# **OJSC PASHA Bank**

Interim condensed consolidated financial statements

30 June 2018

# Contents

# Report on Review of Interim Financial Information

# Interim condensed consolidated financial statements

Inter	rim condensed consolidated statement of financial position rim condensed consolidated statement of profit or loss rim condensed consolidated statement of comprehensive income rim condensed consolidated statement of changes in equity rim condensed consolidated statement of cash flows	2
	or such lows	5
Sele	ected explanatory notes to the interim condensed consolidated financial state	ments
1.	Principal activities	
2.		
3.	Cash and cash equivalents Trading securities	6
4.	Trading securities	
5.	Amounts due from credit institutions	
6.		
7.		
8.		
9.	Other assets and liabilities  Amounts due to banks and government funds	12
10.		
11.	Amounts due to customers Other borrowed funds	13
12.	Other borrowed funds	
13.		
14.		
15.		
16.		
17.		
18.	Credit loss expense on financial assets and other impairment and provisions	16
19.	Net fee and commission income	
20.		
21.	Fair values of financial instruments	19
22.		
23.		
24.	Events after the end of the interim period	22
	•	23



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# Report on Review of Interim Financial Information

To the Shareholders and Board of Directors of OJSC PASHA Bank

#### Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC PASHA Bank and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2018 and the related interim condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of review

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

#### Conclusion

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

Ernst & Young Holdings (CIS) B.V.

25 September 2018

Baku, Azerbaijan

## Interim condensed consolidated statement of financial position

#### As at 30 June 2018

(In thousands of Azerbaijani manats)

	Notes	30 June 2018 (unaudited)	31 December 2017
Assets			
Cash and cash equivalents	3	1,612,368	1,465,771
Trading securities	4	1,662	2,224
Amounts due from credit institutions	5	289,287	592,029
Investment securities	6	850,892	445,938
Investment securities purchased under agreement to resell		6,628	_
Derivative financial assets	13	1,454	1,665
Loans to customers	7	1,504,895	1,350,668
Investment property	8	98,651	1,668
Property and equipment		13,435	12,808
Intangible assets		43,038	48,954
Current income tax assets		5,625	2,154
Deferred income tax assets	15	1,039	640
Other assets	9	40,957	33,896
Total assets	,	4,469,931	3,958,415
Liabilities			
Amounts due to banks and government funds	10	461,104	399,973
Amounts due to customers	11	3,320,558	2,889,961
Other borrowed funds	12	:	39,105
Debt securities issued	14	109,982	81,765
Derivative financial liabilities	13	1,292	2,058
Current income tax liabilities		1,605	1,136
Deferred income tax liabilities	15	11,862	10,056
Provision for guarantees and other commitments	17	5,254	3,112
Other liabilities	9	15,453	32,100
Total liabilities		3,927,110	3,459,266
Equity			
Share capital	16	333,000	333,000
Retained earnings		72,023	113,601
Other reserves		1,983	_
Net unrealised losses on investment securities		(11)	(24)
Foreign currency translation reserve		29,587	52,496
Total equity attributable to shareholders of the Bank		436,582	499,073
Non-controlling interests		106,239	76
Total equity		542,821	499,149
Total liabilities and equity		4,469,931	3,958,415

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

Taleh Kazimov

Chairman of the Executive Board

Bahruz Naghiyev

25 September 2018

Chief Financial Officer

The accompanying notes on pages 6 to 23 are an integral part of these interim condensed consolidated financial statements.

### Interim condensed consolidated statement of profit or loss

### For the six months ended 30 June 2018

(In thousands of Azerbaijani manats)

For the six months ended 30 June

	(unaudited)		
	Notes	2018	2017
Interest income			
Loans to customers		68,345	64,340
Amounts due from credit institutions		3,773	47,444
Investment securities		21,527	9,871
Cash and cash equivalents		15,386	9,568
Interest revenue calculated using effective interest rate		109,031	131,223
Trading securities			1,230
			1,230
Interest expense Amounts due to customers		(16,259)	(50,975)
Amounts due to banks and government funds		(6,974)	(5,623)
Debt securities issued		(3,579)	(1,352)
Other borrowed funds		(316)	(555)
Other borrowed lunds		(27,128)	(58,505)
Net interest income		81,903	73,948
Credit loss expense on financial assets	18	(8,307)	(6,576)
Net interest income after provision for impairment losses		73,596	67,372
Fee and commission income	19	15,095	11,241
Fee and commission expense	19	(7,705)	(6,204)
Net gains from trading securities		37	1,794
Net gains/(losses) from investment securities Net gains/(losses) from foreign currencies:		77	(21)
- dealing		8,195	23,850
- translation differences		(55)	349
- operations with foreign currency derivatives		(243)	2,673
Other income		185	123
Non-interest income		15,586	33,805
Personnel expenses	20	(22,774)	(25,121)
General and administrative expenses	20	(16,883)	(13,838)
Depreciation and amortisation		(3,949)	(3,670)
Net losses on modification of financial assets measured at		1.30.300,000	100,000
amortised cost		(119)	
(Provision)/reversal of provision for guarantees, letters of credit		(4.000)	<b>5</b> 040
and unused credit lines	18	(1,230)	5,010
Non-interest expenses		(44,955)	(37,619)
Profit before income tax expense		44,227	63,558
Income tax expense	15	(8,833)	(13,234)
Net profit for the period		35,394	50,324
Attributable to:			
- shareholders of the Bank		33,391	50,321
- non-controlling interests		2,003	3
		35,394	50,324
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### Interim condensed consolidated statement of comprehensive income

