

OJSC PASHA Bank

Interim condensed consolidated financial statements

30 June 2019



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Report on Review of Interim Condensed Consolidated Financial Statements

To the Shareholders and Supervisory Board of
OJSC PASHA Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC PASHA Bank and its subsidiaries (the Group), which comprise the interim consolidated statement of financial position as at 30 June 2019 and the related interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that 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.

30 August 2019

Baku, Azerbaijan

Interim consolidated statement of financial position

As at 30 June 2019

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	30 June 2019 (unaudited)	31 December 2018
Assets			
Cash and cash equivalents	3	1,105,388	1,503,046
Trading securities		–	895
Investment securities purchased under agreement to resell	4	18,995	–
Amounts due from credit institutions	5	545,023	334,834
Investment securities	6	1,329,268	1,458,146
Derivative financial assets	14	683	2,050
Loans to customers	7	1,855,299	1,731,565
Investment property	8	44,514	71,719
Property and equipment		44,276	18,236
Intangible assets		51,318	49,754
Right-of-use assets		11,665	–
Current income tax assets		409	–
Deferred income tax assets	15	5,434	4,003
Other assets	9	31,036	35,116
Total assets		5,043,308	5,209,364
Liabilities			
Amounts due to banks and government funds	10	611,871	524,975
Amounts due to customers	11	3,689,164	3,953,952
Debt securities issued	12	133,641	102,300
Derivative financial liabilities	14	810	81
Lease liabilities		11,962	–
Current income tax liabilities		2,871	5,516
Deferred income tax liabilities	15	5,240	7,886
Provision for guarantees and other commitments	17	14,962	6,425
Subordinated debt	13	18,920	18,921
Other liabilities	9	33,905	41,299
Total liabilities		4,523,346	4,661,355
Equity			
Share capital	16	333,000	333,000
Retained earnings		103,343	114,930
Other reserves		1,983	1,983
Net unrealised gain on investment securities		1,393	338
Foreign currency translation reserve		(1,684)	9,774
Total equity attributable to shareholders of the Bank		438,035	460,025
Non-controlling interests		81,927	87,984
Total equity		519,962	548,009
Total liabilities and equity		5,043,308	5,209,364

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

Taleh Kazimov

Chairman of the Executive Board

Bahruz Nagiyev

Chief Financial Officer

30 August 2019

The accompanying notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of profit or loss**For the six months ended 30 June 2019***(Figures in tables are in thousands of Azerbaijani manats)*

		For the six months ended 30 June (unaudited)	
	Notes	2019	2018
Interest income			
Loans to customers		77,344	68,345
Investment securities		30,686	21,527
Cash and cash equivalents		13,979	15,386
Amounts due from credit institutions		9,511	3,773
Interest revenue calculated using effective interest rate		131,520	109,031
Interest expense			
Amounts due to customers		(16,703)	(16,259)
Amounts due to banks and government funds		(6,423)	(6,974)
Debt securities issued		(3,415)	(3,579)
Other borrowed funds		(5)	(316)
Lease liabilities		(516)	-
Subordinated debt		(279)	-
		(27,341)	(27,128)
Net interest income		104,179	81,903
Credit loss expense on financial assets	18	(17,652)	(8,307)
Net interest income after credit loss expense		86,527	73,596
Fee and commission income	19	21,911	15,095
Fee and commission expense	19	(9,785)	(7,705)
Net gains from trading securities		39	37
Net (losses)/ gains from investment securities		(219)	77
Net gains/(losses) from foreign currencies:			
- dealing		10,807	8,195
- translation differences		118	(55)
- operations with foreign currency derivatives		(2,382)	(243)
Other income		849	185
Non-interest income		21,338	15,586
Personnel expenses	20	(27,008)	(22,774)
General and administrative expenses	20	(16,930)	(16,883)
Depreciation and amortisation		(8,813)	(3,949)
Net losses on modification of financial assets measured at amortised cost		(99)	(119)
Other operating expenses		(403)	-
Provision for credit related commitments and other assets	18	(8,746)	(1,230)
Non-interest expenses		(61,999)	(44,955)
Profit before income tax expense		45,866	44,227
Income tax expense	15	(10,170)	(8,833)
Net profit for the period		35,696	35,394
Attributable to:			
- shareholders of the Bank		33,645	33,391
- non-controlling interests		2,051	2,003
		35,696	35,394

The accompanying notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of comprehensive income**For the six months ended 30 June 2019***(Figures in tables are in thousands of Azerbaijani manats)*

		<i>For the six months ended 30 June (unaudited)</i>	
	<i>Notes</i>	2019	2018
Net profit for the period		35,696	35,394
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Reclassification of cumulative gain/(loss) on disposal of investment securities at fair value through other comprehensive income to profit or loss		219	(77)
Net change in fair value of investment securities at fair value through other comprehensive income		1,144	51
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income		(44)	-
Net unrealised gains/(losses) on investment securities at fair value through other comprehensive income		1,319	(26)
Income tax relating to components of other comprehensive income	15	(264)	5
Foreign currency translation differences	16	(19,566)	(31,792)
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		(18,511)	(31,813)
Total comprehensive income for the period		17,185	3,581
Attributable to:			
- shareholders of the Bank		23,242	13,677
- non-controlling interests		(6,057)	(10,096)
		17,185	3,581

The accompanying notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity**For the six months ended 30 June 2019***(Figures in tables are in thousands of Azerbaijani manats)*

