

ANNUAL REPORT 2019



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GENERAL INFORMATION

ABOUT PASHA BANK

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

The Bank offers an array of financial products backed by trade finance-related partnerships with international banks and financial institutions. PASHA Bank also provides underwriting services to legal entities and is the first institution in the local securities market to act as a market maker. PASHA Bank has delivered private banking services to HNWIs since 2010, including deposits, loans, and financial planning.

Azerbaijan's Best Capitalized Privately-Owned Bank

PASHA Bank's authorized capital amounts to AZN 333 million, making it the most well-capitalized privately-owned bank in Azerbaijan. PASHA Bank employs about 750 personnel at its headquarters, five branches in Baku and two regional branch locations in the cities of Ganja and Zaqatala. In February 2013, the Bank opened its first subsidiary bank – PASHA Bank Georgia. In December 2014, the Turkish regulatory authority granted PASHA Bank permission to start operations in Turkey. From March 2015, the Bank has operated in Turkey under the trade name PASHA Yatırım Bankası A.Ş.

In 2019, Standard and Poor's reaffirmed PASHA Bank's Long-Term Issuing Bank Default Rating (IBDR) as 'B+' and Short-Term IBDR as 'B'.

"Best Bank in Azerbaijan"

PASHA Bank was named "Best Investment Bank in Azerbaijan" in 2011, 2012 and 2013 by EMEA Finance, the international financial journal. In addition, PASHA Bank was named "Best

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

In 2018, PASHA Bank was named "Best Private Bank" and "Best Bank of Azerbaijan" by Global Finance. The Bank also received the "SAP Value Award" and was designated the "Best Commercial Bank of Azerbaijan" by World Finance. In addition, PASHA Bank was named "Bank of the Year" by The Banker. Furthermore, PASHA Bank was recognized as the "Leading Bank in Non-Cash Payments" in Azerbaijan in a competition conducted annually by the Central Bank of Azerbaijan jointly with the Azerbaijan Banks Association.

In 2019, PASHA Bank was named "Best Bank in Azerbaijan" and "Best Investment Bank in Azerbaijan" by EMEA Finance. The Bank also received the "Best Product Launch" award from the same institution.

A Dynamic Member of PASHA Group – Azerbaijan's Leading Investment Holding Group

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

largest retail banks in Azerbaijan, is also owned by PASHA Group.

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

Shareholding Structure:

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

ABOUT PASHA HOLDING



Total Consolidated Assets:

**USD
7 billion**

Total Consolidated Equity:

**USD
1.5 billion**

Employees:

8,500+

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

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

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

As of December 31, 2019, PASHA Holding reported total assets of about USD 7 billion, and total equity of USD 1.5 billion (based on audited IFRS financial statements and an exchange rate of USD/AZN 1.70). The Group operates in three countries – Azerbaijan, Georgia, and Turkey – and has more than 5,500 employees.



PASHA Insurance is the first member of PASHA Holding, incorporated in early 2006. The company is the largest insurance services provider in Azerbaijan. PASHA Insurance reported gross written premium (GWP) of USD 87 million as of December 31, 2019 (based on audited IFRS financial statements and an average exchange rate of USD/AZN 1.70).



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



PASHA Construction is one of the largest businesses in its sector in Azerbaijan. The company posted total revenue of USD 222 million as of December 31, 2019 (based on audited IFRS financial statements and an average exchange rate of USD/AZN 1.70). The company's completed project portfolio in 2019 totaled 58,124 m², with an additional 654,943 m² underway as of December 31, 2019. These projects include retail, residential, office space, hotels and large-scale mixed-use properties. PASHA Construction's successfully completed projects include JW Marriott Absheron Baku Hotel & Residences, Four Seasons Hotel, Intourist Hotel, Port Baku Towers, Shuvelan Shopping Center, Nizami Residence, Baku Business Center and Chinar Restaurant, Shahdag Staff Accommodation, Amburan Beach Club, among others.



The life insurance business line was added to PASHA Insurance's existing offerings in 2010 and incorporated as a separate legal entity – PASHA Life. PASHA Life is the leading life insurance provider in Azerbaijan with a gross written premium of USD 122 million as of December 31, 2019 (based on audited IFRS financial statements and an average exchange rate of USD/AZN 1.70).



PASHA Investments is a private equity company focusing on growth capital investments in mid-cap companies in Azerbaijan, Georgia, and Turkey. Initially, the entity launched its business as the Investments and Projects Department (IPD) of PASHA Holding. In January 2018, IPD was spun-off from PASHA Holding into a separate legal entity – PASHA Investments LLC. The company's immediate parent company is PASHA Holding LLC.



PASHA Capital was established in June 2012 and mainly focuses on providing investment, asset management and consulting services to individuals and institutional investors. The company was named the "Best Broker in Azerbaijan" at EMEA Finance Magazine's Europe Banking Awards in 2013. PASHA Capital is a member of the Baku Stock Exchange and Azerbaijan Stock Market Association. PASHA Capital provides the following services to customers: investment (broker-dealer); underwriting (bond and stock issue); asset management; and financial advisory.



Kapital Bank is a universal bank providing a wide range of banking services both to corporate and individual clients, with a focus on the retail side. Kapital Bank boasts the most extensive branch network in Azerbaijan. The bank's long-term rating for loans is 'BB-/B' from Standard & Poor's. Kapital Bank's long-term rating for bank deposits is 'Ba3' from Moody's Investors.

AWARDS

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

2019

- "Best Bank in Azerbaijan" – EMEA Finance
- "Best Investment Bank in Azerbaijan" – EMEA Finance
- "Best Product Launch" – EMEA Finance

2018

- "CEO of the Year in CEE & CIS" – EMEA Finance
- "Corporate Social Responsibility in CEE & CIS" – EMEA Finance
- "Best Bank in Azerbaijan" – EMEA Finance
- "Best Investment Bank in Azerbaijan" – EMEA Finance
- "Best Private Bank" – Global Finance
- "Best Bank in Azerbaijan" – Global Finance
- "SAP Value Award" – SAP
- "Best Commercial Bank in Azerbaijan" – World Finance
- "Bank of the Year" – The Banker
- "Leading Bank in Non-Cash Payments" – Central Bank of Azerbaijan and Azerbaijan Banks Association

2017

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

2016

- "Best Bank in Azerbaijan" – Global Finance
- "Best Banking Group in Azerbaijan" – World Finance
- "Best Commercial Bank in Azerbaijan" – World Finance

2015

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

2014

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

2012

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

2011

- "Best Investment Bank in Azerbaijan" – EMEA Finance

VISION, MISSION, VALUES AND STRATEGIC GOALS

Strategy Execution

Competition and innovation in banking is growing by the day. To thrive in this highly competitive environment, adopting the right strategy is critical. PASHA Bank takes a holistic approach to strategy. The Bank is committed to developing a strategic mindset to adapt to the fast-changing world of banking. PASHA Bank's most recent strategic planning period covers the three years spanning from 2018 to 2020. The Bank sees its mission as a starting point and its vision as the destination. With this approach, PASHA Bank uses strategic planning as the roadmap to help navigate from one to the other.

PASHA Bank's **mission** is to serve its stakeholders by:

- Contributing to the growth of its customers by providing high quality products and services tailored to meet customers' needs;
- Employing, training and nurturing highly competent and loyal personnel;
- Fostering the general welfare and cultural development of society;
- Maintaining its strong financial position;
- Committing to transparent and prudent business operations and conduct.

PASHA Bank's **vision** is to be a leading Azerbaijani bank committed to maintaining the highest ethical standards, indisputable business reputation and financial strength, dedicated to delivering top quality services, supporting growth of clients and pioneering digital channels development.

To move forward accordingly, PASHA Bank has set **four key strategic goals**:

- Achieving growth in its core business;
- Improving the customer experience;

- Strengthening its business processes and capabilities;
- Becoming a best place to work in the eyes of employees.

By investing capital and effort, PASHA Bank will focus on growth and technology. To this end, the Bank has adopted 16 strategic initiatives, including expanding and developing its core business, boosting profit and revenue growth, increasing its service level and nurturing its employee talent.

In 2019, PASHA Bank executed its business operations according to its strategic plan and roadmap. The Bank significantly increased its assets while also boosting its market share. PASHA Bank focused on introducing new, innovative products and services targeting the SME segment and the supply chain of its large corporate clients. During the year, the Bank's noteworthy achievements in its business operations included:

- Launching special factoring products for the supply chains of corporate clients;
- Building and enhancing relationships with universities to implement graduate recruitment programs to provide better job opportunities to university graduates, signing memorandums of cooperation with several educational institutions for this purpose;
- Introducing digital solutions to enable customers to use banking services without visiting a physical branch;
- Rolling out digital account opening for legal persons for the first time in Azerbaijan;
- Developing and introducing online salary card ordering for its clients;
- Enhancing risk mitigation solutions and introducing new risk scoring models.

PASHA Bank also carried out IT & Operations efforts in line with its action plan and roadmap for fiscal year 2019. The Bank's significant achievements of strategy execution within IT & Operations included:

- Achieving integration synergy with Kapital Bank to introduce new joint offerings, including ATM, collection, among others with output KPI exceeding set targets;
- Implementing data warehouse and business intelligence systems toward the Bank's Build 360 perspective, to ensure more effective data management;
- Preparing a set of requirements (RFP) for the Data Governance initiative;
- Launching the SOC project under the Achieve Excellence effort in CyberSec with the scope of assessing and preparing the roadmap for the Security Operations Centre;
- Starting an anti-fraud maturity assessment effort to improve anti-fraud management across the Bank;
- Planning the implementation of the ERP system as part of Excellence in Finance initiative which aims to:
 - Achieve no conflicts between process functions under current project scope;
 - Decrease manual work of Accounting and Budgeting;
 - Reduce the cycle-time in days to complete the annual budget.

FINANCIAL AND OPERATIONAL INDICATORS

Key Financial Highlights (consolidated, AZN million)

	2017	2018	2019
Total Assets	3,958	5,209	5,440
Loans (net)	1,351	1,732	2,297
Deposits	2,890	3,954	3,789
Customer Time Deposits	1,033	1,007	1,639
Customer Current Accounts	1,857	2,947	2,150
Shareholders' Equity	499	460	479
Interest Income	231	230	258
Fee & Commission Income	25	34	50
Operating Profit	197	210	210
Total Operating Expenses	82	96	122
Net Profit	89	74	77

Key Financial Ratios (%)

	2017	2018	2019
Loans/Total Assets	34.1%	33.2%	42.2%
Loans/Deposits	46.7%	43.8%	60.6%
NPL Ratio	7.2%	4.5%	2.5%
Demand Deposits/ Total Deposits	64.2%	74.5%	56.7%
Shareholders' Equity/ Total Liabilities	14.4%	9.4%	10.3%
Capital Adequacy Ratio	15.0%	11.8%	11.9%

Financial Highlights (consolidated)

	2017	2018	2019
Net Profit (AZN million)	89	74	77
Total Assets (AZN million)	3958	5,209	5,440

Operational Highlights (PASHA Bank Azerbaijan)

	2020	2019
Number of Personnel	748	885
Percentage of Women Employees (%)	40.2	40,8
Number of Branches	9	10

MANAGEMENT

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

Azerbaijan recorded real GDP growth of 2.2% in 2019, up from 1.4% the previous year. About 41% of GDP was produced by the industrial sector with 5.7% of output generated by the agricultural sector. Non-oil manufacturing, agriculture, information and communication and tourism reported the highest growth in 2019. The non-oil manufacturing sector expanded 14.3% year-on-year.

Business confidence was positive across industry, trade and services. Economic activity indicators year-on-year improved in trade and services.

Economic growth in Azerbaijan was largely driven by domestic demand in 2019. Consumer spending rose steadily throughout the year. Government spending was a critical component of domestic demand. About AZN 17.2 billion in investment spending was directed to the economy. The public sector accounted for about half of total investment expenditures in

2019, while the private sector accounted for the remaining half.

In 2019, Azerbaijan's external economic position remained favorable thanks to buoyant global oil prices and wider non-oil exports. Azerbaijan recorded a foreign trade surplus of USD 6 billion in 2019.

Azerbaijan's inflation rate was 2.4% for the 12-month period ending December 2019, within the target band. In general, a stable foreign exchange rate, monetary conditions, flat administrative prices and low inflation expectations had a moderating effect on the country's overall inflation rate. Meanwhile, revived consumption and higher food prices in the global market had an upward impact on Azerbaijan's inflation in 2019.

Against this macroeconomic backdrop, the banking sector also gained a firm foundation after a year of structural reforms and

consolidation. In 2019, Azerbaijan's banking sector recorded operating profit of AZN 849 million and net profit of AZN 536.9 million. The top three banks recording net profit were IBAR, Kapital Bank and PASHA Bank, according to Azerbaijan Banks Association.

In 2019, banking assets increased 11% year-on-year, from AZN 29.5 billion to AZN 32.7 billion. As a result, the total loan portfolio of the Azerbaijani banking system expanded 17%, increasing from AZN 13 billion to AZN 15.3 billion. Non-performing loans decreased 20% year-on-year, from AZN 1.59 billion to AZN 1.27 billion, a significant decline compared to the prior year's 1.6% decrease. The sector-wide corporate lending portfolio increased by a stable 9% in 2019, from AZN 7.2 billion to AZN 7.9 billion. Meanwhile, the individual loan portfolio rose 27% year-over-year, from AZN 5.8 billion to AZN 7.4 billion – record high growth.

One of the most significant banking reforms during the year was the adoption of additional measures to address non-performing loans to individuals. This reform helped free the financial sector from non-performing assets, ensuring liquidity and revitalizing the industry as a whole.

Following Strategic Roadmap for the Development of Financial Services in Azerbaijan financial institutions were consolidated to resolve issues of liquidity and capitalization. Credit bureaus have been established in Azerbaijan's banking sector.

The State Program on Digital Payments for the Republic of Azerbaijan is significantly expanding the cashless payment environment between private citizens, business entities and government agencies, minimizing cash flows and, ultimately, bolstering the financial resources of the banking industry.

Azerbaijan's Largest Corporate Bank

PASHA Bank is the biggest corporate bank in Azerbaijan. The Bank successfully closed fiscal year 2019 with net income of more than AZN 70 million while boosting total assets to AZN 4.8 billion.

During the year, PASHA Bank expanded its total lending portfolio by 35% to AZN 1.8 billion. With 18.5% of the corporate loan market, our corporate lending portfolio amounted to AZN 1.67 billion, up 2.2 percentage points compared to 2018.

The Bank focused on synergies with other PASHA Group entities, including PASHA Life Insurance, PASHA Insurance and Kapital Bank. These efforts resulted in successful outcomes and boosted PASHA Bank's bottom line.

With these results, we are one of the most sound and forward-looking financial institutions in the market. This progress was a direct result of our strategic focus on digital development, customer-centricity, continuous improvement of business processes, and sustainability. PASHA Bank has is taking sure steps in becoming the country's most state-of-the-art, customer-focused, multi-channel, digital focused bank.

Digital Banking Leader

Since its founding, PASHA Bank has set the trends for the sector, especially in the digital arena. In fact, today we are by far the leading digital financial institution in Azerbaijan. We reached this vaunted position by combining advanced technological know-how with international best practices.

PASHA Bank created a unique unit to deliver cutting-edge business solutions for customers and the Bank's employees. This effort joins PASHA Bank's ever-growing list of online

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

services available to customers through its Mobile Application and Online Banking platforms. PASHA Bank has already invested AZN 14 million in this Digital Lab and plans to increase these investments.

We lead the Azerbaijani market in online banking and digitized services. PASHA Bank introduced the first online account opening, video verification, online cards, POS order, among many other innovations.

At PASHA Bank, we understand that being the best, and ensuring sustainable development requires attracting and retaining the best people. To this end, we engage in a number of activities to attract leading talents to the Bank and build our internal capabilities. We conduct master classes at Azerbaijan's leading universities to share our industry knowledge and professional experience with students. We support regional computer programming competitions among university students to foster innovation and identify promising talent in the market. PASHA Bank provides continuing education sessions for candidates who have strong foundational knowledge but lack technology stack training, so they can grow as back-end and front-end developers. This year, PASHA Bank launched the PASHA Bank Cup competition to boost the potential of IT professionals in the country and help develop the skills of those interested in this field. The competition aims to create a platform for participants to acquire new knowledge, expand their skills and demonstrate their professional talent. Talented local programmers of different age groups, including school children, university students and professional programmers, were invited to participate in the competition. In addition, PASHA Bank organized the first edition of DevOps Days Baku 2019 – a worldwide series of technical conferences

covering software development, IT infrastructure operations, and the intersection between them. PASHA Bank also uses the HackerRank hiring platform – the global industry standard for assessing developer skills. By using HackerRank, the Bank can hire skilled developers and innovate faster by enabling tech recruiters and hiring managers to objectively evaluate talent at every step of the recruiting process. With this approach, PASHA Bank bolsters its position not just in banking but across Azerbaijan.

With this wide range of activities, PASHA Bank is not only building its own digital capabilities but also fostering a sustainable innovation culture for the entire country.

PASHA Bank places a priority on its IT systems infrastructure and operations. Our target with these efforts is continuous improvement of business processes and long-term sustainability. During the year, the Bank implemented a wide range of projects in this strategic area, including Fraud Assessment, Safe Operations Center and MDES/VTS. In addition, the Data Warehouse and Business Intelligence projects were completed in 2019, giving us a significant competitive edge in the market.

While pursuing our digital strategy, we remain committed to information safety and security. In 2019, PASHA Bank successfully completed the Payment Card Industry Data Security Standard (Data Security Standard) certification. The Bank has fully complied with all requirements in accordance with guidelines of the Payment Card Security Standards Society.

Putting the Customer at the Center

As it moves toward the digital future, PASHA Bank maintains a sharp focus on the customer.

We are deepening and expanding our digital products and services in response to customer demand.

The Bank actively engages its customers in the digitized product and service development process. We solicit comprehensive feedback to ensure continuous improvement and maintain a high level of customer satisfaction.

At the same time, we maintain our traditional banking offering to retain clients who prefer a more conventional approach. We offer consulting services to all our clients – digital and traditional – alongside our products and services. PASHA Bank is committed to helping its clients reach the best solution to meet their needs, regardless of their channel preference. Our individualized approach to banking sets us apart in the market and helps ensure the sustainability of our business.

All our innovations are targeted at delivering effective solutions, providing the best customer experience and ensuring the highest customer satisfaction. At PASHA Bank, customer-centricity is not just a buzzword: We truly put the customer at the heart of everything we do.

PASHA Bank: A Best Place to Work in Azerbaijan

For PASHA Bank, remaining a healthy and sustainable organization is a strategic priority. The Bank targets being a high functioning-high performing entity over the long term while attracting and inspiring top talents. We aim to be one of the top three employers in the overall jobs market, not solely in the banking sector.

Currently, PASHA Bank ranks number one in the non-oil sector and among the top three in the overall market in Azerbaijan as a preferred place

to work by employees. Our strong performance and brand reputation help us attract the top human resources in the country. The Bank also offers unique career and development opportunities to its employees. Being a best place to work is key to achieving our performance goals and ensuring long term sustainability. In 2019, PASHA Bank launched the Risk Culture initiative, which embraces a collective approach to risk management and decision-making. This effort is designed to foster a system of values and behaviors within and across the organization.

During the year, PASHA Bank maintained its creditworthiness, which was recognized by global rating agencies. In January 2019, the international rating agency Standard and Poor's reaffirmed the Bank's Long-Term Issuing Bank Default Rating (IBDR) as 'BB-' and Short-Term IBDR as 'B'. In June, Fitch Ratings affirmed PASHA Bank's National Long-Term Rating as 'B+(tur)' and outlook as 'stable.' These ratings are among the highest of all private banks in Azerbaijan with 100% local capital.

Looking Ahead: 2020 and Beyond

As part of PASHA Bank's 2020 Strategy, we are focused on boosting the Bank's income (incl. gross non-interest and net interest income), diversifying our client base and further digitalizing our business processes. Our goal is to achieve significant efficiency gains as well as sustainability.

We plan to diversify by targeting new industries and segments, primarily in the corporate sector while increasing our SME portfolio. Our digitalization efforts will focus mainly on shifting more banking operations online, introducing new digital products and services, and launching new online distribution channels.

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

PASHA Bank also aims to create the best-in-class employee experience in Azerbaijan and further raise its employer profile in the labor market. We remain committed to being a best place to work nationwide. Attracting the best and the brightest in the market is a strategic imperative at the Bank.

We target becoming the best bank in Azerbaijan on several measures. In the short term, our primary goals are boosting commercial effectiveness and expanding the loan portfolio. We will achieve these objectives by launching innovative products, addressing new segments in the market and revamping our current SME business model. The Bank plans to adopt a new strategy that will ignite investment banking and private banking in the country.

PASHA Bank also aims to further automate and digitize core processes and create an ecosystem where clients can process all transactions through digital channels. This effort will boost the speed of our operational processes. We plan to develop advanced analytical systems in the Bank that will enhance our data infrastructure and governance.

On the client-side, we plan to bolster client relationships via differentiated channels and further develop the skills of our Relationship Managers. PASHA Bank will equip its employees with a business target mindset and capabilities. We also aim to become advisors to our clients and increase our customer-centricity. We are actively exploring ecosystems and partnerships beyond banking to provide our clients with innovative products and services.

