OJSC PASHA Bank

Interim condensed consolidated financial statements

30 June 2016

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Building a better working world

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors of OJSC PASHA Bank

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC PASHA Bank and its subsidiaries, which comprise the interim condensed consolidated statement of financial position as at 30 June 2016 and the related interim condensed consolidated income statement and interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and selected explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Ernst & Young Holdings (CIS) B.V.

20 September 2016

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

(In thousands of Azerbaijani manats)

	Notes	30 June 2016 (unaudited)	31 December 2015
Assets			
Cash and cash equivalents	4	835,757	1,021,306
Trading securities	5	52,171	46,238
Amounts due from credit institutions	6	220,180	137,895
Investment securities			
- available-for-sale	7	43,868	5,696
- loans and receivables	7	61,720	87,903
Derivative financial assets	14	217	324
Loans to customers	8	920,162	902,150
Investment property	9	1,668	1,668
Property and equipment		14,218	15,851
Goodwill and other intangible assets		56,478	56,730
Current income tax assets		–	287
Deferred income tax assets	15	1,262	1,555
Other assets	10	17,282	15,136
Total assets		**2,224,983**	**2,292,739**
Liabilities			
Amounts due to banks and government funds	11	329,317	369,693
Amounts due to customers	12	1,351,912	1,374,113
Other borrowed funds	13	60,158	93,814
Derivative financial liabilities	14	1,210	991
Current income tax liabilities		7,194	–
Deferred income tax liabilities		10,052	9,688
Provision for guarantees and letters of credit	18	432	379
Other liabilities	10	14,282	11,572
Total liabilities		**1,774,557**	**1,860,250**
Equity			
Share capital	16	333,000	333,000
Retained earnings		38,284	19,283
Net unrealised losses on investment securities available-for-sale		(58)	(100)
Foreign currency translation reserve		79,135	80,244
Total equity attributable to shareholders of the Bank		**450,361**	**432,427**
Non-controlling interests		65	62
Total equity		**450,426**	**432,489**
Total liabilities and equity		**2,224,983**	**2,292,739**

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

Taleh Kazimov — Chairman of the Executive Board

Elmina Nabiyeva — Director, Financial Management Department

20 September 2016

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

(In thousands of Azerbaijani manats)

	Notes	*For the six months ended 30 June (unaudited)* 2016	2015
Interest income			
Loans to customers		50,937	35,210
Amounts due from credit institutions		5,708	3,286
Investment securities		4,002	2,927
Trading securities		2,867	2,323
Cash and cash equivalents		1,846	1,930
Securities purchased under agreements to resell		12	34
		65,372	**45,710**
Interest expense			
Amounts due to customers		(13,081)	(5,688)
Other borrowed funds		(996)	(1,418)
Amounts due to banks and government funds		(4,862)	(1,342)
Other		(350)	(46)
		(19,289)	**(8,494)**
Net interest income		**46,083**	**37,216**
Provision for impairment losses on interest bearing assets	18	(13,507)	(14,385)
Net interest income after provision for impairment losses		**32,576**	**22,831**
Net fee and commission income	19	6,266	3,439
Net gains from trading securities		1,918	292
Net gains/(losses) from investment securities available-for-sale		7	(88)
Net gains/(losses) from foreign currencies:			
- dealing		30,100	2,426
- translation differences		1,649	(15,995)
- operations with foreign currency derivatives		104	13,145
Other income		173	190
Non-interest income		**40,217**	**3,409**
Personnel expenses	20	(17,275)	(9,673)
General and administrative expenses	20	(18,620)	(10,783)
Depreciation and amortisation		(3,300)	(1,911)
Provision for guarantees and letters of credit	18	(53)	(1,158)
Non-interest expenses		**(39,248)**	**(23,525)**
Profit before income tax expense		**33,545**	**2,715**
Income tax expense	15	(9,129)	(713)
Net profit for the period		**24,416**	**2,002**
Attributable to:			
- shareholders of the Bank		24,413	2,001
- non-controlling interests		3	1
		24,416	**2,002**

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

(In thousands of Azerbaijani manats)