	<i>Attributable to shareholders of the Bank</i>						<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Retained earnings</i>	<i>Net unrealised gain/(losses) on investment securities</i>	<i>Other reserves</i>	<i>Foreign currency translation reserve</i>	<i>Total</i>		
As at 1 January 2018	333,000	113,454	(24)	–	52,496	498,926	76	499,002
Net profit for the period	–	33,391	–	–	–	33,391	2,003	35,394
Other comprehensive loss for the period	–	–	(21)	–	(19,693)	(19,714)	(12,099)	(31,813)
Total comprehensive income/(loss) for the period	–	33,391	(21)	–	(19,693)	13,677	(10,096)	3,581
Sale of non-controlling interests	–	(11,425)	34	–	(3,216)	(14,607)	116,259	101,652
Transfer to reserves	–	(1,983)	–	1,983	–	–	–	–
Dividends to shareholders of the Bank (Note 16)	–	(61,414)	–	–	–	(61,414)	–	(61,414)
As at 30 June 2018 (unaudited)	333,000	72,023	(11)	1,983	29,587	436,582	106,239	542,821
As at 1 January 2019	333,000	114,930	338	1,983	9,774	460,025	87,984	548,009
Net profit for the period	–	33,645	–	–	–	33,645	2,051	35,696
Other comprehensive loss for the period	–	–	1,055	–	(11,458)	(10,403)	(8,108)	(18,511)
Total comprehensive income/(loss) for the period	–	33,645	1,055	–	(11,458)	23,242	(6,057)	17,185
Dividends to shareholders of the Bank (Note 16)	–	(45,232)	–	–	–	(45,232)	–	(45,232)
As at 30 June 2019	333,000	103,343	1,393	1,983	(1,684)	438,035	81,927	519,962

The accompanying notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flows**For the six months ended 30 June 2019***(Figures in tables are in thousands of Azerbaijani manats)*

	Notes	For the six months ended 30 June (unaudited)	
		2019	2018
Cash flows from operating activities			
Interest received		129,087	103,982
Interest paid		(26,665)	(22,516)
Fees and commissions received		21,852	15,046
Fees and commissions paid		(9,688)	(7,723)
Net realized losses on sale of investment securities		(219)	-
Net realized gain from trading securities		38	37
Realised gains less losses from dealing in foreign currencies and from operations with foreign currency derivatives		9,626	8,328
Personnel expenses paid		(34,468)	(30,308)
General and administrative expenses paid		(15,740)	(14,270)
Other operating income received		672	8,227
Cash flows from operating activities before changes in operating assets and liabilities		74,495	60,803
Net (increase)/decrease in operating assets			
Investment securities purchased under agreement to resell		(18,995)	(6,617)
Trading securities		845	-
Amounts due from credit institutions		(211,414)	288,362
Loans to customers		(152,818)	(216,767)
Other assets		(3,760)	(8,491)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and government funds		91,354	99,911
Amounts due to customers		(262,454)	441,493
Other borrowed funds		-	(38,584)
Other liabilities		837	(10,224)
Net cash (used in) / flows from operating activities before income tax		(481,910)	609,886
Income tax paid		(16,818)	(9,146)
Net cash (used in) / from operating activities		(498,728)	600,740
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		3,875,868	2,167,464
Purchase of investment securities		(3,746,611)	(2,571,475)
Proceeds from sale of property and equipment		129	19
Purchase and prepayments for property and equipment		(4,743)	(119,502)
Acquisition of intangible assets		(4,297)	-
Purchase of investment property		(96)	-
Net cash flow / (used in) investing activities		120,250	(523,494)
Cash flows from financing activities			
Sale of non-controlling interest		-	101,652
Proceeds from bonds issued		61,698	103,229
Redemption of bonds issued		(30,579)	(65,329)
Proceeds from subordinated loan		(1)	-
Lease liability paid		(2,005)	-
Dividends paid	16	(45,232)	(61,414)
Net (used in) / cash from financing activities		(16,119)	78,138
Effect of exchange rates changes on cash and cash equivalents		(3,059)	(8,787)
Effect of expected credit losses on cash and cash equivalents		(2)	-
Net (decrease)/increase in cash and cash equivalents		(397,658)	146,597
Cash and cash equivalents, beginning	3	1,503,046	1,465,771
Cash and cash equivalents, ending	3	1,105,388	1,612,368

The accompanying notes on pages 6 to 24 are an integral part of these interim condensed consolidated financial statements.

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

OJSC PASHA Bank ("the Bank") was established on 18 June 2007, as an open joint stock company under the laws of the Republic of Azerbaijan. The Bank operates under a banking licence No. 250 issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") on 28 November 2007.

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

As at 30 June 2019 and 31 December 2018, the Bank has five service points, 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 2019 and 31 December 2018, the following shareholders owned the outstanding shares of the Bank:

Shareholders	30 June 2019, (%)	31 December 2018, (%)
PASHA Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	100	100

As at 30 June 2019 and 31 December 2018, the Group is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, who exercise joint control over the Group.

PASHA Bank Georgia JSC, a wholly – owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as at 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 thousand as at 30 June 2019. 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. and it was renamed to PASHA Yatirim Bankasi A.Ş. at the registration of the Bank as shareholder. In March 2015, investment in share capital of the subsidiary was increased by TRY 175,000 thousand to TRY 255,000 thousand increasing ownership in subsidiary to 99.92%. On 6 June 2018, share capital of subsidiary was increased by TRY 245,000 thousand to TRY 500,000 thousand. The increase was made based on decision of Supervisory Board of the Bank, according to which newly issued shares were acquired by PASHA Holding 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% since 6 June 2018. Head office of PASHA Yatirim Bankasi A.Ş. is located in Istanbul. The activities of the bank are regulated by the Central Bank of the Republic of Turkey (the "CBRT").