Customer experience is one of our core strategic priorities. Therefore, we aim to move to an advanced segmentation model based on industry or behavior to better serve and meet customer

requirements. With this approach, we hope that PASHA Bank will become the best bank in terms of the quality of services.

Our mission includes adding value to Azerbaijan's economy and furthering its development. To these ends, PASHA Bank plans to continue implementing state programs aimed at diversifying and digitalizing the nation's economy. As the country's digital banking and innovation leader, PASHA Bank is well-positioned to serve as a model and guide to Azerbaijan's digitalization efforts going forward.

Lastly, PASHA Bank is committed to integrating the best sustainability practices in every aspect of its business operations. Our sustainability strategy is centered around our customers, our people and contributing to socioeconomic development. With this approach, we develop and implement many activities and initiatives focused on bolstering these areas. PASHA Bank works not simply to ensure the sustainability of its business, but that of Azerbaijan, its people as well as the entire planet for future generations.

We would like to express our gratitude to our loyal customers, dedicated employees, valued shareholders and other stakeholders for their ongoing support and the respective parts they play in PASHA Bank's ongoing success. We believe that only hand in hand we can and will achieve even greater successes in making world a better place.

Respectfully yours,

Mir Jamal Pashayev
Chairman of the Supervisory Board

Taleh Kazimov
Chairman of the Executive Board

MANAGEMENT STRUCTURE

PASHA BANK MANAGEMENT

Supervisory Board



Mr Mir Jamal Pashayev/Chairman of the Supervisory Board

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



Farid Akhundov/Member of the Supervisory Board

Farid Akhundov graduated from the Institute of Economics of Azerbaijan in 1992. He also completed Management coursework at Nottingham Trent University. In 1994, Farid Akhundov was one of

the first Azerbaijani citizens to win the Chevening Scholarship – a prestigious UK Government award administered by the British Foreign and Commonwealth Office. In 1995, he obtained an MBA degree from Salford University, Manchester, UK. He began his professional career in 1991 as an economist at a metal manufacturing facility. After a year, he moved on to the Azerbaijan Republic State Committee on Economics and Planning as a senior economist responsible for foreign economic relations. From 1996 to 2003, Farid Akhundov held several key positions at the British Bank of the Middle East (subsidiary of HSBC). There, he moved from the position of financial control manager to the head of the customer services and corporate banking departments; subsequently, he was promoted to Deputy CEO of HSBC Azerbaijan. In 2003, Farid Akhundov joined Most Bank Azerbaijan as Chairman of the Executive Board where he oversaw the restructuring and rebranding of Most Bank Azerbaijan to Bank Standard JSC – one of the largest commercial banks in the country at that time. Farid Akhundov joined PASHA Bank in 2007 as Chairman of the Executive Board and was appointed to the Supervisory Board on July 1, 2015



Vadim Shneyer/Member of the Supervisory Board

Vadim Shneyer graduated from Baku State University, Department of Law with an Honors Diploma in Law in 1991. From 1991 to 1997, he worked as an attorney at different Azerbaijani and foreign companies, including Baku Interbank Currency Exchange and Far East Livingston Shipbuilding. Between 1997 and 2001, Vadim Shneyer was a Managing Partner in the Baku office

of Dr. Entezari & Associates law firm. In 2001, he joined the Almaty (Kazakhstan) office of Michael Wilson & Partners law firm, working there until 2005. In 2005, he joined BM Law Firm Baku office, where he worked until 2007. In 2007, Vadim Shneyer started work at PASHA Holding LLC as Head of the Legal Department; in 2011, he was appointed Deputy Director of PASHA Holding LLC. From 2008 to 2013, Vadim Shneyer was Chairman of the Supervisory Council of Kapital Bank OJSC.



Nariman Sardarli/Member of the Supervisory Board

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



Shahin Mammadov/Member of the Supervisory Board

Shahin Mammadov graduated from Azerbaijan State Economic University where he received a Bachelor's degree in Accounting and Audit in 2002. In 2004, he was awarded a Master's degree from the same university in Accounting and Audit. In 2010, Mr. Mammadov received his Ph.D. in Economics from Academy of Sciences of the Republic of Azerbaijan. Shahin. Mammadov started his career as an accountant in 2003 and was later promoted to Deputy Chief Accountant at Yapı Kredi Bank Azerbaijan (former Kocbank Azerbaijan JSB). He joined Deloitte & Touche in 2005 as Associate Auditor and was subsequently promoted to Audit Manager. In 2009, Mr. Mammadov was assigned to the position of Director of the Financial Management Department at PASHA Bank Azerbaijan; in 2011, he became Chief Financial Officer and member of the Executive Board. In 2013, he joined the Board of Directors of PASHA Bank Georgia supervising the business development function. In July 2014, Mr. Mammadov was appointed CEO and Chairman of the Board of Directors at PASHA Bank Georgia. Since March 2015, Shahin Mammadov has been a Member of the Supervisory Board of PASHA Bank Turkey.

In January 2018, Mr. Mammadov was assigned to the position of Business Support Director and Deputy CEO at PASHA Holding. On March 1, 2018, Shahin Mammadov became Member of the Supervisory Board of PASHA Bank Azerbaijan; on May 30, 2018, he was appointed Member of the Supervisory Board of PASHA Bank Georgia. Mr. Mammadov successfully completed several education programs at a number of top business

schools as a part of the High Potential Leadership Program organized by PASHA Holding in 2013. In 2012, Shahin Mammadov enrolled in Harvard Business School's Program for Leadership Development (Executive Education Program); in 2013, he graduated from PLD after completing Modules 1-4. In 2017, he enrolled in and completed Module 5 of HBS's Program for Leadership Development. Mr. Mammadov obtained Alumni Status from Harvard Business School in July 2017. Shahin Mammadov has been a Member of the Association of Chartered Certified Accountants (ACCA) since 2014.

Executive Board



Taleh Kazimov/Chief Executive Officer and Chairman of the Executive Board

Taleh Kazimov has extensive professional experience in commercial and investment banking, loans and risk management in both traditional and digital banking. He was appointed CEO and Chairman of the Executive Board at PASHA Bank on July 1, 2015. Prior to this appointment, Mr. Kazimov served as Chief Investment Officer of the Bank and a Member of the Executive Board responsible for business development, institutional, investment, corporate and SME banking and risk management. Mr. Kazimov first joined PASHA Bank in 2007 as Risk Manager; he was subsequently promoted to Treasury Director in 2009. He started his career in the financial sector in 2004 at CJSC Bank Standard as Specialist in the Treasury Department. Later, he was promoted to Head of the Accounting, Budget Management and Planning Division and further to Deputy Director of the Corporate Loans

Department. In 2006, Taleh Kazimov joined Ernst & Young as Auditor; from 2007, he worked as General Director at FinEco Informational Analytical Agency. Taleh Kazimov attended Azerbaijan Technical University from 2000 to 2004, where he majored in Automation and Computer Engineering. Mr. Kazimov also holds an MBA from Azerbaijan State Oil Academy and an MBA with a major in Finance from Georgia State University (USA). He is an alumnus of London Business School and Harvard Business School, where he completed executive education programs in 2010 and 2012, respectively. Taleh Kazimov was a member of PASHA Bank Georgia OJSC's Supervisory Board from 2015 to 2018; he also served as a Member and Vice President of the American Chamber of Commerce (AmCham)'s Board of Directors in Azerbaijan between 2015 and 2019. Currently, Mr. Kazimov is a Member of the Board of Directors at PASHA Yatırım Bankası A.Ş. in Turkey. He is also the Chief Digital Officer (CDO) of Digital Lab, established within PASHA Bank OJSC. In April 2019, Taleh Kazimov was recognized by EMEA Finance, a leading financial publication, as "Best CEO in CEE and CIS" for his achievements in 2018. He received the honor at the European Banking Awards.



Javid Gouliyev/Deputy Chairman of the Executive Board, Chief Commercial Officer

Javid Gouliyev began his professional career in 1996 as Head of the Clients Department at British Bank of the Middle East, a subsidiary of HSBC; in 1999, he served as Head of the Financial Control Department at that bank. In 2003, Mr. Gouliyev joined Unibank, first as Advisor to the Board; in 2004, he was appointed First Deputy Chairman of the bank. Between 2005 and 2012, Mr. Gouliyev was

First Deputy Chairman at Bank Standard. In 2012, he was appointed Executive Finance Director at Capital Resources Advisors – Azerbaijan Branch. In 2014, he joined PASHA Holding as Chief Advisor. Javid Gouliyev began his career at PASHA Bank in 2015 as Business Development Advisor to the Chairman of the Board. On February 22, 2016, he was appointed Deputy Chairman of the Executive Board at PASHA Bank. On March 1, 2018, Javid Gouliyev was appointed Deputy Chairman of the Executive Board and Chief Commercial Officer of PASHA Bank. Mr. Gouliyev graduated from Azerbaijan University of Languages and Azerbaijan State Economic University majoring in Finance and Credit. In 1999, he also completed study at the Higher School of Management at HSBC Group.



Hayala Naghiyeva/Member of the Executive Board, Chief Risk Officer

Hayala Naghiyeva holds a degree in International Economic Relations and Business Administration from Azerbaijan State Economic University, where she graduated in 2004 with distinction. In 2002, Ms. Naghiyeva spent part of her undergraduate studies in the US supported by a George Soros Scholarship from Open Society Institute. From 2003 to 2006, Hayala Naghiyeva served as Financial Auditor at Deloitte CIS. There, she worked with both domestic and international banks, in addition to companies in the insurance, oil-and-gas, construction and real estate, hotel and leisure sectors, both in Azerbaijan and across the CIS. In 2007, Ms. Naghiyeva was promoted to Senior Advisor in Financial Advisory Services (FAS) with Deloitte CIS. She was seconded to Almaty, Kazakhstan where she participated in financial advisory projects for various local and regional companies. Subsequently, Hayala

Naghiyeva led Deloitte's Financial Advisory Services practice in Azerbaijan. As the head of FAS, she attended numerous advanced professional trainings on business analysis and valuation, due diligence, and financial modelling while providing services to local and multinational clients. From 2006 to 2012, Hayala Naghiyeva delivered instruction in Banking and Corporate Finance to Special Talent Groups at Azerbaijan State Economic University. In 2009, Ms. Naghiyeva joined PASHA Holding LLC as Investment Manager and took part in the company's capacity building activities related to investment decision-making. At PASHA Holding, she spearheaded numerous equity investment projects. In 2013, Ms. Naghiyeva participated in several executive education programs as a part of PASHA Holding's High Potential Leadership program. In 2010, Hayala Naghiyeva became a member of PASHA Bank's Audit Committee; she chaired the committee from 2012 to 2014. In April 2015, she was appointed Director of the Credit Risk Underwriting Department at PASHA Bank. On September 3, 2015, Hayala Naghiyeva was appointed Member of the Executive Board and Chief Financial Officer at the Bank. On March 1, 2018, Ms. Naghiyeva was appointed Member of the Executive Board and Chief Risk Officer at PASHA Bank.



Bahruz Naghiyev/Member of the Executive Board, Chief Financial Officer

Bahruz Naghiyev graduated from George Washington University (GWU) with a Bachelor of Business Administration in Finance in 2008. He is also currently a candidate to receive his EMBA degree from Columbia University – London Business School joint program. In addition, Mr.

Naghiyev successfully completed the Executive Leadership Programs at London Business School, IE Madrid and Ashridge University London. Bahruz Naghiyev is a CFA Level 2 candidate. Mr. Naghiyev began his professional career in 2009 as Financial Operations Coordinator at George Washington University. In 2010, he opted to return to Azerbaijan and started work as Financial Analyst/Accounting Analyst at Aztexnika company. In 2011, he joined PASHA Bank, initially as Treasury Control Expert. Later, in 2013, he served as Expert in the Management Information System/Budgeting function at the Bank. In 2014, Mr. Naghiyev was appointed Director of the Treasury & Capital Markets Department. Throughout his tenure at PASHA Bank, Mr. Naghiyev has obtained extensive professional experience in multiple areas of the business, including accounting, internal and external reporting, treasury, as well as front and back office functions. Mr. Naghiyev was promoted to Chief Financial Officer and appointed to the Executive Board on March 29, 2018.



**Jalal Orujov/Member of the Executive Board,
Chief Operating Officer**

Jalal Orujov graduated from Azerbaijan State University of Economics, Faculty of Finance and Credit in 1999. He started his professional career in 2001 at European Union TACIS Program's Coordination Bureau as Lead Expert. From 2002 to 2005, Mr. Orujov worked at the Central Bank of the Republic of Azerbaijan as Lead Expert and was promoted to Head of the Payments Systems and Information Technologies Department. Between 2005 and 2006, he served as Director of the Millikart Processing Centre at the Central Bank. From 2006 to 2016, Mr. Orujov was the Executive Director at

Millikart LLC Processing Centre. Between 2016 and 2017, he served as CTO at Unibank. Subsequently, Mr. Orujov was Managing Director at International Bank of Azerbaijan from 2017 until 2018. Jalal Orujov joined PASHA Bank in 2018 as Member of the Executive Board and Chief Operating Officer.

PASHA Bank Georgia

**Arda Yusuf Arkun/Chairman of PASHA Bank
Georgia Board of Directors, CEO**

Arda Yusuf Arkun graduated from Hamilton College (New York) in 1998 with a double major in Economics and Mathematics. He is also an alumnus of Robert College (Istanbul). Mr. Arkun joined JP Morgan's Mergers and Acquisitions team as an Analyst in 1998 focusing on the natural resources and power industries. In 2001, he moved to London, UK and started work at Inquam Limited, a private equity company in the telecommunications sector, as Manager on the business development team. In 2005, Mr. Arkun joined Zapp Mobile (Inquam's subsidiary in Romania) as Director of Business Development, Marketing and Strategy. He led the transaction to sell Zapp Romania to Cosmote in 2009. After the sale of Zapp Romania, Mr. Arkun was retained by Cosmote as Strategy Advisor to the CEO. Mr. Arkun moved to Baku, Azerbaijan in 2010 as Director of Strategy and Business Development at Capital Resources Advisors. He also served on the Board of Directors at Nar Mobile, B&B TV and Aimroc. Mr. Arkun became the CEO of Aimroc, the largest mining company in Azerbaijan, in 2014. He led the transaction to sell Aimroc to Azergold in 2017. Mr. Arkun joined PASHA Holding as Advisor in August 2017. Arda Yusuf Arkun was appointed CEO and Chairman of the Board of Directors at JSC PASHA Bank Georgia as of February 1, 2018.

**Chingiz Abdullayev/Member of PASHA Bank
Georgia Board of Directors, CFO**

Chingiz Abdullayev obtained his Bachelor's degree

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

Asaf Huseynov/Member of PASHA Bank Georgia Board of Directors, CRO

Asaf Huseynov graduated from Baku State University in 2005 with a Bachelor's degree in Economic Cybernetics. In 2006, he began his banking career as a leading specialist at Access Bank Azerbaijan. In 2009, Asaf Huseynov joined the Central Bank of Azerbaijan as a specialist in the Department of Banking Supervision; in 2012, he was promoted to Head of the Bank Group in the same department. In 2015, Mr. Huseynov moved to OJSC Unibank (Azerbaijan) as Member of the Management Board and Chief Risk Officer. He was CRO and Deputy to the CEO at the same bank from November 2016 until July 2017 and First Deputy to the CEO from July 2017 to November 2019.

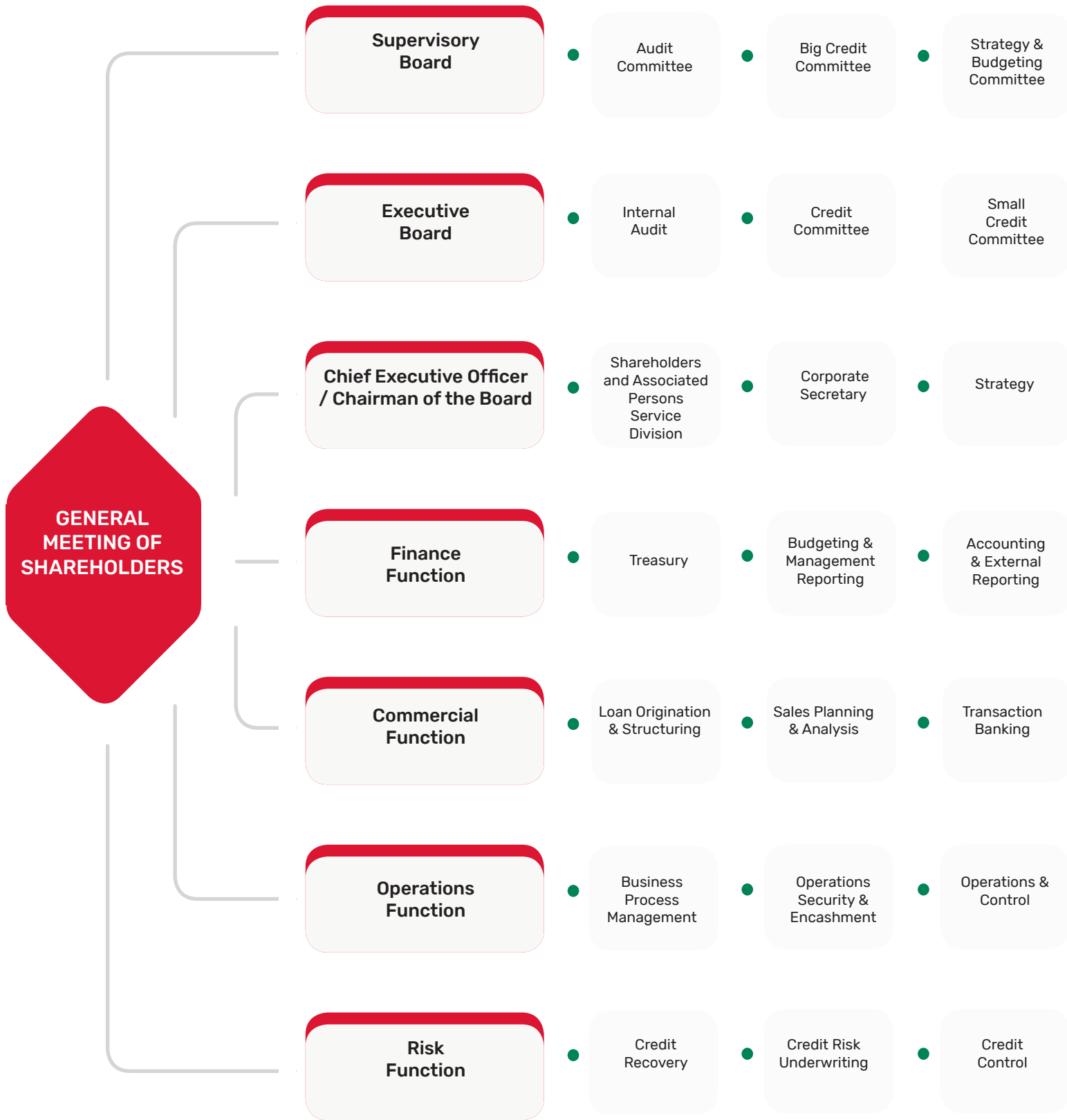
Asaf Huseynov was a Member of the Management Board at Baku Stock Exchange from December 2016 to January 2020. From May 2018 to December 2019, he served as Head of the Supervisory Board at Azerbaijan Credit Bureau. Mr. Huseynov has 11 years of professional experience in the banking and finance sectors, including seven years as Head of the Bank Group of the Department of Banking

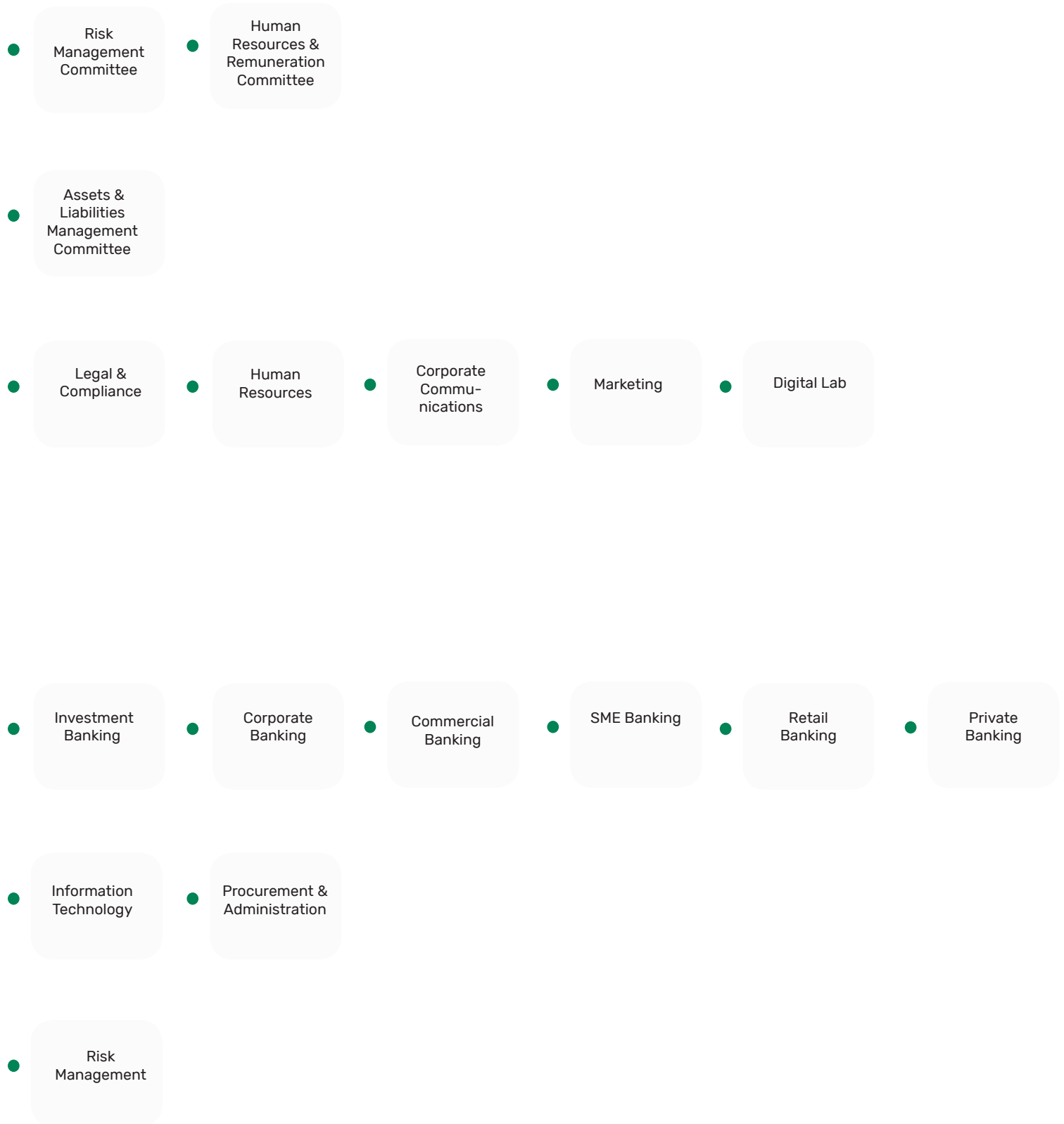
Supervision at the Central Bank of Azerbaijan and four years as First Deputy to the CEO and Chief Risk Officer at OJSC Unibank (Azerbaijan). Over the course of his banking career, Mr. Huseynov has been involved in a wide range of projects, such as reviewing and modifying the normative documents of the banking system; developing software for and setting up the Scoring System for Azerbaijan Credit Bureau; establishing the Management Information System for the Central Bank of Azerbaijan; evaluating the performance of internal control system for banks' anti-money laundering activities; developing a Deposit Insurance System for commercial banks; and preparing a resolution framework for the banking sector. In August 2014, Asaf Huseynov received his ACCA Diploma in International Financial Reporting. He has been a member of the Global Association of Risk Professionals (GARP) since 2009. Mr. Huseynov joined JSC PASHA Bank Georgia in November 2019. Asaf Huseynov was appointed Chief Risk Officer and Member of the Board of Directors at JSC PASHA Bank Georgia by the Supervisory Board on November 13, 2019.