### For the six months ended 30 June 2018

(In thousand of Azerbaijani manats)

		For the six months (unaudit	
	Notes	2018	2017
Net profit for the period		35,394	50,324
Other comprehensive income Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealised gain/(loss) on investment securities		51	(98)
Realised (gain)/loss on investment securities reclassified to the consolidated statement of profit or loss		(77)	21
Net unrealised loss on investment securities	16	(26)	(77)
Tax effect of net loss on investment securities	15	5	15
Foreign currency translation difference	16	(31,792)	(2,038)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(31,813)	(2,100)
Total comprehensive income for the period		3,581	48,224
Attributable to:			
- shareholders of the Bank		13,677	48,221
- non-controlling interests		(10,096)	3
		3,581	48,224

### Interim condensed consolidated statement of cash flows

### For the six months ended 30 June 2018

(In thousands of Azerbaijani manats)

For the six months ended 30 June

	(unaudited)		
	Notes	2018	2017
Cash flows from operating activities	V		
Interest received		103,982	83,400
Interest paid		(22,516)	(19,747)
Fees and commissions received		15,046	11,103
Fees and commissions paid		(7,723)	(6,247)
Net realized loss from trading securities		37	_
Realised gains less losses from dealing in foreign currencies and		0.000	24.000
from operations with foreign currency derivatives		8,328	24,809
Personnel expenses paid		(30,308) (14,270)	(24,513) (12,895)
General and administrative expenses paid		8,227	125
Other operating income received		0,221	120
Cash flows from operating activities before changes in		60,803	56,035
operating assets and liabilities		00,003	30,033
Net (increase)/decrease in operating assets			
Investment securities purchased under agreement to resell		(6,617)	25 <b>—</b> 3
Trading securities		_	(1,191)
Amounts due from credit institutions		288,362	80,013
Loans to customers		(216,767)	(93,432)
Other assets		(8,491)	(2,337)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and government funds		99,911	(9,179)
Amounts due to customers		441,493	330,540
Other borrowed funds		(38,584)	(7,370)
Other liabilities		(10,224)	(2,363)
Net cash from operating activities before income tax		609,886	350,716
Income tax paid		(9,146)	(20,511)
Net cash from operating activities		600,740	330,205
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		2,167,464	420,477
Purchases of investment securities		(2,571,475)	(350,979)
Proceeds from sale of property, equipment and intangible assets		19	
Purchase of property and equipment and intangible assets		(119,502)	(7,256)
Net cash (used in) / from investing activities		(523,494)	62,242
Cook flows from financing activities			
Cash flows from financing activities Sale of non-controlling interests		101,652	
Proceeds from debt securities issued		103,229	52,458
Payment of debt securities issued		(65,329)	(42,987)
Dividends paid	16	(61,414)	(58,636)
Net cash used in financing activities	10	78,138	(49,165)
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Effect of exchange rates changes on cash and cash equivalents		(8,787)	5,204
Net increase/(decrease) in cash and cash equivalents		146,597	348,486
Cash and cash equivalents, beginning	3	1,465,771	1,105,769
Cash and cash equivalents, ending	3	1,612,368	1,454,255
American American Admirator 12, 17, 1811	10.7		

### 1. Principal activities

OJSC PASHA Bank ("the Bank") was formed on 18 June 2007 as an open joint stock company under the laws of the Republic of Azerbaijan. The Bank operates under a banking licence issued by the Central Bank of the Republic of Azerbaijan ("CBAR") on 28 November 2007.

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

As at 30 June 2018 and 31 December 2017, the Bank has four service points and two branches in Azerbaijan and two subsidiaries, JSC PASHA Bank Georgia located in the Republic of Georgia and PASHA Yatirim Bankasi A.Ş. (the "Subsidiaries") located in the Republic of Turkey.

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

As at 30 June 2018 and 31 December 2017, the following shareholders owned the outstanding shares of the Bank:

Shareholders	30 June 2018 (%)	31 December 2017 (%)
Pasha Holding Ltd. Ador Ltd. Mr. Arif Pashayev	60 30 10	60 30 10
Total	100	100

As at 30 June 2018 and 31 December 2017, the Bank is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, who exercise joint control over the Bank.

PASHA Bank Georgia JSC, a wholly – owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as of 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 as at 30 June 2018. PASHA Bank Georgia JSC operates under a banking licence issued by the National Bank of Georgia (the "NBG") on 17 January 2013.

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

TAIB Yatirim Bank A.Ş. was incorporated in 1987 as an investment bank in Turkey with the permission of the Council of Ministers decision no. 6224 which allows the transfer of the banks' net profit after statutory liabilities and in case of liquidation the transfer of capital to foreign shareholders. On 27 January 2015, the Bank acquired 79.47% of the voting common shares of TAIB Yatirim Bank A.Ş. TAIB Yatirim Bank A.Ş. was renamed to Pasha Yatirim Bankasi A.Ş. at the registration of the Bank as shareholder. In March 2015, investment in share capital of the subsidiary was increased by TRY 175,000 thousand to TRY 255,000 thousand increasing ownership in subsidiary to 99.92%. On 6 June 2018, share capital of subsidiary was increased by TRY 245,000 thousand to TRY 500,000 thousand. The increase was made based on decision of Supervisory Board of the Bank, according to which newly issued shares were acquired by Pasha Holding Ltd. As a result, the Bank's shares in the subsidiary decreased from 99.92% to 50.96% and Pasha Holding Ltd became a new non-controlling shareholder with ownership of 49% as at 30 June 2018. Head office of PASHA Yatirim Bankasi A.Ş. is located in Istanbul. The activities of the bank are regulated by the Central Bank of the Republic of Turkey (the "CBRT").