	Attributable to shareholders of the Bank						
	Share capital	*Retained earnings (accumulated deficit)*	*Net unrealised gain/(losses) on investment securities available-for-sale*	*Foreign currency translation difference*	*Total*	*Non-controlling interests*	*Total equity*
As at 31 December 2014	333,000	(5,929)	98	(3,463)	323,706	–	323,706
Net profit for the six months ended 30 June 2015 (unaudited)	–	2,001	–	–	2,001	1	2,002
Other comprehensive income/(loss) for the six months ended 30 June 2015 (unaudited)	–	–	(325)	15,871	15,546	–	15,546
Total comprehensive income/(loss) for the six months ended 30 June 2015 (unaudited)	–	2,001	(325)	15,871	17,547	1	17,548
Cancellation of dividends declared in 2014 (Note 16)	–	10,832	–	–	10,832	–	10,832
Acquisition of subsidiary	–	–	–	–	–	67	67
As at 30 June 2015 (unaudited)	333,000	6,904	(227)	12,408	352,085	68	352,153
As at 31 December 2015	333,000	19,283	(100)	80,244	432,427	62	432,489
Net profit for the six months ended 30 June 2016 (unaudited)	–	24,413	–	–	24,413	3	24,416
Other comprehensive income/(loss) for the six months ended 30 June 2016 (unaudited)	–	–	42	(1,109)	(1,067)	–	(1,067)
Total comprehensive income/(loss) for the six months ended 30 June 2016 (unaudited)	–	24,413	42	(1,109)	23,346	3	23,349
Dividends declared (Note 16)	–	(5,412)	–	–	(5,412)	–	(5,412)
As at 30 June 2016 (unaudited)	333,000	38,284	(58)	79,135	450,361	65	450,426

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

(In thousands of Azerbaijani manats)

	Notes	*For the six months ended 30 June (unaudited)* 2016	2015
Cash flows from operating activities			
Interest received		61,147	42,146
Interest paid		(17,367)	(7,121)
Fees and commissions received		9,477	5,248
Fees and commissions paid		(3,276)	(2,260)
Net realized (losses) on sale of investment securities available-for-sale		(2)	(88)
Net realized (losses)/gains from trading securities		(739)	22
Realised gains less losses from dealing in foreign currencies		29,971	20,738
Personnel expenses paid		(13,561)	(9,027)
General and administrative expenses paid		(18,583)	(8,314)
Other operating income received		776	178
Cash flows from operating activities before changes in operating assets and liabilities		**47,843**	**41,522**
Net (increase)/decrease in operating assets			
Trading securities		(3,308)	(30,154)
Amounts due from credit institutions		(91,577)	6,559
Loans to customers		(31,205)	(134,926)
Other assets		1,482	(799)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and government funds		(43,840)	(12,608)
Amounts due to customers		(20,797)	212,679
Other borrowed funds		(33,349)	36,079
Other liabilities		(3,873)	669
Net cash (used in) / from operating activities before income tax		**(178,624)**	**119,021**
Income tax paid		(1,066)	–
Net cash (used in) / from operating activities		**(179,690)**	**119,021**
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired		–	410
Purchase of securities under agreements to resell		–	(181)
Proceeds from sale and redemption of investment securities available-for-sale		40,118	394,194
Proceeds from sale and redemption of investment securities – loans and receivables		47,412	–
Purchases of investment securities available-for-sale		(78,209)	(474,759)
Purchases of investment securities – loans and receivables		(22,039)	–
Proceeds from sale of property, equipment and intangible assets		32	–
Purchase of property and equipment and intangible assets		(1,863)	(4,009)
Net cash used in investing activities		**(14,549)**	**(84,345)**
Cash flows from financing activities			
Dividends paid	16	(5,412)	–
Net cash used in financing activities		**(5,412)**	–
Effect of exchange rates changes on cash and cash equivalents		14,102	95,204
Net (decrease)/increase in cash and cash equivalents		**(185,549)**	**129,880**
Cash and cash equivalents, beginning	4	1,021,306	347,980
Cash and cash equivalents, ending	4	**835,757**	**477,860**

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

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

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

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

The Bank has three service points and two branches in Azerbaijan as at 30 June 2016 (31 December 2015: three service points and two branches) and two subsidiaries, JSC PASHA Bank Georgia located in the Republic of Georgia and PASHA Yatirim Bankasi A.Ş. (the "Subsidiaries") located in the Republic of Turkey.

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

As at 30 June 2016 and 31 December 2015, the following shareholders owned the outstanding shares of the Bank:

Shareholders	*30 June 2016 (%)*	*31 December 2015 (%)*
Pasha Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	**100**	**100**

As at 30 June 2016 and 2015, the Bank is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, who exercise joint control over the Bank.

PASHA Bank Georgia JSC, a wholly – owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as of 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 as at 30 June 2016. PASHA Bank Georgia JSC operates under a banking licence issued by the National Bank of Georgia (the "NBG") on 17 January 2013.

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

TAIB Yatirim Bank A.Ş. was incorporated in 1987 as an investment bank in Turkey with the permission of the Council of Ministers decision no. 6224 which allows the transfer of the banks' net profit after statutory liabilities and in case of liquidation the transfer of capital to foreign shareholders. On 27 January 2015, the Bank acquired 79.47% of the voting common shares of TAIB Yatirim Bank A.Ş. TAIB Yatirim Bank A.Ş. was renamed to Pasha Yatirim Bankasi A.Ş. at the registration of the Bank as shareholder. In March 2015, investment in share capital of the subsidiary was increased by TRY 175,000 thousand to TRY 255,000 thousand. As at 31 December 2015 and 30 June 2016, the Bank holds 99.92% voting common shares of PASHA Yatirim Bankasi A.Ş. with its head office located in Istanbul. The activities of the bank are regulated by the Central Bank of the Republic of Turkey (the "CBRT").

