against the backdrop of positive global financing conditions, generally accommodative policies, rising confidence, and firming commodity prices.

Global GDP growth is estimated to have picked up from 2.4% in 2016 to 3% in 2017, above the June forecast of 2.7%. The upturn is broad-based, with growth increasing in more than half of the world's economies. In advanced countries, the economic expansion is forecasted to have rebounded to 2.3% in 2017, driven by a pickup in capital spending, a turnaround in inventories, and strengthening external demand. While the expansion accelerated in all the world's major economies, the improvement was markedly stronger than expected in the Eurozone.

Economic growth in emerging markets is estimated to have jumped to 4.3% in 2017, reflecting a stabilized performance among commodity exporters and ongoing solid growth in commodity importers. Most developing economies benefited from a recovery in exports. Improvement in economic activity among commodity exporters took place as key economies – such as Brazil and the Russian Federation – emerged from recession. This was due to rising prices of most commodities, improving confidence, diminishing drag from earlier monetary policy tightening, and bottoming out of investment growth after a prolonged period of weakness.

Azerbaijan's Economy

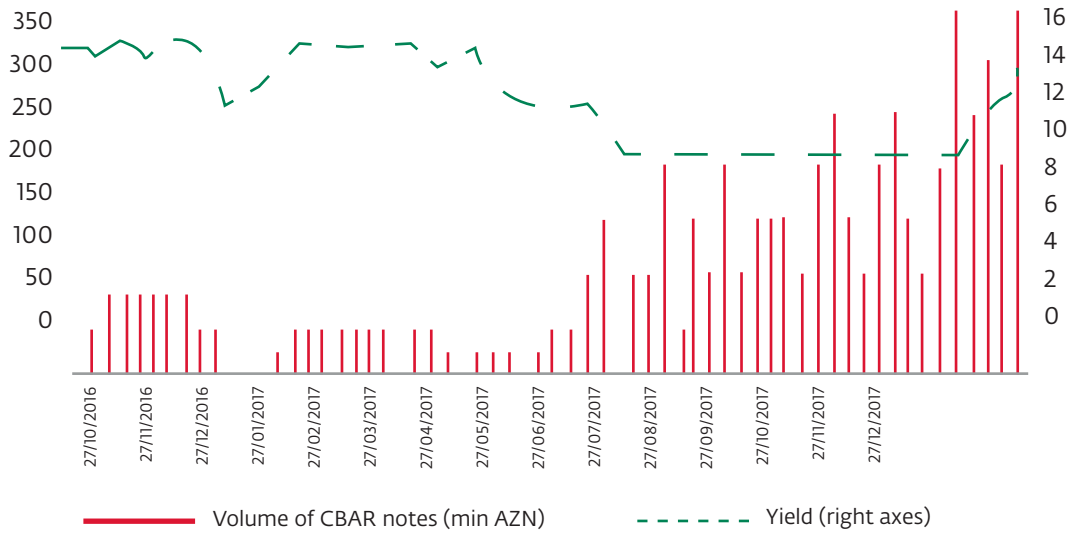
According to the State Statistics Committee, Azerbaijan recorded total GDP growth of 0.1% in 2017; of which, the oil/gas industry declined 5.3%, while the non-oil sector increased 2.7%. The contraction in the oil/gas sector is mainly due to Azerbaijan fulfilling its commitment to OPEC to reduce oil output. The uptick in the non-oil segment of the economy was caused by expanding non-oil exports, as well as increasing investments fueled by the government's fiscal stimulus.

External demand contributed to economic growth in 2017. In addition, state budget expenditures affected domestic demand during the year. Government spending climbed 11% in 2017, including a double digit rise in capital expenditures. Final consumption spending rose 2.4% in real terms, according to State Statistics Committee data.

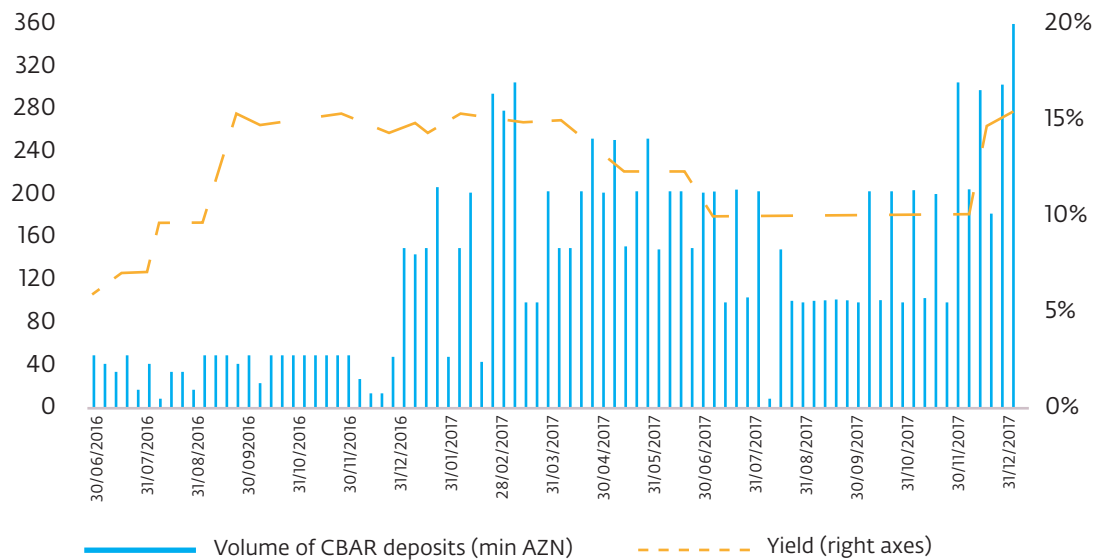
In 2017, Azerbaijan posted annual average inflation of 12.9%. Critical inflation factors included stabilization of the FX market, the rise in administrative and global commodity prices amid appreciation of the foreign currency exchange rate of the manat, and changes in supply and demand in a number of commodity categories.

Azerbaijan's manat has been stable since April 2017, after two years of volatility, therefore improving confidence in the domestic currency. As a result of the higher FX supply exceeding demand in the FX market, the national currency exchange rate has strengthened by 4%, standing at 1.7001 against the US dollar at end-2017.

CBAR notes and its yield



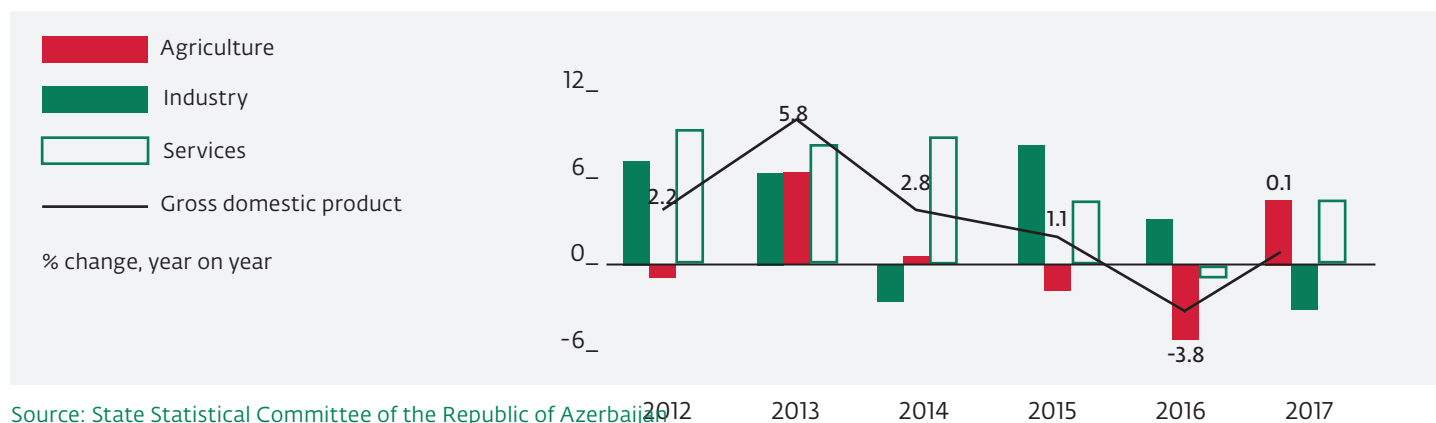
CBAR deposits and its yield



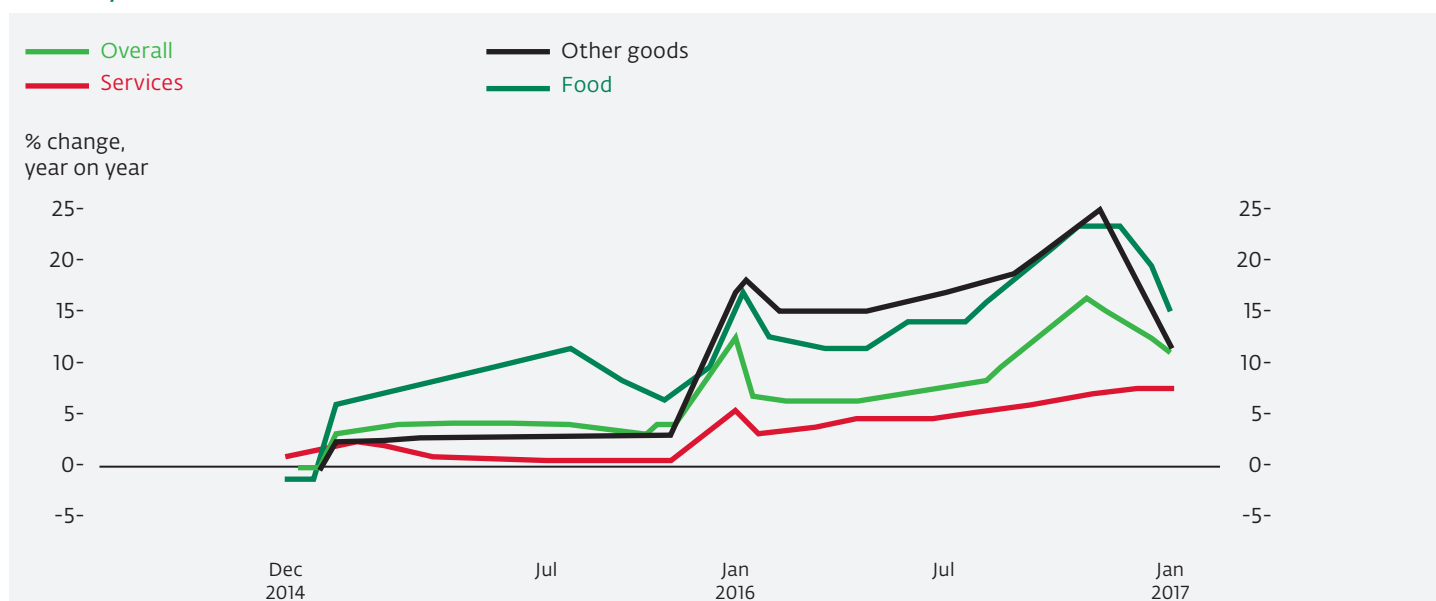
As a result of the lack of credit activity in the economy and the buildup of excess liquidity in the banking sector, there was high demand for the CBAR's sterilization instruments of excess money supply, such as short-term notes and deposit auctions in 2017. According to CBAR, the

total amount of funds raised through the placement of CBAR notes and deposit auctions was AZN 1.9 billion, of which AZN 900 million was notes and AZN 1.0 billion was deposits.