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

2. Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2018.

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 2018, except for the adoption of new Standards effective as of 1 January 2019. 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.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Changes in accounting policies

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial statements of the Group.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

Assets	
Right-of-use assets	14,034
Other assets	(212)
Total assets	13,822
Liabilities	
Lease liabilities	13,822
Total liabilities	13,822

(a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of property and equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Other assets and Other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. For all leases of the Group, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

The Group also applied the available practical expedients wherein it:

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ▶ Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ▶ Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, as at 1 January 2019:

- ▶ Right-of-use assets of AZN 14,034 thousands were recognized.
- ▶ Lease liabilities of AZN 13,822 thousand were recognised.
- ▶ Prepayments of AZN 212 thousand related to previous operating leases were derecognised.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

Operating lease commitments as at 31 December 2018	24,087
Weighted average incremental borrowing rate as at 1 January 2019	7%
Discounted operating lease commitments at 1 January 2019	<u>22,295</u>
Less:	
Commitments relating to short-term leases	(24)
Commitments relating to lease agreements with the change of management estimation about lease agreement terms	<u>(8,449)</u>
Lease liabilities as at 1 January 2019	<u><u>13,822</u></u>

(b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)**Changes in accounting policies (continued)**Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognised in the consolidated statement of financial position and consolidated statement of profit or loss.

The Group recognised rent expense from short-term leases of AZN 729 thousands for the six months ended 30 June 2019.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2019 (unaudited)	31 December 2018
Cash on hand	102,122	135,938
Current accounts with the CBAR, the NGB and the CBRT	509,896	257,234
Current accounts with other credit institutions	99,982	83,499
Time deposits with credit institutions up to 3 months	393,394	1,026,383
Less: allowance for impairment	(6)	(8)
Cash and cash equivalents	1,105,388	1,503,046

Current accounts with other credit institutions consist of non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 12,872 thousand (31 December 2018: AZN 83 thousand) and AZN 87,110 thousand (31 December 2018: AZN 83,416 thousand), respectively.

As at 30 June 2019, the Group placed AZN 393,394 thousand in time deposits with one resident bank and thirteen non-resident banks maturing through July 2019 with interest rates ranging between 0.48% and 25.50% p.a. (31 December 2018: AZN 1,026,383 thousand with one resident bank and fourteen non-resident banks maturing through March 2019 with interest rates ranging between 1.00% and 10.00% p.a.).

All balances of cash equivalents are allocated to Stage 1.

4. Investment securities purchased under agreement to resell

Investment securities pledged under agreement to resell comprise:

	30 June 2019 (unaudited)	31 December 2018
Reverse REPO agreements with CBAR	17,281	-
Reverse REPO agreements with Ministry of Finance	1,714	-
Investment securities pledged under agreement to resell	18,995	-

(Figures in tables are in thousands of Azerbaijani manats)

5. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2019 (unaudited)	31 December 2018
Time deposits with credit institutions for more than 3 months	304,656	180,121
Loans to banks	62,832	18,583
Obligatory reserve with the CBAR, the NGB and the CBRT	105,339	83,981
Restricted deposits	72,949	52,518
	545,776	335,203
Less: allowance for impairment	(753)	(369)
Amounts due from credit institutions	545,023	334,834

As at 30 June 2019, time deposits with credit institutions mature between July 2019 and June 2020 (31 December 2018: between January 2019 and June 2022) with interest rates ranging between 1.20% and 4.80% p.a. (31 December 2018: between 1.3% and 11% p.a.).

As at 30 June 2019, the Group had outstanding amount of AZN 45,400 thousand (31 December 2018: AZN 17,415 thousand) of secured loans issued to two resident commercial banks (31 December 2018: one resident commercial bank) and AZN 17,432 thousand (31 December 2018: AZN 1,169 thousand) of unsecured loans issued to four non-resident commercial banks (31 December 2018: one resident commercial bank) with contractual maturity through May 2020 (31 December 2018: December 2019) and with interest rates ranging between 1.9% and 10% p.a. (31 December 2018: 1.9% and 10% p.a.).

Credit institutions in the Republic of Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve with restriction on withdrawal) with the CBAR at the level of 0.5% (2018: 0.5%) and 1.0% (2018: 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 NGB at the level of 5% (2018: 5%) and 30% (2018: 25%) of the average of funds attracted from customers and non-resident financial institutions by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively. Credit institutions in the Republic of Turkey are required to maintain reserve rates for TL liabilities between 1% and 7% for TL deposits and other liabilities according to their maturities as of 30 June 2019 (31 December 2018: 1.5% and 8% for all TL liabilities). The reserve rates for foreign currency liabilities vary between 5% and 21% for deposit and other foreign currency liabilities according to their maturities as of 30 June 2019 (31 December 2018: 4% and 20% for all foreign currency liabilities).