PASHA Bank Turkey

H. Cenk Eynehan/Member of PASHA Yatırım Bankası A.Ş. Board of Directors, CEO

H. Cenk Eynehan received his Associate's degree in Economics from Erasmus University (Netherlands), Bachelor's degree in Management from Monroe College (New York, USA), and Executive MBA from Koç University (Istanbul, Turkey). Mr. Eynehan started his banking career in 1994, serving in various management and business development capacities at DHB Bank (Netherlands) N.V. until 2001. He continued his professional career as a managing partner in the non-financial sector between 2002 and 2004. In 2005, Mr. Eynehan joined Şekerbank T.A.Ş. and held executive positions in various departments until 2010. He was Deputy General Manager in charge of Corporate Marketing





& Sales at Ekspo Faktoring A.Ş. from 2011 until 2013. H. Cenk Eynehan began serving as CEO and Board Member at PASHA Yatırım Bankası A.Ş. on August 2, 2013. He concurrently held the position of Board Member at PASHA Bank Georgia between September 2015 and December 2018.

Ayşe Hale Yıldırım/Deputy CEO of PASHA Yatırım Bankası A.Ş.

Ayşe Hale Yıldırım completed her undergraduate education in 1998 at Istanbul University, Department of Economics. Ms. Yıldırım started her banking career at Türk Ekonomi Bankası A.Ş. in 1998. She worked in various positions in corporate banking departments at Finansbank A.Ş. from 2004 until 2008. Ms. Yıldırım went on to serve as Marketing Manager and Deputy General Manager at Ekspo Faktoring A.Ş. from 2008 to 2013. She joined PASHA Yatırım Bankası A.Ş. as Manager of the Corporate Marketing Department in 2013. Ayşe Hale Yıldırım is the acting CEO of PASHA Yatırım Bankası A.Ş. as from May 17, 2019, and currently serves as Deputy CEO in charge of Marketing, Corporate Communications and Administrative Affairs. She has 22 years of experience in banking and business administration.

Uğur Koç/Deputy CEO of PASHA Yatırım Bankası A.Ş.

Uğur Koç completed his undergraduate education in 1993 at Middle East Technical University, Department of Political Science & Public Administration. Mr. Koç started his professional career at TC Ziraat Bank in 1993. Subsequently, he worked at Çukurova Steel Industries A.Ş. and in various positions at different banks – Kentbank, Anadolubank and Finansbank – from 1996 until 2014. Mr. Koç served as Head of the Commercial Loans Department at Burgan Bank between 2014 and 2016. On September 18, 2017, Uğur Koç joined PASHA Yatırım Bankası as Deputy CEO in charge of Credits, Change and Project Management,

Information Technologies and Security. He has 27 years of experience in banking and business administration.

Benan Bilge Köksal/Deputy CEO of PASHA Yatırım Bankası A.Ş.

Benan Bilge Köksal graduated from Bahrain University, Department of Business Administration in 2000. She began her professional career at Yapı Kredi Bankası Bahrain Branch in 1996. Ms. Köksal went on to work at HSBC Bahrain Branch until 1999. From 2000 until 2003, Benan Bilge Köksal worked at Arthur Andersen, the independent auditing and consultancy firm, where her focus was auditing of financial services providers. During her 16 year tenure at Yapı Kredi Portföy Yönetimi A.Ş., she served as Manager of Finance and Administrative Affairs until 2003, and subsequently as CFO, Director of Operations, IT, Finance and Administrative Affairs until 2019. Benan Bilge Köksal has been Deputy CEO in charge of Financial Planning, Control, Strategy and Accounting at PASHA Yatırım Bankası since September 23, 2019. Ms. Köksal has 23 years of experience in banking and business administration.

Board and Committee Members

Supervisory Board:

Mir Jamal Pashayev – Chairman
Farid Akhundov – Member
Vadim Shneyer – Member
Nariman Sardarlı – Member
Shahin Mammadov – Member

Executive Board:

Taleh Kazimov – Chairman
Javid Gouliyev – Deputy Chairman
Hayala Naghiyeva – Member

Bahrüz Naghiyev – Member

Jalal Orujov – Member

Composition of Human Resources & Remuneration Committee

1. Chairman of the Supervisory Board – Mir Jamal Pashayev – Chairman of the Committee
2. PASHA Holding LLC, First Deputy Director – Jalal Gasimov – Independent Member of the Committee
3. PASHA Holding LLC, Group Director of Human Resources and Administration – Aytan Abbasli – Independent Member of the Committee
4. Chairman of the Executive Board, Chief Executive Officer – Taleh Kazimov – Member of the Committee
5. Director of Department of Human Resources – Parviz Tahirov – Member of the Committee
6. PASHA Holding LLC, Deputy Director and Business Group Director – Farid Mammadov – Independent Member of the Committee
7. PASHA Bank OJSC, Member of the Executive Board, Chief Risk Officer – Hayala Naghiyeva

Composition of Risk Management Committee:

1. PASHA Bank OJSC, Member of the Supervisory Board – Shahin Mammadov – Chairman of the Committee
2. PASHA Holding LLC, Deputy Director and Business Group Director – Farid Mammadov – Member of the Committee
3. PASHA Holding LLC, Business Group Representative – Vugar Akhundov – Member of the Committee
4. PASHA Holding LLC, Representative of the Investment Department – Ulvi Baghirov – Member of the Committee
5. PASHA Bank OJSC, Member of the Executive Board, Chief Risk Officer – Hayala Naghiyeva – Member of the Committee
6. PASHA Bank OJSC, Member of the Executive Board, Chief Financial Officer – Bahrüz Naghiyev –

Member of the Committee

7. PASHA Bank OJSC, Member of the Executive Board, Chief Operating Officer – Jalal Orujov – Member of the Committee
8. PASHA Bank OJSC, Chairman of the Audit Committee – Parvin Ahadzade – Member of the Committee (Non-Voting Member According to “Corporate Governance Standards in Banks”)

Composition of the Strategy & Budgeting Committee

1. PASHA Bank OJSC, Member of the Executive Board, Chief Risk Officer – Hayala Naghiyeva – Chairman of the Committee
2. PASHA Holding LLC, Deputy Director and Business Group Director – Farid Mammadov – Independent Member of the Committee
3. PASHA Bank OJSC, Member of the Executive Board, Chief Financial Officer – Bahrüz Naghiyev – Member of the Committee
4. PASHA Bank OJSC, Director of the Strategy Department – Agshin Mirzazade – Member of the Committee
5. PASHA Holding LLC, Director of Strategy Management Department – Teymur Huseynov – Independent Member of the Committee
6. PASHA Holding LLC’s Group Finance and IT Department Director – Murad Suleymanov – Independent Member of the Committee
7. PASHA Bank OJSC, Advisor to the Chairman of the Executive Board – Turkhan Makhmudov – Independent Member of the Committee

Composition of the Big Credit Committee

1. PASHA Holding LLC, Deputy Director and Business Group Director – Farid Mammadov – Chairman of the Committee
2. PASHA Bank OJSC, Member of the Supervisory Board – Shahin Mammadov – Member of the Committee

3. PASHA Bank OJSC, Chairman of the Executive Board, Chief Executive Officer – Taleh Kazimov – Member of the Committee
4. PASHA Insurance LLC, Acting Member of Executive Board – Ulviyya Abbasova – Member of the Committee
5. PASHA Investment LLC, Investment Director – Ulvi Baghirov – Member of the Committee
6. PASHA Investment LLC, Associate Investment Manager – Zaur Malikov – Member of the Committee

Composition of the Steering Committee

1. Chairman of the Executive Board, Chief Executive Officer – Taleh Kazimov – Chairman of the Committee
2. Deputy Chairman of the Executive Board, Chief Commercial Officer – Javid Guliyev – Member of the Committee
3. Member of the Executive Board, Chief Risk Officer – Hayala Naghiyeva – Member of the Committee
4. Member of the Executive Board, Chief Financial Officer – Bahruz Naghiyev – Member of the Committee
5. Member of the Executive Board, Chief Operating Officer – Jalal Orujov – Member of the Committee
6. Director of the Human Resources Department – Parviz Tahirov – Member of the Committee
7. Director of the Strategy Department – Agshin Mirzazade – Member of the Committee

Composition of the Credit Committee

1. Chairman of the Executive Board, Chief Executive Officer – Taleh Kazimov – Chairman of the Committee
2. Deputy Chairman of the Executive Board, Chief Commercial Officer – Javid Guliyev – Member of the Committee
3. Member of the Executive Board, Chief Risk Officer – Hayala Naghiyeva – Member of the Committee

4. Member of the Executive Board, Chief Financial Officer – Bahruz Naghiyev – Member of the Committee
5. Director of the Strategy Department – Agshin Mirzazade – Member of the Committee
6. Director of the Credit Risk Underwriting Department – Elmin Iskandarov – Substitute Member of the Committee

Composition of the Small Credit Committee

1. Director of the Credit Risk Underwriting Department – Elmin Iskandarov – Chairman of the Committee
2. Director of the Corporate Banking Department – Farid Guliyev – Member of the Committee
3. Director of the Legal and Compliance Department – Anar Karimov – Member of the Committee
4. Director of the Loan Originating and Structuring Department – Jeyhun Baloglanov – Member of the Committee
5. Head of the Loan Operations Division in the Operations and Control Department – Heydar Ibrahimov – Member of the Committee

Composition of the Assets & Liabilities Management Committee

1. Member of the Executive Board, Chief Financial Officer – Bahruz Naghiyev – Chairman of the Committee
2. Deputy Chairman of the Executive Board, Chief Commercial Officer – Javid Guliyev – Member of the Committee
3. Member of the Executive Board, Chief Risk Officer – Hayala Naghiyeva – Member of the Committee
4. Director of the Strategy Department – Agshin Mirzazade – Member of the Committee
5. Director of the Treasury Department – Jeyhun Hajiyev – Member of the Committee

Composition of the Audit Committee

1. Parvin Ahadzade – Chairman of the Committee
2. Jamil Mammadov – Member of the Committee
3. Ramil Heydarov – Member of the Committee

**GLOBAL
MACROECONOMIC
OUTLOOK AND
AZERBAIJAN'S
ECONOMY**

Global Economy in 2019

Global Economic Activity

The world economy slowed over the course of 2019. According to the IMF's World Economic Outlook (WEO) January 2020, global economic growth stood at 2.9% in 2019. Advanced economies expanded by 1.7% year-on-year, down 0.5 percentage point from the prior year. IMF projections estimate that the US economy grew 2.3% in 2019, registering a year-on-year decline of 0.6 pp. However, the US labor market remained buoyant: America's unemployment rate was 3.5% in December 2019 – the lowest level in 49 years. Meanwhile, the Dow Jones index was up 23.8% at year's end while the S&P 500 rose 30.6% over the start of the year. 2019 also was a year of weak investment spending and lower industrial productivity in the US. The country's industrial production index (IPI) decreased during the year. Against this backdrop, household spending surged and consumer lending jumped by the end of the year. Rising asset prices triggered expectations of a looming financial crisis from some economic experts. Nevertheless, ongoing fiscal stimulus, such as major tax cuts, completion of a US-China 'Phase 1' trade deal and lower geopolitical tensions, signaled recovery of the US economy. Amid slowing economic growth, the US Federal Reserve spent eight meetings dedicated to interest rate cuts, reducing its benchmark rates from 2.25-2.5% to 1.5-1.75% over the year.

The Eurozone economy expanded 1.2% in 2019, down 0.7 pp year-on-year according to IMF projections. For the year, Germany's economic growth decreased 1 pp, while France and Italy recorded growth down 0.4 pp and 0.6 pp, respectively. Regionwide, Europe's IPI decreased in 2019. However, the Eurozone unemployment rate stood at 7.4% in 2019 – the lowest since 2008. Meanwhile, the FTSE Eurotop 100 index

was up 26% by year's end. The European Central Bank continued its quantitative easing in 2019, setting its benchmark interest rates at 0.50% and 0.25% at its meeting on September 18, 2019. The ECB resumed net purchases under its asset purchase program (APP) at a monthly pace of EUR 20 billion from November onward. The conclusion of the Brexit agreement end-January and a flexible transition to a new trade system is expected to underpin economic activity by boosting consumer confidence.

Japan recorded real GDP growth of 1% in 2019 according to IMF forecasts. The hike in the consumption tax rate in October 2019 and low exports to China, in particular, dampened economic growth for the year. Industrial production declined and consumer confidence dipped. Nevertheless, the Nikkei index was up 18.4% for the year at end-2019. The Japanese government attempted to boost aggregate demand and economic growth with fiscal stimulus, by increasing public spending. Despite its slow economic growth, Japan posted an unemployment rate of 2.2% in December 2019 – the lowest in 25 years.

In 2019, the UK economy expanded 1.3%, the slowest pace since 2010. Low global economic growth reduced demand for UK exports. Meanwhile, policy decisions related to ongoing uncertainties had a negative impact on business investment expenditures in the country. However, unemployment stood at 3.8% as of end-of-year in the UK – the lowest since early 1975. The UK pound sterling gained against the USD over fourth quarter 2019 thanks to reduced risk of a no-deal Brexit. Overall, the GBP appreciated 3.5% during the year.

Developing economies posted growth of 3.7% in 2019. GDP in emerging Asian markets expanded 5.6%, while emerging European economies grew

just 1.8% for the year. In 2019, Latin America and the Caribbean recorded economic growth of 0.1%, Middle East and Central Asia expanded 0.8%, while Sub-Saharan African economies grew 3.3% according to IMF estimates.

Economic growth in China slowed to 6.1% in 2019, down 0.5 pp year-on-year according to IMF projections. The Chinese economy entered a slowdown due to both weak imports and exports from ongoing trade conflicts. At end-2019, the unemployment rate in China was 3.6% – a historic low. During the year, economic growth declined in other developed Asian countries – including South Korea, Hong Kong, and Singapore – due to the economic downturn in China. In response to sluggish economic growth, the National Bank of China lowered the interest rate on its medium-term lending facility to 3.25%, down from 3.3%, in 2019.

During the year, Russia's economy expanded 1.1%, down from 2.3% in 2018 according to IMF forecasts. However, the industrial production index (IPI) rose country-wide. In December, the Russian unemployment rate stood at 4.6%. Portfolio investment inflows to the Russian government bond market, positive expectations for the domestic economy and the Fed's expansionary policy decisions resulted in 11.8% appreciation of the RUB against the USD. The Central Bank of Russia implemented an accommodative monetary policy in the low inflation-slow economic growth environment. During fourth quarter, the Central Bank reduced its benchmark rate by 75 basis points.

Turkey emerged from recession with 0.9% economic growth in Q3 2019. The Turkish economy is expected to have expanded 0.3% in 2019, down 2.5 pp year-on-year. In November 2019, unemployment fell to 13.3% accompanied by an uptick in the IPI. Slowing to a single-digit

pace in September, inflation stood at 11.8% in December. During the year, the Turkish lira depreciated by 11% due to geopolitical tensions and US sanctions. Nevertheless, the Central Bank of Turkey cut its policy rate to 12% in December, down from 14%.

Trade tensions, a slowing world economy and policy uncertainties weighed on global trade and investment spending. In 2019, world trade expanded just 1%, down 2.7 pp year-over-year according to IMF figures. The United Nations Conference on Trade and Development (UNCTAD) estimated that global FDI contracted 1% year-on-year to USD 1.39 trillion, down from USD 1.41 trillion a year earlier. Investment flows receded in Europe and advanced in the Asian region.

In 2019, global commodity prices had a tendency to rise. According to the World Bank's recent Commodity Markets Outlook (CMO), energy prices jumped 5.9% in 2019. Energy price swings mainly stemmed from oil price volatility and natural gas price declines. According to World Bank commodity price data, the natural gas index fell 40.5% in 2019. Average Brent oil price was USD 64.2/barrel during the year, down 10.6% compared to 2018. Weak global demand from emerging market economies in particular, innovations in oil extraction and utilization of energy carriers caused oil prices to decline. Extension of the oil output cut agreement by OPEC and non-OPEC members coupled with sanctions against certain large oil producers exerted upward pressure on oil prices. Globally, non-energy prices went up 3.8% and food prices rose 7% for the year. Precious metal prices increased 17.9% while the price of gold jumped 18.5% in 2019.

Azerbaijan's Economy in 2019

According to the State Statistical Committee (SSC), Azerbaijan's real GDP expanded 2.2% to

nominal AZN 81.7 billion in 2019. About 41% of GDP was produced by the industrial sector with 5.7% of output generated by the agricultural sector. Per capita GDP amounted to AZN 8,247. The value-added in the oil sector increased 0.4% in 2019. The mining and extraction sector extracted 37.4 million tons of crude oil and 24.5 billion m³ of natural gas. Oil production declined 3.3% year-on-year, while gas extraction expanded 27.7%. The value-added in the non-oil sector rose 3.5% year-over-year in real terms to nominal AZN 50.4 billion (61.7% of GDP). Most non-oil sectors posted positive growth for the year. Non-oil manufacturing, agriculture, information and communication and tourism reported the highest growth in 2019. The non-oil manufacturing sector expanded 14.3% year-on-year.

The results of Azerbaijan Central Bank's Real Sector's Monitoring survey indicated that the Business Confidence Index (BCI) was positive across industry, trade and services. Economic activity indicators year-on-year improved in trade and services – in the production of plastic ware, construction materials, food and beverages (non-oil industry); electric and home appliances, furniture and household goods (trade); and tourism, hotels and healthcare (services). Though still negative in construction, overall BCI improved compared to the previous year.

Economic growth in Azerbaijan was driven by domestic demand in 2019. Consumption expenditures continued to expand during the year. Goods and services sold in the market to meet consumer demand rose 3.6% year-on-year in real terms to AZN 50.7 billion. About 96% of goods sold and services supplied originated from the private sector (49.5% private entrepreneurs). Government spending was a critical component of domestic demand. State budget expenditures amounted to AZN 24.4 billion over the period,

up 7.4% year-over-year. Some AZN 13.5 billion (55.4%) of state budget spending was channeled to current expenditures, AZN 9.4 billion (38.4%) went to capital expenditures, and AZN 1.5 billion (6.2%) to public debt and liabilities expenditures. About AZN 17.2 billion in investment spending was directed to the economy. In 2019, AZN 11.7 billion was invested in the non-oil sector, up 1.9% year-over-year. The public sector accounted for 48.3% of total investment expenditures in 2019, while the private sector accounted for the remaining 51.7%.