GDP growth by sector



Monthly inflation



Sources: Central Bank of the Republic of Azerbaijan; Haver Analytics (accessed 13 March 2017)

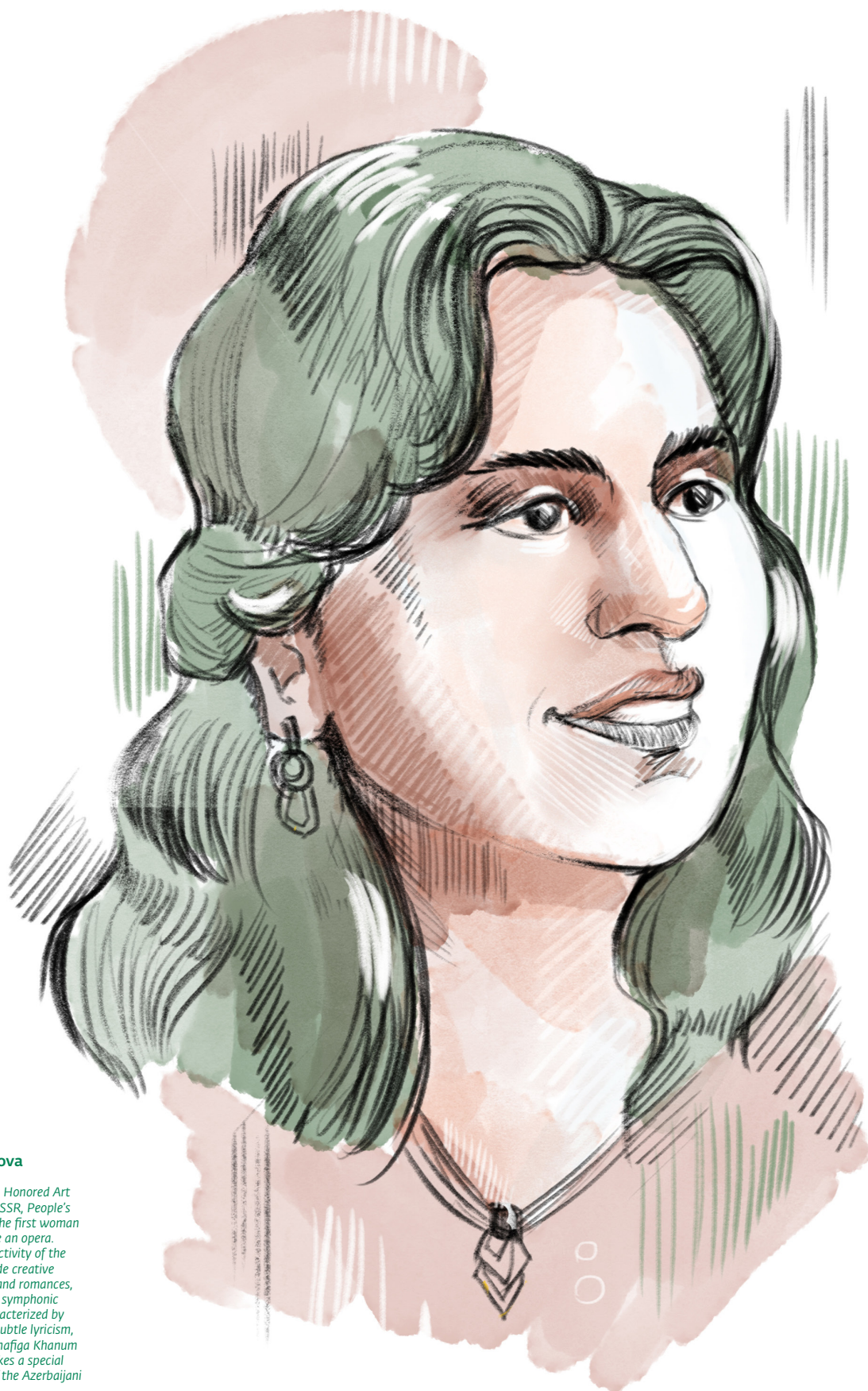
Economic Indicators* (%)	2017	2018F
Real GDP Growth	0.1	2.0
Inflation (annual average)	12.9	8.0
Current Account Balance (Share of GDP)	4.1	3.8
Unemployment	6.0	6.0

*Source: International Monetary Fund, World Economic Outlook, April 2017.



Aina Sultanova

The first editor of the magazine "Shark Gadyny" and People's Commissar of Justice and Chief Justice of the Supreme Court. Aina Sultanova was the first woman in the Council of Ministers of the AzSSR (1934).



Shafiga Akhundova

Azerbaijani composer, Honored Art Worker of Azerbaijan SSR, People's Artist of Azerbaijan; the first woman in the East who wrote an opera. Almost 70-year-old activity of the master possessing wide creative range includes songs and romances, operas and operettas, symphonic suites and plays. Characterized by profound drama and subtle lyricism, music composed by Shafiga Khanum for dozens of plays takes a special place in the history of the Azerbaijani theater.

Banking Industry

In 2017, Azerbaijan's economic situation gradually returned to stability. The currency stabilized after a period of volatility and the economy began to recover thanks to major reforms under the Strategic Road Map implementation. The Strategic Roadmap, formulated to further develop the financial services industry in Azerbaijan, comprised short-, medium- and long-term action plans. These included consolidating financial institutions in order to solve the problems of liquidity and capitalization and establishing a new infrastructure (e.g. Credit Bureaus) in the Azerbaijan banking sector in 2017. However, banking assets still fell 11.2% year-on-year, from AZN 31.4 billion to AZN 27.9 billion. This decline can be explained by negative factors affecting the domestic banking industry during the year, such as banking license revocations, voluntary debt restructurings, among others. As a result, the total loan portfolio of the Azerbaijani banking system contracted 22% during the year, decreasing from AZN 16.4 billion in 2016 to AZN 11.8 billion in 2017. Meanwhile, non-performing loans increased 10.5% year-on-year, from AZN 1,472.6 million to AZN 1,626.7 million, accounting for 13.8% of total loans in 2017. The corporate lending portfolio decreased 34.7% from a year earlier, from AZN 10.1 billion to AZN 6.6 billion. In comparison, the individual loan portfolio declined 18.6% year-on-year, from AZN 6.33 billion to AZN 5.15 billion.

In 2017, total deposits decreased 6.8%, falling from AZN 22.09 billion to AZN 20.60 billion. During the year, FX deposits decreased by 10.3% from AZN 16.6 billion to AZN 14.9 billion, while AZN deposits increased by 4.2% from AZN 5.5 billion to 5.7 billion. However, corporate deposits increased 21.8%

and household deposits ticked up 1.5% in December 2017, year-on-year. Deposits from financial institutions fell 65%, to around AZN 1.9 billion.

2018 Projections

The World Bank forecasts global economic growth to edge up to 3.1% in 2018 after a much stronger-than-expected 2017, as the recovery in investment, manufacturing, and trade continues. Economic expansion in advanced countries is expected to moderate slightly to 2.2% in the coming year, as central banks gradually normalize their monetary policies and the upturn in investment spending stabilizes. Growth in emerging market and developing economies as a whole is projected to strengthen to 4.5% in 2018, as commodity export activity continues to rebound amid firming prices. Some reversals in commodity markets are expected to help boost growth in emerging economies – including Azerbaijan.

Fitch forecasts that Azerbaijan's economy will expand 1.8% in 2018, while Azerbaijan government estimates that total GDP will increase 1.5%. Non-oil GDP is expected to grow 2.9%.

Deeper structural and institutional reforms, and a further improved business investment environment will be critical to achieve macroeconomic stability and private demand-based, inclusive and sustainable non-oil growth. Structural-institutional reforms will allow local production to flexibly react to aggregate demand serving to diversify the economy, decrease import dependency and support medium-term price stability.



The background is an abstract watercolor composition. It features large, soft-edged washes of color. A prominent light pink wash covers much of the right and bottom areas. A vibrant green wash is concentrated in the upper and lower-left quadrants. There are also smaller, darker purple and blue washes scattered throughout, particularly in the top-left and bottom-right corners. The overall effect is soft and artistic.

2017 ACTIVITIES

CORE BANKING BUSINESS

In 2017, PASHA Bank focused on boosting the quality of service it provides to customers. The Bank implemented continuous optimization of service point processes, introduced new tools and upgraded its technology infrastructure to this end. As a result, customer service at PASHA Bank improved significantly during the year.

Joining the ranks of A class banks

In 2017, PASHA Bank deployed the Oracle FLEXCUBE financial platform, in use at most of the world's A class banks to manage evolving customer expectations more effectively. This new platform allowed the Bank to design a new online banking system with better equipped and more customer-centric tools and services. The usage ratio of Internet Banking maintained an upward trajectory; by year's end, 86% of all customer transactions were processed through online banking.

A first in Azerbaijan: B2B platform

During the year, PASHA Bank completed the integration of the B2B platform, with some corporate customers achieving full systems integration with the Bank. This B2B platform creates room for clients to integrate their own enterprise resource planning (ERP) systems with the banking system via a special channel, without using other tools (e.g. paper-based tools, internet banking, mobile application). The platform facilitates the execution of transactions easily and flexibly through its internal system. Notably, PASHA Bank was the first financial institution in Azerbaijan to provide its clients with this service.

A first in Azerbaijan: Electronic segmentation system

As a first in Azerbaijan's banking industry, PASHA Bank introduced a system of electronic segmentation of customers. With this innovation, the client identifies him/

herself at the entrance to the Bank via Queue Management System, and the operator is assigned to him/her immediately.

PASHA Bank's electronic segmentation system promises to take customer service to the next level, by serving up customer profiles and preferences automatically to Bank staff. With this automated process, PASHA Bank has the capability to offer a more efficient and seamless customer service experience to its customers. In addition, the Bank can better target customers with products, services and offers that meet their needs while more effectively boosting its own sales efforts.

Universalization of Bank's service points

In the second half of 2017, PASHA Bank launched a project to universalize its service points with consultants. Scheduled for completion in the second quarter of 2018, all servicing points of the Bank will provide services to both individual and corporate clients. This effort will further boost the efficiency and quality of PASHA Bank's service offerings. The Bank's universalization project is also designed to provide a more personalized, one-on-one customer experience and ensure the highest level of customer satisfaction.



POS Acquiring and Cards Services

CASH MANAGEMENT
MERCHANT ACQUIRING

Tacir POS & Tacir Card

In 2017, PASHA Bank introduced new products for SME and corporate customers – Tacir POS and Tacir Card. These new offerings aimed to increase non-cash payments within large corporate customers' distribution chain and attract SMEs. Product benefits for both segments include the following:

Benefits for SMEs

- Automatic payment of VAT on purchased goods
- Switch from cash to non-cash payment within short period of time
- Easier accountability
- Opportunity to benefit from credit line
- Option to define individual credit limits for distributor company

Benefits for Large Corporates

- Switch from cash turnover to non-cash form
- Defining individual credit limits for buyer entrepreneurs
- Accepting all payments through POS terminals
- Effective management of company's cash flows
- Transfer of funds to account on the same day
- No need for encashment service
- Easier accountability

SOCAR POS integration

A large integration project between PASHA Bank's POS machines and SOCAR's accounting system was launched in 2017. Under this effort, all SOCAR gas stations in Azerbaijan were equipped with the POS terminals, allowing the Bank's client to optimize reporting and increase non-cash turnover.

POS hotel functionality

To better address its particular business needs,

Azerbaijan's hospitality industry is increasingly turning to PASHA Bank POS terminals, which have been upgraded with a new software. All major hotels have now switched to the Bank's POS machines, leading to significant cost savings for these clients that previously used third party software and were subject to additional service fees.

Business Debit Private Entrepreneur (PE) Cards

During the year, PASHA Bank launched a new card offering for business customers to differentiate salary product features. Business Debit PE enables payments to private entrepreneurs and ensures a more flexible payroll process for corporate customers.

Payments & Accounts management

In 2017, PASHA Bank improved its service quality and boosted efficiency in the Payments & Accounts business line with the following upgrades and innovations:

- Commission for cash in (via terminals) allows the Bank to recover its direct costs from the third-party provider.
- SWIFT Urgent on paper payments helps the Bank decrease paper-based payments and reduce the workload in its operations departments.
- MT940-SWIFT Messages allows the Bank to boost customer satisfaction and add a new offering to its product portfolio.
- After an upgrade, the Bank introduced a new three-month (free cash out) service, increasing customer satisfaction and automating work previously done by tellers.
- The Bank upgraded its deposit and current account statements for clients.
- PASHA Bank improved the internal management system for term deposit products: automatic notifications for branches and Relationship Managers about end dates of time deposits in order to predefine the next product offer to be presented to the customer.