An analysis of changes in the expected credit loss (hereafter, "ECL") allowances during the six months ended 30 June 2019 is as follows:

	30 June 2019 (unaudited) Stage 1
ECL allowance as at 1 January 2019	(369)
New assets originated or purchased	(718)
Assets repaid	330
Foreign exchange adjustments	4
At 30 June 2019	(753)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is as follows:

	30 June 2018 (unaudited) Stage 3
As at 1 January 2018	(871)
(Charge)/reversal (Note 18)	(649)
Amounts written off	871
Exchange difference	-
As at 30 June 2018	(649)

(Figures in tables are in thousands of Azerbaijani manats)

6. Investment securities

Investment securities comprise:

	30 June 2019 (unaudited)	31 December 2018
Debt securities at FVOCI		
Certificate of deposits	473,834	486,919
Notes issued by the Central Bank of Azerbaijan Republic	147,033	367,229
US treasury bonds	182,117	292,717
Bonds of the Ministry of Finance of the Republic of Azerbaijan	282,480	232,917
Bonds of financial institutions	49,202	13,789
Corporate bonds	31,638	20,850
AMF bonds	105,774	3,001
Turkey Government Bonds	1,170	1,233
Other foreign government bonds	13,322	7,272
Debt securities at FVOCI	1,286,570	1,425,927

	30 June 2019 (unaudited)	31 December 2018
Equity securities at FVOCI		
Corporate Shares	2,921	-
Equity securities at FVOCI	2,921	-

	30 June 2019 (unaudited)	31 December 2018
Debt securities at amortized cost		
Corporate bonds	11,988	11,821
Turkey Government Bonds	11,987	12,056
Bonds of financial institutions	16,261	8,650
	40,236	32,527
Less: allowance for impairment	(459)	(308)
Debt securities at amortized cost	39,777	32,219

All balances of investment securities are allocated to Stage 1. An analysis of changes in the ECLs is, as follows:

	30 June 2019 (unaudited)
Debt securities at FVOCI	
ECL as at 1 January 2019	(756)
New assets originated or purchased	(385)
Assets repaid	430
Changes to models and inputs used for ECL calculations	(1)
Foreign exchange adjustments	(27)
At 30 June 2019	(739)

As at 30 June 2018 ECL allowances on Debt securities at FVOCI was close to nil.

	For the six months ended (unaudited)	
Debt securities at amortised cost	30 June 2019	30 June 2018
ECL as at 1 January	(308)	(160)
New assets originated or purchased	(177)	-
Assets repaid	12	82
Changes to models and inputs used for ECL calculations	(21)	-
Foreign exchange adjustments	35	-
At 30 June	(459)	(78)

(Figures in tables are in thousands of Azerbaijani manats)

7. Loans to customers

Loans to customers comprise:

	30 June 2019 (unaudited)	31 December 2018
Legal entities	1,688,358	1,579,798
Individuals	232,624	200,984
Loans to customers (gross)	1,920,982	1,780,782
Less: allowance for impairment	(65,683)	(49,217)
Loans to customers at amortised cost	1,855,299	1,731,565

Loans are made in the following industry sectors:

	30 June 2019 (unaudited)	31 December 2018
Trade and services	690,744	715,534
Individuals	232,624	200,984
Manufacturing	208,487	175,822
Non-banking credit organizations	164,286	161,177
Agriculture and food processing	130,746	125,994
Transport and telecommunication	167,749	124,999
Construction	153,903	110,103
Mining	45,234	53,156
Real estate management	26,261	-
Energy	32,617	40,378
Leasing	27,747	22,516
Other	40,584	50,119
Total loans (gross)	1,920,982	1,780,782

As at 30 June 2019, loans granted to top 7 customers (2018: 6 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 392,417 thousand (2018: AZN 300,344 thousand).

An analysis of changes in the ECL allowances during the six months ended 30 June 2019 is, as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	(12,079)	(9,523)	(27,615)	(49,217)
New assets originated or purchased	(12,769)	-	-	(12,769)
Assets repaid	2,559	1,348	3,303	7,210
Transfers to Stage 1	(1,162)	1,162	-	-
Transfers to Stage 2	6,984	(6,993)	9	-
Transfers to Stage 3	5,432	3,670	(9,102)	-
Impact on period end ECL of exposures transferred between stages during the period	964	(791)	(6,865)	(6,692)
Unwinding of discount (recognised in interest revenue)	-	-	(1,547)	(1,547)
Changes to models and inputs used for ECL calculations	31	(3,852)	(1,052)	(4,873)
Amounts written off	44	-	1,459	1,503
Foreign exchange adjustments	672	313	(283)	702
At 30 June 2019	(9,324)	(14,666)	(41,693)	(65,683)

An analysis of changes in the ECL allowances during the six months ended 30 June 2018 is, as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	(9,027)	(4,110)	(48,011)	(61,148)
(Charge)/reversal (Note 18)	123	(2,640)	(5,223)	(7,740)
Amounts written off	-	-	9,305	9,305
Recovery	-	-	(2,249)	(2,249)
Exchange difference	229	-	-	229
As at 30 June 2018	(8,675)	(6,750)	(46,178)	(61,603)

(Figures in tables are in thousands of Azerbaijani manats)

7. Loans to customers (continued)**Modified and restructured loans**

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired asset.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

8. Investment property

The movements in investment property were as follows:

	30 June 2019 (unaudited)	31 December 2018
Opening balance at 1 January	71,719	1,668
Additions (subsequent expenditure)	96	97,061
Impairment loss	-	(13,546)
Amortisation for the period	(170)	(148)
Transfer of the cost to buildings and lands	(25,442)	-
Transfer of the accumulated depreciation to building	40	-
Transfer of impairment loss to building and land	4,164	-
Foreign translation difference	(5,893)	(13,316)
Closing balance	44,514	71,719

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 2019, the fair value of this investment property amounted to AZN 1,590 thousand (2018: AZN 1,590 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 at 30 June 2019, the fair value of this investment property amounted to AZN 64,066 thousand (2018: AZN 70,129 thousand). The Bank reclassified part of investment property of AZN 21,238 thousand, net of accumulated depreciation, to buildings within property and equipment, since the bank moved its headquarter to this building and started to use it for own purpose.