In 2019, Azerbaijan's external economic position remained favorable thanks to buoyant global oil prices and wider non-oil exports. According to SSC data, the country's foreign trade turnover increased 7.7% to USD 33.3 billion, with exports totaling USD 19.6 billion and imports amounting to USD 13.7 billion. Azerbaijan recorded a foreign trade surplus of USD 6 billion in 2019. The country's main export partners included Italy (28.7%), Turkey (14.6%), Israel (6.8%), India (4.9%), Germany (4.8%) and China (3.8%). Non-oil exports jumped to USD 1.95 billion, driven by exports of cotton fiber (54.1%), chemical products (31.7%), cotton yarn (27.4%), aluminum (14.1%), and fruits and vegetables (8.3%).

According to SSC estimates, Azerbaijan's inflation rate was 2.4% for the 12-month period ending December 2019, below the center of the target band announced by the CBA (4±2%). The annualized inflation rate peaked in July 2019 (3.6%). The food price index, accounting for a significant share of the consumer basket, increased 4.2% on an annual basis. The higher than center of the target band of food inflation stemmed from price hikes in the global food market along with rising aggregate demand. However, the annual price rise on non-food and services, other key components of inflation, fell

below the center of the target band (1.0% and 0.9%, respectively). Low non-food inflation is attributable to the rise in domestic production driven by depreciated national currencies in certain partner countries. Stable administrative prices, regulated by the governmental Tariff Council, also factor in low non-food and service inflation. In general, a stable foreign exchange rate, monetary conditions, flat administrative prices and low inflation expectations had a moderating effect on the country's overall inflation rate. Meanwhile, revived consumption and higher food prices in the global market had an upward impact on Azerbaijan's inflation in 2019.

The exchange rate of the Azerbaijani manat against foreign currencies responded to supply and demand in the FX market and balance of payments trends. The dynamics of economic agents' foreign operations also boosted the size of FX market transactions in 2019. The official AZN exchange rate was set on the basis of the average exchange rate on interbank transactions. The average daily AZN/USD exchange rate was stable at 1.700 in 2019. The AZN appreciated 11% against the Turkish lira, 2.2% against the euro, and 6.8% against the Georgian lari. Meanwhile, the AZN depreciated 15.7% against the Ukrainian hryvnia, 11.8% against the Russian ruble, and 1.4% against the Japanese yen.

The Central Bank of Azerbaijan made necessary adjustments to its interest rate corridor parameters on liquidity operations in light of macroeconomic trends, revised forecasts, internal and external risks. The CBA's Management Board discussed interest rate corridor parameters eight times in 2019. As a result, the Board decided to stepwise shift the refinancing rate to 7.5% from 9.75%, the ceiling of the interest rate corridor to 9.25% from 11.75%, and the floor to 5.75% from

7.75%. To meet the monetary demand of the economy and effectively manage liquidity, the CBA kept various term open market operations active. Although lending was relatively elevated during the year, the banking industry maintained a high level of liquidity, boosting demand for CBA's sterilization operations. The CBA held 53 deposit auctions on attraction of excess funds in the national currency with 14-day maturity. The total outstanding amount of funds attracted by deposit auctions was AZN 250 million as of year's end. The CBA held 55 auctions on issue of notes along with deposit operations; 28-day notes were issued at 51 of these auctions. The CBA issued notes with longer maturity (84-, 168-, 252-day) to expand opportunities for sterilization of excess liquidity and support formation of interest rates in the short-term period of the yield curve from September 2019. The CBA held four long-term note auctions, attracting AZN 120 million. The total outstanding amount of sterilization via short-term notes was AZN 700 million in 2019.

Banking Industry

In 2019, Azerbaijan's economy continued to expand, recording GDP growth of 2.2%. After a year of structural reforms and consolidation, the banking sector also gained a firm foundation. Twenty-three of the 30 registered banks in the country posted net profit for the year, a sign of stability and growth for the industry.

A number of key reforms shaped the development of the banking industry and consequently greatly affected Azerbaijan's economic development in 2019. These reforms, in particular, targeted fostering institutional development of the financial sector, revitalizing the banking industry and boosting digital payments.

One of the most significant banking reforms during the year was the adoption of additional

measures to address non-performing loans to individuals. This reform helped free the financial sector from non-performing assets, ensuring liquidity and revitalizing the industry as a whole. More than 800 thousand individual borrowers were covered by these measures which significantly bolstered the banking industry. The proportion of distressed assets in the sector's total loan portfolio declined, strengthening the industry's lending portfolio.

New regulations were also enacted that impacted the banking sector in 2019. The new regulatory framework primarily targeted banking management and efficiency. Regulatory changes affected the rules for managing risk and credit risk in banks. These rules set out to classify risks and determine risk management strategies, policies, operations and related measures. Basel Committee principles of improving corporate governance and standards of corporate governance in banks guided reform of the institutional development of banks in Azerbaijan.

The various banking reforms enacted in 2019 increased the capital sustainability of Azerbaijani banks, bolstered digitalization efforts and ensured prudent management across the industry.

Efforts to ensure stability of the financial system, covering banks, non-bank credit institutions, capital and money markets, and the insurance system, proceeded apace in 2019. Despite some lingering fragilities in the balance of systemic risks, Azerbaijan safeguarded the stability of its financial sector in parallel with lending recovery.

In 2019, banking assets increased 11% year-on-year, from AZN 29.5 billion to AZN 32.7 billion. As a result, the total loan portfolio of the Azerbaijani banking system expanded 17%, increasing from AZN 13 billion to AZN 15.3 billion. Non-performing loans decreased 20% year-on-year, from AZN

1.59 billion to AZN 1.27 billion, a significant decline compared to the prior year's 1.6% decrease. The sector-wide corporate lending portfolio increased by a stable 9% in 2019, from AZN 7.2 billion to AZN 7.9 billion. Meanwhile, the individual loan portfolio rose 27% year-over-year, from AZN 5.8 billion to AZN 7.4 billion – record high growth.

During the year, total deposits went up 13%, from AZN 21.9 billion to AZN 24.7 billion. Corporate, household and financial institution deposits increased by 20%, 3% and 12% respectively, year-on-year.

In 2019, Azerbaijan's banking sector recorded operating profit of AZN 849 million and net profit of AZN 536.9 million. Out of 30 registered banks in the country, 23 banks posted net profit for the year. The top three banks recording net profit were IBAR, Kapital Bank and PASHA Bank, according to Azerbaijan Banks Association. Over the same period, the 30 registered banks operated 509 branches, 133 sub-branches, and 2,647 ATMs across the country. In 2019, the banking industry reported 19,460 employees, up by 2,045 year-on-year.

Expectations for 2020

Economic activity plummeted in first quarter 2020 due to the fast spreading Covid-19 pandemic. The average global price of Brent oil was USD 40/barrel in the first half of 2020, down 30% year-on-year. The sharp decline in world demand due to the pandemic and collapse of the OPEC+ deal between Russia and Saudi Arabia are the main factors for the steep drop in oil prices. Due to the failure to reach an agreement on a supply cut at the OPEC+ meeting on March 6, oil prices plunged 26% in a single day. The Oil Market Report – April 2020 of the International Energy Agency forecasts 9.3 million barrel/day decline in demand for oil in 2020. In the August update of the short-term energy outlook, IEA

projects the Brent oil price to average USD 41/barrel and USD 49/barrel in 2020 and 2021, respectively. Leading international financial forecasters have significantly revised down their global economic growth projections for 2020. According to Economist Intelligence Unit (EIU), the world economy is expected to sharply contract by 5.1% in 2020 due to the coronavirus pandemic – more than the recession during the 2008–09 global financial crisis. All G-7 countries – US, Canada, France, Germany, Italy, UK and Japan – will face full-year recessions in 2020, according to EIU. One month of lockdown in France is estimated to slash annual growth by 3 percentage points. Severe supply disruptions and demand weaknesses throughout 2020 will result in 18.3% drop in global trade, the EIU estimates. To mitigate the effect of the pandemic on the global economy, countries expanded their fiscal stimulus packages in light of the extreme economic stress. Government authorities and central banks implemented temporary and targeted policies for pandemic affected individuals and legal entities. These measures included cash transfer, tax holidays, salary support, postponing debt payments, and the like. According to World Bank, the pandemic's impact on the global economy may be stronger and longer than expected. EIU expects the world economy's road to recovery will be quite long. Asian economies will likely rebound fastest from the Covid-19 induced crisis. EIU forecasts global GDP to recover to pre-coronavirus levels in 2022. Recovery expectations to the 2019 level in some of advanced economies lie beyond 2023, as projected by EIU. Risks that economic recovery could be derailed include local lockdowns and doubts around immunity to the novel coronavirus.

The pronounced slump in commodity prices and the global reach of the Covid-19 pandemic had a very negative effect on the Azerbaijan economy.

The country's economic growth expectations for 2020 were revised down as a result. The decline of oil prices from the point of fiscal break-even (initially USD 55 for 2020) increased expectations of a budget deficit. Against the backdrop of falling oil prices, the Central Bank of Azerbaijan started selling foreign currency reserves from the State Oil Fund of Azerbaijan (SOFAZ) and eased regulatory rules for financial institutions. At the same, the Central Bank temporarily simplified regulation of banks that supply lending to pandemic hit areas. In addition, the Azerbaijan government developed a fiscal stimulus package that amounted to 4.3% of GDP. The package includes providing additional payments to healthcare staff and quarantined patients; granting unemployment benefits equal to one-month minimum salary; introducing interest rate subsidies for SMEs; and mitigating measures oriented toward other pandemic hit businesses.

Amid increased pressure from the coronavirus pandemic and lower oil prices, S&P expects that Azerbaijan's GDP will contract 6.9% in 2020. The country's economy is projected to rebound from 2021, supported by a recovery in domestic consumption and aided by fiscal stimulus and higher hydrocarbon exports. In the event of a steep decline in hydrocarbon exports, S&P projects Azerbaijan's fiscal and external accounts will run deficits in 2020, but improve to surpluses over 2022-2023. Due to a substantial fall in hydrocarbon exports, S&P forecasts the current account balance to run a deficit of about 6.3% of GDP in 2020. Rising pressure on external flows will be partially mitigated by reduced import needs amid the pandemic. In the remainder of the forecast horizon through 2023, external balances are forecast to revert to an average surplus of about 4% of GDP, supported by a rebound in hydrocarbon prices and a gradual rise in crude oil production. The launch of the Shahdeniz-2

gas project and its expansion over the next few years should also support external performance. Despite increased external pressures, Azerbaijan's strong external balance sheet will remain a core rating strength, bolstered by the large amount of foreign assets accumulated in SOFAZ, the sovereign wealth fund. S&P estimates external liquid assets will surpass external debt by 108% of current account payments in 2020 and remain stable through 2023. Azerbaijan will remain vulnerable to potential terms-of-trade volatility. Nevertheless, the country's large net external asset position will serve as a buffer to mitigate the potential adverse effects of economic cycles on domestic economic development. As a result, S&P affirmed its BB+ long-term foreign and local currency sovereign credit ratings on Azerbaijan with a stable outlook.

Azerbaijan Economic Indicators	2019	2020E	2021F
Real GDP Growth	2.2%	-6.9%	2.9%
Inflation (annual average)	2.6%	1.8%	3.7%
Current Account Balance (Share of GDP)	9.1%	-6.3%	0.6%
Unemployment	5.0%	4.9%	4.9%

Source: S&P Global Ratings.

2019 ACTIVITIES

SERVICE MODEL AND BRANCH NETWORK

Expanding the branch network

In 2019, PASHA Bank opened its new Quba Branch in order to expand its client base in northern region of the country. This new branch location provides a comprehensive range of services both to corporate and individual customers.

PASHA Bank aims to further attract and develop its SME banking customer base. To this end, the Bank plans to open its new Sadarak Branch in the economically advantageous Absheron region in 2020. The new branch will focus on serving the corporate sector, especially small and medium-sized enterprises and physical persons who are PASHA Bank salary card holders. Along with the new branch opening, the Bank also plans to open a currency exchange service point in Sadarak.

PASHA Bank is committed to transforming its service delivery network from physical branch locations to a digital platform. Toward this goal, the Bank plans to implement the concept of a "Virtual Branch." This innovation will significantly boost the Bank's service level by promptly resolving customer requests via email or voice call. As a result, customers will not need to come to a physical branch to obtain banking services. Traditional branch locations will remain only for legally required paper-based transactions.

CORE BANKING BUSINESS

Greater Insight into Customer Relationships: CSAT Surveys

In 2019, PASHA Bank implemented continuous optimization of service point processes, introduced new customer-centered tools and upgraded its technology systems infrastructure to this end. As a result, customer service at PASHA Bank improved significantly during the year as evidenced by the CSAT surveys results conducted in 2019 (PASHA Bank's TRI*M for 2018: 104; TRI*M for 2019: 118).

During the reporting period, PASHA Bank also introduced new products including Miles&Smiles cards and Smart Kassa. The Bank also launched its revamped online banking website in 2019.

CORPORATE AND COMMERCIAL BANKING

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

Efforts to Boost Service Quality, Efficiency, and Operational Effectiveness

Non-cash Portfolio

Demand for non-cash loans is rising in the Azerbaijani market. The free market is expanding and companies are starting to use more complex methods to finance their businesses and optimize their activities. For a bank to provide a non-cash loan, a company must have a reliable reputation and solid financial position, which is only possible via a strong working relationship.

PASHA Bank's non-cash loan portfolio grew from AZN 396 million at end-2018 to AZN 534 million at end-2019, up 35%. This significant expansion in non-cash lending reflects the growing trust between PASHA Bank and its customers, whom it views as long-term partners. Such rapid growth also demonstrates the strong reputation of the Bank in international capital markets.

AzVirt LLC

PASHA Bank is widely known to cultivate long-term, trust-based relationships with its clients. AzVirt LLC is one of the largest and most reputable road construction contractors in Azerbaijan. The company started out by constructing urban roads in Baku and eventually transformed into an international concern providing a full range of construction services for motorway and airport infrastructure projects. Today, AzVirt is the first Azerbaijani road constructor to operate in the European Union. Serving as a partner to AzVirt, PASHA Bank provided non-cash financing for the company's financial liabilities before foreign and local creditors. In 2019, the Bank increased its credit exposure to the company by an additional AZN 30 million in financing equivalent via letters of guarantee. At present, AzVirt has a total credit facility of AZN 80 million with PASHA Bank. As AzVirt has expanded its operations beyond Azerbaijan to gain projects in Ukraine, Serbia, Bosnia-Herzegovina, PASHA Bank has helped fuel its growth with financing.

Tabaterra

Tabaterra CJSC produces tobacco products at world class standards. The company has been granted the status of resident at Sumgayit Chemical Industrial Park. Serving as a partner to Tabaterra CJSC, PASHA Bank provided non-cash financing for the company. In 2019, PASHA Bank issued more than 10 guarantees on behalf of Tabaterra. The total non-cash portfolio of the company amounted to AZN 70.6 million at year's end.

AHK International

AHK is an international construction and fit-out company based in Turkey and Dubai. The company also operates in Azerbaijan and participates in interior design and fit-out related work of the largest real estate and development projects. PASHA Bank provided non-cash lending facility of AZN 50 million equivalent in 2019. During the year, AHK successfully utilized letters of guarantee from PASHA Bank for a total amount of AZN 25 million. PASHA Bank not only provided local guarantees, but also become a partner to AHK in its international projects.

INVESTMENT BANKING

PASHA BANK Investment Banking provides consulting services on raising funds via debt and equity, placement of bonds in the primary market, mergers and acquisitions, and arrangement of syndicated loans and appointment of credit ratings. With the rapid development of the local capital market during recent years, PASHA Bank Investment Banking aims to lead the market forward with new product and service offerings. In recognition of its excellence, PASHA Bank Investment Banking received the “Best Investment Bank of Azerbaijan” award from the prestigious international financial publication EMEA Finance in 2017-2018.

In 2019, PASHA Bank Investment Banking Division executed the first-ever AZN denominated bond issuance for a cross-border organization in local capital markets. The Black Sea Trade and Development bank, with the support of PASHA Bank, issued bonds in AZN in the amount of AZN 10 million. PASHA Bank served as underwriter for this high profile transaction.

By issuing debt in Azerbaijani manat, Black Sea Development and Trade Bank could raise funds in the currency that it lends to its Azerbaijani clients, avoiding FX risk. After being approached by BSTDB about the project, PASHA Bank performed market sounding and proceeded to work out the approximate pricing and structure for the bond issuance.

This approach also helped with the transition and development impact mandate of BSDBT. Borrowing on the local capital market helps to cultivate the market and has a transitional impact on Azerbaijan.

Black Sea Development and Trade Bank plans to raise up to AZN 50 million to lend to SMEs and partner with financial institutions in the

Azerbaijani market. PASHA Bank is well-positioned to serve as underwriter to BSDBT going forward.

During the year, PASHA Bank’s Investment Banking team also supported EMBA Finance Non-Banking Financing Institution in the issuance of AZN denominated bonds amounting to AZN 2 million.

In addition to AZN denominated bond issuance, PASHA Bank Investment Banking also provided support to PASHA Bank Turkey in the issuance of Eurobonds, in Azerbaijan’s capital markets totaling EUR 7 million.

Other major events for the Investment Banking Division during the year were associated with syndicated loans. In 2019, PASHA Bank advised NORM LLC in syndicated loan financing in the amount of AZN 7 million. The Bank also participated in extending project financing to Azmonbat LLC through syndicated debt obligations in the amount of AZN 9.5 million. The financing of Azmonbat LLC, a battery and accumulators producer, was especially significant, given the focus on developing the country’s non-oil sector.

PASHA Bank's Treasury function manages the Bank's solvency, capital adequacy, and liquidity. In addition, Treasury provides the following solutions and services to clients:

- Foreign Exchange Desk – direct access to FX dealers
- Foreign Exchange Derivatives – forwards, non-deliverable forwards, swaps, and options contracts
- Commodities hedging – a wide range of futures, including sugar, wheat, aluminum, gold, oil and others
- Structured products – capital protection, actively managed certificates and others

2019 Operational Environment

- The highly competitive environment in the FX market continued to pressure margins during the year.
- Strategic asset allocation in domestic and international capital and money markets contributed to rising interest income.

PASHA Bank's assets under Treasury management totaled AZN 2,763 million:

- Securities portfolio – AZN 1,103 million
- Cash and cash equivalents – AZN 1,091 million
- Amount due from Credit Institutions – AZN 569 million

Treasury generated 41% of PASHA Bank's interest income (AZN 80.8 million) and 47% of the Bank's non-interest income (AZN 22.4 million) in 2019.

As one of the major profit-generating units, Treasury drove top-line growth by continuing to leverage its leadership position in the local market. PASHA Bank plans to continue executing strategic and digital technology initiatives to enhance the client experience, by introducing new treasury-related products and services.

While expecting the market environment to remain challenging in the near-term, PASHA Bank's Treasury team is well-positioned to compete effectively and record significant growth in the coming year.

TRANSACTIONAL BANKING

Factoring

As the first financial institution in Azerbaijan to offer factoring facilities in 2015, PASHA Bank maintains market leadership in this key area today. The Bank provides a comprehensive range of factoring products, including domestic factoring, invoice discounting, supply chain finance, as well as export and import factoring. PASHA Bank is still the only Azerbaijani bank to be a member of Factors Chain International (FCI). FCI is a global network of leading factoring companies. Through the network, PASHA Bank gains access to a wide range of more than 400 corresponding factoring companies in 90 countries across the world.

As part of its receivables financing products, the Bank approved new buyer limits for corporate clients. With the new limits, companies can better manage their cash flows. Meanwhile, PASHA Bank can extend financing to their suppliers correctly and on time.

Benefits of Factoring:

- Immediately receiving up to 90% of credit sales
- Working capital boost with favorable financing terms
- Committed financial resources and long-term payment conditions
- Improved credit control over receivables and payments
- Support of trusted relationship between supplier and buyer

Trade Finance

PASHA Bank delivers an extensive range of trade finance products to its clients. These specialized product offerings include local and international bank guarantees; standby LCs; documentary LCs; documentary collections; short-, medium- and long-term post-financing; and pre-export

financing. The Bank also provides trade finance related consultancy and advisory services to its customers. The Bank's trade finance products are offered in both local currency and major foreign currencies.

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

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

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

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

- All types of bank guarantees (both local and international, direct and indirect);
- All types of documentary letters of credit (both local and international, direct and confirmed);
- Short-term post-financing under documentary letters of credit;
- Long-term post-financing under documentary letters of credit (ECA covered financing);
- Import and export documentary collections;
- Advisory on trade finance strategies, products and services.

PASHA Bank is one of the leading banks in Azerbaijan in terms of trade finance. As of

December 31, 2019, the Bank's trade financing portfolio expanded by 35% year-on-year, from AZN 396 million to AZN 534 million. The Bank posted trade finance related profit of AZN 10.7 million in 2019, recording 57% growth.

In addition, PASHA Bank's incoming turnover in terms of transactions rose 41%, from AZN 17.3 billion in 2018 to AZN 24.1 billion in 2019.