DIGITAL BANKING

2017 was a year of new digital horizons at PASHA Bank. The Bank successfully launched the B2B solution for clients in the large corporate segment. The solution provides our business partners with secured, automated exchange of payment orders and reconciliation of data within a single interface. The security of transactions conducted through the B2B channel is ensured through electronic signature certificates. PASHA Bank collaborates with Azerbaijan Republic Central Bank's Bank Certificate Services Centre and ASAN Imza (Electronic signature) in this field. All payment requests submitted to the Bank are approved with electronic signatures indicated by the customer.

Key benefits for client

Seamless integration with the client's platform

Customers benefiting from this product integrate their own enterprise resource planning (ERP) system with the banking system through a special B2B channel and conduct transactions easily and flexibly through their internal system without resorting to other tools (paper-based tools, internet banking, mobile application). The B2B platform enables customers to process and approve international and local transactions, including standard and urgent payments, tax and other state payments, intra-company transactions, currency exchange and other transactions, control payment status, receive respective reports; and benefit from other advantages envisaged within this product. Various types of payment instructions can be consolidated in one single payment file for faster processing.

Customers can send payments even when sufficient funds are unavailable to process the transaction. The system

automatically checks the account balance for three days; whenever sufficient funds are available, it automatically processes the transaction.

Clients may fully integrate with the B2B platform, which gives them an easy single-point access for payment initiation, confirmation and status monitoring. Customers may also use the ready-to-integrate middleware and monitoring tools for payment confirmation and status monitoring.

PASHA Bank clients can choose between ASAN Imza and Bank Certificate Services Centre electronic signature certifications. The electronic signature system provides not only the security of financial transactions between PASHA Bank and its clients, but also mobility, speed, as well as labor and cost savings.



Aghaeva Tamila Sultan

Candidate of Medical Sciences 1989, invented a method for determining the degree of pathological changes in the eye in diabetes mellitus. Received a patent "Method of Cataract Treatment".

CORPORATE AND COMMERCIAL BANKING

PASHA Bank delivers customized corporate banking solutions to large enterprises and small businesses alike with a dedicated team of relationship managers, a comprehensive product portfolio and efficient business processes. Committed to Azerbaijan's welfare and advancement, the Bank has developed deep expertise in the country's high growth industries. By providing support to expand medium sized businesses through an extensive range of services and financial solutions, PASHA Bank also contributes to the diversification of the nation's economy.

Efforts to boost service quality, efficiency, and operational effectiveness

Digitalization stands at the heart of PASHA Bank's core strategy to improve the quality of services and operational efficiency.

In 2017, the Bank took a great leap forward by deploying the Oracle FLEXCUBE financial platform, which is used at most of the A class banks worldwide to manage evolving customer expectations in a more satisfying way. The new platform allowed PASHA Bank to design a brand-new online banking system with better equipped and more customer-centric tools and services. The usage ratio of Internet Banking maintained an upward trajectory; by year's end, 86% of all customer transactions were processed through online banking.

PASHA Bank also completed the integration of the B2B platform in 2017. In addition, some major corporate customers completed full systems integration with PASHA Bank. The Bank's B2B platform creates room for clients to integrate their own enterprise resource planning (ERP) systems with the banking system via a special channel and without resorting to other tools (e.g.

paper-based tools, internet banking, mobile application). The platform facilitates the execution of transactions easily and flexibly through its internal system. Notably, PASHA Bank was the first financial institution in Azerbaijan to provide its clients with this service.

Another remarkable advancement was the installation of PASHA Bank's POS Terminals at the points of the State Customs Committee which has significantly boosted non-cash transactions.

Project Finance

By using a comprehensive range of financial and technical analyses, PASHA Bank remained one of the key players in financing various projects across a range of industries – from manufacturing, and mining to agriculture, transportation and logistics. Project finance is especially important since it boosts production, increases employment and creates high value-add. Among the projects PASHA Bank has financed, one of the country's major cotton sector companies doubled its production capacity in a short period of time. This particular project helped reduce the country's need to import the required amount of cotton to satisfy domestic demand.

Another significant project financing was linked to developing the Free Economic Zone under construction around Alat Port. Much needed cranes, which were required to carry out a number of operations around the port, were imported to Azerbaijan thanks to the lending provided by PASHA Bank.

The Bank cooperates with other financial institutions to provide large amounts of funding for a single borrower, either a

corporate entity or a large development project. The primary advantages of syndication loan include the following options: extra-large loan amounts offered, availability of grace period, fixed or floating interest rates, repayment schedules tailored to the unique cash-flow needs of the individual customer, among others.

In 2017, PASHA Bank recorded a first in the history of Azerbaijan's banking system. The Bank acted as a lead arranger in re-financing the loans of Azerbaijan International Mining Company LLC in the amount of USD 13.5 million. This transaction attracted both local and regional financial institutions as the remaining participants of the syndicate. This financing opportunity helped the client to retain cash to invest in various projects at its mining sites located in Gadabay. The tenor of the existing loans was extended for 24 months and the interest rates decreased significantly.



FACTORING

In 2015, PASHA Bank became the only financial institution to start offering factoring solutions in Azerbaijan. Maintaining market leadership today, the Bank provides all types of factoring products, including domestic factoring, invoice discounting, supply chain finance, export and import factoring.

To date, PASHA Bank is the only financial services institution in Azerbaijan to become a member of Factors Chain International (FCI). FCI is a global network of the world's leading factoring companies. Through the network, PASHA Bank obtains access to a wide range of more than 400 correspondent factoring providers in 90 countries.

The main requirements for factoring include:

- Contract between seller (supplier) and buyer (debtor);
- Proof of commercial relations between seller (supplier) and buyer (debtor) for a specific time period;
- Act of acceptance for the goods and services between seller (supplier) and buyer (debtor);
- All invoices and other supporting documentation required by the agreement should be delivered to the Bank.

The benefits of factoring include:

- Immediately receiving up to 90% of amount on credit sales;
- Working capital boost with favorable financing terms;
- Available financial resources and long-term payment options by suppliers to their debtors;
- Improved credit control over receivables and payments;
- Support of trusted relationship between supplier and buyer.

As of end-2017, PASHA Bank's total domestic factoring volume amounted to AZN 133 million. The Bank processed a total of 1,400 invoices during the year.

To increase service quality, PASHA Bank allocates a dedicated product manager to factoring customers to address their requests in a timely manner. In addition, most factoring operations have migrated from paper to online to boost the efficiency and timeliness of transactions. Now, customers can obtain invoice disbursements by sending an email instead of signing a paper-based contract every time.

In 2017, PASHA Bank started offering purchase order financing to the supply chain of both local and international buyers in the country.

Factoring solutions are very much suitable for small and medium enterprises in Azerbaijan, providing them with access to finance on more affordable terms than traditional collateral-based lending. PASHA Bank expects to continue growing this business line in the coming years.

PASHA Bank, as a corporate banking institution, stands out for its personalized approach to individual customers – salary cardholders. This approach includes developing online banking services to minimize the physical presence of customers in the branches; boosting customer satisfaction; automating individual banking processes; increasing the use of non-cash payments of salary cards; creating new products; and enhancing existing products.

PASHA Bank recorded impressive growth in loans in the Individual Banking business line in 2017. The loan portfolio and number of deals increased more than two-fold during the year. Moreover, the salary clients loan portfolio expanded by 2.2 times, mortgage loans grew 4.5 times and the PASHA Life Insurance (PLI) loan portfolio increased 5.1 times.

Increase in non-cash payments

One of Individual Banking's main objectives during the year was to increase non-cash payments. The Bank conducted seven successful promotional campaigns in 2017 to this end.

The MasterCard Loyalty Platform and PASHA Bank Discount Platform (for PASHA Bank cards and launched by the Bank) attracted merchants and partners offering automated discounts through PASHA Bank POS-terminals aimed at boosting non-cash payments.

PASHA Bank Mobile Application

Individual customers can easily save time and access more banking services by using PASHA Bank Mobile Application. PASHA Bank has increased the functionality of the mobile app by transferring existing products and services from the branches to the mobile platform. Users can now perform transactions once possible only at branch locations, such as replacing/renewing of cards, ordering new debit/PLI cards, account

and card statement, cash withdrawal changes, requesting letters for embassy, online queuing and obtaining information about the Bank's General Standard Agreement (GSA).

Projects

Individual Banking executed numerous projects during the year, including:

ASAN Imza – PASHA Bank became the first bank in Azerbaijan to issue ASAN Imza (Easy Signature) to individual customers at branch locations of the Bank. ASAN Imza is a mobile identity with which customers can verify their identity when accessing e-services and make digital signatures. ASAN Imza enables customers to execute all available e-activities. The Bank's customers will be able to access even more services by using ASAN Imza through the PASHA Bank Mobile Application.

Mobile parking payment – The first service of its kind in Azerbaijan, parking payment functionality was included in the PASHA Bank Mobile Application. As a result, PASHA Bank will increase its non-cash payments as well as customer satisfaction.

Bulk card opening functionality – This innovation optimized the card issuing process and boosted operational efficiency.

Loan amount deduction optimization – This effort allows for a monthly loan payment amount to be directly deducted from a customer's salary account quickly and easily.

Online GSA – This project allows customers to access the Bank's General Standard Agreement online in order to save time, reduce paper consumption, and optimize the Bank's archive process (scanning time).

Print forms automation and optimization
– The Bank automated all approved customer printing forms and correspondence in the BI system.

Optimization and automation of salary card issuing process – This effort will speed up salary card issuance at the Bank, improving operational efficiency and customer satisfaction.

New Generation ATMs – During the year, PASHA Bank launched its New Generation (3-in-1) ATMs, enabling customers to obtain and deposit cash as well as forex.

Local Centralized Credit Registry System
– The Bank launched this system to allow customers to access a complete picture of their lending products and history.

Projects for 2018

In 2018, Individual Banking plans to focus on a number of initiatives to ensure that its customer numbers, turnover and service quality continues to grow.

Building on its success in corporate salary payment, PASHA Bank plans to increase the number of active corporate salary card projects by 65% in the coming year. To strengthen and diversify its revenue streams, the Bank is committed to expanding its acquiring network and increasing non-cash turnover. Additionally, PASHA Bank will work on bundled products with PASHA Life Insurance and PASHA Insurance and leveraging PASHA Group synergy more in 2018.

The Bank also aims to develop new product offerings to boost Private Banking client numbers – a service area that offers great promise for future growth.

To acquire new and retain existing card customers, the Bank targets devising new bundled products, packages, non-financial products and enhancing existing card products. A PASHA Bank and MasterCard discount platform for PASHA Bank cardholders is also planned to enhance customer satisfaction. Ever aware of the growing importance of secure transacting, the Bank aims to develop a paperless PIN/activation code feature to increase security for its Individual Banking customers.

Committed to implementing its digital transformation strategy and responding to clients' evolving banking preferences, PASHA Bank plans to further optimize Mobile Banking and add new services, features and functionality in order to increase the number of transactions executed through this channel. Furthermore, a design revamp of the PASHA Bank Mobile Banking Application is on the agenda for 2018 to boost user friendliness and expand the active user base of the mobile app.

Sakina Akhundzadeh

The first woman dramatist in Azerbaijan, public figure, teacher, textbooks author, an active figure of the Muslim Women's Charitable Society in Baku. Sakina Akhundzade was fluent in Arab and Persian languages, and also well acquainted with Eastern literature. She tried to spread the idea of freedom of Azerbaijani women, to awaken their love for knowledge and sciences in her works. Sakina Akhundzade was also the first Azerbaijani woman-author of the novel. In her novel "Prince Abulfaz and Rena", written on the basis of a folklore plot in 1918, the author puts forward the idea of seeking the elimination of prejudices in the life of Azerbaijani women. She portrayed literary form of freedom spirit in her works. In total, Sakina Akhundzade wrote five plays and one novel.



INVESTMENT BANKING

PASHA Bank Investment Banking

Department delivers a range of products and services to local financial markets and provides services to commercial enterprises. Established just three years ago, the Investment Banking Department recorded major firsts in 2017 as it continued to carve out a niche in a challenging market environment.