9. Other assets and liabilities

Other assets comprise:

	30 June 2019 (unaudited)	31 December 2018
Other financial assets		
Settlements on money transfers	8,274	6,065
Clearance cheque accounts	1,026	7,118
Accrued commission receivable on guarantees and letters of credit	862	901
Other	100	19
	10,262	14,103
Less: allowance for impairment of other financial assets	(315)	(492)
Total other financial assets	9,947	13,611
Other non-financial assets		
Reposessed collateral	11,945	13,929
Deferred expenses	2,911	2,441
Prepayments for acquisition of property, equipment and intangible assets	2,031	2,078
Other prepayments	4,196	3,055
Taxes, other than income tax	6	2
	21,089	21,505
Other assets	31,036	35,116

(Figures in tables are in thousands of Azerbaijani manats)

9. Other assets and liabilities (continued)

As at 30 June 2019, clearance cheque accounts consist of receivables from other banks for which cheques stand as collateral.

Other liabilities comprise:

	30 June 2019 (unaudited)	31 December 2018
Other financial liabilities		
Settlements on money transfer	13,102	7,432
Clearance cheque accounts	1,026	7,118
Accrued expenses	6,339	3,027
Other	576	2,297
	21,043	19,874
Other non-financial liabilities		
Payable to employees	11,296	18,944
Deferred income	1,213	1,218
Taxes, other than income tax	168	326
Other provision	-	112
Other	185	825
	12,862	21,425
Other liabilities	33,905	41,299

10. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	30 June 2019 (unaudited)	31 December 2018
Entrepreneurship Development Fund of the Republic of Azerbaijan	290,988	247,985
Long-term deposits from banks	148,994	25,485
Short-term deposits from banks	130,321	197,664
Azerbaijan Mortgage and Credit Guarantee Fund	25,351	20,367
Correspondent accounts with other banks	8,033	25,340
Amount due to IT Development Fund	5,130	4,914
Agro Credit and Development Agency	2,042	-
State Agency on Mandatory Health Insurance	1,012	3,220
Amounts due to banks and government funds	611,871	524,975

As at 30 June 2019, Entrepreneurship Development Fund of the Republic of Azerbaijan had current account amounting to AZN 79,011 thousand (31 December 2018: AZN 61,321 thousand). The Group had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 211,977 thousand (31 December 2018: AZN 186,664 thousand), maturing through December 2028 (31 December 2018: through December 2028), and bearing interest rate of 1.00% 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 5.00% p.a. (31 December 2018: 5.0% p.a.).

As at 30 June 2019, the Group received long-term funds from both resident and non-resident commercial banks comprising AZN 148,994 thousand (31 December 2018: AZN 25,485) maturing through December 2022 with interest rate ranging between 1.25% and 4.25% p.a. (31 December 2018: December 2022 with interest rate 3.0% p.a.).

As at 30 June 2019, the Group received short-term funds from both resident and non-resident commercial banks comprising AZN 130,321 thousand (31 December 2018: AZN 197,664 thousand) maturing through January 2020 (31 December 2018: December 2019) and with interest rates ranging between 0.01% and 23.8% p.a. (31 December 2018: ranging between 0.1% and 7.0% p.a.).

As at 30 June 2019, the Group had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 25,351 thousand (31 December 2018: AZN 20,367 thousand), maturing through July 2049 (31 December 2018: through December 2048) and bearing interest rate of 4.0% p.a.

(Figures in tables are in thousands of Azerbaijani manats)

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

As at 30 June 2019, the Group had loans refinanced from the IT Development Fund amounting to AZN 5,130 thousand (31 December 2018: AZN 4,914 thousand), maturing through June 2024 (31 December 2018: through October 2023) and bearing interest rate of 1.0% p.a.

As at 30 June 2019, the Group had loans received from the Agro Credit and Development Agency amounting to AZN 2,042 thousand (31 December 2018: nil), maturing through June 2024 and bearing interest rate between 2.0% and 3.3% p.a. The loans have been granted to local entrepreneurs at interest rate of 7.0% p.a.

11. Amounts due to customers

The amounts due to customers include the following:

	30 June 2019 (unaudited)	31 December 2018
Demand deposits	2,287,613	2,946,841
Time deposits	1,401,551	1,007,111
Amounts due to customers	3,689,164	3,953,952
Held as security against guarantees issued (Note 17)	39,551	23,352

An analysis of customer accounts by economic sector follows:

	30 June 2019 (unaudited)	31 December 2018
Individuals	1,254,076	1,265,829
Trade and services	638,606	739,982
Investment holding companies	525,445	494,449
Transport and communication	383,536	382,365
Manufacturing	230,179	444,912
Construction	182,824	194,889
Insurance	147,895	123,068
Mining	109,749	117,200
Hotel business	54,244	46,220
Non-banking credit organizations	37,261	20,426
Public organizations	27,362	24,906
Agriculture	23,103	19,390
Energy	3,151	9,573
Other	71,733	70,743
Amounts due to customers	3,689,164	3,953,952

As at 30 June 2019, customer deposits included balances with seven (31 December 2018: five) largest customers comprised AZN 1,575,101 thousand or 44% of the total customer deposits portfolio (31 December 2018: AZN 1,736,416 thousand or 44% of the total customer deposits portfolio).