Cash Management

PASHA Bank Cash Management focuses on launching new products, driving cost optimization and building cooperation with third-party providers of cash and card infrastructure, including synergy within PASHA Holding.

PASHA Bank's well-established transactional infrastructure and long-term customer portfolio further bolsters the Bank's standing in the eyes of cash management clients. Since the Bank can see the majority of its customers cash inflows and outflows, transactional services are even better optimized to meet the needs of its cash management customer base.

In 2019, PASHA Bank incorporated digital transformation across its cash management platforms. The Bank also significantly expanded its acquiring and merchant business during the year. In addition, PASHA Bank made major contributions to Azerbaijan's transition to non-cash payments nationwide with its various efforts.

Key Projects in 2019

- **HOP Integration (Customs):** PASHA Bank integrated its POS-terminals with Azerbaijan's customs system through the HOP channel. This integration made it possible for Bank customers to pay customs fees online by entering the declaration number. Customers also have the

option to pay for the declaration in the customs system via PASHA Bank POS terminals.

- **In-Flight:** This innovative feature allows Bank customers to pay for goods on board aircraft offline when there is no network coverage.

- **Installment:** PASHA Bank introduced the option for customers to pay for shopping purchases by installment payments in its POS terminal network. Flexible functionalities provide the ability for member merchants to quickly implement and modify promotional campaigns.

- **MultiBanking POS Platform:** The Bank implemented the technical capability to connect other banking institutions to its POS terminal network and use all functionality developed by PASHA Bank.

- **Smart-Cash:** PASHA Bank introduced the ability to combine a payment terminal and cash register in one device – a first in Azerbaijan. With this option, Bank merchant customers save money and time spent on the purchase, connection and support of cash register equipment.

- **Synergy POS Functions – Make Purchases Using Bonus, Installment, Kapital Bank's "Hearts" Bonus, Cashback:** As part of its synergy efforts with Kapital Bank, PASHA Bank implemented the capability on its POS terminals to process bonus payment functions, installment payments, and cashbacks.

- **Mobile Finance Service (MFS):** PASHA Bank was the first in the market to achieve systems integration with Azercell, a leading telecommunications provider, to enable Azercell customers to make payments using their account credit balance.

- **E-gov Integration:** PASHA Bank integrated its systems with Azerbaijan's electronic government portal. As a result, the process of receiving and processing customer data, placing orders via online platforms and issuing cards became much more efficient.
 - **Paperless Cards:** PASHA Bank introduced the functionality of issuing cards without PIN envelopes. As a result, personal identification numbers are generated on all cards issued by the Bank using digital capabilities on the part of the client.
 - **Miles & Smiles:** PASHA Bank, together with Turkish Airlines, launched the Miles & Smiles product, where customers can accumulate air miles when paying with these special cards. Cardholders then use these accumulated miles to purchase airline tickets.
 - **Flexicapture:** The Banking implemented this innovative software which allows automatic entry of payment data into the main banking system by Smartscan function, without user intervention. Payment orders that comply with the requirements of this software provide faster and less risky execution of payments.
 - **National Depository Center Project:** PASHA Bank participated in a new effort related to clearing and settlement of securities and derivative financial instruments as an operating agent.
- In 2020, PASHA Bank aims to prioritize new product development in order to:
- Grow even further in digital and cashless services by becoming a market maker;
 - Achieve synergy with third-party companies to boost cost-efficiency.

DIGITAL BANKING

As a financial institution that sets trends for the industry, PASHA Bank created a unique unit – Digital Lab – to deliver cutting-edge business solutions for customers and the Bank’s employees. PASHA Bank already boasts an extensive array of online services available to its customers through its mobile application and online banking platforms.

PASHA Bank’s digitalization strategy is focused on developing additional innovative products and services. In its first year, the groundbreaking Digital Lab enhanced the Bank’s digital channels and offerings. Today, PASHA Bank’s advanced channel platform and micro services link core processing components and front-end channels. This approach provides the capability to develop online banking channels for all customer segments. In PASHA Bank’s development strategy for 2018-2020, the main goal is to transfer over 90% of Bank customer operations to online and self-service channels.

Digital Banking 2018 – Getting Established

In 2018, PASHA Bank focused on two main areas in digital banking: establishing Digital Lab and developing new digital products.

During the year, PASHA Bank recorded the following achievements under the Digital Lab project:

- Created a Digital Lab ecosystem with innovative and advanced design features;
- Launched the first four cross-functional Agile teams (squads) to develop digital products and solutions;
- Engaged international consultants to help establish Agile software development governance;
- Ensured that starting in 2019, Digital Lab will be local talent driven;
- Formulated the necessary rules and procedures for effective teamwork and co-

operation within Digital Lab (Blue Book);

- Rolled out new online banking for corporate, commercial and SME segments on a limited basis – 543 active customers were migrated to the new platform.

Digital Banking 2019 – Up and Running

In 2019, PASHA Bank recorded the following achievements under the Digital Lab project:

- Launched the region’s first automated Onboarding and Online Account Opening product for customer use with 4,427 accounts opened online by 2,164 new clients since January 2019;
- Conducted significant proportion of Bank operations online: 91% of post-onboarding account openings, 97% of payments, 85% of salary cards, 51% of POS account acquisitions, 80% of credit line prepayments, 70% of credit line tranche use;
- Created video customer verification, eliminating the need to visit a physical branch;
- Rolled out internal, local, international, FX, bulk payments online;
- Enabled online ordering for POS terminal with 564 devices ordered, 522 installed from September 2019; process includes signing contract online and receiving the terminal on same day of order;
- Launched the first and currently Azerbaijan’s only online salary cards order service, with 37.8 thousand salary cards ordered online since April 2019;
- Shortened the card preparation process by reducing the time and documentation required;
- Launched full online credit line disbursement and prepayment, and partial online loan prepayment.

At year-end 2019, PASHA Bank had six Agile squads up and running: Onboarding, First Account Opening, Payments, Cards, Acquiring, and Loans.

Based on December 2019 data, PASHA Bank conducts 87% of corporate and SME operations via its current online banking platform. These impressive figures reflect the Bank's mission: Driving innovation and delivering a superior customer experience while improving the employee experience.

Digital Banking 2020 – Generating Value

In 2020, PASHA Bank plans to transfer the market ready digital products from Digital Lab to SME Banking by dividing them into two main groups: SME Cash Management Stream and SME Digital Stream (for Loans and other financing products).

The SME Cash Management Stream aims to be the most reliable partner to SMEs providing tailored daily banking services to assist them in growing to the corporate level. PASHA Bank's SME Cash Management Stream consists of four squads: Accounts & Payments, Digital Platform, Issuing and Acquiring.

To achieve this vision, the stream will provide a digital platform for busy small and medium enterprise owners. This digital platform will enable SMEs to apply for daily banking services, delegate workload via an online permission system, to create their business profile, access all transactions history, sign banking contracts, receive new product information, and review tariff options in a single location. PASHA Bank will boost revenue by targeting clients with an accurate customer profile and life cycle, prevent manual errors thanks to smooth customer journey for SME clients, easily maintain accurate customer information and conduct effective risk assessment. The Bank will have easy access to the SME digital platform for future reference and needs. In addition, the platform will facilitate building an SME ecosystem that can easily transform into a banking marketplace. The SME

digital platform will also serve as a potential client base for the Bank's credit and cash management products.

The SME Digital Lending Stream aims to provide SME clients with fast and simple solutions to their business financing needs, for liquidity or general commercial purposes. This stream targets potential SME customers who is partnering with Bank's CIB customers with digital cash loans.

PASHA Bank's SME Digital Lending Stream consists of three squads: Attract, Apply and Decide. Implementation of this effort is jointly underway with Boston Consulting Group. First launch with minimum viable product (MVP) is expected in May 2020.

In the coming year, Digital Lab also plans to focus on formulating its vision and developing innovative products for PASHA Bank's retail customers, including a new mobile banking application.

SME BANKING

PASHA Bank identified the SME segment as a focus area in its 2018-2020 strategic plan. During the reporting year, the Bank recorded significant progress in expanding and developing its SME business line. 2019 was a year of scaling, growing and innovating at PASHA Bank SME Banking.

SME Banking focused on developing new products and boosting operational efficiency in 2019.

Supply chain finance was a key driver of SME portfolio growth during the year. PASHA Bank successfully introduced and scaled SCF products that improved the Bank's value proposition for SME clients in financing. The Bank's efforts in this area included the following:

- Providing invoice financing via a scoring model enabled fast and simple financing for amounts up to USD 300 thousand for periods up to three days.
- Launching new Express Factoring product that allows SME suppliers to receive financing within one day easily.
- Introducing set of industry-based SCF products boosted value proposition for specific clients segments, such as Oil & Gas SCF, FMCG Factoring, and Construction Factoring.

During the year, PASHA Bank provided SME supplier chain financing totaling USD 60 million. Thanks to its SFC product innovations, the Bank expanded its SME client base threefold while increasing the SME portfolio size by 3.5 times in 2019.

SME Banking also further developed the value proposition for its trade finance products for B2B SME clients.

In 2019, the Bank launched a new decision-making process for its Performance Letter of

Guarantee products. As a result, SME customers are now able to obtain Performance LG financing for amounts up to USD 150 thousand within just a few days. This faster and simpler client experience boosted customer satisfaction in the SME segment.

PASHA Bank also rolled out the Express Tender LG product to meet the demand of mass tender LG client applications. With this product, SME customers can obtain tender LG within one day with a simple application process.

During the year, PASHA Bank entered into a partnership agreement with a local digital procurement platform. Under the partnership, the Bank integrated its trade finance product applications with the platform's procurement process. As a result, PASHA Bank SME clients had easy access to procurement deals on the platform.

Aiming to expand its SME client base, PASHA Bank launched a series of initiatives focused on boosting operational efficiency and highlighting the value proposition of its SME products and services. These efforts included the following:

- Revamping its operating model and establishing a dedicated team of Relationship Managers to focus on SME clients in the trade & services industries;
- Launching Telesales for selling bank products/services to SME clients (primarily for the small segment and selling the digital products;
- Introducing the POS Credit Line product with a simple and fast process to receive a credit limit;
- Launching the innovative "Smart Kassa (Online Cash Desk)" product with integrated functionality of cash register, cash software, physical receipt printer and POS-terminal.

Thanks to these efforts, the Bank doubled its SME client base (credit and non-credit SME clients) in 2019.

SME Banking also recorded solid results in traditional business financing during the year. The Bank optimized its lending process to reduce its “Time to Yes” metric. The credit process was updated with respective lanes that provided different approaches to risk assessment depending on the applicant profile. As a result, SME Banking’s “Time to Yes” was reduced by one week. This effort helped PASHA Bank double its traditional SME financing portfolio in 2019. In turn, SME Banking made impactful contributions to diverse sectors across Azerbaijan’s economy, including construction, manufacturing, public transport, oilfield services, healthcare and pharmaceuticals, tourism, restaurants, among others.

2019 was an exceptional year at PASHA Bank for introducing SME clients to the digital experience. The Bank launched a series of disruptive products and services to the market, bringing a unique digital banking experience to SME clients across the region. These innovative PASHA Bank offerings included:

- Online onboarding for individual entrepreneurs and legal entities with automated KYC (Know Your Customer) – a first in the region;
- Online current and card account opening in different currencies;
- Video client verification;
- Online Salary Project (salary cards product) application;
- Online POS application;
- Credit payment functionality via Online Bank;
- Profile Management (e.g. users, rights, permissions) on the Online Bank.

SME Bank’s innovative digital products and services made a significant impact. During the reporting year, PASHA Bank conducted various marketing communications and activities targeted at SME customers, including:

- Organized and held 50+ special events attended by 500+ SME clients to provide information on new credit products;
- Joined the SME Banking Club to raise its profile in Azerbaijan’s SME banking community;
- Named one of the “Most Innovative Banks of 2018” by SME Banking Club;
- Recognized by PASHA Holding Khamsa Award for “Tariff Packages for SME Clients,” an offering introduced in 2018 by SME Banking;
- Conducted a series of educational events for SMEs, in conjunction with the French Chamber of Commerce and American Chamber of Commerce (AmCham).
- Launched comprehensive digital marketing campaigns to more effectively penetrate the mass SME market.

For overall business performance, PASHA Bank SME Banking recorded results across the board, including:

- Expanded SME loan portfolio by around 2.5 times;
- Extended SME financing totaling about USD 120 million, four times greater than in 2018;
- Recorded 50% growth in total SME Banking income;
- Grew SME client base by 150% year-on-year.

RETAIL BANKING

In 2019, PASHA Bank expanded its Retail Banking customer base to 244,638, up 51% year-on-year.

Main Activities in 2019

- PASHA Mobile Bank offers digital parking payment at four major parking facilities: Port Baku Mall, Gandjlik Mall, 28 Mall and Garage Parking. The Bank was the first in Azerbaijan to introduce the digital payment option via the PASHA Mobile Bank app.
- Retail Banking rolled out a PIN setting option via both ATM and IVR as part of efforts to deliver innovative services in payment cards.
- PASHA Bank launched the Miles&Smiles card product in cooperation with Turkish Airlines. Miles&Smiles is the first co-brand loyalty card program in Azerbaijan with a foreign airline company.
- The Bank implemented the electronic lottery program – a first in Azerbaijan – to stimulate non-cash payments. Winners of the lottery were awarded about 100 prizes, including automobiles.
- For the first time in Azerbaijan, Bank customers have the opportunity to make digital payments with their mobile number via Mobile Finance Service (MFS) in cooperation with Azercell, a major telecom provider.
- The Visa and MasterCard discount clubs and Miles&Smiles Bonus Miles platform are now managed by PASHA Bank. When new customers join these platforms, POS service is offered which boosts the Bank's turnover.
- In recognition of its excellence in the card business, PASHA Bank received various awards nominations in 2019 from MasterCard, Visa and Azerbaijan Banks Association. During the year, the Bank was nominated in these award categories: "Leading Bank in Contactless Payment Cards," "Bank Issuing the Most Premium Cards" and "Leading Bank in Non-cash Payment Growth."

PRIVATE BANKING

Launched in 2010, PASHA Private Banking was the pioneer in Azerbaijan in providing high net worth clients with reliable and efficient management of their financial assets. The Bank delivers a wide array of financial and non-financial solutions to meet its clients' private banking needs.

Financial Services

PASHA Private Banking provides high quality financial services and constantly expands its product range in order to meet the evolving demands of its clients. Currently, the Bank offers the following services to its Private Banking clientele:

- Deposit accounts
- Elite credit and debit cards
- Credit lines
- Cash secured loans, Mortgage and

Special Loans

- Depository services
- Internet Banking
- Mobile Bank
- Securities of local and foreign companies
- Precious metals account opening

In 2019, PASHA Private Banking introduced new products and services to its clients, including:

- Credit line on cards without grace period, an additional source of inexpensive credit
- Education loan
- Automobile loan
- Domestic mortgage
- Cash covered loan for bond purchase
- Loans with bonds collateral

PASHA Private Banking focuses on proactive and internationally mobile clients, who are open to international solutions for their business and lifestyle needs. Through its global partnership network, Private Banking assists its clients with international banking services,

financial consultancy and investment portfolio management. Specially trained Private Banking consultants work closely with PASHA Bank clients to achieve their personal financial objectives with customized products and solutions based on the client's risk appetite.

Non-financial Services

Education

With a focus on the future of Azerbaijan's younger generations, PASHA Private Banking offers the latest programs from world's leading educational centers, as well as local and international trainings through its global partnership network.

Medical Care

In today's world especially, good health is more important than ever. PASHA Private Banking aims to help clients navigate various options and to discover the most appropriate medical service provider that meets their needs.

Real Estate Acquisition

Real estate is one of the most popular investment options worldwide. PASHA Private Banking provides consultancy in commercial or residential property acquisition around the globe. The Bank helps private banking clients to establish long-term purchase or property management agreements with attractive returns on their investments.

PASHA Private Banking also creates opportunities for its clients to participate in entertainment events, networking activities and business gatherings.

In 2019, PASHA Private Banking hosted and sponsored a number of exclusive events, including the following.

Wine Tasting at L'Avenue

Azerbaijan is renowned for its wines. Chabiant Winery, an esteemed representative of the Azerbaijani wine industry, played host to PASHA Private Banking clients at a wine-tasting event during the year. Clients enjoyed the exclusive atmosphere at one of Baku's most well-known venues.

Jewelry Trunk Show

In collaboration with the Italian Trade Agency, PASHA Private Banking presented an exhibition of fashion, jewelry and leather products for its clients.

Dreamland Launch Event

In 2019, PASHA Bank launched its new mortgage initiative with Dreamland Golf Club, a luxury residential and golfing community near Baku. Celebrating the new partnership, PASHA Bank and its partner Dreamland introduced the new upscale development to potential investors with a lavish grand-opening event.

Wine Tasting at Sirovarnya Baku

PASHA Private Banking is committed to meeting the discerning taste of its clientele. Sirovarnya Baku, a newly opened dining venue and part of world renowned Novikov Group, was selected by the Bank as the site for a wine-tasting event for private banking clients. The high-end restaurant offered unique culinary delights from the celebrated chef, accompanied by a selection of fine Italian wines.

In 2019, PASHA Private Banking further expanded its client base and raised its profile in the local market. During the year, Private Banking boosted its topline customer base by 38% and AUM by 43%.

To achieve sustainable growth, PASHA Private Banking focuses on:

- Optimizing internal processes and its organizational structure;
- Developing innovative products and services;
- Continuously developing and improving its human resources.

INTERNATIONAL REPUTATION

Cooperation with International Financial Institutions

In 2019, PASHA Bank continued to expand and maintain its correspondent banking network. For the tenth consecutive year, the Bank participated in the major banking exhibition SIBOS and made contact with more than 60 banks at the event. The Bank continues to align its financial institution's strategy with meeting the needs of its business operations. During the year, PASHA Bank added new financial institutions to its network, expanding its capabilities in terms of settlements, trade finance, investment banking, custody operations, money market and FX products (derivatives).

Thanks to its diverse client base, PASHA Bank expanded its partnership network to new geographic regions and businesses in 2019. The Bank launched its treasury/FX business in the UK market with one of the global market players – ICBC London. The product range covers the money and derivatives markets. PASHA Bank continued developing and stepping up its cooperation with new and existing European partners during the year. Meanwhile, the Bank also reached out to new financial institution partners in Africa, Middle East, CIS and East Asia. PASHA Bank actively supports export-import businesses and maintains relationships with export-credit agencies across Europe and in North America. The Bank also is working to expand its SWIFT RMA network globally.

Since its founding, PASHA Bank has achieved reliable working relationships with its major partners. The Bank has secured historically low pricing for transactional business from its main European partners while developing and diversifying its FI partner network to major market players in regions of its business interests. PASHA

Bank is a well-established market player in Azerbaijan: It is the first and the only bank selling Azerbaijani manat (AZN) to foreign markets. The Bank also maintains its market leadership position locally by providing clearing/settlement services in Azerbaijan for AZN currency to its foreign partner banks.

PASHA Bank works continuously to diversify its funding sources. The Bank has credit lines from numerous leading international banks, including Raiffeisen Bank International (RBI), CaixaBank, LBBW, UBI Banca, Akbank, İş Bankası, Ziraat Bank and Aktif Bank.

BUSINESS SURVEY & INDUSTRY EVENTS

In 2019, PASHA Bank conducted a survey of both existing and potential customers regarding developments across a diverse range of industries. Most of survey's questions related to any change in business volumes, additions to the customer base and expansion of products/services either via the product differentiation or cost leadership. Based on the survey's responses and existing secondary data, PASHA Bank conducted an in-depth analysis of market. The Bank presented its results to its customers at a series of industry-specific business breakfasts. During each event, participants from respective industries gained valuable information and insights that helped them determine whether their businesses are in sync with the local market.

Alternative Finance Seminar for Clients of PASHA Bank

At several specially designed seminars, PASHA Bank representatives explained the potential of alternative financing instruments for its clients. Seminars were divided into two parts. Part one included information about trade finance tools such as Letter of Credit and Letter of Guarantee. Part two covered receivable financing products, such as factoring, invoice discounting, PO financing and international factoring products.

Partnership with Big Four

PASHA Bank held a seminar on the topic of financial and tax literacy for its clients and entrepreneurs in conjunction with experienced professionals from the Big Four audit firms. Burning issues were raised, discussed and answered during the seminar. By partnering with the world's leading audit firms, PASHA Bank was able to provide a clear explanation of the various issues under discussion.

Milestone in Partnership with Agro Industry

In a short period of time, PASHA Bank has formed a strong, highly experienced team in the agricultural industry. Additionally, an external expert from the

industry was included to the team as a consultant. The agricultural industry expert further bolstered the team's know-how and professionalism in partnerships with agribusiness.

PASHA Bank boasts the largest portfolio of hazelnut producers (circa 70%) as clients. In 2019, the Bank held several meetings with hazelnut producers in Zagatala, the center of Azerbaijan's hazelnut-growing region. During these events, PASHA Bank solicited and recorded the opinions and feedback from the country's leading hazelnut producers. This information was used to develop specialized banking and financing products for the sector.