OJSC PASHA Bank and its Subsidiaries were consolidated in these financial statements.

### 2. Basis of preparation

#### General

These interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

### 2. Basis of preparation (continued)

#### Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the adoption of new Standards effective as of 1 January 2018. The nature and the effect of these changes are disclosed below. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

#### (a) Classification and measurement

Under IFRS 9, all debt financial assets that do not meet a "solely payment of principal and interest" (SPPI) criterion, are classified at initial recognition as fair value through profit or loss (FVPL). Under this criterion, debt instruments that do not correspond to a "basic lending arrangement", such as instruments containing embedded conversion options or "non-recourse" loans, are measured at FVPL. For debt financial assets that meet the SPPI criterion, classification at initial recognition is determined based on the business model, under which these instruments are managed:

- Instruments that are managed on a "hold to collect" basis are measured at amortised cost;
- Instruments that are managed on a "hold to collect and for sale" basis are measured at fair value through other comprehensive income (FVOCI);
- ▶ Instruments that are managed on other basis, including trading financial assets, will be measured at FVPL.

Equity financial assets are required to be classified at initial recognition as FVPL unless an irrevocable designation is made to classify the instrument as FVOCI. For equity investments classified as FVOCI, all realised and unrealised gains and losses, except for dividend income, are recognised in other comprehensive income with no subsequent reclassification to profit and loss.

The classification and measurement of financial liabilities remains largely unchanged from the current IAS 39 requirements. Derivatives will continue to be measured at FVPL. Embedded derivatives are no longer separated from a host financial asset.

#### (b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. From 1 January 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a methodology for assigning rating to customer in following segments of portfolio: Corporate customers, SME customers, Financial Institutions and Retail/Individual customers. Assigned rating is returning PD on "customer by customer" base.

### 2. Basis of preparation (continued)

### Changes in accounting policies (continued)

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired. The bank records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The Group calculates ECL based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, integrated in estimates of credit risk components (PD, LGD and EAD). Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The Group considers that there has been a significant increase in credit risk when the credit rating has deteriorated significantly since initial recognition. Level of significant deterioration differs from segment to segment and varies from 2 to 3 notches or defined score threshold. The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Group considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay.

The Group calculates ECLs on an individual basis for POCI assets, significant assets with factors of credit impairment and certain assets with factors of significant increase of credit risk. The Group calculates ECL on a collective basis for all other classes of assets which it groups into homogeneous borrowers, based on a combination of internal and external characteristics of the loans.

IFRS 9

Remeasurement

(Figures in tables are in thousands of Azerbaijani manats)

IAS 39 measurement

#### 2. Basis of preparation (continued)

#### Changes in accounting policies (continued)

#### (c) Effect of transition to IFRS 9

The following tables set out the impact of adopting IFRS 9 on the statement of financial position and retained earnings as at 1 January 2018 including the effect of replacing IAS 39 incurred credit loss calculations with IFRS 9 ECL.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 January 2018 is as follows:

Reclassi-

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	Category	Amount	fication	ECL	Other	Amount	Category
Financial assets							
Cash and cash equivalents	L&R1	1,465,771	-	-	-	1,465,771	Amortised cost
Trading securities	FVPL	2,224	-	-	_	2,224	FVPL
Amounts due from credit							
institutions	L&R	592,029	500	-	-	592,029	Amortised cost
Derivative financial assets	FVPL	1,665	-	_	_	1,665	FVPL (mandatory)
Loans to customers	L&R	1,350,668	-	2,176	(802)	1,352,042	Amortised cost
Investment securities at	450	105 500				100 500	
FVOCI	AFS	405,530	-	_	-	405,530	FVOCI
Investment securities at						0000000000	1925 N. 10 10 10 10 10 10 10 10 10 10 10 10 10
amortised cost	L&R	40,408	===	(403)	-	40,005	Amortised cost
Other financial assets	L&R	13,231	-/:	-	_	13,231	Amortised cost
Non-financial assets							
Deferred tax assets		640	_	_	-	640	
Total assets		3,872,166	_	1,773	(802)	3,873,137	
Provision for guarantees							
and other commitments		3,112	_	1,155	_	4,267	
Deferred tax liabilities		10,056	_	124	(161)	10,019	
Doloned tax habilities							
Total liabilities		13,168	_	1,279	(161)	14,286	
1 L&R: Loans and receivables	5.						
Retained earnings							
Closing balance under IA	S 30 (31 De	combor 2017	7				112 001
Recognition of IFRS 9 E0		cerriber 2017	)				113,601
							618
Loss recognized from mo							(802)
Deferred tax in relation to	the above						37
Restated opening balar	ice under IF	RS 9 (1 Janu	uary 2018)			_	113,454
Total change in equity of	due to adon	tina IFRS 9	a) 15				(147)
						_	

The following table reconciles the aggregate opening loan loss allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances under IFRS 9.