12. Debt securities issued

As at 30 June 2019, PASHA Yatirim Bankasi A.S. had issued interest-bearing bonds with carrying amount of AZN 133,641 thousand (31 December 2018: AZN 102,300 thousand) maturing in December 2022 (31 December 2018: matured in December 2022). Bonds issued by the bank as at 30 June 2019, bear annual interest rates ranging from 3% to 23.5% (31 December 2018: from 3% to 30%).

13. Subordinated debt

As of 30 June 2019, subordinated debt represents USD denominated subordinated loan of AZN 18,920 (31 December 2018: AZN 18,921) borrowed by the Group from its parent maturing on 8 August 2024.

(Figures in tables are in thousands of Azerbaijani manats)

14. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	30 June 2019 (unaudited)			31 December 2018		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	26,747	5	–	–	–	–
Forwards and swaps – domestic	14,076	205	(172)	–	–	–
Options – domestic	52,811	100	(49)	–	–	–
Foreign exchange contracts						
Forwards and swaps – foreign	16,606	–	(582)	7,958	–	(15)
Forwards and swaps – domestic	25,765	373	(7)	66,429	2,048	(66)
Options – domestic		–	–	16,909	2	–
Total derivative assets/ (liabilities)		683	(810)		2,050	(81)

Foreign and domestic in the table above stand for counterparties where foreign means non-Azerbaijani entities and domestic means Azerbaijani entities.

As at 30 June 2019 and 31 December 2018, the Group has positions in the following types of derivatives:

Forwards

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

15. Taxation

The corporate income tax expense comprises:

	For six months ended (unaudited)	
	30 June 2019	30 June 2018
Current tax charge	(14,489)	(6,381)
Deferred tax credit/(charge) – origination and reversal of temporary differences	4,055	(2,447)
Less: deferred tax recognised in other comprehensive income	264	(5)
Income tax expense	(10,170)	(8,833)

(Figures in tables are in thousands of Azerbaijani manats)

16. Equity

As at 30 June 2019 and 31 December 2018, 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 10 May 2018 Shareholders of the Bank declared dividends totalling AZN 61,414 thousand on ordinary shares (AZN 6,141 per share) which was paid as at 31 December 2018.

On 29 April 2019 Shareholders of the Bank declared dividends totalling AZN 45,232 thousand on ordinary shares (AZN 4,523 per share) which was paid as at 30 June 2019.

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.

17. Commitments and contingencies

Operating environment

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani manat.

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani manat against USD during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, the Central Bank of Azerbaijan Republic (the "CBAR") tightened monetary policy and introduced a number of measures to stabilize macroeconomic situation. In addition, Azerbaijani government announced plans to accelerate reforms and support to financial system. On 6 December 2016 President of the Republic of Azerbaijan approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan".

During 2018 CBAR maintained monetary policy aimed at macroeconomic stability, including low one-digit inflation and steady AZN rate. At the same time the CBAR gradually reduced refinancing rate from 15% to 9.75%. Furthermore, over first six months of 2019 the CBAR continued easing monetary conditions while maintaining stability of Azerbaijani manat. As a result, CBAR refinancing rate further declined from 9.75% to 8.5% and AZN rate remained unchanged.

Finally, on 28 February 2019 according to the Decree of the President of Azerbaijan Republic on problematic loans, the government provided funds for compensation to citizens, whose loans burden increased due to the devaluation of Azerbaijani manat in 2015. This measure significantly reduced amounts of non-performing loans as well as supported capital and liquidity in the banking system.

The Group's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Recent events within the Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

Management believes that its interpretation of the relevant legislation as at 30 June 2019 is appropriate and that the Group's tax, currency and customs positions will be sustained.

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)**Insurance**

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

Compliance with the FMSA ratios

FMSA requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2019 and 31 December 2018, the Bank was in compliance with these ratios except for the followings:

- Ratio of the share in one legal entity which should not exceed 10% of total capital. As at 30 June 2019 the Bank's ratio was 34.57% (31 December 2018: 35.66%);
- Ratio of the total share in other legal entities which should not exceed 40% of total capital. As at 30 June 2019 the Bank's ratio was 50.85% (31 December 2018: 52.46%);
- Ratio of maximum credit exposure of a bank per a single borrower or a group of related borrowers on unsecured loan that should not exceed 10%. As at 30 June 2019 the Bank's ratio was 10.84% (31 December 2018: nil).

Throughout the year the Bank submitted information regarding these breaches to the Financial Markets Supervision Authority (the "FMSA") 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 2019 (unaudited)	31 December 2018
Credit-related commitments		
Guarantees issued	526,477	549,196
Unused credit lines	179,029	133,479
Letters of credit	21,103	5,146
	<u>726,609</u>	<u>687,821</u>
Operating lease commitments		
Not later than 1 year	113	4,911
Later than 1 year but not later than 5 years	-	19,176
Later than 5 years	-	-
	<u>113</u>	<u>24,087</u>
Less: provision for ECL for credit related commitments	(14,962)	(6,470)
Commitments and contingencies (before deducting collateral)	<u>711,760</u>	<u>705,438</u>
Less: cash held as security against guarantees issued (Note 11)	(39,551)	(23,352)
Commitments and contingencies	<u>672,209</u>	<u>682,086</u>

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)**Financial commitments and contingencies**