PASHA Bank Partnered with the Center for Economic Reforms Analysis and Communication and AmCham for "Economic Reforms: Achieved Results and Recommendations" Conference

During the year, PASHA Bank held a conference on "Economic Reforms: Achieved Results and Recommendations," co-organized by the Center for Economic Reforms Analysis and Communication and the American Chamber of Commerce in Azerbaijan (AmCham). The event aimed to raise awareness on economic reforms, ensuring close participation of the private sector in the reform process. In addition, the conference targeted boosting inclusiveness and effectiveness of economic reforms.

Partnership with Azerbaijan Microfinance Association

In 2019, PASHA Bank continued its cooperation with Azerbaijan Microfinance Association (AMFA). A separate financial institutions (FI) team was set within the Bank; the Industry Owner of the team became a member of AMFA's board of directors. PASHA Bank's FI team helps to develop cooperations with non-banking credit organization (NBCO)s to foster sufficient financing of small businesses via microlending.

CREDIT RATINGS

Despite facing macroeconomic challenges in 2019, PASHA Bank maintained its creditworthiness, which was recognized by global rating agencies.

In January 2019, the international rating agency Standard and Poor's reaffirmed the Bank's Long-Term Issuing Bank Default Rating (IBDR) as 'BB-' and Short-Term IBDR as 'B'. This rating is one of the highest among all privately-owned banks in Azerbaijan with 100% local capital.

In June 2019, Fitch Ratings affirmed PASHA Bank's National Long-Term Rating as 'B+(tur)' and outlook as 'stable.'

Reaffirmation of the PASHA Bank's credit ratings is based on an assessment of the market share of PASHA Bank in the corporate lending segment, indicators of geographical diversification compared to similar financial institutions, the quality of bank assets and other fundamental aspects.

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

Awards, Events and Sponsorships

In order to enhance its reputation in the global arena, PASHA Bank conducted several events in cooperation with well-known international organizations both in Azerbaijan and abroad. In 2019, the Bank also participated in various international exhibitions to demonstrate its position as Azerbaijan's leading corporate bank. These activities highlighted the existing cooperation between Azerbaijan's business community and those of other countries and the role of PASHA Bank in this cooperation. These efforts also aimed to bolster existing B2B relations with partners abroad and explore new business opportunities.

International Events and Exhibitions

- Switzerland Snow Polo Show (January 25-27, 2019)
- SIBOS 2019 (September 23-26, 2019)

Events Held in Cooperation with International Organizations

- Monex Caspian Summit (May 30-31, 2019)
- Digital Trade Hub Forum 2019 (October 9, 2019)
- Euromoney Central and Eastern Europe Forum (January 15-16, 2019)
- Caspian Agro Exhibition (May 15-17, 2019)

RISK MANAGEMENT

Risk management is fundamental to the success of PASHA Bank and is widely recognized as one of the Bank's strategic priorities. PASHA Bank has adopted a strong, disciplined approach to managing risks. Risk management is a responsibility shared by all employees across the Bank.

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

During fiscal year 2019, PASHA Bank's Risk Team focused on key projects that significantly strengthened the Bank's risk-based decision-making approach and risk culture. The majority of initiatives aimed to set the baseline for future digital aspirations of the Bank. PASHA Bank's corporate lending history and present risk practices served as significant inputs to boost the Bank's future risk resources and capabilities.

In 2019, PASHA Bank recorded the following improvements and achievements in its pursuit of excellence in risk management:

IFRS 9 Implementation, Completion and Integration with Decision-making

PASHA Bank started to implement International Financial Reporting Standard 9 (IFRS 9), a new accounting principle for financial instruments.

After successfully completing its initial adoption of IFRS9 in its financial reporting cycle, the Bank commenced and completed implementation of IFRS9 for daily, monthly, semiannual and annual management reporting. At the same time, PASHA Bank integrated the risk rating requirements of the newly adopted standard into its loan decision-making process. This approach allows the Bank's top management to access capital efficiency, cost vs return, and other data to facilitate making lending decisions.

Improved and Automated Credit-lending and Post-lending Process

PASHA Bank started to build a risk scoring/underwriting model in order to optimize the overall lending process at the Bank. The risk scoring/underwriting model minimizes the duration of decision-making with a quantifiable approach. This model helps establish the framework to pre-set measured credit risk limit for corporate clients. The risk scoring models for corporate lending are under use in parallel mode until final validation is complete in 2020. For SME cash loan products, the scoring model has gone into production mode directly. In 2019, PASHA Bank decreased the time to make a lending decision in the SME segment by over 60%. The Bank achieved this significant improvement with the help of internally developed scoring tools for key products, such as Supply Chain Financing and credit lines.

The Bank's risk monitoring team has developed automated and manual signal gathering tools to identify risky clients. The team further validates client risk levels based on monthly monitoring and in-depth assessment checks on the selected category of clients. Actions per each risk level, such as client risk re-assessment/client exit confirmation and watch-list categories, are continuously defined, approved and implemented.

In 2019, PASHA Bank boosted its post lending credit risk management by introducing early collection functionality into the corporate recovery function. As a result, portfolio delinquency improved by more than 50% on average over the course of the year. The Bank also significantly improved its NPL ratio with hard collection efforts and sale of assets as well as effective distress asset turnaround management.

Market and Liquidity Risk Management Integration with Business Decision-making

During the year, PASHA Bank expanded the scope of market and liquidity risk with closer integration and proactive involvement into business decisions. The Bank introduced risk limits to 192 FIs across 40 countries, launched interest rate risk reports, developed 15 new risk tools and models which accelerates decision making. Risk opinion is provided for business and investment decisions on a daily basis at the Bank.

Risk Modelling Function

PASHA Bank successfully established and mobilized the modeling unit within the risk management function. The main functional areas of the unit are development, implementation, validation, regular update and back-testing of the risk models. The modeling unit is charged with delivery of outputs for Underwriting, Loan Monitoring Department and Credit Risk management, respectively. The modeling unit internally developed the risk technology by collaborating with the Information Technologies Department. The modeling unit oversees the work of the IT Department to ensure that the Bank's risk systems are continuously improved and developed.

Enterprise and Non-financial Risk Management

In 2019, PASHA Bank's risk function started to actively implement the enterprise risk

management integrated framework with a focus on governance and culture, stress testing and Risk Control Self-Assessment (RCSA). During the year, risk culture diagnostics and the transformation program commenced. The road map for 2020-2023 includes ongoing coordination and monitoring of the current state assessment of risks and developing a risk culture assessment model. Under this effort, the Bank aims to execute the road map, assign risk accountability, and achieve full acknowledgement of risk by each stakeholder.

With the target of covering all areas of the Bank from a risk perspective, Operational Risk Management engaged in the following activities in 2019:

- Defining and implementing regulatory risk management;
- Conducting business process testing and control efficiency;
- Introducing weekly operational risk dashboard for the first time;
- Performing induction trainings for Bank employees to raise risk awareness;
- Collecting, calculating and analyzing operational risk data.

PASHA Bank reviewed all business processes of the Business Processes Universe that covers 28 functions of the Bank. The processes were checked for compliance with applicable laws, rules and regulations of the Azerbaijan, relevant regulations of the Central Bank of Azerbaijan, as well as actuality of the processes steps. As a result of this comprehensive review, inconsistencies with regulatory requirements were detected and corrected in the Bank's business processes.

At PASHA Bank, IT risk management is a key priority area under non-financial risks. Managing IT risk effectively is critical given the Bank's strategic aspirations and its digital banking

focus. For the first time, PASHA Bank's IT risk profile was integrated and assessed during the RCSA process in 2019. In addition, the incident management system was aligned with the IT risk profile of the Bank. IT risk management opinion became a core part of the business process and product development.

In 2019, PASHA Bank introduced and implemented cyber risk diagnostics and downtime methodology. This effort was a major step toward integrating non-financial risk management, in particular for IT, into the Bank's business operations.

All the above-mentioned activities have positively contributed to the Bank's risk health index as assessed by an independent third party. PASHA Bank's risk health index is within the RHI score range of Europe's top 25 banks.

INFORMATION TECHNOLOGIES

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

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

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

- Established microservice architecture and implemented Agile practices within IT department;
- Provided technological support on major business activities, including Synergy project with Kapital Bank and Pasha Insurance, among others;
- Improved fault tolerance and high availability capabilities of critical business services;
- Improved numerous internal IT processes to support excellence in IT and cybersecurity operations.

In 2019, PASHA Bank continued various efforts to upgrade and renew its technology to ensure that the Bank's business processes comply with international standards. The following activities were performed in order to increase availability, resilience and security of IT systems serving critical business services:

- Upgraded numerous hardware systems and rolled out new ones;
- Implemented fault tolerance and high availability practices;

- Established backup communication lines for existing critical connections;
- Improved numerous internal IT processes to support excellence in IT operations, including implementation of the 360 Degree view of the Bank (DWH/BI system);
- Implemented new AML system;
- Introduced several new tools and automations to boost the rollout and reduce time to market of IT services;
- Boosted cybersecurity and fraud management posture significantly by delivering several initiatives:
 - Preparation of road map and development plans;
 - Arrangement of various consultancy projects;
 - Implementation of numerous technologies and controls.

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

Since its founding, PASHA Bank has introduced numerous firsts to Azerbaijan's banking industry, from technological breakthroughs to innovative products and services. PASHA Bank was one of the country's first banks to successfully test and deploy a Real-Time Data Centre to ensure full continuity of its services. The Bank was also one of the first in Azerbaijan to implement a solution to protect and monitor its digital channels. PASHA Bank's comprehensive digital banking strategy drives the adoption of advanced technologies across the organization. In 2019, PASHA Bank became the first banking institution in the

country to implement online onboarding for new customers – once again pioneering the industry with innovative digital solutions.

In 2020, PASHA Bank plans to step up its efforts in technology and innovation, propelled by the activities of Digital Lab and the Agile work teams, with a focus on digital banking solutions and mobile in particular.

CROSS-BORDER ACTIVITIES

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

PASHA Bank Georgia

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

At year-end 2019, PASHA Bank Georgia recorded total assets of over GEL 492 million. As a regional bank, PASHA Bank Georgia leverages its experience in various markets to offer clients tailor-made products and services that incorporate global best practices. PASHA Bank Georgia places the respective interests of its partners at the cornerstone of its corporate strategy, aiming to achieve "New Heights Together" by contributing to mutual sustainable growth.

PASHA Bank Georgia has developed clear competitive advantages in certain product areas,

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

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

Financial Highlights

(GEL thousand)

Net Loss: (9,060)

Gross Loans: 303,577

Total Assets: 492,288

Key Ratios

Cost to Income: 121.0%

ROAE: -8.5%

NPL to Gross Loans: 0.43%

PASHA Bank Turkey

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

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

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

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

On December 20, 2019, Fitch Ratings affirmed PASHA Bank Turkey's National Long Term Rating as 'BBB+(tur)' with a 'stable' outlook.

Financial Highlights

(TRY thousand)

Net Loss: 25,691

Gross Loans: 1,045,060

Total Assets: 1,725,503

Key Ratios

Cost to Income: 29.4%*

(excluding building revaluation)

ROAE: 9.5%

NPL to Gross Loans: 3.2%

*The exchange rate as of December 31, 2019, was USD/TRY 5.9489.

**CORPORATE
SOCIAL
RESPONSIBILITY**

Since its founding, PASHA Bank has remained committed to being a responsible corporate citizen. The Bank embraces social responsibility and focuses on active involvement in the communities where it operates. PASHA Bank endeavors to play a proactive, cooperative and collaborative role in society. In particular, the Bank aims to help ensure the well-being of the Azerbaijani people and make the country a better place to conduct and develop business.

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

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

Three dimensions underlie each aspect of PASHA Bank's corporate stakeholder engagement approach:

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

WE EMPOWER ENTREPRENEURSHIP

PASHA Bank sees entrepreneurial activity as critical to Azerbaijan's social and economic development. As a result, the Bank aims to support the SME sector, by effectively serving current customers and growing the customer base in this segment. PASHA Bank organizes seminars, forums and other events for its small and medium enterprise clients that lack the resources to attend or send their employees to various capacity and skills-building trainings.

The Bank's activities in this area include a "Trade Financing" seminar for SME clients and a forum on "Transparency of Access of Small and Medium-sized Businesses to Financial Markets: Current Situation and Perspectives."

To support government efforts to foster a cashless economy, PASHA Bank also conducts various efforts targeted at meeting the evolving demands of customers in the digital age.

In 2019, the Bank participated in the MainTech Innovations and Technologies Forum and the To the Digital Reality Conference. In addition, technology related seminars were conducted by local professional trainers at PASHA Bank's Business Support Centers and at the Barama Innovation and Entrepreneurship Center.

These efforts are also in line with PASHA Bank's brand promise of reaching "New Heights Together" with customers.

Project Portfolio

Support for Azerbaijan's Start-up Ecosystem

Barama Innovation and Entrepreneurship Center was established by Azercell Telecom in 2009. PASHA Bank has supported this Center jointly with Azercell since 2015.

Barama Center's main innovation areas include Innovation Laboratory, Business Incubator & Entrepreneurship Support, and Business Solutions & Partnerships. The Center provides extensive support to start-up projects and functions as a business incubator. To date, the Center has hosted more than 450 events, received over 4,200 applications and helped launch more than 65 successful start-ups.

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

Barama Center provides extensive technological opportunities as well as advisory in the areas of law, business development and finance for start-up projects. The Center's myriad events include Seedstars Baku – Global Start-up Competition, Hackathon series, Junior Coding Kids – IT Summer School as well as workshops, seminars, forums and training. In June 2017, a second Barama Center was opened in the city of Ganja. A third location opened in Lenkaran city in 2019. Barama Center plays a significant role in fostering the start-up ecosystem in Azerbaijan, encouraging the pursuit of technology by the nation's youth and diversifying the economy – all goals that PASHA Bank actively supports.

Business Class

The Business Class project launched in 2013 with the aim of expanding the entrepreneurial capacity and skills of small and medium enterprises operating in non-oil sectors via educational seminars conducted by highly experienced industry professionals.

In 2019, PASHA Bank began documenting and sharing the success stories of its customers that started and grew their businesses with the Bank's involvement. This addition to the Business Class project allows the Bank to share the success of its SME customers with the wider community. These success stories also demonstrate how Business Class helps SMEs to grow and develop with PASHA Bank's support.

Creative Hub for Social Entrepreneurship

In 2018, United Aid for Azerbaijan (UAFA), with support from PASHA Bank, established Creative Hub to foster social entrepreneurship in Azerbaijan. Creative Hub aims to provide a platform for social innovation where knowledge, ideas and best practices meet to find solutions for development challenges in the socio-economic context. Creative Hub is a place where social entrepreneurs, innovators and for- and not-for-profits can come together and work to build a sustainable future for low-income communities.

In 2019, UAFA in conjunction with PASHA Bank moved Creative Hub forward by connecting with different actors to promote social enterprise and build a wider platform.

To this end, UAFA launched one of its latest projects, the CHED program, a training course in Childhood Health, Education and Social Development – in partnership with Georgetown University. JOY Child Development Centre is involved as one of the sites for the mentoring phase, so that participants can observe how they work with children.

Due to UAFA's rising profile and growing experience in social enterprise via Creative Hub, individuals and organizations are increasingly approaching UAFA for support to help them establish their own social enterprises.

In 2019, UAFA launched "Mektebim," an incubator program under Creative Hub, to foster inclusive pre-school development in Azerbaijan's regions. This effort aims to empower women to become small business owners and operate pre-schools in their community, with UAFA serving as the incubator. Forty women received training in basic business skills to convert their pre-school

into a small business. Additional financial support is helping the program to grow to new regions. Discussions have been held with KOB State Agency and Ministry of Labour & Social Protection to partner in Mektebim's expansion. Plans are now underway to broaden the innovative program's reach in 2020.

WE EMPOWER HUMAN CAPITAL

PASHA Bank considers human resource development as another critical component to advancing Azerbaijan's economy and society. The Bank undertakes various efforts to select and train the country's best students and young people in order to attract them as interns or employees.

Project Portfolio

Partnership with School of Information Technologies and Engineering (SITE) at ADA University

Since 2018, PASHA Bank has partnered with ADA University's School of Information Technologies and Engineering (SITE). This partnership aims to foster human capacity development and institutional capacity building by enhancing and strengthening Azerbaijan's ICT (Information and Communication Technologies) ecosystem. This effort's overarching objective is to boost the domestic ICT ecosystem's sustainability and competitiveness.

SITE was established in 2012 with the mission of preparing a critical mass of high-caliber computing specialists and engineers, who will facilitate the nation's advancement to a knowledge-based economy. With initiatives in big data research and training, as well as techno-entrepreneurship, in addition to ADA's

three focused study programs, SITE graduates will also be able to use the power of computing technologies in changing lives for the better across the region and globally.

Scope of Cooperation between PASHA Bank and ADA University

The collaboration includes the following components that are strategically aligned with PASHA Bank's mission and that of ADA University.

Student Development and Support – Facilitates the development of future ICT human capital in a wide range of related disciplines at SITE: Computer Science, Information Technologies, Computer Engineering and Systems Engineering. This effort enables gradual supply to the marketplace of a quality pool of junior specialists in the disciplines needed to propel forward the ICT sector in Azerbaijan and the region.

a. Undergraduate Scholarships – Funds meritorious or needy students pursuing undergraduate education at SITE by paying their tuition, fees and related expenses.

Twice a year, ADA awards merit-based Academic Excellence Scholarships to students, according to their performance i.e. cumulative GPA at the end of the previous semester. 56 SITE students qualified for this award in three categories: 100%, 50% or 25% waiver of the tuition fee.

b. Startup Grants – Provides initial seed grant for 10 prospective student startups supported by the ADA Innovation Center. This effort provides an additional opportunity for PASHA Bank officials to run a training session for student startup teams and to address the students during the annual ADA Ideation Competition.

c. Internship/Graduate Recruitment – Provides opportunities for SITE students to intern at PASHA Bank and for new graduates to secure employment with the Bank.

PASHA Bank also arranged events where students had the opportunity to meet with the Bank's top management. These meetings allowed senior Bank representatives to share the strategic vision and perspectives of the local financial and digital ecosystem and encourage student attendees to build their careers in Azerbaijan.

“Shaping the Future” CEO Meeting with ADA Students

On November 25, 2019, a group of PASHA Bank employees held an interactive meeting with ADA students. The Bank's Chairman and CEO participated in the event.

Taleh Kazimov, PASHA Bank Chief Executive Officer, delivered an inspirational speech on the theme “Building the Future Together,” generating great interest among student attendees. Mr. Kazimov also held a Q&A session at the event. Students who prepared the most insightful and thought-provoking questions were invited to attend mentoring meetings with the Chairman and members of the Board of Directors.

CEO Coffee Talks with Top Students

On December 14, 2019, Bahruz Naghiyev, member of the PASHA Bank Management Board, met with ADA University students as a part of the CEO Coffee Talks series. Mr. Naghiyev shared his success story with the students, including how he began his career, what challenges he faced and how he arrived at his current position. Students took an active part in the meeting and asked numerous questions during the motivational session.

PASHA Bank Cup

PASHA Bank launched the PASHA Bank Cup competition to boost the potential of IT professionals in the country and help develop the skills of those interested in this field. The competition aims to create a platform for participants to acquire new knowledge, expand their skills and demonstrate their professional talent. Talented local programmers of different age groups – including school children, university students and professional programmers – were invited to participate in the competition. This year, the theme of the competition was the application of coding. The competition consists of four qualifying rounds and one final round. PASHA Bank Cup started on September 26, 2019 and the competition spanned three days. In total, 38 out of 163 participants qualified for the finals; 10 out of 38 finalists were declared winners and awarded prizes.

WE EMPOWER CAPACITY AND GOOD GOVERNANCE

PASHA Bank sees capacity building and good corporate governance as essential to furthering Azerbaijan's economic and social development. The Bank aims to enhance its reputation by supporting various awareness-raising initiatives and events in this area.

Business Confidence Index

Pursuant to its commitment to support the sustainable development of Azerbaijan's economy, PASHA Bank has conducted the Business Confidence Survey among the Bank's customers on a quarterly basis since 2017. The Business Confidence Index (BCI) is based on enterprises' assessment of production, orders and inventory stock, as well as its current position and expectations for the immediate future.

The Business Confidence Index serves as an indicator providing information on future developments. The index is based on opinion surveys from enterprises across different industries.

After two years of conducting the survey, PASHA Bank has collected enough data from diverse business segments to obtain a broad picture of local business trends. The Bank also receives real time feedback on the survey, questions, and customer needs. The Business Confidence Index bolsters PASHA Bank's reputation as a leading financial institution in Azerbaijan.

Modernizing the Educational System in Azerbaijan

PASHA Bank supports Junior Achievement Azerbaijan by co-sponsoring the "Entrepreneurship for Youth" program established by the European Union. The program is executed in four stages in close cooperation with the Ministry of Education. These stages include development of high-quality content, teaching resources and tools for delivery of entrepreneurship education and financial literacy based on Junior Achievement programs; capacity building and teacher training; piloting/testing (student training) and evaluation; preparation of the policy briefs and recommendations for integration of entrepreneurship education and financial literacy into the educational curricula through application of best practices.