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

2. Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

The Group is required to maintain their records and prepare their consolidated financial statements for regulatory purposes in Azerbaijani manat in accordance with International Financial Reporting Standards ("IFRS"). These interim condensed consolidated financial statements are prepared under the historical cost convention except for trading and available for sale securities and derivative financial instruments which have been measured at fair value.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

General (continued)

These interim condensed consolidated financial statements are presented in thousand of Azerbaijani manats ("AZN") unless otherwise indicated. Transactions in currencies other than the AZN are treated as transactions in foreign currencies.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

Reclassifications

The following reclassifications have been made to 30 June 2015 amounts to conform to the 2016 presentation:

	As previously reported	*Reclassification*	*As adjusted*
Consolidated statement of profit or loss			
Net gains/(losses) from foreign currencies			
Dealing	15,571	(13,145)	2,426
Operations with foreign currency derivatives	–	13,145	13,145
Interest expense on			
Amounts due to credit institutions	1,418	(1,418)	–
Other borrowed funds	–	1,418	1,418
Consolidated statement of cash flows			
Amounts due to credit institutions	36,079	(36,079)	–
Other borrowed funds	–	36,079	36,079

3. Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of new Standards effective as at 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material effect on the annual consolidated statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment are described below:

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 *Business Combinations* principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

(Figures in tables are in thousands of Azerbaijani manats)

3. Changes in accounting policies (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016. These amendments do not have any impact to the Group given that the Group has not used a revenue-based method to depreciate its noncurrent assets.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments to IFRS 7, IAS 19 and IAS 34 do not have any impact on the Group.

(Figures in tables are in thousands of Azerbaijani manats)

3. Changes in accounting policies (continued)

Annual improvements 2012-2014 cycle (continued)

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016. These amendments do not have any impact on the Group.

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Cash on hand	91,741	116,763
Current accounts with the CBAR, the NBG and the CBRT	324,476	199,708
Current accounts with other credit institutions	48,833	335,481
Time deposits with credit institutions up to 90 days	370,707	369,354
Cash and cash equivalents	**835,757**	**1,021,306**

Current accounts with other credit institutions consist of interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 469 thousand (31 December 2015 – AZN 554 thousand) and AZN 1,744 thousand (31 December 2015 – AZN 643 thousand), respectively, and non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 20,182 thousand (31 December 2015 – AZN 7,462 thousand) and AZN 26,438 thousand (31 December 2015 – AZN 326,822 thousand), respectively.

As at 30 June 2016, the Group placed AZN 370,707 thousand in time deposits with three resident banks and eleven non-resident banks maturing through September 2016 with interest rates ranging between 0.10% and 12.00% p.a. (31 December 2015 – AZN 369,354 thousand matured in March 2016 with interest rates ranging between 0.13% and 13.00% p.a.).

(Figures in tables are in thousands of Azerbaijani manats)

5. Trading securities

Trading securities comprise:

	30 June 2016 (unaudited)		*31 December 2015*	
	Nominal interest rate	*Carrying value*	*Nominal interest rate*	*Carrying value*
Bonds of financial institutions	9.75%-14.00%	31,645	9.75%-14.00%	26,468
Corporate bonds	9.00%	20,526	9.00%	19,770
Trading securities		**52,171**		**46,238**

As at 30 June 2016, the Group held securities of three (31 December 2015 – three) local entities amounting to AZN 52,171 thousand (31 December 2015 – AZN 46,238 thousand).

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Time deposits with banks	99,285	92,261
Loans to banks	46,067	23,386
Obligatory reserve with the CBAR, the NBG and the CBRT	32,295	19,196
Restricted deposits	43,322	3,832
	220,969	138,675
Less: allowance for impairment (Note 18)	(789)	(780)
Amounts due from credit institutions	**220,180**	**137,895**

As at 30 June 2016, time deposits with banks mature between July 2016 and November 2017 (31 December 2015 – between January 2016 and November 2017) and with interest rates ranging between 0.02% and 12.50% p.a. (31 December 2015 – between 0.02% and 12.50% p.a.).

As at 30 June 2016, the Group had outstanding amount of AZN 46,067 thousand (31 December 2015 – AZN 23,386 thousand) of loans issued to six resident commercial banks (31 December 2015 – six resident commercial banks) with contractual maturity through June 2017 (31 December 2015 – May 2017) and interest rates ranging between of 3%-16% p.a. (31 December 2015 – between 7.5%-16% p.a.).