An analysis of changes in the ECLs during the year ended 30 June 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2019	(3,735)	(1,859)	(876)	(6,470)
New exposures	(2,830)	(45)	-	(2,875)
Exposures derecognised or matured (excluding write-offs)	653	522	931	2,106
Transfers to Stage 1	(236)	236	-	-
Transfers to Stage 2	2,706	(2,706)	-	-
Transfers to Stage 3	-	-	-	-
Impact on period end ECL of exposures transferred between stages during the period	222	(5,812)	-	(5,590)
Changes to inputs used for ECL calculations	(554)	(1,805)	-	(2,359)
Foreign exchange adjustments	99	348	(221)	226
At 30 June 2019	<u>(3,675)</u>	<u>(11,121)</u>	<u>(166)</u>	<u>(14,962)</u>

An analysis of changes in the ECLs during the year ended 30 June 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2018	(2,025)	(1,952)	(290)	(4,267)
Charge	(274)	(913)	(43)	(1,230)
Exchange difference	243	-	-	243
As at 30 June 2018	<u>(2,056)</u>	<u>(2,865)</u>	<u>(333)</u>	<u>(5,254)</u>

18. Credit loss expense and other impairment and provision

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2019:

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	3	2	-	-	2
Due from Credit Institutions	5	(388)	-	-	(388)
Debt securities at FVOCI	6	44	-	-	44
Debt securities at amortised cost	6	(186)	-	-	(186)
Loans to customers at	7	2,039	(5,456)	(13,707)	(17,124)
Credit loss on financial assets		<u>1,511</u>	<u>(5,456)</u>	<u>(13,707)</u>	<u>(17,652)</u>
Other financial assets	9	-	-	(28)	(28)
Commitments and contingencies		<u>(39)</u>	<u>(9,610)</u>	<u>931</u>	<u>(8,718)</u>
Total credit loss expense		<u>1,472</u>	<u>(15,066)</u>	<u>(12,804)</u>	<u>(26,398)</u>

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2018:

	Note	Stage 1	Stage 2	Stage 3	Total
Amounts due from credit institutions	5	(649)	-	-	(649)
Loans to customers	7	123	(2,640)	(5,223)	(7,740)
Debt securities measured at amortised cost		82	-	-	82
Commitments and contingencies	17	<u>(274)</u>	<u>(913)</u>	<u>(43)</u>	<u>(1,230)</u>
Total credit loss expense		<u>(718)</u>	<u>(3,553)</u>	<u>(5,266)</u>	<u>(9,537)</u>

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets. Provision for ECL for credit related commitments are recorded in liabilities.

(Figures in tables are in thousands of Azerbaijani manats)

19. Net fee and commission income

Net fee and commission income comprises:

	<i>For six months ended (unaudited)</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>
Servicing plastic card operations	7,754	5,328
Settlements operations	6,349	4,498
Guarantees and letters of credit	6,136	4,050
Cash operations	1,192	962
Other	480	257
Fee and commission income	21,911	15,095
Servicing plastic card operations	(6,319)	(4,872)
Settlements operations	(1,420)	(1,420)
Guarantees and letters of credit	(785)	(876)
Cash operations	(854)	(114)
Securities operations	(13)	(31)
Other	(394)	(392)
Fee and commission expense	(9,785)	(7,705)
Net fee and commission income	12,126	7,390

20. Personnel, general and administrative expenses

	<i>For six months ended (unaudited)</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>
Personnel expenses comprise		
Salaries and bonuses	(22,925)	(17,569)
Social security costs	(2,160)	(3,342)
Other employee related expenses	(1,923)	(1,863)
Total personnel expenses	(27,008)	(22,774)

General and administrative expenses comprise:

	<i>For six months ended (unaudited)</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>
Professional services	(5,117)	(2,930)
Impairment of repossessed collateral	(2,109)	(2,352)
Software cost	(1,732)	(1,566)
Advertising costs	(1,393)	(815)
Insurance	(1,212)	(862)
Taxes, other than income tax	(818)	(447)
Utilities	(731)	(421)
Operating leases	(729)	(3,477)
Membership fees	(711)	(668)
Security expenses	(474)	(342)
Repair and maintenance	(397)	(373)
Communications	(332)	(288)
Charity and sponsorship	(315)	(1,260)
Transportation and business trip expenses	(306)	(248)
Entertainment	(170)	(287)
Stationery	(150)	(233)
Printing expenses	(28)	(24)
Impairment of investment property	-	(78)
Other expenses	(206)	(212)
Total general and administrative expenses	(16,930)	(16,883)

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values measurement

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

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

At 30 June 2019 (unaudited)	Recurring fair value measurement			Total
	(Level 1)	(Level 2)	(Level 3)	
Financial assets				
Investment securities purchased under agreement to resell	-	18,995	-	18,995
Investment securities – at FVOCI	384,139	905,352	-	1,289,491
Derivative financial assets	-	683	-	683
Financial liabilities				
Derivative financial liabilities	-	810	-	810

At 31 December 2018	Recurring fair value measurement			Total
	(Level 1)	(Level 2)	(Level 3)	
Financial assets				
Trading securities	895	-	-	895
Investment securities – at FVOCI	337,346	1,088,581	-	1,425,927
Derivative financial assets	-	2,050	-	2,050
Financial liabilities				
Derivative financial liabilities	-	81	-	81

Recurring fair value measurements

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Trading securities and investment securities

Trading securities and investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate data observable in the market.