In 2019, Junior Achievement Azerbaijan organized numerous trainings under the "Entrepreneurship for Youth" initiative, co-funded by the European Union and PASHA Bank. The trainings were designed to enhance teachers' knowledge and skills on entrepreneurship education by introducing creative teaching methods and

techniques based on the European experience. In total, 45 teachers from 17 secondary and vocational schools in Baku were invited to participate in the four-day training sessions. The training was performed by Epp Vodja and Aliona Bostan, experts from Junior Achievement Estonia.

The trained teachers will conduct instruction on entrepreneurship in schools during the 2019-2020 academic year.

Digital Transformation & Innovations in Government

In 2019, PASHA Bank in conjunction with the State Agency for Public Service and Social Innovations, under the Presidency of the Republic of Azerbaijan, initiated training on "Digital Transformation & Innovations in Government." The training program targeted a wide range of senior representatives from various government agencies and enterprises. The trainers were subject area experts from Russia's Skolkovo Innovation Center (Skolkovo Business School) and Switzerland's St. Gallen University.

The two-day training aimed to improve digital skills of high-level government representatives who are responsible for innovation development issues. The program was also designed to raise awareness on the latest developments in digitization and advanced technology, digital transformation and innovation management.

Trade Finance and Financial Crimes Compliance

PASHA Bank partnered with Bankers' Association for Finance and Trade (BAFT) to deliver two workshops for the benefit of the business community.

On March 6, 2019, the BAFT Trade Finance Workshop was held to give attendees hands on training in letters of credit, trade compliance, incoterms and other trade products. The workshop was approved for 6.0 CAMS credit for CAMS re-certification and 5.0 Continuing Professional Development (CPD) credits for CDCS re-certification.

The following day was dedicated to a workshop entitled BAFT Financial Crime Compliance. This one-day session deep dive training covered key regulatory requirements and developments in combatting financial crime. Other topics included sanctions, global trends, FCC framework, KYC/CDD/BO, and more.

**SUPPORT TO
SUSTAINABLE
ECONOMIC
DEVELOPMENT**

PASHA Bank aims to advance the social and cultural development of Azerbaijan while adding value to its stakeholders. Since 2016, the Bank has shaped its Corporate Stakeholder Engagement (CSE) around these objectives. PASHA Bank organizes and conducts various training initiatives to improve the business management, governance and financial literacy of entrepreneurs who operate small and medium-sized enterprises.

Evolution of Corporate Social Responsibility Approach

- 1.0: CSR is used purely as a marketing and public relations tool. These philanthropic initiatives are conducted with the aim of improving the reputation of a company. CSR is known as a tool that is “paying the bill.” Since the initial CSR concept took a superficial approach to the idea of responsibility to society, it was not deemed sustainable over the long term.
- 2.0: CSR is not only about “paying the bill” for philanthropic efforts. Companies started forming strategic partnerships with charitable organizations and societies. However, CSR still remains a conservative tactic to manage risk.
- 3.0: The concept of integration and shared value has been developed further. CSR is no longer merely a tool to reduce risk. CSR has become a strategy that creates value for the company and society and protects this value.

PASHA Bank CSR 3.1: Corporate Stakeholder Engagement

The Bank’s social responsibility mandate is embedded in PASHA Bank’s DNA.

In today’s fast-changing globalized world, sustainable development can only be achieved through joint efforts.

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

PASHA Bank’s Corporate Stakeholder Engagement initiative will move all stakeholders forward toward sustainable development.

Return on Investment (ROI) under CSE

- More knowledgeable customers
- More sustainable businesses
- More informed journalists
- More educated youth
- More successful entrepreneurs
- More developed economy
- More prosperous country
- Lower risks
- More successful Bank

Events and Activities Implemented within the CSE Related Initiative:

- Seminars to empower female stakeholders
- Seminar on “Alternative Financing Tools for Business Development” for clients/joint event of PASHA Bank & Deloitte (October 1, 2019)
- Conference on “Digital Transformation and Innovations” (November 28, 2019)

Executive Breakfasts for Female Stakeholders

PASHA Bank together with Azerbaijan Business Women Association organized Executive Breakfasts for the Bank’s female customers. Guest speakers to women entrepreneurs about work-life balance and personal objectives.

One of the Business Breakfasts, entitled “Big Data Talk,” featured Adjunct Professor at IE Business School Christina Stathopoulos as guest speaker. She presented valuable insights on big data in addition to recommendations and guidelines related to data protection.

PASHA Bank boosts the social-cultural development of Azerbaijan with its sponsorship activities:

Baku E-trade Forum

Baku E-trade Forum 2019 ranks among the most exciting international gatherings in the e-commerce world. PASHA Bank was one of the main sponsors of this major event. The two-day forum featured 30+ speakers, 60+ e-commerce platforms and fintechs. The 500+ attendees included representatives from international organizations, MSMEs, NGOs, government agencies, investors and startups.

Joint Seminar on Sustainable Development with Deloitte

PASHA Bank is focused on taking steps toward sustainable development, both within the organization and across the wider community. The “Sustainable Development” seminar conducted jointly with Deloitte is one of the examples of the Bank’s efforts in this key area. The well-attended seminar included presentations and discussions on formulating an integrated strategy to incorporate sustainability into business processes; correlating between sustainability and corporate performance; assessing risks and opportunities associated with human rights and social impact; and managing employee health and safety in the workplace.

Business Confidence Index Survey

Pursuant to its commitment to support the sustainable development of Azerbaijan’s economy, PASHA Bank has conducted the Business Confidence Survey among the Bank’s customers on a quarterly basis since 2017. The Business Confidence Index (BCI) is based on enterprises’ assessment of production, orders and inventory stock, as well as its current position and expectations for the immediate future. For the first time in 2019, PASHA Bank initiated

discussions around Business Confidence Index Survey results. The Business Confidence Index serves as an indicator providing information on future developments. The index is based on opinion surveys from enterprises across different industries.

During the year, the Bank held three Business Breakfasts on survey results with clients from the FMCG, construction and telecom sectors.

Events Supported and Co-organized

PASHA Bank supports initiatives that explore economic risks and scenarios via panel discussions with industry experts. These events focus on the outlook for growth while linking global risks and developments to strategic decisions facing business leaders in Azerbaijan and across the Caspian region.

In 2019, PASHA Bank partnered with various stakeholders to organize events where policymakers, investors, and non-governmental organizations from a number of countries gathered to discuss opportunities for Azerbaijan to accelerate its economic development. These various events included the following:

- “SHE” Congress (March 6, 2019)
- RISKTech Forum 2019 (October 30, 2019)
- 13th IEEE International Conference on Application of Information and Communication Technologies – AICT 2019 (October 23, 2019)
- Business Forum with Management Guru Dr. Ichak Azizes
- “How Human Centered Design Affects the People Experience” Lecture by Dan Freifeld (November 15, 2019)
- DevOpsDays Conference 2019 (November 21-22, 2019)
- Women in ICT Session at Bakutel (December 5, 2019)
- AMFA Sixth Investors Fair 2019 (October 3, 2019)

- Seminar on “Alternative Financial Instruments Available in the Azerbaijani Financial Market” (jointly with Deloitte) (May 23, 2019)

PASHA Bank partnered with Azerbaijan Business Women to conduct the “SHE” Congress

The “SHE (Smart, Happy, Elegant)” Congress, held in Baku on March 6, 2019, was an international event designed to help empower women. The well-attended event aimed to create an environment where women can share advice and experience on issues ranging from maintaining healthy work-life balance to career development. SHE Congress 2019 was dedicated to women’s leadership and entrepreneurship development as well as their involvement in society and politics.

A broad range of topics was discussed at the event, including: “Women Leadership: A Vision for Azerbaijan,” “Women Entrepreneurship: Driving the Economy,” “Co-creation via Visual Art and Interactive Storytelling,” “Ways to Grow Businesses, Social Projects “Women-driven Innovations in the World of the Future,” among others.

PASHA Bank partnered with APRA (Association of Accountants and Risk Professionals of Azerbaijan) to conduct RISKTech Forum 2019

On October 30, 2019, RISKTech Forum 2019 was held at Holiday Inn Baku, with the support of the Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan. The Forum was organized by the Association of Accountants and Risk Professionals of Azerbaijan and PASHA Bank.

The main topic of the forum was “The Impact of Artificial Intelligence and Blockchain Technology on Risk Management.” Local and international

experts delivered presentations on steps to digitalize risk management, the impact of AI and block chain on risk management, digital transformation of financial services and creation of digital ecosystems in Azerbaijan.

PASHA Bank supported 13th IEEE International Conference on Application of Information and Communication Technologies – AICT2019

AICT2019 was co-organized by ADA University, Institute of Information Technology of ANAS and University Malaysia Sabah with support of IEEE Azerbaijan Joint Chapter. The Institute of Electrical and Electronics Engineers (IEEE) served as technical sponsor of the event.

The AICT2019 International Conference is a forum bringing together business people, researchers, scientists, software architects, and industry professionals to discuss innovative ideas and diverse topics on next generation information technologies and services. Using this forum, researchers and practitioners can exchange ideas, issues, challenges, new business models and structures, new technologies and solutions. AICT2019 attracted both researchers from academia and industrial enterprises and practitioners from industry.

PASHA Bank supported Business Forum with Management Guru Dr. Ichak Adizes

On November 8, 2019, PASHA Bank sponsored the Business Forum event whose theme was “The Formula of Success of Any Organization.” Representatives from the world’s leading companies – including Volvo, Visa, Bank of America, Coca-Cola, Sberbank and Sibur – attended the international forum in Baku. The event featured globally renowned management consultant and researcher Dr. Ichak Adizes, from Adizes Institute. The event took place at JW Marriott Absheron Baku Hotel. Discussions

at the Business Forum covered key elements of gaining a leading position in the market, creating an effective management system, as well as tools and innovative approaches to successful management. Founders and representatives of more than 200 large companies listened to the world-famous management expert Dr. Adizes at this event. In his keynote speech, Dr. Adizes focused on the effectiveness of combining diverse types of people and forming a strong team from diverse members.

PASHA BANK sponsored Dan Freifeld’s lecture on “How Human Centred Design Affects the People Experience”

On November 15, 2019, PASHA Bank in partnership with Israel-Azerbaijan Chamber of Commerce and Industry (IACCI) sponsored a lecture by Dan Freifeld entitled “How Human Centred Design Affects the People Experience.” Mr. Freifeld is Managing Director and Co-Founder of Sapir eXlab (Innovation Center) and the Head of Media Design Department at Sapir Academic College. The event included a discussion on why it is critical to change our mindset and focus on people’s needs when creating better impact and better product.

The informative lecture covered the HCD framework and different methodologies such as UX / Design Thinking / Design Sprints as effective approaches to problem solving. Mr. Freifeld used case studies to demonstrate his thesis. He emphasized that these processes and tools not only for designers but also for educators and anyone who seeks to improve effectiveness.

PASHA Bank organized the first DevOps Days Baku 2019

DevOps Days is a worldwide series of technical conferences covering software development, IT infrastructure operations, and the intersection

between them. The event is both a technical conference and one focused on culture, processes and organizational structure. On November 21-22, 2019, PASHA Bank organized the first edition of DevOps Days Baku 2019. The conference attracted both technology professionals and business people to attend, learn and share their experiences.

PASHA Bank was main sponsor of “Women in ICT” session at Bakutel Tech Talks

On December 4-5, 2019, Bakutel Tech Talks were held as part of the Bakutel international exhibition. PASHA Bank served as primary sponsor to the “Women in ICT” session, which was dedicated to Azerbaijani women who have dedicated their lives and careers to IT.

This unique platform facilitates discussion of relevant issues of the industry. Constructive dialogue is generated between customers and developers. Innovative content is also presented to industry professionals.

PASHA Bank was Platinum sponsor of the Sixth AMFA Investors Fair – Azerbaijan’s biggest microfinance event of the year

On October 4, 2019, the Azerbaijan Microfinance Association held its Sixth Investors Fair with PASHA Bank serving as Platinum sponsor of the event. The Investors` Fair consisted of two plenary sessions and B2B meetings to facilitate business deals and partnerships among participants. This year, the event was dedicated to risk management perspectives in the digital era and partnerships for sustainable development.

The Investors Fair brought together government representatives, international and local investors, non-bank credit organizations, banks, leasing companies, and service providers to microfinance institutions.

REVIEW OF FINANCIAL STATEMENTS

REVIEW OF FINANCIAL STATEMENTS

Consolidated IFRS Financial Statements as of December 31, 2019 (Highlights)

Statement of profit or loss:

PASHA Bank recorded consolidated net profit of AZN 77,097 thousand in 2019. Please see the below consolidated net profit breakdown by bank entity within the Group for details. The net loss at PASHA Bank Georgia is due to higher personal and general and administrative expenses from opening of new branches.



*License impairment is recognized only in the consolidated financial statement.

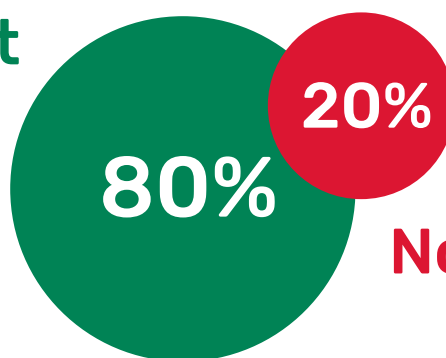
** Deferred tax

PASHA Bank reported operating income of AZN 251,385 thousand for 2019, up 17% over the prior year's figure of AZN 214,162 thousand. The increase was due to a 14% rise in net interest income, which comprises 80% of operating income. Non-interest income comprises 20% of operating income, which rose 31% in 2019 compared to 2018.

Interest income amounted to AZN 257,660 thousand, up 12% over the previous year's figure of AZN 229,566 thousand. Interest expenses increased from AZN 54,672 thousand in 2018 to AZN 57,658 thousand in 2019.

A major portion of non-interest income originates from operations with foreign currencies – AZN 23,881 thousand or 46%. Meanwhile, the proportion of gains from foreign currencies in total operating income is 9%. Net fee and commission income totals AZN 25,622 thousand, which is 50% of non-interest income and 10% total operating income. In 2019, net gains from operations with foreign currencies jumped 25% over

Net interest Income



Non-interest income

Net interest income	200,002
Interest income	257,660
Loans to customers	164,657
Investment securities	56,586
Amount due from credit institutions	14,639
Cash and cash equivalents	21,221
Finance lease receivables	557
Interest expense	(57,658)
Amount due to customers	(33,985)
Other borrowed funds	(85)
Amount due to banks and government funds	(15,897)
Subordinated loans	(592)
Debt securities issued	(6,184)
Lease liabilities	(915)
Non-interest income	51,383
Net gains from foreign currencies	23,881
Net fee and commission income	25,622
Net gains from securities	38
Other income	1,011

Non-interest expenses amounted to AZN 129,619 thousand in 2019, up 13% over the prior year's figure of AZN 114,882 thousand. The primary reasons for the increase included:

- For the 12-month period ending December 31, 2019, the Bank's personnel, operating and depreciation expenses totaled AZN 21,605 thousand, an increase of 27% compared to the same period of 2018.

The rise in operating expenses was due to increased total personnel expenses (AZN 6,013 thousand) and higher charity and sponsorship spending (AZN 10,064 thousand). Please see the table below for a breakdown of operating expenses as of December 31, 2019.

- Depreciation expenses also went up by AZN 9,909 thousand in 2019 compared to 2018, due to higher depreciation expenses for right of use assets (AZN 4,421 thousand) and digital products (AZN 5,445 thousand).

Personnel expenses	(57,568)
General and administrative expenses	(45,525)
Depreciation and amortization	(18,512)
Total	(121,605)

PASHA Bank reported ROAE of 14% as December 31, 2019, unchanged from a year earlier.

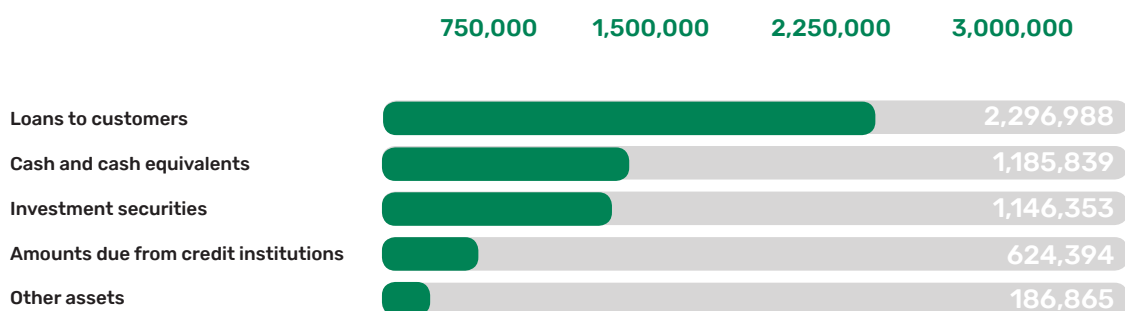
The Bank's cost to income ratio remained relatively stable at 48% in 2019, compared to 45% for the prior year. PASHA Bank is currently using the cost calculation methodology. This approach will provide a clearer view for analysis of products and segment level performance, in turn contributing to better pricing mechanisms.

Statement of financial position:

PASHA Bank's total equity increased 2% to AZN 560,056 thousand in 2019. During the year, the Bank paid dividends to shareholders amounting to AZN 45,232 thousand.

The Bank recorded total assets of AZN 5,440,439 thousand at December 31, 2019, up 4% over the previous year's figure of AZN 5,209,364 thousand.

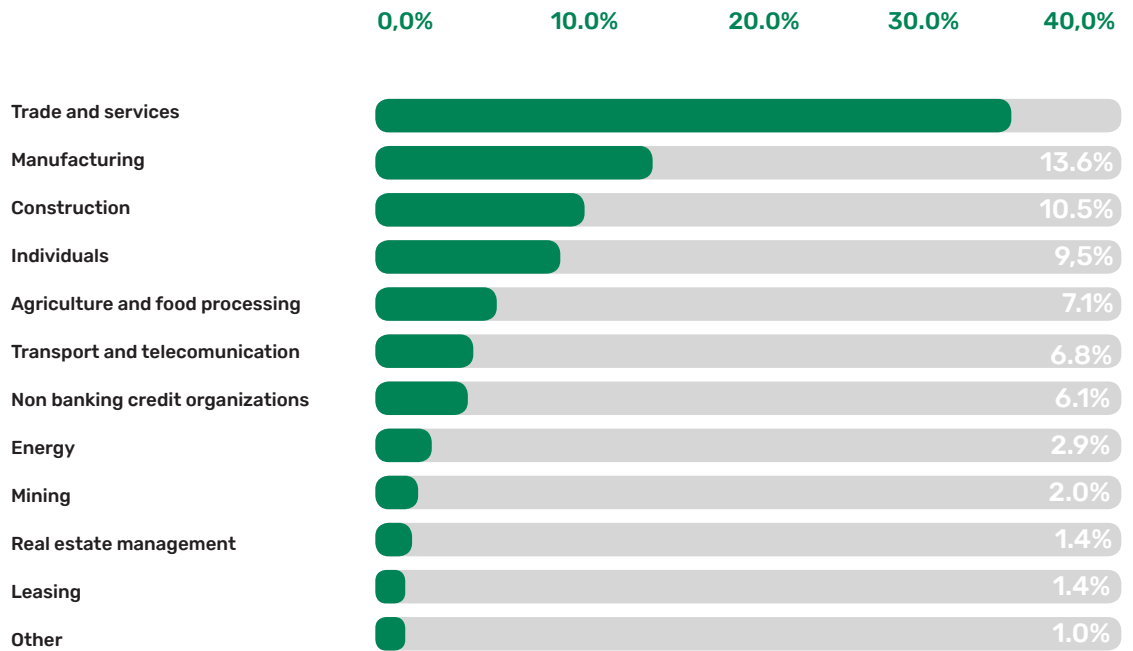
As of December 31, 2019, PASHA Bank's asset composition consisted of:



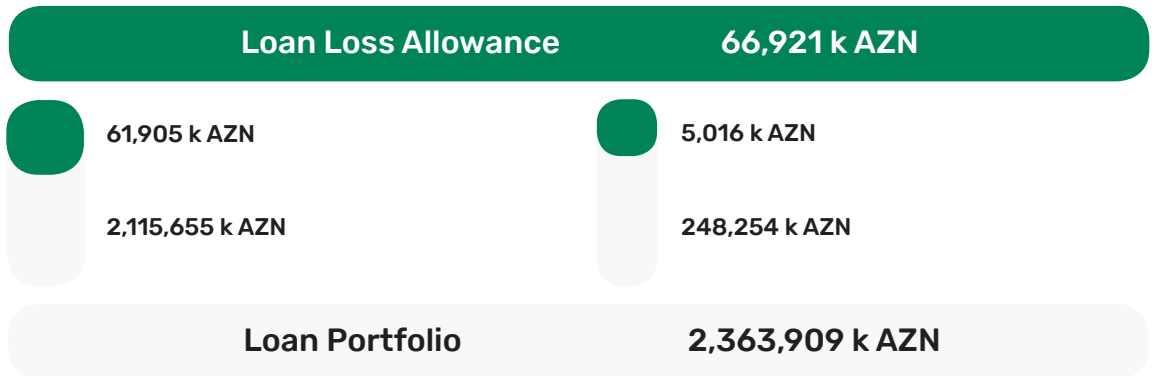
Gross loans of the Bank totaled AZN 2,363,909 thousand as of December 31, 2019, up 33% over the prior year's figure of AZN 1,780,782 thousand.