During the year, PASHA Bank Investment Banking Department executed the first ever syndication deal in the local market. The Department syndicated and structured a USD 13.5 million two-year term loan facility at 7% for Anglo Asian Mining plc to refinance the majority of its existing debt, releasing USD 8.4 million of capital to accelerate 2018 expansion and optimization plans. The facility improved the Group's financial performance in addition to providing operational flexibility. PASHA Bank Investment Banking acted as a mandated lead arranger and structured the facility in a syndicate with one local and one foreign bank.

In 2017, the Investment Banking Department executed the first ever USD 25 million Eurobond placement in the Azerbaijani securities market. The bond has a five-year maturity with a 4.85% coupon rate. This transaction was a private placement with domestic institutional investors primarily. However, the Department is currently working with PASHA Capital to transfer the Eurobond to the local bond market to be publicly traded.

In addition, PASHA Bank Investment Banking Department intermediated the first repo deal between non-banking financial organizations in 2017. This groundbreaking deal was worth nearly USD 1 million with a 30-day maturity.

PASHA Bank provides customers with investment banking and advisory services via its sister company PASHA Capital. In 2017, PASHA Capital recorded total turnover of more than AZN 4.7 billion.

During the year, PASHA Capital acted as an underwriter for the Ministry of Finance and provided the Mortgage Fund with both brokerage and underwriting services.

At present, the Investment Banking Department is being restructured to better capitalize on market opportunities in Azerbaijan and beyond.

The coming years are expected to bring more unique opportunities in investment banking business in Azerbaijan as the government steps up reforms and privatization efforts. PASHA Bank's focus will be primarily on advisory, corporate finance and restructuring projects and leading the market forward with additional firsts.

In 2017, Treasury Department generated 53% of PASHA Bank's interest income and 78% of the Bank's non-interest income. In 2017, Treasury Department generated 53% of PASHA Bank's interest income and 78% of the Bank's non-interest income.

Closely monitoring fluctuations in financial markets, PASHA Bank Treasury Department worked to minimize risks and achieve high returns by using alternative investment instruments. By improving asset quality, the Department significantly contributed to PASHA Bank's profitability in line with 2017 targets.

In light of recent developments in the domestic and global environment, Treasury helped further strengthen the Bank's solid balance sheet structure thanks to appropriate timing and alternative investment opportunities. By closely evaluating cost-related factors, Treasury continued to diversify its portfolio.

Treasury operated effectively and proactively in very challenging and fast changing market, investing in a wide range of asset classes.

As of end-2017, assets under Treasury management totaled AZN 2,410 million. This total consisted of AZN 396.94 million in the securities portfolio, AZN 1,411 million in cash and cash equivalents and AZN 603.1 million in amount

due from credit institutions. Treasury generated 53% of PASHA Bank's interest income (AZN 100.1 million) and 78% of the Bank's non-interest income.

Treasury provides the following solutions and services to clients:

- Corporate Foreign Exchange Desk – Access to traders on the trading floor to execute deals in real time
- Derivatives
- Foreign exchange forward, non-deliverable forward, swaps, and options contracts
- Commodities hedging – a wide range of futures, including sugar, wheat, aluminum, gold, oil and others

In the coming year, PASHA Bank expects its treasury-related business will expand as more corporate players turn to the capital markets.

INSTITUTIONAL BANKING

Trade Finance

PASHA Bank delivers an extensive range of trade finance products to its clients. These specialized product offerings include local and international bank guarantees; standby LCs; documentary LCs; documentary collections; short-, medium- and long-term post-financing; and pre-export financing. The Bank also provides trade finance related consultancy and advisory services to its customers. The Bank's trade finance products are offered in both local currency and major foreign currencies.

In 2017, PASHA Bank instituted new procedures and decision-making processes to execute customer requests more quickly. The Bank also boosted relations with internal customers – especially Relationship Managers, Credit Administrators, Treasury and Financial Institutions – in order to support their expanding needs in terms of quality and speed.

For short-term (0-24 months) financing of foreign transactions, PASHA Bank uses the services of its international globally established partner bank network via direct net trade finance lines.

For medium- and long-term (24+ months) financing of foreign transactions that are mainly related to the import of capital goods and services, PASHA Bank has a long track record of cooperation with the world's leading export credit agencies, such as Euler Hermes, SACE and OeKB.

The Bank closely monitors global trends in trade finance and continually updates its array of trade finance products to ensure that generally recognized international standards are always met.

PASHA Bank offers the following trade finance products to its clients:

- All types of bank guarantees (both local and international, direct and indirect);
- All types of documentary letters of credit (both local and international, direct and confirmed);
- Short-term post-financing under documentary letters of credit;
- Long-term post-financing under documentary letters of credit (ECA covered financing);
- Import and export documentary collections;
- Advisory on received bank guarantees, standby letters of credit and documentary letters of credit;
- Issuance of bank guarantees backed by counter-guarantees;
- Adding confirmation to received standby and documentary letters of credit;
- Consultancy on various trade finance related issues.

PASHA Bank is one of the leading banks in Azerbaijan in terms of trade finance. As of 31 December 2017, the Bank's trade financing volume jumped 71% year-on-year, from AZN 179.6 million to AZN 306.2 million. In addition, PASHA Bank's transaction volume grew 70%, from 439 to 748 during the year. The Bank posted trade finance profit of AZN 4.3 million in 2017.

Cooperation with International Financial Institutions

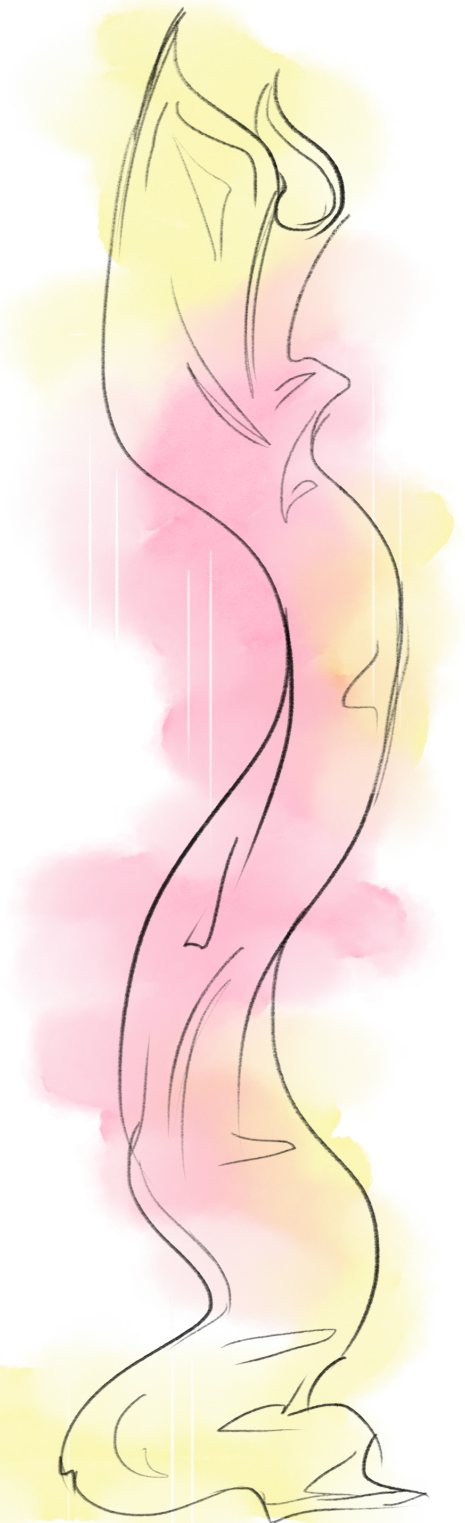
In 2017, PASHA Bank continued to expand and maintain its correspondent banking network. For the sixth consecutive year, the Bank participated in the major banking

exhibition SIBOS and made contact with more than 60 banks at the event. The Bank continues to align its financial institutions strategy with meeting the needs of its business operations. During the year, PASHA Bank added eight financial institutions to its network, expanding its capabilities in terms of settlements, trade finance, investment banking, custody operations, money market and FX products (derivatives).

Thanks to its diverse client base, PASHA Bank expanded its partnership network to new geographic regions and businesses in 2017. The Bank launched its treasury/investment business in the UK market; further developed and stepped up its cooperation with new and existing European partners; and reached out to new financial institution partners in Africa, Middle East, CIS and East Asia. The Bank also works continuously to establish productive relationships with export-credit agencies in Europe and North America, and expands its RMA network globally.

PASHA Bank has achieved reliable working relationships with its major partners, secured historically low pricing for transactional business from its main European partners, and was able to re-establish ties with its former partner Commerzbank AG. In 2017, PASHA Bank started new business relationships with Gazprombank (Russia and Switzerland), Al-Masraf Bank, Mashreq Bank (UAE), and Banco Sabadell (Spain).

PASHA Bank has credit lines from numerous leading international banks, including Raiffeisen Bank International (RBI), CaixaBank, LBBW, UBI Banca, Akbank, İş Bankası, Ziraat Bank and Aktif Bank.



PRIVATE BANKING

PASHA Private Banking is the first private banking service provider in the domestic Azerbaijani market, offering solutions designed to accommodate both the financial and non-financial needs of the Bank's clients.

In keeping with the mission of providing comprehensive financial services to all customer segments, PASHA Private Banking aims to:

- Deliver customer-focused financial and non-financial services in Azerbaijan and abroad;
- Ensure that the services on offer are at the highest quality standards;
- Establish long-term, mutually beneficial customer relationships;
- Ensure long-term financial stability for clients;
- Transform private banking into an integral part of customers' lives;
- Assist clients in growing and protecting personal wealth as well as managing the transfer of wealth to future generations;
- Find effective, customer-oriented solutions;
- Become Azerbaijan's leading bank in private capital management.

With an in-depth understanding of the wants and needs of various customer segments, PASHA Bank has developed market leading financial products and a life-style service portfolio. The Bank offers a full range of classic banking products and services delivered with a strong customer service approach. This offering includes:

- Personal banker for each customer
- Portfolio management
- Credit and debit cards
- Bank safe deposit boxes

- Securities of local and foreign companies
- International banking precious metals account
- Deposit services
- Mobile Banking
- Internet Banking
- Credit lines
- Cash secured loans
- Mortgage
- Special loans
- Financial advisory services
- Non-financial services, including real estate, healthcare and education related services
- Global concierge service

Globalization requires accelerated integration of Azerbaijan into international capital markets, irrespective of the relatively conservative investment instruments available domestically. Thus, PASHA Bank has embraced an "open architecture" strategy. Under this approach, the Bank develops internal capabilities and an international partnership network to offer its clients worldwide reach and solutions to satisfy their global wealth management needs. In addition to onshore investment opportunities, PASHA Bank provides foreign asset management services as well.

Non-financial Services

Thanks to cooperation with numerous quality service providers, PASHA Private Banking offers an array of non-financial services to meet clients' needs in education, medical care and real estate.

One essential component of wealth management is investment in the arts. Today, art-related services remain an exclusive niche

for banks, and are usually offered via third-party providers. PASHA Private Banking grants its clients access to highly reputable art-related consultancy services.

As a part of its marketing strategy, PASHA Private Banking engages in a large number

of sponsorship activities to establish closer cooperation with those partners that share the same values and priorities. To this end, PASHA Private Banking supports major art, cultural and sport events, such as sponsorship of the International Polo Championship held in Azerbaijan in summer 2017.



Nabat-hanym Ashurbekova

The famous woman-philanthropist from the Ashurbekovs noble family, founder of Teze Pir mosque. She donated a large sum of money for the construction of the Shollar aqueduct, and also participated in financing the hospital in Sabunchi where the poor and orphans were treated at her expense, bathhouses for poor residents of Baku city, etc.

INTERNATIONAL REPUTATION

Credit Ratings

Despite the macroeconomic challenges in 2017, PASHA Bank maintained its creditworthiness, which was recognized by international ratings agencies.

In August 2017, Fitch Ratings affirmed PASHA Bank's long-term foreign currency Issuer Default Rating (IDR) as 'B+' and short-term IDR as 'B', with a stable outlook.