	Loan loss allowance/ provision under IAS 39/IAS 37 at 31 December 2017	Remeasurement	ECL under IFRS 9 at 1 January 2018
Impairment allowance for			
Due from credit institutions	(871)	_	(871)
Loans to customers at amortised cost Investment securities: loans and receivables per IAS 39 investment securities at amortised cost	(63,324)	2,176	(61,148)
under IFRS 9	(160)	(403)	(563)
	(64,355)	1,773	(62,582)
Commitment and contingencies	(3,112)	(1,155)	(4,267)
	(67,467)	618	(66,849)

#### 3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2018	
	(unaudited)	31 December 2017
Cash on hand	108,710	71,250
Current accounts with the CBAR, the NBG and the CBRT	496,848	388,733
Current accounts with other credit institutions	71,635	58,594
Time deposits with credit institutions up to 90 days	935,175	947,194
Cash and cash equivalents	1,612,368	1,465,771

Current accounts with other credit institutions consist of interest bearing correspondent account balances with resident banks in the amount of AZN 34,000 thousand (31 December 2017: nil) and non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 520 thousand (31 December 2017: AZN 3,199 thousand) and AZN 37,115 thousand (31 December 2017: AZN 55,395 thousand), respectively.

As at 30 June 2018, the Group placed AZN 935,175 thousand in time deposits with nine non-resident banks maturing through September 2018 with interest rates ranging between 1.30% and 2.35% p.a. (31 December 2017: AZN 947,194 thousand with one resident bank and eight non-resident banks maturing through February 2018 with interest rates ranging between 0.9% and 14.99% p.a.).

All balances of cash equivalents are allocated to Stage 1. The ECL relating to cash equivalents of the Bank rounds to zero.

#### 4. Trading securities

Trading securities comprise:

	30 June 2018 (unaudited)	31 December 2017
Corporate bonds	1,662	2,224
Trading securities	1,662	2,224

#### 5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2018 (unaudited)	31 December 2017
Time deposits with banks	147,257	466,370
Loans to banks	22,697	22,789
Obligatory reserve with the CBAR, the NBG and the CBRT	82,473	72,540
Restricted deposits	37,509	31,201
	289,936	592,900
Less: allowance for impairment	(649)	(871)
Amounts due from credit institutions	289,287	592,029

As at 30 June 2018, time deposits with banks mature between July 2018 and June 2022 (31 December 2017: between January 2018 and December 2018) with interest rates ranging between 0% and 2.5% p.a. (31 December 2017: between 0% and 2.2% p.a.).

As at 30 June 2018, the Group had outstanding amount of AZN 22,697 thousand (31 December 2017: AZN 21,918 thousand) of secured loan issued to one resident commercial bank (31 December 2017: one resident commercial bank) with contractual maturity through June 2019 (31 December 2017: December 2018) and with interest rates ranging between 1.9% and 13% p.a. (31 December 2017: 11.5% and 15% p.a.).

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

All balances of amounts due from credit institutions, are allocated to stage 1. The following table shows reconciliation from the opening to the closing balance of the loss allowance of due from credit institutions. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	30 June 2018 (unaudited)	30 June 2017 (unaudited)
As at 1 January	(871)	(907)
(Charge)/reversal (Note 18)	(649)	35
Amounts written off	871	-
Exchange difference		_
As at 30 June 2018	(649)	(872)

Credit institutions in the Republic of Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at the level of 0.5% (2017: 0.5%) and 1.0% (2017: 1.0%) of the previous month average of funds attracted from customers by a credit institution in AZN and foreign currencies, respectively. Credit institutions in the Republic of Georgia are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 7% (2017: 7%) and 20% (2017: 20%) of the average of funds attracted from customers by the credit institution for the appropriate two-week period in GEL and foreign currencies, respectively. Credit institutions in the Republic of Turkey are required to maintain a mandatory interest earning cash deposit with the CBRT at the level of 4%-10.5% for TRY deposits and other liabilities according to their maturities (2017: 4%-10.5%) and 4%-24% for foreign currency deposits and other liabilities according to their maturities (2017: 4%-24%).

#### 6. Investment securities

Investment securities comprises:

	30 June 2018 (unaudited)	31 December 2017
Debt securities at FVOCI (previously classified as investment securities available-for-sale)	1	
Notes issued by the CBAR	382,738	282,237
Bonds of financial institutions	223,831	4.015
Bonds of the Ministry of Finance of the Republic of Azerbaijan	94,461	103.614
US treasury bills	71,956	4,233
AMF bonds	31,265	_
Corporate bonds	9,487	9,146
Other state bonds	3,312	_
Turkey Government Bonds	2,616	2,285
Debt securities at FVOCI	819,666	405,530
	30 June 2018 (unaudited)	31 December 2017
Debt securities at amortized cost (previously classified as loans and receivables)		31 December 2017
Debt securities at amortized cost (previously classified as loans and receivables)  Certificates of deposits of financial institutions	(unaudited)	
receivables)	(unaudited) 17,204	17,489
receivables) Certificates of deposits of financial institutions	(unaudited) 17,204 1,317	17,489 14,382
receivables) Certificates of deposits of financial institutions Bonds of financial institutions	(unaudited) 17,204	17,489
receivables) Certificates of deposits of financial institutions Bonds of financial institutions Corporate bonds	(unaudited) 17,204 1,317	17,489 14,382 7,932
receivables) Certificates of deposits of financial institutions Bonds of financial institutions Corporate bonds Treasury bonds of the Ministry of Finance of Georgia  Less: allowance for impairment	(unaudited) 17,204 1,317 12,783	17,489 14,382 7,932 765
receivables) Certificates of deposits of financial institutions Bonds of financial institutions Corporate bonds Treasury bonds of the Ministry of Finance of Georgia	17,204 1,317 12,783 - 31,304	17,489 14,382 7,932 765 40,568
receivables) Certificates of deposits of financial institutions Bonds of financial institutions Corporate bonds Treasury bonds of the Ministry of Finance of Georgia  Less: allowance for impairment Debt securities at amortized cost (previously classified as loans and	(unaudited)  17,204 1,317 12,783 - 31,304  (78)	17,489 14,382 7,932 765 <b>40,568</b> (160)

All balances of investment securities are allocated to Stage 1.