Credit institutions in the Republic of Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR in manats at the level of 0.5% and 1.0% (31 December 2015 – 0.5%) of the previous month average of funds attracted from customers by a credit institution in local and foreign currency, respectively. Credit institutions in the Republic of Georgia are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 7% and 20% of the average of funds attracted from customers by the credit institution for the appropriate two-week period in GEL and foreign currencies, respectively. Credit institutions in the Republic of Turkey keep TRY, USD, EUR and gold reserve interest earning deposits for its TRY and foreign currency liabilities at the CBRT in accordance with the Decree issued by the CBRT no. 2005/1, *Regarding Reserve Deposits.*

(Figures in tables are in thousands of Azerbaijani manats)

7. Investment securities

Investment securities available-for-sale comprises:

	30 June 2016 (unaudited)		*31 December 2015*	
	Carrying value	*Nominal value*	*Carrying value*	*Nominal value*
Bonds of the Ministry of Finance of the Republic of Azerbaijan	29,229	29,574	236	235
Bonds of financial institutions	8,359	8,324	306	300
Turkey Government Bonds	6,280	6,112	5,154	5,090
Investment securities available-for-sale	**43,868**	**44,010**	**5,696**	**5,625**

Nominal interest rates per annum and maturities of these securities are as follows:

	30 June 2016 (unaudited)		*31 December 2015*	
	%	*Maturity*	*%*	*Maturity*
Bonds of the Ministry of Finance of the Republic of Azerbaijan	2.49%-12.71%	November 2016 – February 2018	3.59%	May 2016
Bonds of financial institutions	2.38%-13.05%	July 2016 – September 2017	8.79%	April 2016
Turkey Government Bonds	6.93%-8.42%	July 2016 – March 2017	10.80%	November 2016

Loans and receivables comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Treasury bonds of the Ministry of Finance of Georgia	22,488	25,209
Bonds of financial institutions	16,048	23,660
Certificates of deposits of financial institutions	15,353	7,946
Corporate bonds	6,701	5,790
Treasury bills of the Ministry of Finance of Georgia	1,130	15,319
Certificates of deposit of the NBG	–	9,979
Loans and receivables	**61,720**	**87,903**

8. Loans to customers

Loans to customers comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Legal entities	868,114	823,212
Individuals	115,565	126,636
Loans to customers (gross)	**983,679**	**949,848**
Less – allowance for impairment (Note 18)	(63,517)	(47,698)
Loans to customers (net)	**920,162**	**902,150**

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

A reconciliation of the allowance for impairment of loans to customers by class is as follows:

	Corporate lending 30 June 2016 (unaudited)	*Individual lending 30 June 2016 (unaudited)*	*Total 30 June 2016 (unaudited)*
Individual impairment	(34,945)	(2,382)	**(37,327)**
Collective impairment	(22,665)	(3,525)	**(26,190)**
	(57,610)	**(5,907)**	**(63,517)**
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	**47,618**	**5,330**	**52,948**

	Corporate lending 31 December 2015	*Individual lending 31 December 2015*	*Total 31 December 2015*
Individual impairment	(23,313)	(1,893)	**(25,206)**
Collective impairment	(18,814)	(3,678)	**(22,492)**
	(42,127)	**(5,571)**	**(47,698)**
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	**31,673**	**4,582**	**36,255**

Loans are made in the following industry sectors:

	30 June 2016 (unaudited)	*31 December 2015*
Trade and services	345,817	327,626
Manufacturing	128,048	167,224
Individuals	115,565	126,636
Construction	114,147	101,295
Non banking credit organizations	106,001	84,344
Agriculture and food processing	46,050	48,795
Transport and telecommunication	43,792	26,281
Energy	39,735	16,513
Mining	25,382	30,239
Leasing	18,871	14,994
Other	271	5,901
Total loans (gross)	**983,679**	**949,848**

As at 30 June 2016, the Group granted loans to 5 customers (31 December 2015 – 5 customers) totalling AZN 236,874 thousand (31 December 2015 – AZN 215,005 thousand), which individually exceeded 5% of the Group's equity.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables;
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

(Figures in tables are in thousands of Azerbaijani manats)

9. Investment property

In 2011, the Bank acquired land for the amount of AZN 2,000 thousand as investment property which is held for long-term appreciation in value. As at 30 June 2016, the fair value of this investment property amounted to AZN 1,668 thousand (31 December 2015 – AZN 1,668 thousand).

10. Other assets and liabilities

Other assets comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Other financial assets		
Clearance cheque accounts	3,489	2,263
Settlements on money transfers	2,812	2,071
Accrued interest receivable on guarantees and letters of credit	558	430
Other	329	–
	7,188	4,764
Other non-financial assets		
Deferred expenses	4,652	4,848
Prepayments for acquisition of property, equipment and intangible assets	3,050	3,142
Repossessed collateral	1,835	1,537
Other prepayments	544	802
Taxes, other than income tax	13	43
	10,094	10,372
Other assets	17,282	15,136

As at 30 June 2016, clearance cheque accounts consist of receivables from other banks for which cheques stand as collateral.