In January 2018, the international rating agency Standard & Poor's affirmed the long-term counterparty credit rating of PASHA Bank as 'BB-'. PASHA Bank also retained its 'B' short-term counterparty credit rating.

These ratings are among the highest of all private banks in Azerbaijan with 100% local capital.

Awards, Events and Sponsorships

In 2017, PASHA Bank garnered the "Best Bank in Azerbaijan" award from Euromoney financial magazine. In addition, EMEA Finance awarded PASHA Bank with the "Best Bank in Azerbaijan," "Best Investment Bank in Azerbaijan" and "Corporate Social Responsibility in CEE & CIS" designations at the Europe Banking Awards. Furthermore, PASHA Bank was named the "Best Bank in Azerbaijan in 2017" by Global Finance Magazine.

As one of the country's leading financial institutions, PASHA Bank continues to attract the attention of some of the most distinguished members of the global financial community. The Bank sponsors major local and international events that boost its

reputation and recognition globally. In 2017, these events included:

- Panel participation at Euromoney 2017 CEE forum (17-18 January 2017)
- Sponsorship of USACC Annual Conference (28 February-2 March 2017), Washington, DC USA
- Sponsorship and panel participation at "SHE" Congress (28 March 2017)
- Sponsorship of Port of Baku participation at 2017 World Ports Conference (7-10 May 2017)
- Participation at Moody's Annual Credit Risk Conference (25 May 2017)
- Sponsorship of Economic Reforms Conference (30 May 2017)
- Participation at EU-Azerbaijan Business Forum (8 June 2017)
- Sponsorship of International Polo Championship held in Azerbaijan (8-10 September 2017)
- Sponsorship of Master Class by Irina Hakamada in Baku (16 September 2017)
- Sponsorship and panel participation at Azerbaijan Micro-Finance Association's Investors' Fair (6 October 2017)
- Participation at SIBOS 2017 International exhibition, held in Toronto, Canada (16-19 October 2017)
- Sponsorship of Anti-Money Laundering Conference (30 November 2017)

Effective risk management is fundamental to the success of PASHA Bank and is widely recognized as one of the Bank's strategic priorities. PASHA Bank has a strong, disciplined risk management culture where risk management is a responsibility shared by all Bank employees. A key aspect of this culture is diversification across business lines, geographies, products, and industries.

Risk management at PASHA Bank aims to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns. The Bank's enterprise-wide risk management framework provides the foundation to achieve these goals. This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the local market where the Bank operates, including regulatory standards and industry best practices.

During fiscal year 2017, PASHA Bank's Risk Team focused on key projects that significantly strengthened the Bank's risk-based approach, and were successfully implemented throughout the year.

These projects included conducting detailed industry research for better portfolio management decisions; industry limits; counterparty limits; building the Bank's own econometric models; developing a credit rating model; revising the lending cycle to reflect previously achieved goals; cascading RAS into the business level; and introducing a model to manage risks related to investments.

Industry Research Project

Under the Industry Research Project, the Bank reclassified the loan portfolio according to new Industry Classification Guidelines. The loan portfolio was back-tested based on new industry segmentation; consequently, each industry was assigned its own historical probability of default

rating (PD), which was tested against Moody's global PD scale.

In parallel, the Risk Team built a model to hedge industry exposure. Eventually, a hedging mechanism was developed only by overweighting or underweighting strong/poor performing industries. An industry limit methodology was developed; as a result, the Bank was able to set limits for industries.

In 2017, the Risk Team successfully performed large-scale stress testing of PASHA Bank. A comprehensive Stress Test Report was prepared, which proved the sustainable liquidity/solvency and capital position of the Bank over the long run.

Macro Research Project

PASHA Bank developed and implemented the initial model to forecast the yield curve under the Macro Research project. The current approach will be the basis for pricing of credit products and the focal point for a more complex yield curve forecasting model. As a result, the model was built and the Risk Team successfully forecasted yield curve shift.

In addition, the Bank integrated the complex dynamic macro model. The output of the model was used in developing idiosyncratic models, executing the budget process and formulating strategy. The current stress testing approach is based on macro models.

The Risk Team prepared macro research reports for better portfolio analyses – a major achievement in 2017. These macro reports guide the management in forecasting and assessing macro trends/conditions to better analyze and minimize risky decisions.

Idiosyncratic Models

PASHA Bank's risk measurement techniques include the use of models and stress testing. The Bank uses models for a range of purposes, such as

estimating the value of transactions, risk exposure, credit risk ratings and parameters, economic and regulatory capital. The use of quantitative risk methodologies and models is balanced by a strong governance framework and includes the application of sound and experienced judgment. The development, independent review, and approval of models are subject to formalized policies where applicable, including the oversight of credit committees. The pricing method prepared by the Risk Team accounts for changes in macroeconomic variables (e.g. GDP growth, oil prices, inflation, and the like) and company specific factor (probability of default, loss given default, financial position, et al.).

Lending Cycle

In 2017, one of the Bank's core tasks included revision of the lending cycle to reflect the previously achieved goals. After specification of the macro/micro modeling and framework, the Bank started revising the lending cycle to diagnose weak points based on a new modeling approach prepared and recommended by the Risk Team. Risk Management developed decision-making tools (credit metrics) which allowed the Bank to give appropriate decisions by taking into account relevant risks. As a result, the lending cycle was shortened resulting in increased internal and external customer satisfaction.

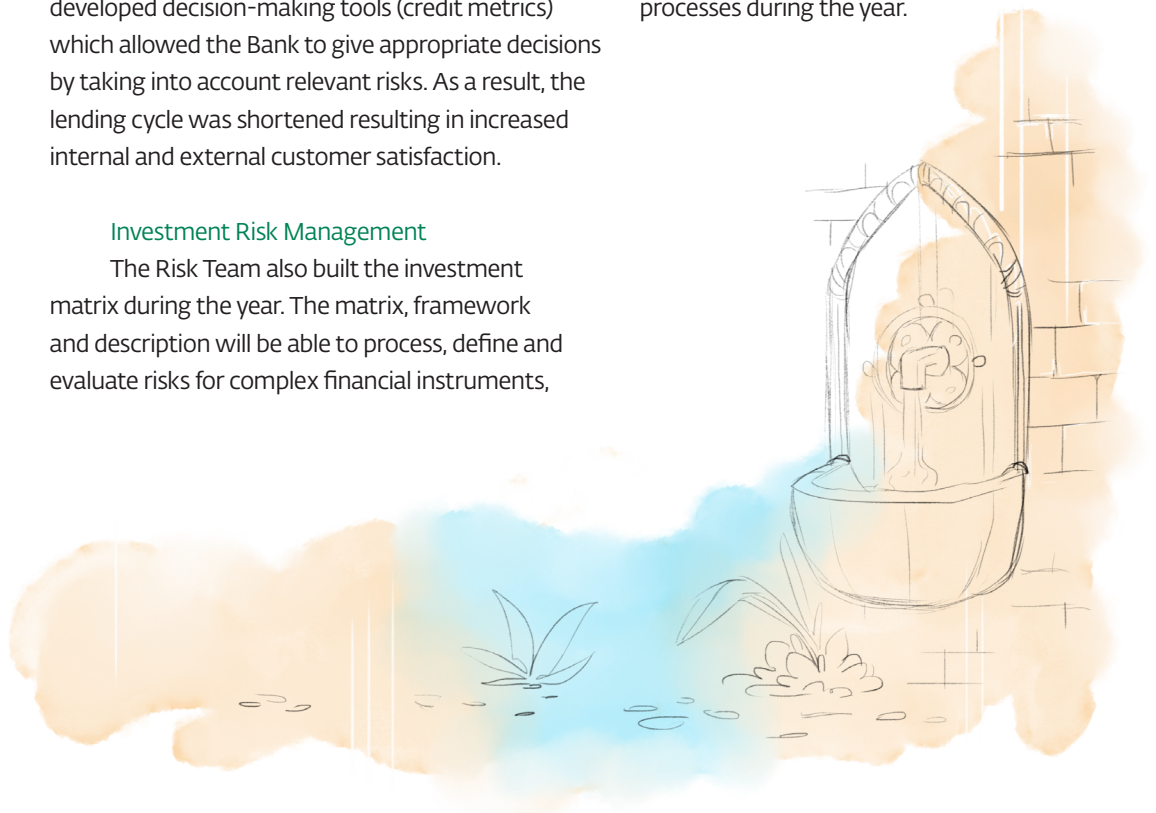
Investment Risk Management

The Risk Team also built the investment matrix during the year. The matrix, framework and description will be able to process, define and evaluate risks for complex financial instruments,

with each financial instrument broken down to its basic components to evaluate against potential risks. The Market Risk Management Team has developed market risk metrics in order to better manage FX and interest rate risk.

Operational Risk Management

PASHA Bank's Operational Risk Management Framework sets out an integrated approach to identify, assess, control, mitigate and report operational risks across the Bank. In 2017, the Bank's Operational Risk Management Team reviewed significant transactions and processes to identify and assess operational risks. One of the major achievements of the Operational Risk Team during the year was the creation of a risk catalogue and improvement of risk culture via different types of tools. Additionally, the Risk and Incident Management system was improved by the ORM Team. As a result, the Bank was able to capture operational risk in time and adequately. The Enterprise Risk Management Framework was also developed and integrated into the Bank's business processes during the year.



PASHA Bank deploys advanced technologies that will enhance the speed and quality of service it delivers in every aspect of its operations to maximize both customer and employee satisfaction.

PASHA Bank's Information Technologies Department is responsible for the Bank's systems, communications, security and software infrastructure. The Department is also charged with the 24/7 error-free, fast, auditable, scalable and instantly observable operation of the integrated banking application that runs on the Bank's system infrastructure.

The Department's major activities that ensure the optimum use of technology within the Bank's operations include:

- Routine check-ups of IT infrastructure and software to minimize service downtime;
- Provision of training and instructions for recently introduced software or technologies;
- Easy-to-access and responsive IT Support Team;
- Periodic analyses of the Bank's operations and automation of tasks to boost efficiency.

Throughout 2017, PASHA Bank continued various efforts to upgrade and renew its technology to ensure that the Bank's business processes comply with international standards. In 2017, the Department:

- Enhanced Contact Centre capabilities by automating account and plastic cards related services;
- Installed top-of-the-line real-time monitoring systems for all running services, which also enables notifications prior to incidents;
- Implemented best practices for IT infrastructure utilizing state-of-the-art technologies to make all services function

most effectively for both internal and external customers;

- Passed full Business Continuity Planning to ensure that none of the Bank's services ceases to function due to unforeseen incidents;
- Enhanced cutting-edge forward-looking Internet Banking solution that offers more functionality and visual enhancements for customers;
- Enhanced mobile application for iOS and Android devices to further help customers meet their banking needs without leaving the convenience of their phones;
- Conducted periodic internal and external penetration tests and vulnerability assessments.

PASHA Bank's approach to issues of cyber security is to protect the Bank's information assets from different kinds of threats, including hacker attacks, information leakage, and financial loss. Implemented information security solutions allow the Bank to detect breaches, vulnerabilities and other related incidents with corrective and timely follow-up and response.

Since its founding, PASHA Bank has introduced numerous firsts to Azerbaijan's banking industry, from technological breakthroughs to innovative products and services. In 2017, PASHA Bank became one of the country's first banks to successfully test and deploy a Real Time Data Centre to ensure full continuity of its services. In addition, the Bank was one of the first in Azerbaijan to implement a solution to protect and monitor its digital channels. PASHA Bank also started to execute a comprehensive Digital Banking strategy during the year.

In 2018, PASHA Bank plans to step up its efforts in technology and innovation, as the market embraces digital and mobile banking in particular.

CROSS-BORDER ACTIVITIES

PASHA Bank is actively positioned at the forefront of the region's rising trade and investment flows, providing corporate, commercial and investment banking services with transparent business practices and an ethical approach. With increased economic activity between Azerbaijan, Turkey and Georgia, PASHA Bank decided that it was in the best interest of the Bank's clients to enter these markets in order to meet their current and potential banking needs.