#### 7. Loans to customers

Loans to customers comprise:

	30 June 2018 (unaudited)	31 December 2017
Legal entities Individuals	1,377,547 188,951	1,258,722 155,270
Loans to customers (gross)	1,566,498	1,413,992
Less - allowance for impairment	(61,603)	(63,324)
Loans to customers (net)	1,504,895	1,350,668

Loans are made in the following industry sectors:

	30 June 2018 (unaudited)	31 December 2017
Trade and services	541,317	485,670
Individuals	188,951	155,270
Manufacturing	170,810	141,134
Non-banking credit organizations	155,858	155,257
Agriculture and food processing	107,887	82,943
Transport and telecommunication	104,289	46,346
Construction	101,911	135,712
Mining	60,014	69,175
Energy	43,209	53,627
Leasing	33,057	32,044
Other	59,195	56,814
Total loans (gross)	1,566,498	1,413,992

As at 30 June 2018, loans granted to top 7 customers (31 December 2017: 7 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 345,777 thousand (31 December 2017: AZN 335,080 thousand).

The following table shows analysis of changes in ECL allowance during the six month of 2018. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	30 June 2018 (unaudited)				30 June 2017 (unaudited)
	Stage 1	Stage 2	Stage 3	Total	Total
As at 1 January	(9,027)	(4,110)	(48,011)	(61,148)	(62,333)
(Charge)/reversal (Note 18)	123	(2,640)	(5,223)	(7,740)	(6,658)
Amounts written off	_	_	9,305	9,305	` <b>-</b>
Recovery	_	-	(2,249)	(2,249)	(246)
Exchange difference	229			229	(58)
As at 30 June	(8,675)	(6,750)	(46,178)	(61,603)	(69,295)

The group does not have POCI assets.

### 8. Investment property

In 2011, the Bank acquired land for the amount of AZN 2,000 thousand as investment property which is held for long-term appreciation in value. As at 30 June 2018, the fair value of this investment property amounted to AZN 1,590 thousand (31 December 2017: AZN 1,668 thousand).

In June 2018, after the increase of share capital, PASHA Yatirim Bankasi A.S. purchased a real estate classified as investment property amounting to AZN 97,061 thousand as of balance sheet date (31 December 2017: none). As at 30 June 2018, the fair value of this investment property amounted to AZN 97,061 thousand.

### 9. Other assets and liabilities

Other assets comprise:

	30 June 2018 (unaudited)	31 December 2017
Other financial assets		
Settlements on money transfers	9,255	11,267
Clearance cheque accounts	1,370	1,443
Accrued commission receivable on guarantees and letters of credit	551	466
Other	3,157	55
	14,333	13,231
Other non-financial assets		
Repossessed collateral	14,042	15,287
Prepayments for acquisition of property, equipment and intangible assets	7,950	1,771
Deferred expenses	2,531	2,308
Other prepayments	2,095	1,299
Taxes, other than income tax	6	_
	26,624	20,665
Other assets	40,957	33,896

As at 30 June 2018, clearance cheque accounts consist of receivables from other banks for which cheques stand as collateral.

Other liabilities comprise:

30 June 2018 (unaudited)	31 December 2017
2,534	11,804
1,370	1,443
829	626
712	720
5,445	14,593
8.752	16,064
885	965
163	139
97	118
111	221
10,008	17,507
15,453	32,100
	(unaudited)  2,534 1,370 829 712 5,445  8,752 885 163 97 111 10,008

### 10. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	30 June 2018 (unaudited)	31 December 2017
Loans from the National Fund for Support of Entrepreneurship	168,472	138.747
Short-term deposits from banks	130,531	107,160
Long-term deposits from banks	98,175	131,540
Correspondent accounts with other banks	35,954	4.118
Amount due to Azerbaijan Mortgage Fund	17,706	11,201
Loans from the CBAR and NBG	5,561	1,956
Amount due to IT Development Fund	4,705	5,251
Amounts due to banks and government funds	461,104	399,973

(Figures in tables are in thousands of Azerbaijani manats)

#### 10. Amounts due to banks and government funds (continued)

As at 30 June 2018, the Group had loans received from the National Fund for Support of Entrepreneurship amounting to AZN 168,472 thousand (31 December 2017: AZN 138,747 thousand), maturing through December 2027 (31 December 2017: through December 2027), and bearing interest rate of 1.0% p.a. The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at interest rate of 6% p.a. (31 December 2017; 6% p.a.).

As at 30 June 2018, the Group received short-term funds from three non-resident commercial banks (31 December 2017: fifteen) and one resident commercial bank (31 December 2017: one) comprising AZN 130,531 thousand (31 December 2017: AZN 107,160 thousand) maturing through August 2018 (31 December 2017: August 2018) and with interest rates ranging between 1% and 20% p.a. (31 December 2017: 0.10% and 15.20% p.a.).