A breakdown of PASHA Bank's loan portfolio by sector is as follows:

Transport and telecommunications – and % of loans by sector



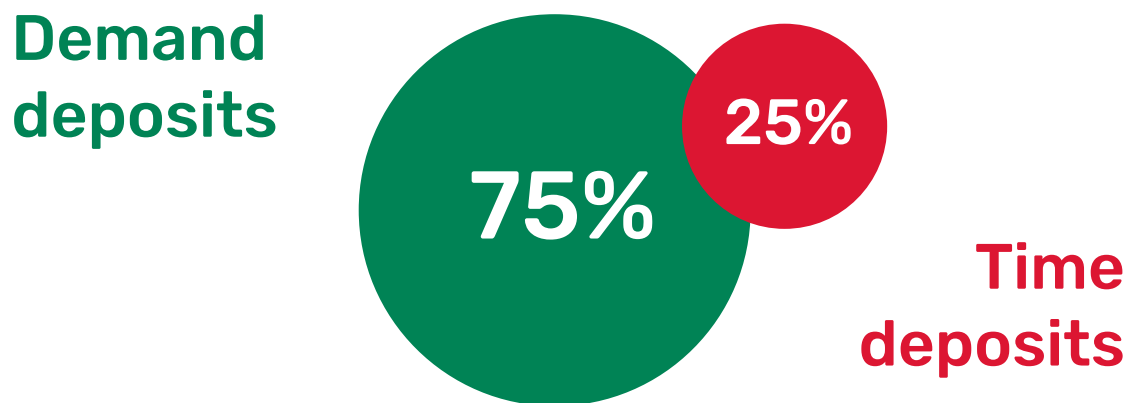
The Bank's effective provision rate increased to 2.83% in 2019, compared to 2.76% in 2018. PASHA Bank aims to maintain the high quality of its loan portfolio; this performance metric is strictly monitored. The Bank implements a highly comprehensive and sophisticated lending and credit risk assessment process. Optimization of this process is ongoing and performed by the Bank's credit underwriters. These various efforts are designed to prevent significant fluctuations and unexpected results in provision amounts and enables the Bank to make reasonable forecasts.



PASHA Bank's investment securities (trading + investment securities) decreased AZN 311,793 thousand to AZN 1,146,353 thousand as of December 31, 2019, compared to the 2018 year-end figure of AZN 1,458,146 thousand. While bonds issued by the Ministry of Finance jumped 117% to AZN 272 million, a general decrease was recorded due to investment in CDs, US treasury bonds and notes issued by the Central Bank of the Republic of Azerbaijan.

PASHA Bank continues to expand its customer base. The Bank boasts a solid client base thanks to offering high quality products and services in addition to developing strong customer relationships over the years. As of December 31, 2019, the Group's customer deposit accounts totaled AZN 3,788,941 thousand, down 4% compared to year-end 2018.

Breakdown of demand and time deposits at December 31, 2019 is as follows:



The Bank posted a capital adequacy ratio of 11.9% under CBAR capital requirements as of December 31, 2019 (11.8%: December 31, 2018).

Under its 2018-2020 strategy, PASHA Bank aims to capture higher market share by offering competitive and advanced products to clients while maintaining its leading position in the Azerbaijani market.

SUSTAINABILITY SUMMARY

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

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

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

OUR CUSTOMERS

PASHA Bank's customer relations strategy is centered around diversifying its financial products and services and expanding the Bank's customer base. In 2017, the Bank embraced this approach to client management by categorizing customers into corporate, commercial and SME segments and adopting a more effective relationship management structure. In 2018, the Bank deepened this approach by categorizing its customers by sector to better meet their needs.

PASHA Bank sees its customers as partners. Since its founding, the Bank has presented innovative, responsible financing options to its partners. In 2018, the Bank's client portfolio doubled, demonstrating first and foremost the growing trust between PASHA Bank and its partners, and the reputation of the Bank as a responsible financier.

Cutting-Edge Products: "Agrocards"

The agricultural industry in Azerbaijan has experienced a significant restructuring over

the years. As a result, the agricultural sector has expanded rapidly in recent years. Closely monitoring trends of the country's agricultural economy, PASHA Bank created a new agriculture segment within Corporate Banking to better serve customers in the industry.

In 2018, PASHA Bank introduced a new bank card for customers in the agricultural sector – Agrocard. This special-purpose card allows farmers and landowners to receive payments directly to their own cards with a number of advantages, such as free cash withdrawals. Agrocard encourages cashless payment within the sector. It also provides an opportunity for the cardholder to apply for a loan or any other banking products since the card will automatically create a reliable credit history for the customer.

Innovative Products and Services

PASHA Bank is widely known for introducing innovations and "firsts" into Azerbaijan's growing financial market.

PASHA Bank served as lead arranger in the country's first loan syndication. The syndicated loan – jointly provided by PASHA Bank, Express Bank, other insurance companies and financial institutions to Azerbaijan International Mining Company – amounted to USD 13.5 million. The loan was used to finance the company's financial liabilities before foreign and local creditors. This ground-breaking transaction demonstrated that Azerbaijan's financial market has opened up new opportunities for large companies to finance the expansion of their businesses.

Technology Investments to Sustain Operational Excellence

Digitalization is at the heart of PASHA Bank's core strategy to improve the quality of its services and boost operational efficiency. In 2018, the Bank's customer base and transaction volume more

than doubled. However, PASHA Bank was able to maintain the same number of branches, thanks to the successful implementation of Digital Banking. During the year, 94% of all customer transactions were conducted via Internet Banking, proving digitalization's value in cost optimization while also demonstrating PASHA Bank's attitude toward environmental responsibility. Maintaining branches is a major step toward achieving environmental sustainability by conserving resources, reducing waste and minimizing CO2 emissions.

Advanced Technology Solutions for Corporate Customers

As part of its digitalization strategy, PASHA Bank introduced online onboarding for new customers during the year. This effort reduces paper consumption while helping customers to quickly open a banking account without being physically present at the Bank.

PASHA Bank also launched a new advanced technology payment product for corporate clients: SWIFT MT 101. This is a payment handling request sent to the bank that will perform the payment transaction by the sender's bank through SWIFT. Request for Transfer-MT 101 is aimed at large companies with an international presence, which have accounts at banks across the world and wish to manage their capital and cash assets globally and flexibly via an account servicing bank.

Sustainability in Sales

PASHA Bank's sales strategy is shaped around building a sustainable, yet profitable, relationship with the customer. The Bank sees its relationships with customers as resembling a family household. The main pillars of the home keep the household strong, united, safe, and unshaken by external events. Over the years, PASHA Bank has learned the importance of hearing its clients, not simply listening passively. The Bank strives to understand the needs of its customers and develops its

products and services accordingly. PASHA Bank also forms its offerings around its core values, embracing integrity and transparency while focusing on effectiveness and profitability.

PASHA Bank is committed to changing ways of business in order to boost productivity and add value to the national economy. The success of the Bank's client relationships is directly related to PASHA Bank's internal corporate culture. Hard work, teamwork, and integrity are highly valued at PASHA Bank. These core values bind us together. No amount of talent alone can ensure the Bank's success. While individual talent and drive are valued at PASHA Bank, every member of the workforce receives equal opportunities and individualized performance targets to further their development each year. With this approach, PASHA Bank ensures that the entire organization moves steadily forward to achieve its vision with success.

Modern times call for modern solutions. PASHA Bank renders its client relationships both sustainable and effective by innovating new solutions and reimagining traditional banking tools with the help of advanced technology and digital solutions. Using its technological capabilities, PASHA Bank has significantly reduced the amount of time clients must spend transacting in person or otherwise communicating with the Bank. By cutting the time spent on banking and dealing with other financial issues for its clients, PASHA Bank opens up space and time for quality relationship building. For the last five years, the Bank's Relationship Managers have communicated to customers, not as a simply a messenger, but as a dedicated channel. Working closely with other relevant teams across the organization, PASHA Bank's Relationship Managers reach out individually to each and every client, to extend a helping hand as a valued partner, to reach new heights, together.

Lending cycle and monitoring process

Within risk initiative in order to improve lending cycle and monitoring process in CIB and SME segments, stable and highly predictive Underwriting and EWS models have been developed using statistically robust approach. Underwriting PD model enables to measure credit risk of various client archetypes including clients who are new to the bank by assigning customer to particular swimlane using both qualitative and quantitative data sources. EWS model is also developed based on statistical approach combined with expert judgement and EWS model-score which above some threshold sends alert for early warning signal. Stress testing was an exercise at the level of holding encompassing all strategic assets, to develop statistical model which translates macro-economic factors into risk drivers, incorporating business inputs. It is used in budgeting and strategic decision making processes.

OUR PEOPLE

The Human Resources Department supports PASHA Bank's long-term business goals and outcomes with a strategic approach. The Department focuses on resourcing issues in line with the Bank's strategic priorities and human capital needs. The Human Resources Department also applies the best talent management practices and undertakes efforts to improve employee experience across the organization.

PASHA Bank is committed to developing and implementing forward-looking human resource management policies and strategies. The Department encourages and maintains open communication channels within the Bank, serving as a reliable resource to managers and employees on workforce related questions and issues.

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

In the 2018-2020 strategy period, PASHA Bank has developed its human capital around one of its four strategic dimensions: Being a preferred employer and "best place to work." PASHA Bank is also committed to attracting the best candidates to the Bank; ensuring that teamwork across the organization functions effectively; providing the best candidate/employee experience; and reinventing the corporate culture accordingly.

In 2019, PASHA Bank further developed its recruitment and onboarding process. During the year, the Bank hired 224 new employees, compared with 252 in 2018. PASHA Bank enhanced its onboarding process with the "Buddy Program." Under this effort, program mentors guide new personnel in adapting to the corporate culture and building relationships within the Bank more quickly and more effectively.

As of year-end 2019, the PASHA Bank team totaled 885 staff members, with 224 new hires during the year.

Performance Management System

One year after deploying its performance management system, PASHA Bank ushered in a new era for managing staff performance in 2019. Now, the Bank's performance management process is clearly linked to other organizational systems, including:

- **Strategic objectives.** To ensure effective use of performance management measurements, the Bank's PMS clearly links individual employee objectives to the organization's strategic goals.

This approach helps staff members see their direct or indirect impact on the Bank's results.

- **Total reward.** After the first year of implementation, the Bank can now the performance management system to objectively determine pay-for-performance compensation for its staff. PASHA Bank employees are promoted and rewarded based on their performance results.
- **Individual and team development.** The Bank uses an individual development plan (IDP) in conjunction with the employee performance review process. This approach allows staff members to advance their career and pursue promotional opportunities more effectively.

In 2019, PASHA Bank conducted its first 360-degree Feedback evaluation via the Success Factors system. This process collects information from the employee's supervisor, colleagues, subordinates about the individual's work-related behavior and its impact. As a pilot project, the Bank's top leadership level, about 119 management staff including Executive Board members, experienced this multirater, multisource feedback method. This approach to appraisal is widely favored by all participants, including evaluators.

Developing Our People

PASHA Bank's learning and development strategy outlines how the Bank develops its workforce's capabilities, skills and competencies to remain successful and sustainable. The Bank's L&D strategy is a key part of its core business strategy. Every year, PASHA Bank steadily increases its investment in staff development, training and re-skilling. The starting point of an effective L&D strategy is understanding both the internal and external context of the Bank. L&D needs in addition to the new techniques it develops, designs and implements are directly linked to the performance management process that drives overall Bank's strategy. Taking into account all

these factors, PASHA Bank has identified learning and training priorities to support its core strategy.

In 2018, PASHA Bank successfully started a new phase of its transformation by adopting the Agile approach. The Bank's first Agile squads were formed and started to operate. With this new methodology and working style, "Agile Mindset" training became a focus of all Bank employees. By early 2019, more than 700 PASHA Bank staff members had participated in Agile Mindset trainings where they became acquainted with this new approach to work. The training program disseminated the agile work methodology across the organization. Many Bank functions started to plan or schedule their daily operations based on the agile approach.

In 2019, PASHA Bank once again prioritized developing and enhancing leadership competencies across the organization. Based on the Bank's leadership competency criteria, 35 newly promoted leaders participated in leadership trainings, including "Seven Habits for Highly Effective Managers" training. During the year, the Leadership Skills Enhancement program graduated 70 mid-level managers. This specialized program was held from end-2018 until November 2019. PASHA Bank organizes coaching programs for its executive level leaders with world renowned executive coaches. These various efforts aim to boost and develop leadership skills, retain top talent at the Bank, and foster a team coaching and mentorship culture across the organization.

One of the PASHA Bank's strategic dimensions is "Improve Process and Capabilities." To this end, Bank focuses on developing new skills in delivery managers who lead or are responsible for process optimization, project management and automation efforts. During the year, "Design Thinking" training administered by an international provider was held

for 24 process and project owners at the Bank. In addition, "Project Management" training was conducted to enhance PM skills for 27 participants.

Sales training is an ongoing development priority area at PASHA Bank. This training involves developing personal skills and techniques related to creating and exploring new sales opportunities, as well as closing sales for the Bank. In 2019, 109 sales persons attended "Advanced Negotiation Skills for Closing Sales" training delivered by an international vendor.

In 2019, PASHA Bank launched "Train the Trainer" (TTT) program run by local and international certified vendors. The Bank aims to develop its own internal training staff in order to further boost the quality of existing trainings on offer. PASHA Bank also targets designing and implementing new training programs in soft and hard skill areas internally. TTT will help develop high skilled internal trainers who will deliver their knowledge in soft and hard skills in effective classroom trainings. With this approach, more Bank employees will be reskilled each year. PASHA Bank's six-month TTT program ended in November 2019 with 14 well-skilled and qualified employees gaining "Certified Internal Trainer" status.

In total, 626 PASHA BANK employees attended local and in-house trainings in soft and hard skill areas in 2019. Seventy-six employees attended international conferences, trainings and workshops abroad during the year. Some 84 Bank staff members applied to certification, qualification programs – three times the number of previous years. In 2019, the average training sessions per employee ratio increased to 2.6, up from 1.2 a year earlier.

CONTRIBUTING TO SOCIOECONOMIC DEVELOPMENT

Investing in community development is an essential part of PASHA Bank's business activities. Investments made locally today will yield great benefits to society as a whole and will also promote long-term development opportunities.

In 2017, PASHA Bank garnered the "Corporate Social Responsibility in CEE & CIS" award from EMEA Finance in recognition of the Bank's active support of local communities.

PASHA Bank's corporate social responsibility objectives include empowering entrepreneurship to develop Azerbaijan's economy. The Bank also understands that education plays a key role in advancing the country's development. As a result, PASHA Bank expends significant resources to support the education of young people, improve financial literacy among the nation's youth, and educate the business community. PASHA Bank is engaged in a number of initiatives that target the nation's young people. In addition, the Bank boosts capacity building and fosters the financial education of small and medium enterprises in Azerbaijan.

As a responsible corporate citizen, PASHA Bank successfully integrates social good into its mission and maximizes its contribution to the United Nation's Social Development Goals (SDGs).

On October 28, 2019, AmCham in cooperation with UN Azerbaijan and PASHA Bank held a workshop for media representatives on "The Role of Media in Promoting Sustainability among Businesses." The workshop commenced with a keynote speech

highlighting the importance of media in promoting sustainability and government initiatives in this key area.

Interactive workshops were conducted to foster learning and development via active dialogue. Speakers covered a variety of relevant topics, ranging from the role of media in fostering sustainable development to the engagement of businesses in promoting sustainability. Presenters also covered topical subjects such as “greenwashing.” – increasingly common practice promoting misleading information or biased presentation of facts about the environmental benefits of certain actions taken by companies.

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

1. BAFT (Bankers’ Association for Finance & Trade) workshops: (1) “Trade Finance” (March 6, 2019), and (2) “Financial Crime Compliance” (March 7, 2019);
2. “Alternative Financing Tools for Business Development” seminar for clients/ joint event of PASHA Bank & Deloitte (October 1, 2019);
3. “Sustainable Development” seminar, joint event with Deloitte (November 14, 2019);
4. “Trade Finance” seminar for PASHA Bank SME clients (November 6, 2019);
5. “Transparency of Access of Small and Medium-sized Businesses to Financial Markets: Current Situation and Perspectives” forum (November 14, 2019).

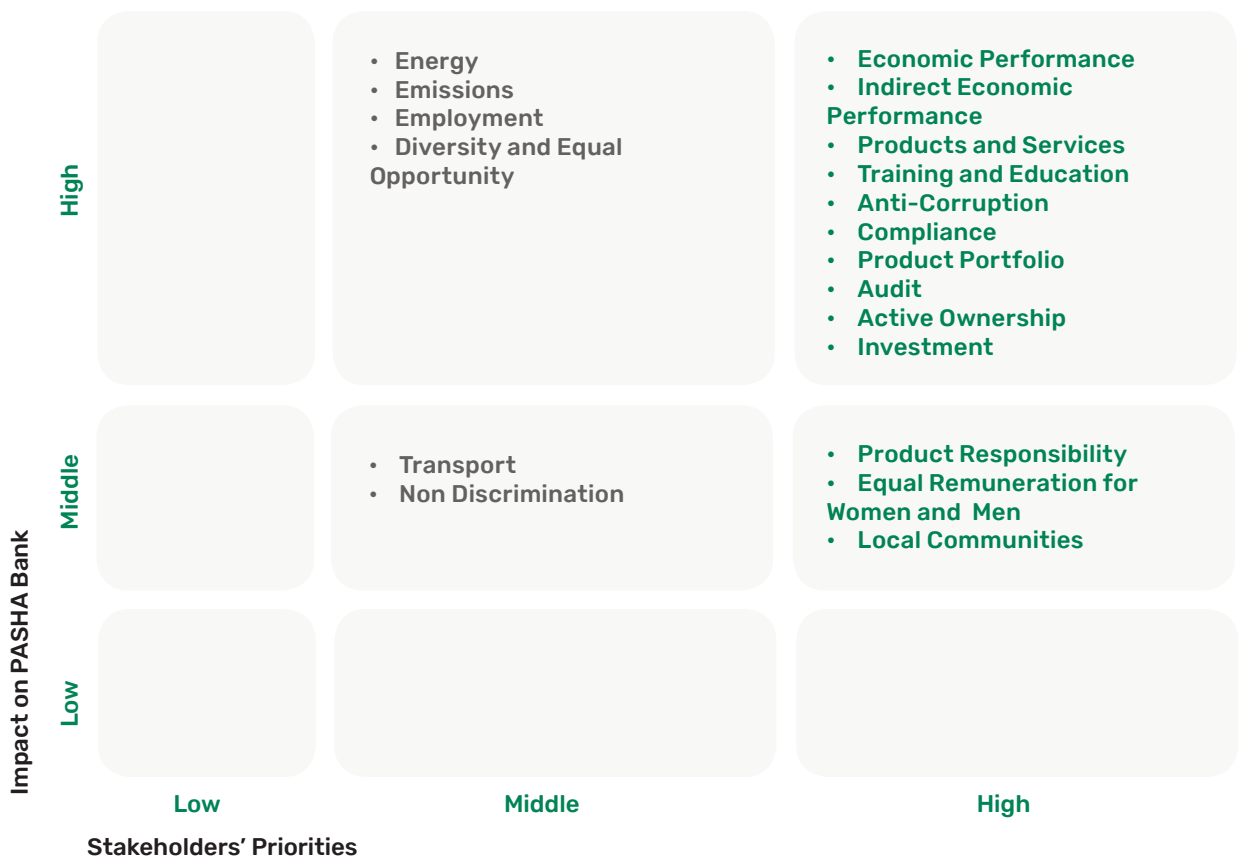
To prepare the business community for digital transformation and boost digital literacy, PASHA Bank co-organized, sponsored and participated in various events with its counterparts, including:

1. “To the Digital Reality” conference (February 19, 2019);
2. MainTech Innovations and Technologies Forum (June 3, 2019);
3. 13th IEEE International Conference on Application of Information and Communication Technologies – AICT2019 (October 23, 2019);
4. “How Human Centred Design Affects People Experience” Lecture by Dan Freifeld (November 15, 2019);
5. DevOpsDays Conference 2019 (November 21–22, 2019).

PASHA Bank also contributes to Azerbaijan’s social and cultural development by supporting young talents. On December 14, 2019, the Bank provided support to a concert of neo-classical music composed by Oksana Valieva, a young Azerbaijani composer, presenting her first compositions.

Representatives from public and private companies, as well as international financial institutions, took part in these various events. PASHA Bank sees these seminars, conferences and forums, and similar ones it will arrange in the future, as having a lasting impact on developing the skills and know-how of the business community and raising corporate governance standards in Azerbaijan. The Bank believes that sustainable growth is possible by building quality, long-term relationships with its customers, continually improving its products and services, boosting the efficiency of its business processes, and investing in the wider community.

**PASHA Bank Sustainability Report
Materiality Analysis**



Sustainability Strategy of PASHA Bank

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

PASHA Bank

13, Yusif Mammadaliyev Street.

Baku, AZ1005, Azerbaijan

T: (+994 12) 496 50 00

F: (+994 12) 496 50 10

E: office@pashabank.az

www.pashabank.az