PASHA Bank Georgia

PASHA Bank opened its first subsidiary office in Tbilisi, Georgia in February 2013. The Bank selected Georgia as the first country in its overseas expansion for numerous reasons, including the growing volume of trade between the two countries and the joint participation of Georgia and Azerbaijan in implementing strategic regional projects. Currently, many Azerbaijani companies, including PASHA Bank clients, conduct business operations in Georgia. The Bank's subsidiary office makes it easier to better serve existing customers and grow the client base as well. Another key goal with this initiative is to contribute to developing the economies of both Georgia and Azerbaijan.

At year-end 2017, PASHA Bank Georgia recorded total assets of over GEL 272 million. As a regional bank, PASHA Bank Georgia leverages its experience in various markets to offer clients tailor-made products and services that incorporate global best practices. PASHA Bank Georgia places the respective interests of its partners at the cornerstone of its corporate strategy, aiming to achieve "New Heights Together" by contributing to mutual sustainable growth.

PASHA Bank Georgia has developed clear competitive advantages in certain product

areas, such as debt capital markets operations, drawing upon PASHA Bank's significant experience gained over the years in Azerbaijan's capital market environment. PASHA Bank Georgia places special emphasis on developing its trade finance business.

PASHA Bank's presence in the region's three major economies puts the Bank in a strong position to offer a unique value proposition for its client base.

Financial highlights (GEL thousand)

Net Profit	3,523
Gross Loans	114,777
Total Assets	272,804
Key ratios	
Cost to Income	69%
ROAE	3%
NPL to Gross Loans	1.6%

PASHA Bank Turkey

After careful consideration of all market entry options in Turkey – one of the world's top 20 economies – the Bank's Board of Directors resolved to acquire a majority stake in TAIB Bank and partner with Aksoy Holding. As PASHA Bank already had a long-term, trust-based working relationship with Aksoy Holding, this transaction was a natural extension of that partnership. PASHA Bank and Aksoy Holding saw a unique, one-time opportunity to leverage their trusted partnership and build upon the market know-how and capital that presently exists.

In December 2014, PASHA Bank was authorized by Turkey's Banking Regulation and Supervision Agency (BRSA) to enter the Turkish market by acquiring a majority interest in TAIB Bank from Aksoy Holding. With this acquisition,

the Bank plans to target corporate clients based in Turkey.

The Turkish market holds great potential for small and medium enterprises seeking investment opportunities in Azerbaijan, Georgia and other countries in the region. In addition, the Bank aims to bring Azerbaijani investment to Turkey to more fully realize the vast potential that local projects offer.

PASHA Bank believes that attracting new foreign direct investment, especially from Azerbaijan, to the Turkish economy, will benefit the economies of both countries. It will also create an excellent opportunity to grow and expand for its current clients as well as prospective customers.

Financial Highlights (31 December 2017) (USD thousand)

Net Profit	4,845
Total comprehensive income	4,829
Gross Loans	189,042
Total Assets	237,278

Key ratios

Cost to Income	48.0%
ROAE	7.1%
NPL to Gross Loans	0%

*The exchange rate as of 31 December 2017 was USD/TL 3.7719.
Source: Audited IFRS Financial Statements.



The background is a soft, abstract watercolor composition. It features large, overlapping washes of color: a prominent light pink, a vibrant teal-green, and a muted purple. The colors are blended together, creating a dreamy, ethereal atmosphere. The texture of the watercolor is visible, with some areas appearing more saturated than others.

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Committed to being a responsible corporate citizen, PASHA Bank greatly values social responsibility and focuses on active involvement in the communities where it operates. Since its founding, the Bank has played a proactive, cooperative and collaborative role in society. PASHA Bank aims to help ensure the well-being of the Azerbaijani people and make the country a better place to conduct and develop business.

In today's volatile and rapidly globalizing world, an entity and its stakeholders should follow the same path forward to ensure sustainable, long-term growth. To this end, since 2015, PASHA Bank has shifted from a traditional model of corporate social responsibility to a more contemporary approach of stakeholder engagement.

This shift will ensure that the Bank's focus remains on improving the lives of the Azerbaijani people.

Three dimensions underlie each aspect of PASHA Bank's new corporate social responsibility approach:

- We Empower Entrepreneurship.
- We Empower Human Capital.
- We Empower Capacity and Good

Governance.

We Empower Entrepreneurship

This dimension aims to support the SME sector, by effectively serving current customers and growing the customer base in this segment. PASHA Bank organizes seminars for its small and medium enterprise clients that lack the resources to attend or send their employees to various capacity and skills building trainings. The Bank's "Responsible Business: Building Local Capacity for Development" seminars are conducted by local professional trainers either in the Bank's Business Support Centers at the BARAMA Innovation and Entrepreneurship Centre's office. These efforts are also in line with PASHA Bank's

brand promise of reaching "New Heights Together" with customers.

BARAMA

Support to Start-up Ecosystem of Azerbaijan's Economy

BARAMA Innovation and Entrepreneurship Centre was established by Azercell Telecom in 2009. PASHA Bank has supported this Centre jointly with Azercell since 2015. BARAMA Centre's main innovation areas include Innovation Laboratory, Business Incubator & Entrepreneurship Support and Business Solutions & Partnerships.

BARAMA Centre provides extensive support to start-up projects and functions as a business incubator. To date, the Centre has hosted more than 300 events, received over 3,500 applications and helped launch more than 45 successful start-ups.

BARAMA Centre has played a leading role in establishing four technology companies, one of which was incorporated in Virginia (USA). In addition, representatives from six Centre supported start-ups have traveled to Silicon Valley, California to advance their projects.

BARAMA Centre provides extensive technological opportunities as well as advisory in the areas of law, business development and finance for start-up projects.

The Centre's myriad events include Seedstars Baku – Global Start-up Competition, Hackathon series, Junior Coding Kids – IT Summer School as well as workshops, seminars, forums and trainings.

In June 2017, a second BARAMA Centre was opened in the city of Ganja.

BARAMA Centre plays a significant role in fostering the start-up ecosystem in Azerbaijan, encouraging the pursuit of technology by the

nation's youth and diversifying the economy – all goals that PASHA Bank actively supports.

Business Class

This project's main goal is to increase the entrepreneurial capacity and skills of small and medium enterprise operating in non-oil sectors via educational seminars conducted by highly experienced industry professionals.

We Empower Human Capital

This dimension aims to select and train the country's best students and young people in order to attract them to the Bank as interns or employees.

Project Portfolio

PASHA Bank Scholarship

Since 2012, PASHA Bank has conducted a scholarship program in partnership with the Union of Youth Student Organizations of Azerbaijan. The program is designed to foster talent and socially responsible students at local universities and generate future leaders for both the private and public sectors. This initiative supports talented students who demonstrate academic excellence, leadership potential, and social responsibility.

The Bank provides scholarships for students majoring in mathematics, economics, finance, auditing and related subjects. In the selection process for the scholarship program, 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. The scholarship program encourages the best students by motivating them to work harder, while simultaneously shaping more socially responsible future generations. This effort aims to raise social awareness among youth, while recognizing and rewarding talented individuals whose intellectual potential will serve the further development and achievement of the country.

Increasing Financial Literacy in Azerbaijan

Cooperating with the Central Bank of Azerbaijan, PASHA Bank has continued to organize trainings to boost financial literacy among younger generations.

We Empower Capacity and Good Governance.

This dimension aims to support the Bank's reputation via various awareness raising initiatives and events.

Business Journalism

The Business Journalism project aims to raise the standards of business news reporting in Azerbaijan, by bolstering the professional competencies and skills of the national media through a special training program tailored to meet the needs of the selected 11 journalists. The program is run in cooperation with Thomson Foundation, one of Europe's biggest media organizations. This effort envisages a valuable opportunity for the journalists learn from leading media outlets, such as BBC, Al Jazeera and Associated Press, among others.

The final stage of the program is a one-week UK Study Tour which includes visits and placements at well-known newspapers, magazines and other media establishments in addition to meetings with leading journalists.

Business Confidence Index

In 2017, PASHA Bank initiated the Business Confidence Survey, which is scheduled to be conducted among the Bank's customers on a quarterly basis. The Business Confidence Index (BCI) is based on enterprises' assessment of production, orders and inventory stock, as well as its current position and expectations for the immediate future. OECD Methodology!



The background is a soft, abstract watercolor wash. It features a mix of light green, pale pink, and off-white colors. The colors are blended together, creating a dreamy, ethereal atmosphere. There are some darker, more saturated patches of green and pink, but they are mostly muted and blended into the overall palette. The texture appears soft and painterly.

SUPPORT TO SUSTAINABLE ECONOMIC DEVELOPMENT

SUPPORT TO SUSTAINABLE ECONOMIC DEVELOPMENT

PASHA Bank is committed to contributing to the welfare and cultural development of Azerbaijan as well as creating added-value for its stakeholders. To this end, the Bank developed its Corporate Stakeholders' Engagement (CSE) initiative in 2016. Under this effort, PASHA Bank conducts various trainings to improve the business management, governance and financial literacy of entrepreneurs who run small and medium size businesses.

Evolution of Corporate Social Responsibility Approach

• 1.0: CSR is used purely as a marketing and public relations tool. These are philanthropic initiatives conducted with the aim to improve the reputation of a company. CSR is known as a tool that is "paying the bill." Since the CSR concept took a superficial approach to the idea of responsibility to society, it was not deemed sustainable over the long term.

• 2.0: CSR is not only about "paying the bill" for philanthropic deeds. Companies started forming strategic partnerships with charitable societies. However, CSR still remains a conservative tactic to manage risk.

• 3.0: The concept of integration and shared value has been developing further. CSR is no longer only a tool to reduce risk. CSR has become a strategy that creates value for the company and society and protects this value.

PASHA Bank CSR 3.1: Corporate Stakeholders' Engagement

• The Bank's social mandate is in PASHA Bank's DNA.

• Against the backdrop of today's reality, sustainable development can only be achieved through joint efforts.

• The philosophy of partners and their approach to work should be in harmony with each other.

• PASHA Bank's Corporate Stakeholder Engagement initiative will move all stakeholders forward toward development.

Return on Investment (ROI) in the Case of CSE

PASHA Bank was encouraged by the significant returns of its community investments to realize more comprehensive social responsibility projects.

• More knowledgeable customers

• More sustainable businesses

• More informed journalists

• More educated youth

• More successful entrepreneurs

• More developed economy

• More prosperous country

• Lower risks

• More successful Bank

Events and activities, implemented within the CSE related initiative:

• Seminar on SME Support Mechanisms (13 October 2017)

• Seminar on Transparency in Financial Transactions (30 November 2017)

• Seminar on Local Producer Access to International Markets (19 October 2017)

• Seminars aimed at developing

agribusinesses, in various regions of the country: Sheki (19 April 2017) and Guba (24 May 2017)

Discussion of SME Support Mechanisms

PASHA Bank together with Ekvita LLC hosted an event to discuss mechanisms of support for SMEs on June 21, 2017. The 150 entrepreneurs who took part in the event noted that it served as an effective bridge between the entrepreneurial sector, financial institutions and regulators.

Training Program to Boost Transparency

An event to present the "Training Program to Ensure Transparency in Financial Transactions" – jointly hosted by the Financial Markets Supervision Chamber of the Republic of Azerbaijan, Chamber of Auditors of the Republic of Azerbaijan, PASHA Bank and Headstart International training center – was held at Inn Hotel on November 30, 2017.

Sessions were held for experts of related state bodies, commercial organizations, public unions, banks, corporate groups, among others to bolster the fight against corruption and increase transparency across the economy.

"Access of Local Producers to the International Market – Opportunities and Challenges"

In October 2017, PASHA Bank together with AZPROMO initiated a roundtable discussion on the topic "Access of Local Producers to the International Market – Opportunities and Challenges."

The roundtable was shaped around key topics that included the strategy to access overseas markets, product localization, international marketing, international certification, international trade laws and regulations.