As at 30 June 2018, the Group had loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 17,706 thousand (31 December 2017: AZN 11,201 thousand), maturing through October 2047 (31 December 2017: through October 2047) and bearing interest rate of 4.0% p.a.

As at 30 June 2018, the Group had loans refinanced from the IT Development Fund amounting to AZN 4,705 thousand (31 December 2017: AZN 5,251 thousand), maturing through December 2021 (31 December 2017: through December 2021) and bearing interest rate of 1.0% p.a.

### 11. Amounts due to customers

The amounts due to customers include the following:

	30 June 2018 (unaudited)	31 December 2017
Demand deposits	2,149,028	1,856,582
Time deposits	1,171,530	1,033,379
Amounts due to customers	3,320,558	2,889,961
Less: cash held as security against letters of credit and guarantees (Note 17)	39,980	38,481
An analysis of customer accounts by economic sector follows:		
	30 June 2018 (unaudited)	31 December 2017
Individuals	908,062	775,936
Investment holding companies	641,848	517,692
Trade and services	478,355	491,191
Manufacturing	435,622	455,919
Transport and communication	306,715	218,090
Construction	149,968	128,187
Insurance	128,264	87,244
Mining	95,590	75,542
Hotel business	58,616	48,395
Agriculture	38,151	26,096
Public organizations	20,906	18,758
Energy	10,096	8,946
Non banking credit organizations	6,063	9,218
Other	42,302	28,747
Amounts due to customers	3,320,558	2,889,961

As at 30 June 2018, customer deposits included balances with five (31 December 2017: five) largest customers comprised AZN 1,466,298 thousand or 44% of the total customer deposits portfolio (31 December 2017: AZN 1,298,632 thousand or 45% of the total customer deposits portfolio).

#### 12. Other borrowed funds

As at 31 December 2017, other borrowed funds included balances of three foreign banks amounting to AZN 39,105 thousand maturing through April 2021 and bearing interest rates ranging between 1.47% and 3.72% p.a. The borrowings were repaid before maturity during the six months of 2018.

#### 13. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts.

	9.0	30 June 2018 (unaudited)	l.	31	December 20	017
	Notional	Fair v	values	Notional	Fair	value
	amount	Asset	Liability	amount	Asset	Liability
Foreign exchange contracts						-
Forwards and swaps - foreign	34,858	37	(1,292)	59,389	40	(2.058)
Forwards and swaps - domestic	19,500	1,404	-	8,501	1,625	
Options - domestic	11,021	13	-	-		
Total derivative assets/ (liabilities)		1,454	(1,292)		1,665	(2,058)

#### 14. Debt securities issued

As at 30 June 2018, PASHA Yatirim Bankasi A.S. had issued interest-bearing bonds with carrying amount of AZN 109,982 thousand (31 December 2017: AZN 81,765 thousand) maturing in December 2022 (31 December 2017: matured in December 2022). The bonds bear annual interest rates ranging from 5% to 12.1%.

#### 15. Taxation

The corporate income tax expense comprises:

	2018 (6 months) (unaudited)	2017 (6 months) (unaudited)
Current tax charge	(6,381)	(5,950)
Deferred tax charge	(2,447)	(7,269)
Less: deferred tax recognized directly in other comprehensive income	(5)	(15)
Income tax expense	(8,833)	(13,234)

#### 16. Equity

As at 30 June 2018 and 31 December 2017, the Bank's authorized, issued and fully paid capital amounted to AZN 333,000 thousand comprising of 10,000 ordinary shares with a par value of AZN 33,300 per ordinary share. Each ordinary share entitles one vote to the shareholder.

On 25 April 2017, General Shareholders Meeting declared dividends totalling AZN 58,636 thousand which was paid in May 2017.

On 10 May 2018, General Shareholders Meeting declared dividends totalling AZN 61,414 thousand which was paid in June 2018.

#### Foreign currency translation reserve

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

#### Unrealised gains (losses) on investment securities

This reserve records fair value changes on investment securities at FVOCI.

(Figures in tables are in thousands of Azerbaijani manats)

# 17. Commitments and contingencies (continued)

#### Compliance with CBAR ratios

Throughout the year the Bank submitted information regarding these breaches to the Financial Markets Supervision Chamber (the "FMSC") on a monthly basis and no sanctions were imposed on the Bank. Management believes that the Bank will not face any sanctions against the Bank in the future.

## Financial commitments and contingencies

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

Financial commitments and contingencies comprise:

	30 June 2018 (unaudited)	31 December 2017
Credit-related commitments Guarantees issued Unused credit lines	393,891 168,705	390,089 153,616
Letters of credit	5,253	6,441
Operating lease commitments  Not later than 1 year  Later than 1 year but not later than 5 years  Later than 5 years	4,376 13,216 - 17,592	4,565 16,487 1,377 22,429
Less: provisions (Note 18) Commitments and contingencies (before deducting collateral)	(5,254) 580,187	(3,112)
Less: cash held as security against letters of credit and guarantees (Note 11)	(39,980)	(38,481)
Commitments and contingencies	540,207	530,982

The following table shows an analysis of changes in ECL during the six months of 2018. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

·		30 June (unaud			30 June 2017 (unaudited)
_	Stage 1	Stage 2	Stage 3	Total	Total
As at 1 January (Charge)/reversal (Note 18) Exchange difference	(2,025) (274) 243	(1,952) (913)	(290) (43)	(4,267) (1,230) 243	(6,959) 5,010 -
As at 30 June	(2,056)	(2,865)	(333)	(5,254)	(1,949)