As at 30 June 2016, deferred expenses of AZN 1,473 thousand (31 December 2015 – AZN 2,036 thousand), related to the long term prepayment for the rent of the service points located in Baku and AZN 1,134 thousand (31 December 2015 – 1,101 thousand) related to long term software support.

As at 30 June 2016, included in prepayments for the purchase of property, equipment and intangible assets are prepayments for new software in the amount of AZN 2,645 thousand (31 December 2015 – AZN 2,442 thousand).

Other liabilities comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Other financial liabilities		
Clearance cheque accounts	3,489	2,263
Settlements on money transfer	1,407	3,310
Accrued expenses	325	172
Financial lease liabilities	–	596
Other	218	72
	5,439	6,413
Other non-financial liabilities		
Payable to employees	7,569	4,415
Deferred income	903	234
Other provision	280	165
Taxes, other than income tax	25	291
Other	66	54
	8,843	5,159
Other liabilities	14,282	11,572

(Figures in tables are in thousands of Azerbaijani manats)

11. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Short-term deposits from banks	131,336	246,210
Loans from the National Fund for Support of Entrepreneurship	79,956	67,436
Long-term deposits from banks	66,185	–
Loans from the CBAR and NBG	37,191	48,383
Correspondent accounts with other banks	1,611	597
Repurchased agreements	5,320	–
Amount due to Azerbaijan Mortgage Fund	4,658	4,667
Amount due to IT Development Fund	3,060	2,400
Amounts due to banks and government funds	**329,317**	**369,693**

As at 30 June 2016, the Group received short-term funds from one resident commercial bank (31 December 2015 – one) and five non-resident commercial banks (31 December 2015 – six) comprising AZN 131,336 thousand (31 December 2015 – AZN 246,210 thousand) maturing on 18 November 2016 (31 December 2015 – 18 November 2016) and with interest rate of 1%-6.96% p.a. (31 December 2015 – 1%-3% p.a.).

As at 30 June 2016, the Group had loans received from the National Fund for Support of Entrepreneurship amounting to AZN 79,956 thousand (31 December 2015 – AZN 67,436 thousand), maturing through March 2026 (31 December 2015 – through September 2025), and bearing interest rate of 1.0% p.a. The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at interest rate of 6% p.a. (31 December 2015 – 6% p.a.).

As at 30 June 2016, the Group had loans received from the CBAR and NBG amounting to AZN 37,191 thousand (31 December 2015 – 48,383 thousand), maturing through November 2017 (31 December 2015 – November 2017) with interest rates ranging between 3.5% and 9.11% p.a. (31 December 2015 – 3.5% and 9.11% p.a.)

As at 30 June 2016, the Group had loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 4,658 thousand (31 December 2015 – AZN 4,667 thousand), maturing through November 2040 (31 December 2015 – through May 2040) and bearing interest rate of 4.0% p.a.

12. Amounts due to customers

The amounts due to customers include the following:

	30 June 2016 (unaudited)	*31 December 2015*
Demand deposits	814,582	901,216
Time deposits	537,330	472,897
Amounts due to customers	**1,351,912**	**1,374,113**
Held as security against guarantees issued (Note 17)	**6,348**	**8,090**

(Figures in tables are in thousands of Azerbaijani manats)

12. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	30 June 2016 (unaudited)	*31 December 2015*
Investment holding companies	400,471	481,678
Individuals	341,774	367,234
Trade and services	153,819	184,048
Construction	141,426	66,385
Transport and communication	91,984	82,876
Insurance	65,478	58,299
Manufacturing	60,318	56,207
Non-banking credit organizations	29,753	18,256
Hotel business	28,951	17,904
Public organizations	13,287	17,863
Mining	6,440	11,859
Energy	2,950	844
Agriculture	2,865	207
Other	12,396	10,453
Amounts due to customers	**1,351,912**	**1,374,113**

As at 30 June 2016, customer deposits included balances with five (31 December 2015 – five) largest customers comprised AZN 546,229 thousand or 40% of the total customer deposits portfolio (31 December 2014 – AZN 623,366 thousand or 45% of the total customer deposits portfolio).

13. Other borrowed funds

As at 30 June 2016, other borrowed funds included balances with four (31 December 2015 – five) foreign banks amounting to AZN 60,158 thousand (31 December 2015 – AZN 93,814 thousand), maturing through April 2021 (31 December 2015 – through April 2021) and bearing interest rates ranging between 6.17% and 7.62% p.a. (31 December 2015 – between 1.67% and 6.35% p.a.). These unsecured borrowings are for trade finance of import operations (letters of credit) of the customers of the Group.