Seminars to Develop Agribusinesses in Regions across Azerbaijan

PASHA Bank Experts Met with Entrepreneurs in Sheki

A roundtable event was held in the city of Sheki to contribute to the development of agriculture in the region. PASHA Bank Commercial Banking brought together existing and potential clients from the surrounding area and informed them about relevant banking products and services. Discussions were held with businesses and individual entrepreneurs about their banking product needs, areas of activity and the specific challenges they face. Commercial Banking took responsive measures and improved its products and services based on the information gathered at this roundtable.

Roundtable Event in Guba

PASHA Bank Corporate Banking initiated another roundtable discussion in the city of Guba in 2017. This event aimed to raise awareness on PASHA Bank's contribution to the development of agriculture in the region. The event included an exchange of views with existing and potential clients on key topics of interest to them. The Bank developed banking products based on the information collected during the discussions.

Business Confidence Index

Pursuant to its commitment to support sustainable development of Azerbaijan's economy, PASHA Bank has conducted the Business Confidence Survey among the Bank's customers on a quarterly basis since 2017. The Business Confidence Index (BCI) is based on enterprises' assessment of production, orders and inventory stock, as well as its current position and expectations for the immediate future. The Index is based on OECD methodology (to learn more please visit <https://data.oecd.org/leadind/business-confidence-index-bci.htm>)

Events Supported and Co-organized

PASHA Bank supports initiatives that explore economic risks and scenarios via panel discussions with industry experts. These events focus on the outlook for growth, while linking global risks and developments to strategic decisions facing business leaders in Azerbaijan and the Caspian region. In 2017, PASHA Bank partnered with various stakeholders to organize events where policymakers, investors, and non-governmental organizations from a number of countries gathered to discuss opportunities for Azerbaijan to accelerate its economic development.

- USACC Annual Conference (28 Feb – 2 March 2017)
- "SHE" Congress (28 March 2017)
- Economic Reforms Conference (30 May 2017)
- Azerbaijan Micro-Finance Association's Investors' Fair (6 October 2017)
- Anti-Money Laundering Conference (30 November 2017)

PASHA Bank partnered with US-Azerbaijan Chamber of Commerce (USACC) to conduct the 2017 Annual Conference

Annual Conference of the US-Azerbaijan Chamber of Commerce was held in Washington, DC in March 2017. More than 250 representatives from 30 various organizations, including diplomatic missions, business associations, large banks, investment associations and other institutions attended the assembly.

During the conference, experts from both countries discussed the changes in the global economy in light of falling oil prices, the

impact of this development on the economies of Azerbaijan and US, and future prospects for further developing trade ties between these countries. The agenda of the event also included topics related to economic reforms and new business opportunities; development of the non-oil sector and attraction of foreign investments; and the future development of public-private partnerships in Azerbaijan.

PASHA Bank partnered with the 100 Business Women of Azerbaijan initiative to conduct the "SHE" Congress

SHE (Smart, Happy, Elegant) Congress, which was held in Baku on March 28, 2017, is an international event designed to empower women and create an environment in which women can share advice and experience issues from maintaining healthy work-life to career development.

A broad range of topics were discussed at the event, including the stereotypes women face in business, gender equality in companies, female participation in Azerbaijan's political life and the difficulties women can experience when balancing their career aspirations with family life.

PASHA Bank partnered with the Center for Economic Reforms Analysis and Communication and American Chamber of Commerce in Azerbaijan (AmCham) for the "Economic Reforms: Achieved Results and Recommendations" Conference

A conference on "Economic Reforms: Achieved Results and Recommendations," co-organized by the Center for Economic Reforms Analysis and Communication and the American Chamber of Commerce in Azerbaijan (AmCham), was held on May 30, 2017 to raise awareness on economic reforms, ensuring close participation

of private sector in the process of reforms and generally contributing to further increase in inclusiveness and effectiveness of the reforms.

PASHA Bank partnered with Azerbaijan Association of Micro-financing (AMFA) for "Investors' Fair 2017"

The fifth installment of "Investors' Fair," took place in October 6, 2017. The main goal of the event was to attract foreign investors to support development of small and medium businesses in regions across the country.

More than 100 representatives of both the private and public sectors took part in the conference, whose theme this year was "The Future of Microfinancing: Challenges and Capabilities." Among those in attendance were representatives of banks, non-bank lending institutions, investment firms, market regulators (Central Bank of Azerbaijan, Chamber of Supervision over Financial Markets), as well as International Finance Corporation, and National Confederation of Entrepreneurs (Employers') Organizations of the Azerbaijan Republic. Other local and international institutions and entities also participated in the event.

Working sessions were held on "The Future of the Microfinancing Sector" and the "Era of Financial Technologies." Participants and experts discussed the latest problems and challenges that market players are currently facing and the role of state regulatory bodies in development of this sector. Experts gave a special consideration to the use of innovation by market participants in developing Azerbaijan's non-oil sector.



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SUSTAINABILITY SUMMARY

SUSTAINABILITY SUMMARY

PASHA Bank is committed to integrating the best sustainability practices into every aspect of its operations. To date, PASHA Bank has issued 3 sustainability reports that covered the Bank's sustainability performance and laid out sustainability objectives for the upcoming strategic period.

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

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

Our Customers

PASHA Bank offers a vast array of high-quality services to customers and supports the sustainable development of Azerbaijan's financial markets.

In light of its sustainable development strategy, PASHA Bank envisioned a new customer relations approach based on diversifying its financial products and services and expanding its customer base. The Bank has started to adopt this new approach in client management by categorizing customers into corporate, commercial and SME segments and deploying a more effective relationship management structure.

Cutting-Edge Products: "Tacir Card" and "Tacir-POS"

To better facilitate payments in the supply chain, PASHA Bank introduced two cutting-edge products: "Tacir Card" and "Tacir-POS." These offerings allow the customer to benefit from special credit limits and an opportunity to pay the whole amount together with VAT. To

simplify customs payments and create further opportunities for its partners, PASHA Bank equipped the Customs terminals with modern POS-Terminals and also issued Customs Cards. Following the increased number of PASHA Bank cardholders, the Bank held a synergy event where potential benefits for the employees of major corporate customers, who hold PASHA Bank's salary card, were presented.

Innovative Products and Services

PASHA Bank offers innovative products and services to its customers in different client segments by closely monitoring both new trends in international banking and customer needs. One such innovation is purchase order financing, which holds great potential for the loan portfolio. Apart from financing tools, PASHA Bank introduced treasury products such as NDF (non-deliverable forward) and hedge contracts. A forward contract is an obligation to purchase or sell currency or some other asset at an agreed-upon price in the future. For instance, by using currency forward contracts, clients can lock in a favorable exchange rate at a given date while settling the contract at some point in the future.

Technology Investments to Sustain Operational Excellence

PASHA Bank has successfully integrated advanced technology tools, such as Oracle FLEXCUBE Financial Platform, with its business processes as a "First Class" Bank.

Digitalization stands at the heart of PASHA Bank's core strategy to improve the quality of its services and boost operational efficiency. Fiscal year 2017 was especially noteworthy for the Bank with the implementation of the Oracle FLEXCUBE financial platform. This platform is

used at the world's leading financial institutions to manage evolving customer expectations in a more effective way. The new system allowed PASHA Bank to design a brand new online banking system with better equipped, customer-centric online banking tools and services. The usage ratio of Internet Banking maintained an upward trajectory; by year's end, 86% of all operations were processed through online banking.

Technological Solutions for Esteemed Corporate Customers

As a continuation of its digitalization strategy throughout the year, PASHA Bank completed the integration of its B2B platform. In addition, some of the Bank's corporate customers completed full integration with PASHA Bank. The B2B platform creates room for clients to integrate their own enterprise resource planning systems with the banking system through a special channel without resorting to other tools (e.g. paper based tools, internet banking, mobile application). The platform conducts transactions easily and flexibly through its internal system. Notably, PASHA Bank was the first financial institution in Azerbaijan to provide its clients with this service.

Our People

PASHA Bank Human Resources Department is committed to ensuring that the Bank attracts, recruits, develops, retains and sustains a high performing, diverse work force. The Bank continues to develop and implement forward-looking human resource management policies and strategies. PASHA Bank leads the industry in fostering a positive work environment that places a high value on professional and collaborative work relationships while recognizing the importance of individual contributions. The Department encourages

and maintains open communication channels within the Bank, serving as a reliable resource to managers and employees who have questions or issues relating to workplace policies and procedures.

The Bank's Human Resources Department continues to enhance the sustainability of a positive working environment by bolstering recruitment, performance management, learning and development.

While planning its recruitment in 2017, PASHA Bank further developed its "employer brand," which is the Bank's reputation as an employer to attract, engage, and retain talented people to the team. A steady, carefully calibrated recruitment program enabled a new generation of the workforce to work alongside the entire team.

By end-2017, the PASHA Bank team totaled 608 staff members, with 175 new hires during the year.

Developing Our People

To ensure that its staff is equipped with the competencies they need to achieve the Bank's business objectives, PASHA BANK conducts ongoing development programs for its employees. The Bank designs and implements staff development and training plans so that employees have the necessary knowledge, skills and competencies for performance excellence in their current and future responsibilities. Development is one of the key factors of the Bank's performance management system.

Employees attend or are engaged in a variety training programs at the Bank. PASHA Bank's learning programs are designed and developed to provide blended learning delivery methods that appeal to the different learning

styles of its employees. The Bank's development programs are designed to provide ongoing learning for professional staff. Training programs at PASHA Bank are executed with highly skilled trainers from different international and local companies, universities, training centers, and the like.

In 2017, PASHA Bank mainly focused on the "Leadership Development" program for its management staff. Sixty-five managerial employees attended "Essentials of Leadership" designed in collaboration with Develor International training company. An international master trainer was invited from Develor's Global Network to lead the course. In addition, executive coaching sessions continued during the year for mid-level managers.

In 2017, PASHA Bank held five courses with 30 sessions for staff to enhance their technical knowledge and stay apprised of the latest changes in the finance world, banking industry and marketing. More than 250 employees were involved in the training programs organized in-house, locally and abroad.

Employee development programs designed for the core business and sales teams commenced in August 2017. This effort aimed to bolster the technical knowledge and skills of this key segment. The "Advanced Sales Skills" training began at year's end to raise the sales team's performance to the next level. Specially-designed trainings also cover all core business and retail banking areas. Nearly 120 personnel have attended these trainings to date.

All these various training programs and tools are developed to boost employee productivity and engagement in order to bolster the overall performance of the Bank.

Engaging Our People

1. PASHA Bank has continued its tradition of CEO Breakfasts, where the Bank's CEO meets junior staff members for an exchange of ideas and views. The meetings held in 2016-17 took place both in Baku and at the Bank's Azerbaijani regional offices. Thanks to this effort, 75 suggestions on optimization and improvement of business processes put forward by junior employees were considered by various functions in the Bank and successfully implemented.

2. Communication Efforts:

- To improve both vertical and horizontal communication, the cascade communications process was developed to bolster the relationship between managers and their direct subordinates by pushing information throughout the organization – from top executives to supervisors and managers to workers on the frontlines.

- The cascade communications process also helps to send information up through the organizational structure, creating a dynamic, two-way information flow that drives vital information and gives employees an effective voice in the workplace.

- The Bank actively supports cross-functional cooperation between employees.

3. Members of the PASHA Bank Executive Board continue to implement their annual plans in internal communications. These include Employee Achievement Recognition (letters, "popping into their office," quick phone calls), informal team building activities with functions under direct supervision, among other activities.

4. To increase the involvement of employees, the Bank organizes various events

with the participation of the families of employees (e.g. Christmas tree event, visits to the cinema, visits to nursing homes), as well as various sports and activities involving Bank staff (marathons, soccer championships, basketball, intellectual games, and the like).