(Figures in tables are in thousands of Azerbaijani manats)

# 18. Credit loss expense on financial assets and other impairment and provisions

The table below shows the ECL (charges)/reversals on financial instruments recorded in the income statement for the six months period ended 30 June 2018:

	Note	Stage 1	Stage 2	Stage 3	Total
Amounts due from credit institutions	5	(649)	2.—.		(649)
Loans to customers at amortised cost Debt securities measured at	7	123	(2,640)	(5,223)	(7,740)
amortised cost Credit loss expense on financial		82	-	-	82
assets		(444)	(2,640)	(5,223)	(8,307)
Commitments and contingencies	17	(274)	(913)	(43)	(1,230)
Total credit loss expense		(718)	(3,553)	(5,266)	(9,537)

The movements in other impairment allowances and provisions during six months period ended 30 June 2017 were as follows:

6 months ended 30 June 2017

	-			(unaudited)			
	Corporate lending	Individual Iending	Total loans to customers	Amounts due from credit institutions	Investment securities – loans and receivables	Total	Guarantees and letters of credit
At 1 January (Charge)/reversal for the year	( <b>58,089</b> ) (5,330)	<b>(4,244)</b> (1,328)	(62,333) (6,658)	( <b>907</b> ) 35	(134) 47	(63,374) (6,576)	( <b>6,959</b> ) 5,010
Amounts written off Recovery	(244)	(2)	(246)	_	_	(246)	_
Exchange difference	(58)		(58)		(6)	(64)	_
At 30 June	(63,721)	(5,574)	(69,295)	(872)	(93)	(70,260)	(1,949)

### 19. Net fee and commission income

Net fee and commission income comprise:

	2018 (6 months) (unaudited)	2017 (6 months) (unaudited)
Servicing plastic card operations	5,328	3,660
Settlements operations	4,498	3,739
Guarantees and letters of credit	4,050	2,930
Cash operations	962	650
Other	257	146
Securities operations		116
Fee and commission income	15,095	11,241
Servicing plastic card operations	(4,872)	(3,568)
Settlements operations	(1,420)	(1,396)
Guarantees and letters of credit	(876)	(485)
Other	(392)	(186)
Cash operations	(114)	(562)
Securities operations	(31)	(7)
Fee and commission expense	(7,705)	(6,204)
Net fee and commission income	7,390	5,037

# 20. Personnel, general and administrative expenses

Personnel expenses comprise:

	2018 (6 months) (unaudited)	2017 (6 months) (unaudited)
Salaries and bonuses Social security costs Other employee related expenses	(17,569) (3,342) (1,863)	(18,036) (5,879) (1,206)
Total personnel expenses	(22,774)	(25,121)

General and administrative expenses comprise:

	2018 (6 months) (unaudited)	2017 (6 months) (unaudited)
Operating leases Professional services Impairment of repossessed collateral Software cost Charity and sponsorship Insurance Advertising costs Membership fees Taxes, other than income tax Utilities	(3,477) (2,930) (2,352) (1,566) (1,260) (862) (815) (668) (447) (421)	(3,511) (1,832) - (1,229) (1,825) (642) (779) (276) (154) (320)
Repair and maintenance Security expenses Communications Entertainment Transportation and business trip expenses Stationery Impairment of investment property Printing expenses Other expenses	(373) (342) (288) (287) (248) (233) (78) (24) (212)	(438) (270) (288) - (294) (144) (338) (11) (1,487)
Total general and administrative expenses	(16,883)	(13,838)

### 21. Fair values of financial instruments

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

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

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

At 30 June 2018	Recurring fair value measurement								
(unaudited)	(Level 1)	(Level 2)	(Level 3)	Total					
Financial assets									
Trading securities	1,662	_	_	1,662					
Investment securities at FVOCI	311,203	508,463	_	819,666					
Derivative financial assets	_	1,454	_	1,454					
Financial liabilities	<b>2</b>								
Derivative financial liabilities	-	1,292	_	1,292					

### 21. Fair values of financial instruments (continued)

	Recurring fair value measurement								
At 31 December 2017	(Level 1)	(Level 2)	(Level 3)	Total					
Financial assets									
Trading securities	2,224	_	_	2,224					
Investment securities	16,400	385,851	3,279	405,530					
Derivative financial assets		1,665	-,	1,665					
Financial liabilities									
Derivative financial liabilities	-	2,058	-	2,058					

Level 3 financial assets included corporate bonds with floating rates as at 31 December 2017, which were valued using discounted cash flow techniques based on current rates available for debt instruments with similar terms and credit risk characteristics. Such instrument has been sold during six months of 2018. The movement in the level 3 financial assets is as follows:

	At 1 January 2018	Total gain/ (loss) recorded in profit or loss	Total gains/ (losses) recorded in other comprehen- sive income	Purchases	Sales	Settle- ments	Exchange A	At 30 June 2018
Financial assets Investment securities								
at FVOCI	3,279	(4)	-	 -	(3,208)	-	(67)	-
Total level 3 financial assets	3,279	(4)	_	 	(3,208)		(67)	_