14. Derivative financial instruments

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

	30 June 2016 (unaudited)			*31 December 2015*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Interest rate contracts						
Options – domestic	–	–	–	3,350	–	(22)
Foreign exchange contracts						
Forwards and swaps – foreign	7,090	217	–	38,158	324	(26)
Options – domestic	3,128	–	(1,210)	3,283	–	(943)
Total derivative assets/ (liabilities)		**217**	**(1,210)**		**324**	**(991)**

(Figures in tables are in thousands of Azerbaijani manats)

15. Taxation

The corporate income tax expense comprises:

	2016 (6 months) (unaudited)	*2015 (6 months) (unaudited)*
Current tax charge	(8,454)	(1,320)
Deferred tax (charge)/credit	(678)	688
Less: deferred tax recognized directly in other comprehensive income	3	(81)
Income tax expense	**(9,129)**	**(713)**

16. Equity

As at 30 June 2016 and 31 December 2015, the Bank's authorized, issued and fully paid capital amounted to AZN 333,000 thousand comprising of 10,000 ordinary shares with a par value of AZN 33,300.00 per ordinary share. Each ordinary share entitles one vote to the shareholder.

On 25 June 2015, General Shareholders Meeting cancelled its decision to pay dividends dated 25 December 2014 of AZN 10,832 thousand.

On 23 May 2016, General Shareholders Meeting declared dividends totalling AZN 5,412 thousand which was paid in June 2016.

Foreign currency translation reserve

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

Unrealised gains (losses) on investment securities available-for-sale

This reserve records fair value changes on available-for-sale investments.

17. Commitments and contingencies

Operating environment

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As a result of significant drop in crude oil prices, Azerbaijani manat devalued against the US dollar from AZN 0.7844 to AZN 1.5594 for 1 USD during 2015. Following this devaluation, the Central Bank of the Republic of Azerbaijan announced floating exchange rate. During 6 months of 2016 Azerbaijani manat fluctuated between AZN 1.4900 and AZN 1.6456 for 1 USD.

These events resulted in worsening of liquidity in the banking system and much tighter credit conditions. There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Group's future results and financial position and business prospects in a manner not currently determinable. Such adverse impacts could include deterioration of the quality of the loan portfolio, with increases in non-performing loans and decreases in loan collateral values, and losses on investment securities

Azerbaijani government announced plans to accelerate reforms and support to banking system in response to current economic challenges.

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

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)

Legal

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

Taxation

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

Management believes that its interpretation of the relevant legislation as at 30 June 2016 is appropriate and that the Group's tax, currency and customs positions will be sustained.

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

Compliance with CBAR ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2016, the Bank was in compliance with these ratios except for the followings:

a) Ratio of maximum credit exposure of a bank per a single borrower or a group of related borrowers that should not exceed 7 percent of the bank's total capital when the market value of the collateral of credit exposures is less than 100 percent of such credit exposures, or the market value of real estate collateral of loans is below 150% of the loan value. As at 30 June 2016 the Bank's ratio was 21.91%;

b) Ratio of the share in one legal entity which should not exceed 10% of total capital. As at 30 June 2016 the Bank's ratio was 46.18%;

c) Ratio of the total share in other legal entities which should not exceed 40% of total capital. As at 30 June 2016 the Bank's ratio was 67.78%.

Throughout the six months ended 30 June 2016, the Bank submitted information to CBAR regarding these breaches on a monthly basis. The Bank had been in breach of the ratio of maximum exposure of a bank per a single borrower or a group of related borrowers for consecutive five years and ratio of shares for more than one year and no sanctions had been ever applied to the Bank. Therefore the Management believes that the Bank will not face any sanctions against the Bank in the future.

Financial commitments and contingencies

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

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

Financial commitments and contingencies comprise:

	30 June 2016 (unaudited)	*31 December 2015*
Credit-related commitments		
Guarantees issued	228,707	232,587
Unused credit lines	53,998	44,184
Letters of credit	29,378	20,733
	312,083	**297,504**
Operating lease commitments		
Not later than 1 year	3,982	2,593
Later than 1 year but not later than 5 years	11,435	5,936
Later than 5 years	5,625	3,280
	21,042	**11,809**
Less – provisions (Note 18)	(432)	(379)
Commitments and contingencies (before deducting collateral)	**332,693**	**308,934**
Less – cash held as security against guarantees issued (Note 12)	(6,348)	(8,090)
Commitments and contingencies	**326,345**	**300,844**

18. Impairment losses on interest bearing assets and provision for guarantees and letters of credit

The movements in allowance for impairment losses on interest bearing assets and provisions for guarantees and letters of credit were as follows:

			6 month ended 30 June 2016 (unaudited)			
	Corporate lending	*Individual lending*	*Total loans to customers*	*Amounts due from credit institutions*	*Total*	*Guarantees and letters of credit*
At 1 January	(42,127)	(5,571)	**(47,698)**	(780)	**(48,478)**	(379)
Charge for the period	(13,156)	(342)	**(13,498)**	(9)	**(13,507)**	(53)
Amounts written off	–	8	**8**	–	**8**	–
Recovery	(2,314)	(2)	**(2,316)**	–	**(2,316)**	–
Exchange difference	(13)	–	**(13)**	–	**(13)**	–
At 30 June (unaudited)	**(57,610)**	**(5,907)**	**(63,517)**	**(789)**	**(64,306)**	**(432)**