5. In 2017, PASHA Bank conducted its first Organizational Health Index (OHI) survey.

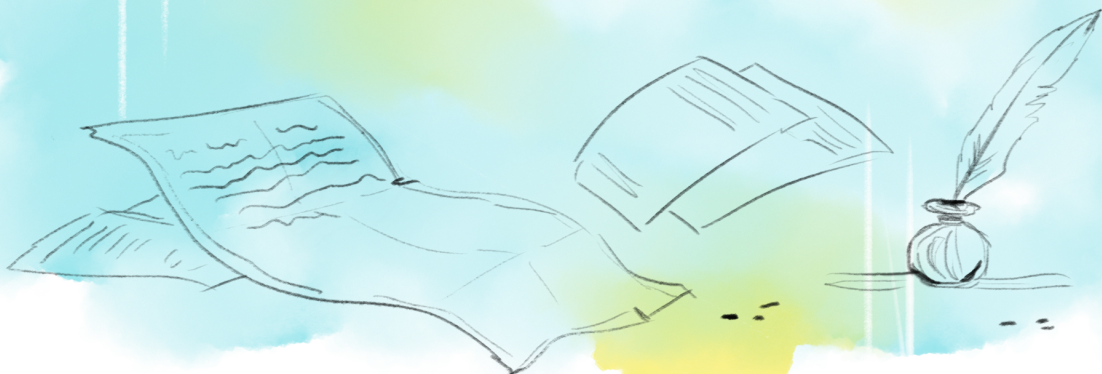
This survey is different in its design and depth from standard research-centric surveys by focusing on how PASHA Bank employees work and shedding light on the Bank's cultural foundations as a corporate entity. The Bank strongly believes that this study reveals its core cultural strengths as well as development needs in its way of thinking, execution, leadership and corporate values.

More about OHI: <https://www.mckinsey.com/solutions/orgsolutions/overview/organizational-health-index>

PASHA Bank Rotary Club

PASHA Bank Rotary Club is managed by the Organization Committee to streamline charity efforts of Bank employees outside of the general mandate of PASHA Bank corporate social responsibility. The Organization Committee arranges regular visits of PASHA Bank staff to orphanages in an attempt to meet their needs for entertainment and affirming social interaction. The Committee also organizes various games and tournaments among PASHA Bank personnel and employees of other PASHA Holding companies to raise awareness on social issues which the Rotary Club aims to address.

The most important indicator of the Committee's success is the level of Bank staff involvement in new events and activities. Since the start of the project, the number of personnel actively participating in Club activities has increased four-fold.



Contributing to Socioeconomic Development

Investing in community development is an essential part of PASHA Bank's business activities. Investments made locally today will yield huge benefits to society as a whole and will also promote long-term development opportunities. In 2017, PASHA Bank was recognized with the "Corporate Social Responsibility in CEE & CIS" designation by EMEA Finance thanks to its active support of local communities.

PASHA Bank's overall corporate social responsibility objectives include empowering entrepreneurship to develop Azerbaijan's economy. The Bank also believes that education plays a key role in contributing to the country's further development. This is why PASHA Bank devotes substantial resources to supporting the education of young people, improving financial literacy among the nation's youth, and educating the business community.

PASHA Bank is engaged in a number of projects that target the nation's young people and contributes to capacity building and the financial education of small and medium enterprises in Azerbaijan. These include a Business Journalism scheme developed in collaboration with the Thomson Foundation. This project aims to raise the standards of business news reporting in Azerbaijan, by bolstering the professional competencies and skills of the national media through a special training program. Meanwhile, the PASHA Bank Scholarship program is conducted in partnership with the Union of Youth Student Organizations of Azerbaijan and is designed to encourage young talent to come work at the Bank. This highly successful effort initiated by PASHA Bank also supports Azerbaijan's youth.

To help improve the financial literacy and corporate governance knowledge of the country's business leaders further, PASHA Bank co-organized and participated in several events with its counterparts, including:

- Seminar on SME Support Mechanisms (13 October 2017)
- Seminar on Transparency in Financial Transactions (30 November 2017)
- Seminar on Local Producer Access to International Markets (19 October 2017)
- Seminars aimed at developing agribusinesses, in various regions of the country: Sheki (19 April 2017) and Guba (24 May 2017)

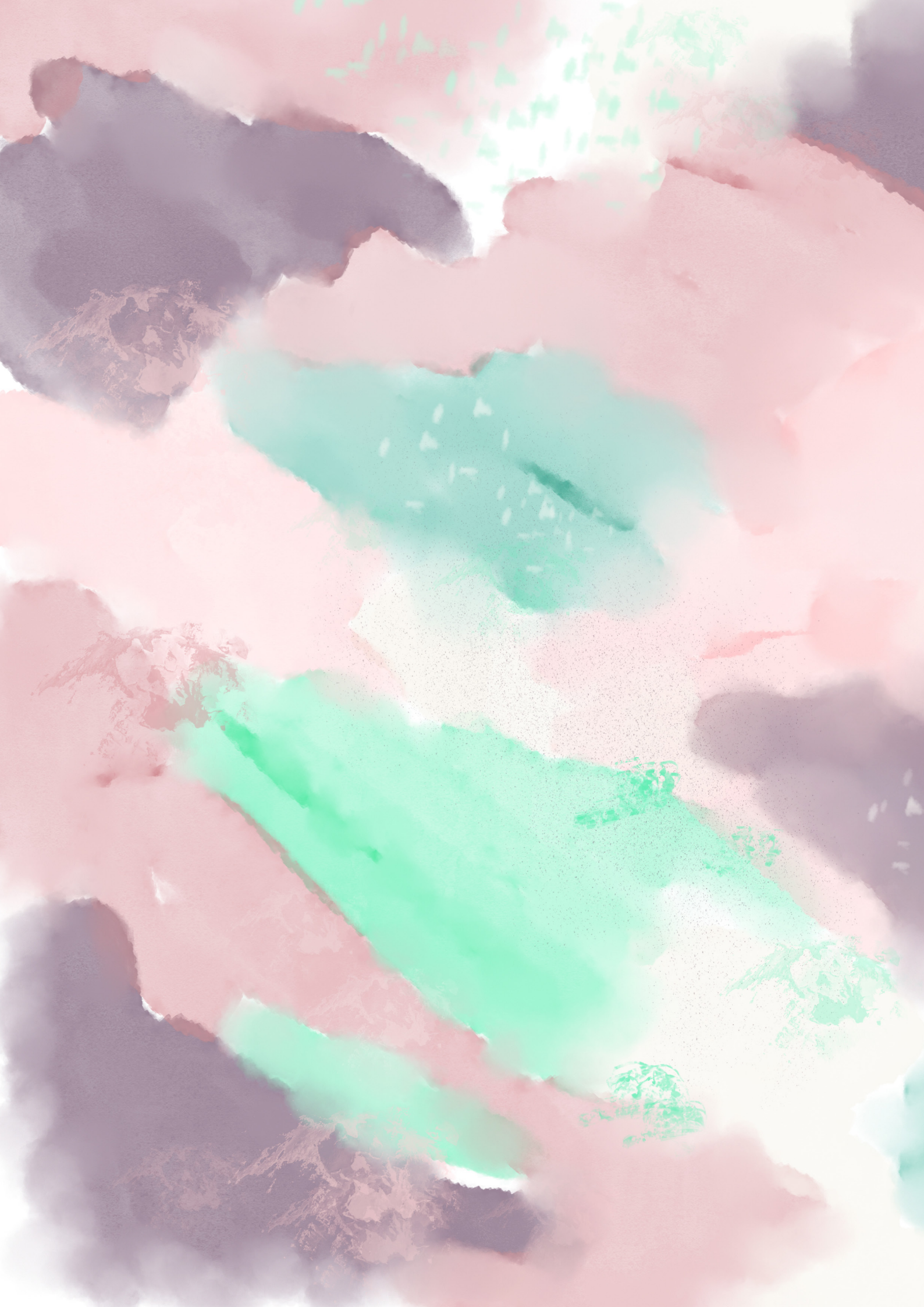
Representatives from public and private companies, as well as international financial institutions, took part in these events. The Bank sees these seminars, conferences and forums, and similar ones it will arrange in the future, as having a lasting impact on developing the skills and know-how of the business community and raising corporate governance standards in Azerbaijan.

We believe that sustainable growth is possible through building quality, long-term relationships with our customers, continually improving our products and services, boosting the efficiency of our business processes, and investing in the wider community.

**PASHA Bank Sustainability Report
Materiality Analysis**

Impact on PASHA Bank	High	<ul style="list-style-type: none"> • Energy • Emissions • Employment • Diversity and Equal Opportunity 	<ul style="list-style-type: none"> • Economic Performance • Indirect Economic Performance • Products and Services • Training and Education • Anti-Corruption • Compliance • Product Portfolio • Audit • Active Ownership • Investment 	
	Middle	<ul style="list-style-type: none"> • Transport • Non Discrimination 	<ul style="list-style-type: none"> • Product Responsibility • Equal Remuneration for Women and Men • Local Communities 	
	Low			
		Low	Middle	High
		Stakeholders' Priorities		

CSE Dimension	Sustainability Approach
We empower entrepreneurship.	Clients for us
We empower human capital.	People for us
We empower capacity and good governance.	Reputation for us



The background is a watercolor-style illustration with soft, blended colors. It features large, irregular shapes in shades of light green, pale pink, and off-white, creating a dreamy, ethereal atmosphere. The colors are layered and textured, with some areas appearing more saturated than others.

REVIEW OF FINANCIAL STATEMENTS

REVIEW OF FINANCIAL STATEMENTS

PASHA Bank is committed to expanding further in the financial sector of Azerbaijan. The Bank aims to become one of the leading financial service providers in the corporate and private banking segments, by embracing transparent business practices and enhancing the transparency of the country's banking industry. Maintaining high quality assets was one of the main targets of the Bank in the strategic plan for the period of 2015-2017. The Bank has diversified its assets between highly liquid and semi liquid assets, balancing between profitability and risk.

The Bank maintained its position as the largest commercial bank by total equity, which amounted to AZN 499,149 thousand in 2017 (2016: AZN 487,266 thousand).

As of year-end, PASHA Bank recorded total assets of AZN 3,958,415 thousand, up 20% year-on-year (2016: AZN 3,289,845 thousand).

The breakdown of the Bank's assets as of 31 December 2017 follows:

- Cash and Cash Equivalents – 37%
- Loans to Customers – 34%
- Due from Credit Institutions – 15%
- Securities Portfolio – 11%
- Other Non-current
and Current Assets – 3%

PASHA Bank generated strong loan growth in 2017, increasing its gross loan portfolio by 21% to AZN 1,413,992 thousand (2016: AZN 1,169,607 thousand).

The effective provision rate on the portfolio was 4.5% (2016: 5.3%). In 2017, the ratio of non-performing loans to the total

loan portfolio decreased to 7.23%, down from 8.25% in 2016.

By remaining consistent and serving customers when the market was soft, the Bank is now benefiting from the relationships it has developed over the last several years. As a result, PASHA Bank generated a customer deposits base totaling AZN 2,889,961 thousand in 2017, up 23% year-on-year (2016: AZN 2,350,687 thousand). Customer deposits were mainly concentrated in demand and term accounts in the proportion of 64% and 36%, respectively (2016: 42% and 58%, respectively).


The Bank reported net profit of AZN 89,092 thousand for fiscal year 2017 (2016: AZN 69,288 thousand). Total operating income for the period was AZN 194,340 thousand, an increase of 4% year-on-year (2016: AZN 186,499 thousand).

The Bank's interest income totaled AZN 231,111 thousand while non-interest income amounted to AZN 52,601 thousand. As a result, the ratio of non-interest income to total operating income was 27%.

Thanks to extensive negotiations with international financial institutions, PASHA Bank was able to provide more trade finance services to its corporate clients by accessing a broader range of financial instruments. The Bank was also able to obtain better terms for financing of customers after receiving a credit rating from two global rating agencies. At the institutional level, the Bank held various seminars and workshops for clients to bolster its capacity to provide timely professional services. In 2017, documentary operations balances (including post financing) amounted to AZN 435,635 thousand (2016: AZN 303,727 thousand).

In 2017, PASHA Bank reported an estimated tier capital adequacy ratio under CBAR capital requirements of 15% (2016: 20%). The Bank remains focused on meeting the required capital levels once Basel II and BASEL III are finalized, while also returning capital to our shareholders through dividends.

*All figures are presented as of 31 December 2017 if not indicated otherwise and are based on consolidated audited financial statements.



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