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

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

	Carrying value 30 June 2018 (unaudited)	Fair value 30 June 2018 (unaudited)	Unrecognized gain/(loss) 30 June 2018 (unaudited)	Carrying value 31 December 2017	Fair value 31 December 2017	Unrecognized gain/(loss) 31 December 2017
Financial assets						
Cash and cash equivalents Amounts due from credit	1,612,368	1,612,368	-	1,465,771	1,465,771	-
institutions Investment securities at	289,287	289,287	-	592,029	592,029	-
amortized cost Investment securities purchased under 	31,226	31,791	565	40,408	41,084	676
agreement to resell	6,628	6,628		_	-	_
Loans to customers	1,504,895	1,490,852	(14,043)	1,350,668	1,326,636	(24,032)
Financial liabilities Amounts due to banks and						
government funds	461,104	460,729	375	399,973	399,973	_
Amounts due to customers	3,320,558	3,324,438	(3,880)	2,889,961	2,895,186	(5,225)
Other borrowed funds	_	_	(0,000)	39,105	39,105	(0,220)
Debt securities issued Total unrecognised change	109,982	109,880	102_	81,765	81,701	64
in unrealised fair value			(16,881)			(28,517)

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

### 21. Fair values of financial instruments (continued)

### Fixed rate financial instruments

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

### Assets for which fair value approximates carrying value

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

#### Fixed and variable rate financial instruments

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

### 22. Related party disclosures

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

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

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

		30 June 2018 (unaudited)					31	December 20	17	
	Parent	Entities under common control	Key manage- ment personnel	Other	Total	Parent	Entities under common control	Key manage- ment personnel	Other	Total
Loans, gross	-	142,646	4,601	71	147,318	_	135,105	3,380	154	138,639
Less: allowance for impairment		(1,280)	(19)	(1)	(1,300)		(977)	(2)		(979)
Loans, net		141,366	4,582	70	146,018		134,128	3,378	154	137,660
Amounts due to banks		27.2700.0000								
and government funds	_	42,919			42,919	-	52,557	_		52,557
Deposits		508,557	2,349	97,700	608,606	7	436,436	4,978	94,685	536,099
Current accounts Investment securities purchased under	174,735	313,639	414,372	13,140	915,886	43,374	280,136	321,681	75,609	720,800
agreement to resell	-	3,013	-	-	3,013	_	-	_	2	_
Debt securities	42,467	40,674	_	-	83,141	_	40,692	_	72	40,692
Guarantees issued	_	15,800	-	_	15,800	_	21,917	_	2	21,917
Unused credit lines	184	52,571	1,272	277	54,304	187	39,839	1,148	285	41,459

### 22. Related party disclosures (continued)

The income and expense arising from related party transactions are as follows:

For the six months ended

-					lunau	antea)	a)			
			30 June 2018				30 June 2017			
	Parent	Entities under common control	Key manage- ment personnel	Other related parties	Total	Parent	Entities under common control	Key manage- ment personnel	Other related parties	Total
Interest income on loans Interest expense on	_	4,212	153	7	4,374	-	4,418	161	9	4,588
deposits  Net gains/(losses) from foreign currencies:	(418)	(8,871)	(943)	(450)	(10,682)	(51)	(8,467)	(147)	(114)	(8,779)
dealing General and administrative	1,231	1,070	153	109	2,563	293	2,772	422	1,198	4,685
expenses Fee and commission	1.7	-	(5)	-	(5)	_	(1,364)	-	-	(1,364)
income	31	2,331	9	5	2,376	36	2,064	18	1	2,119

The Bank has guarantee from its parent received as a collateral in respect of loans provided to 8 borrowers (31 December 2017: 7 borrowers) in the amount of AZN 121,828 thousand as at 30 June 2018 (31 December 2017: AZN 110,610 thousand).

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

	2018 (6 months) (unaudited)	2017 (6 months) (unaudited)
Salaries and other benefits	(6,935)	(5,170)
Social security costs	(1,560)	(875)
Total key management compensation	(8,495)	(6,045)

#### 23. Capital adequacy

The Bank and its banking subsidiaries maintain an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the CBAR in Azerbaijan and banking regulators in the countries where respective subsidiaries are located.

During the 6 months of 2018, the Bank have complied in full with its externally imposed capital requirements.

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

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

# 23. Capital adequacy (continued)

# CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 10% (2017: 10%) of risk-weighted assets for regulatory capital. As at 30 June 2018 and 31 December 2017 the Bank's capital adequacy ratio on this basis was as follows:

Tior 1 coults.	30 June 2018 (unaudited)	31 December 2017
Tier 1 capital Tier 2 capital	326,251	328,238
Less: deductions from capital	42,623 (149,301)	78,294 (148,987)
Total regulatory capital	219,573	257,545
Risk-weighted assets	1,720,993	1,553,166
Capital adequacy ratio	11%	15%

The NBG requires banks to maintain a minimum total capital adequacy ratio of 9.4% (2017: 9.6%) of risk-weighted assets for regulatory capital. As at 30 June 2018, capital adequacy ratio of PASHA Bank Georgia was 34% (31 December 2017: 39%).

The BRSA requires banks to maintain a minimum total capital adequacy ratio of 8% (2017: 8%) of risk-weighted assets for regulatory capital. Capital Adequacy Standard Ratio of PASHA Yatirim is calculated in accordance with BRSA. As at 30 June 2018 the bank's capital adequacy ratio was 38% (31 December 2017: 32%).

# 24. Events after the end of the interim period

Subsequent to reporting date, as a result of economic and geopolitical actions, TRY devalued against AZN by 27 % and CBRT increased refinancing rate from 17.75% to 24%. This event could impact the Bank's investment in Turkish subsidiary. Management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary.

In August 2018, the Bank issued subordinated bonds in total amount of USD 11,000 thousand (or AZN 18,700 thousand) with the maturity of six years.