			6 month ended 30 June 2015 (unaudited)			
	Corporate lending	*Individual lending*	*Total loans to customers*	*Amounts due from credit institutions*	*Total*	*Guarantees and letters of credit*
At 1 January	(34,401)	(366)	**(34,767)**	–	**(34,767)**	(2,683)
Charge for the period	(12,378)	(2,007)	**(14,385)**	–	**(14,385)**	(1,158)
Amounts written off	716	64	**780**	–	**780**	18
Recovery	(181)	–	**(181)**	–	**(181)**	–
Exchange difference	(241)	–	**(241)**	–	**(241)**	–
At 30 June (unaudited)	**(46,485)**	**(2,309)**	**(48,794)**	**–**	**(48,794)**	**(3,823)**

Allowance for impairment of assets is deducted from the carrying amount of the related assets. Provision for guarantees and letters of credit is recorded in liabilities.

(Figures in tables are in thousands of Azerbaijani manats)

19. Net fee and commission income

Net fee and commission income comprise:

	2016 (6 months) (unaudited)	*2015 (6 months) (unaudited)*
Guarantees and letters of credit	3,001	2,097
Settlements operations	2,080	1,248
Servicing plastic card operations	1,814	1,126
Cash operations	1,301	713
Underwriting and market maker operations	922	432
Other	470	92
Fee and commission income	**9,588**	**5,708**
Servicing plastic card operations	(1,824)	(1,114)
Settlements operations	(654)	(379)
Guarantees and letters of credit	(472)	(424)
Cash operations	(149)	(95)
Securities operations	(4)	(88)
Other	(219)	(169)
Fee and commission expense	**(3,322)**	**(2,269)**
Net fee and commission income	**6,266**	**3,439**

20. Personnel, general and administrative expenses

Personnel expenses comprise:

	2016 (6 months) (unaudited)	*2015 (6 months) (unaudited)*
Salaries and bonuses	(13,139)	(7,135)
Social security costs	(2,452)	(1,302)
Other employee related expenses	(1,684)	(1,236)
Total personnel expenses	**(17,275)**	**(9,673)**

General and administrative expenses comprise:

	2016 (6 months) (unaudited)	*2015 (6 months) (unaudited)*
Charity and sponsorship	(8,627)	(217)
Operating leases	(3,396)	(2,335)
Professional services	(1,985)	(1,365)
Software cost	(1,099)	(562)
Advertising costs	(621)	(889)
Repair and maintenance	(495)	(246)
Insurance	(343)	(176)
Utilities	(317)	(223)
Taxes, other than income tax	(295)	(204)
Communications	(242)	(151)
Security expenses	(212)	(137)
Transportation and business trip expenses	(210)	(191)
Membership fees	(119)	(33)
Stationery	(96)	(191)
Printing expenses	(34)	(25)
Losses on disposal of property and equipment	(3)	(258)
Other expenses	(526)	(1,077)
Transaction costs of the acquisition	–	(1,610)
Registration fee	–	(893)
Total general and administrative expenses	**(18,620)**	**(10,783)**

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values of financial instruments

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

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

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

		Fair value measurement using (unaudited)			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Trading securities	30 June 2016	–	52,171	–	**52,171**
Investment securities – available for sale	30 June 2016	14,639	29,229	–	**43,868**
Financial assets at fair value through profit and loss	30 June 2016	–	217	–	**217**
Assets for which fair values are disclosed					
Cash and cash equivalents	30 June 2016	835,757	–	–	**835,757**
Amounts due from credit institutions	30 June 2016	–	–	220,180	**220,180**
Investment securities – loans and receivables	30 June 2016	–	4,037	58,999	**63,036**
Loans to customers	30 June 2016	–	–	904,875	**904,875**
Investment property	30 June 2016	–	–	1,668	**1,668**
Liabilities measured at fair value					
Derivative financial liabilities	30 June 2016	–	1,210	–	**1,210**
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	30 June 2016	–	–	330,191	**330,191**
Amounts due to customers	30 June 2016	–	–	1,352,054	**1,352,054**
Other borrowed funds	30 June 2016	–	–	60,158	**60,158**

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values of financial instruments (continued)

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Trading securities	31 December 2015	–	46,238	–	**46,238**
Investment securities – available for sale	31 December 2015	5,390	306	–	**5,696**
Derivative financial assets	31 December 2015	–	324	–	**324**
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2015	1,021,306	–	–	**1,021,306**
Amounts due from credit institutions	31 December 2015	–	–	137,895	**137,895**
Investment securities – loans and receivables	31 December 2015	–	–	86,718	**86,718**
Loans to customers	31 December 2015	–	–	884,654	**884,654**
Investment property	31 December 2015	–	–	1,668	**1,668**
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2015	–	991	–	**991**
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2015	–	–	369,693	**369,693**
Amounts due to customers	31 December 2015	–	–	1,373,943	**1,373,943**
Other borrowed funds	31 December 2015	–	–	93,814	**93,814**