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values measurement (continued)

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

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

	30 June 2019 (unaudited)			31 December 2018		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets						
Cash and cash equivalents	1,105,388	1,105,388	-	1,503,046	1,503,046	-
Amounts due from credit institutions	545,023	545,023	-	334,834	334,834	-
Investment securities measured at amortised cost	39,777	41,014	1,237	32,219	33,072	853
Loans to customers	1,855,299	1,837,337	(17,962)	1,731,565	1,682,643	(48,922)
Other financial assets	9,947	9,947	-	13,611	13,611	-
Financial liabilities						
Amounts due to banks and government funds	611,871	611,812	59	524,975	525,021	(46)
Amounts due to customers	3,689,164	3,685,456	3,708	3,953,952	3,953,178	774
Other borrowed funds						
Subordinated debts	18,920	18,920	-	18,921	18,921	-
Debt securities issued	133,641	133,777	(137)	102,300	103,096	(796)
Other financial liabilities	21,043	21,043	-	19,874	19,874	-
Total unrecognised change in unrealised fair value			(13,094)			(48,137)

Valuation techniques and assumptions

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

Fixed and variable rate financial instruments

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

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.

(Figures in tables are in thousands of Azerbaijani manats)

22. Related party disclosures (continued)

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 2019 (unaudited)					31 December 2018				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Cash and cash equivalents	-	12,614	-	216	12,830	-	60	-	-	60
Amounts due from credit institutions	-	3	-	-	3	-	-	-	-	-
Loans, gross	-	195,783	4,664	34,351	234,798	-	130,098	4,284	33,897	168,279
Less: allowance for impairment	-	(2,376)	(95)	(236)	(2,707)	-	(1,172)	(114)	(191)	(1,477)
Loans, net	-	193,407	4,569	34,115	232,091	-	128,926	4,170	33,706	166,802
Amounts due to banks and government funds	-	28,183	-	8,781	36,964	-	50,005	-	-	50,005
Deposits	-	476,350	5,720	95,941	578,011	-	269,800	5,358	93,762	368,920
Current accounts	40,357	364,432	6,713	615,764	1,027,266	45,059	511,255	2,767	829,768	1,388,849
Right-of-use assets	-	5,730	-	-	5,730	-	-	-	-	-
Other assets	-	1,056	-	108	1,164	-	334	14	3	351
Subordinated debts	18,921	-	-	-	18,921	18,921	-	-	-	18,921
Finance lease liability	-	(5,791)	-	-	(5,791)	-	-	-	-	-
Other liabilities	30	2,476	1	4,295	6,802	36	2,912	-	219	3,167
Debt securities	84,963	-	-	38,961	123,924	42,464	40,675	-	-	83,139
Guarantees issued	-	7,966	-	9,171	17,137	-	6,766	-	6,173	12,939
Letter of credit	-	1,305	-	2,197	3,502	-	-	-	573	573
Unused credit lines	-	10,203	1,969	1,826	13,998	182	13,639	1,789	6,061	21,671

	For the six months ended (unaudited)									
	30 June 2019					30 June 2018				
	Parent	Entities under common control	Key management personnel	Other related parties	Total	Parent	Entities under common control	Key management personnel	Other related parties	Total
Interest income on loans	-	2,930	190	1,445	4,565	-	4,212	153	7	4,372
Interest expense on deposits	(284)	(7,653)	(73)	(2,685)	(10,695)	(418)	(8,871)	(943)	(450)	(10,682)
Interest expense on subordinated debt	(279)	-	-	-	(279)	(221)	-	-	-	(221)
Interest expense on lease liabilities	-	(232)	-	-	(232)	-	-	-	-	-
Net gains/(losses) from foreign currencies: dealing	13	1,522	16	773	2,324	1,231	1,070	153	109	2,563
Net gains/(losses) from foreign currencies: translation differences	-	(197)	-	-	(197)	-	-	-	-	-
General and administrative expenses	-	(1,173)	-	(211)	(1,384)	-	-	(5)	-	(5)
Fee and commission income	108	2,587	27	836	3,558	31	2,331	9	5	2,376
Fee and commission expense	(200)	(151)	-	(35)	(386)	-	-	-	-	-

(Figures in tables are in thousands of Azerbaijani manats)

22. Related party disclosures (continued)

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

	For six months ended (unaudited)	
	30 June 2019	30 June 2018
Salaries and other benefits	(9,593)	(6,935)
Social security costs	(1,828)	(1,560)
Total key management compensation	(11,421)	(8,495)

23. Capital adequacy

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

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

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

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

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 10% (2018: 10%) of risk-weighted assets for regulatory capital. As at 30 June 2019 and 31 December 2018 the Bank's capital adequacy ratio on this basis was as follows:

	30 June 2019 (unaudited)	31 December 2018
Tier 1 capital	342,071	313,559
Tier 2 capital	100,866	121,482
Less: deductions from capital	(149,301)	(149,301)
Total regulatory capital	293,636	285,740
Risk-weighted assets	2,367,769	2,099,493
Capital adequacy ratio	12%	12%

The NBS requires the Bank to maintain a minimum total capital adequacy ratio of 19.1%, Tier 1 Capital ratio of 11.3% and Core Tier 1 Capital ratio of 9.1% of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2019 the Bank's capital adequacy ratio and Tier 1 Capital ratio calculated on this basis were 23.88% (31 December 2018: 29.97%) and 22.74% (31 December 2018: 28.86%) respectively.

The Banking Regulation and Supervision Agency (hereafter, "BRSA") requires banks to maintain a minimum total capital adequacy ratio of 8% (2018: 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 2019 the bank's capital adequacy ratio was 33.57% (31 December 2018: 38%).

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