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

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

	Carrying value 30 June 2016 (unaudited)	*Fair value 30 June 2016 (unaudited)*	*Unrecognized gain/(loss) 30 June 2016 (unaudited)*	*Carrying value 31 December 2015*	*Fair value 31 December 2015*	*Unrecognized gain/(loss) 31 December 2015*
Financial assets						
Cash and cash equivalents	835,757	835,757	–	1,021,306	1,021,306	–
Amounts due from credit institutions	220,180	220,180	–	137,895	137,895	–
Investment securities – loans and receivables	61,720	63,036	1,316	87,903	86,718	(1,185)
Loans to customers	920,162	904,875	(15,287)	902,150	884,654	(17,496)
Financial liabilities						
Amounts due to banks and government funds	329,217	330,191	(974)	369,693	369,693	–
Amounts due to customers	1,351,912	1,352,054	(142)	1,374,113	1,373,943	170
Other borrowed funds	60,158	60,158	–	93,814	93,814	–
Total unrecognised change in unrealised fair value			**(15,087)**			**(18,511)**

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values of financial instruments (continued)

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

22. Related party disclosures

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

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

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

	30 June 2016 (unaudited)					*31 December 2015*				
	Parent	*Entities under common control*	*Key management personnel*	*Other*	*Total*	*Parent*	*Entities under common control*	*Key management personnel*	*Other*	*Total*
Loans, gross	–	90,637	2,326	155	93,118	–	31,128	2,690	–	**33,818**
Less: allowance for impairment	–	(627)	(46)	–	(673)	–	(945)	(280)	–	**(1,225)**
Loans, net	–	90,010	2,280	155	92,445	–	30,183	2,410	–	**32,593**
Amounts due from credit institutions	–	58,310	–	–	58,310	–	25,558	–	–	**25,558**
Deposits	21,496	160,686	3,246	78,172	263,600	25,605	135,220	557	85,873	**247,255**
Current accounts	14,713	431,835	1,269	114,608	562,425	10,955	513,550	393	173,911	**698,809**
Unused credit lines	162	697	657	221	1,737	163	558	269	34	**1,024**

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

	For the six months ended (unaudited)									
	30 June 2016					*30 June 2015*				
	Parent	*Entities under common control*	*Key management personnel*	*Other related parties*	*Total*	*Parent*	*Entities under common control*	*Key management personnel*	*Other related parties*	*Total*
Interest income on loans	–	2,573	85	2	2,660	–	1,790	66	–	**1,856**
Interest expense on deposits	(291)	(6,090)	(28)	(1,359)	(7,768)	(190)	(2,217)	(10)	(1,477)	**(3,894)**
Fee and commission income	33	1,668	1	1	1,703	8	636	–	1	**645**
General and administrative expenses	–	(2,381)	–	–	(2,381)	–	(1,774)	–	–	**(1,774)**

(Figures in tables are in thousands of Azerbaijani manats)

22. Related party disclosures (continued)

The Bank has guarantee from its Parent received as a collateral in respect of time deposits placed in local banks and one loan issued to a borrower in the amount of AZN 35,994 and AZN 4,618 thousand as at 30 June 2016 (31 December 2015 – deposits placed in local banks, 21,219 thousand).

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

	2016 (6 months) (unaudited)	*2015 (6 months) (unaudited)*
Salaries and other benefits	(3,539)	(632)
Social security costs	(778)	(139)
Total key management compensation	**(4,317)**	**(771)**

23. Capital adequacy

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

During the 6 months of 2016, the Bank have complied in full with its externally imposed capital requirements.

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

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

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 10% (2015: 10%) of risk-weighted assets for regulatory capital. As at 30 June 2016 and 31 December 2015 the bank's capital adequacy ratio on this basis was as follows:

	30 June 2016 (unaudited)	*31 December 2015*
Tier 1 capital	335,112	339,059
Tier 2 capital	33,687	16,206
Less: deductions from capital	(148,987)	(148,987)
Total regulatory capital	**219,812**	**206,278**
Risk-weighted assets	**1,248,633**	**1,199,711**
Capital adequacy ratio	18%	17%

Capital adequacy ratios of subsidiaries

The National Bank of Georgia requires Georgian banks to maintain a minimum total capital adequacy ratio of 10.8% (31 December 2015 – 11.4%) of risk-weighted assets for regulatory capital. As at 30 June 2016, capital adequacy ratio of PASHA Bank Georgia was 45% (31 December 2015 – 44%).

Capital Adequacy Standard Ratio of PASHA Yatirim is calculated in accordance with Banking Regulation and Supervision Agency. As at 30 June 2016 the bank's capital adequacy ratio was 66.49% (31 December 2015: 91.75%).