

ANNUAL REPORT 2015





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In parallel with the steady development of Azerbaijan's economy in recent years, the Bank has expanded its customer base in the agriculture, transportation, construction and retail industries, all key to the country's economic growth. PASHA Bank is committed to helping the country and its economy reach new heights – together.



GENERAL INFORMATION



ABOUT PASHA BANK

A Bank Creating Value

PASHA Bank, a leading corporate financial institution in Azerbaijan, was established in 2007 to provide a comprehensive array of financial services – corporate and investment banking, trade financing and asset management – to a diversified client base ranging from large corporates to small and medium enterprises. In parallel with the steady development of Azerbaijan's economy in recent years, the Bank has expanded its customer base in the agriculture, transportation, construction and retail industries, all key to the country's economic growth. As part of PASHA Group, a large Azerbaijan based investment holding engaged in construction, real estate development, insurance, travel, leisure and other sectors, PASHA Bank has undertaken vital financial roles to support the Group's activities in these industries.

Headquartered in Baku, PASHA Bank operates four SME branches and six business centers across Azerbaijan. In addition, the Bank has subsidiaries in Georgia and Turkey. PASHA Bank's long-term vision is to become a regional player by creating interconnected banking operations that will facilitate the rapidly growing trade and deal flow between Baku, Tbilisi and Istanbul.

PASHA Bank employs 414 personnel at its headquarters, four SME branch locations, four business centers in Baku and two regional branches in the key cities of Ganja and Zaqatala. In February 2013, the Bank opened its first subsidiary bank, PASHA Bank Georgia. In December 2014, the Turkish regulatory body granted PASHA Bank permission to start operations in Turkey. Since March 2015, the Bank has operated in Turkey under the trade name of PASHA Yatırım Bankası A.Ş.

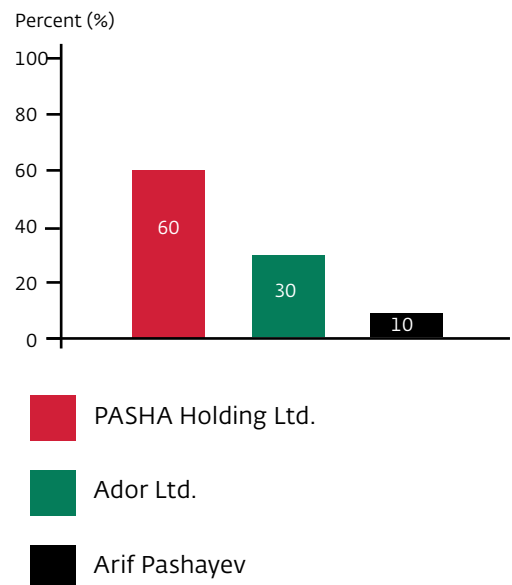
Azerbaijan's Largest Private Bank by Total Equity

PASHA Bank is the largest private bank in Azerbaijan in terms of total equity, and one of the country's top five private banks in total assets. As of year-end 2015, the Bank boasted total assets of more than AZN 2.3 billion, while its charter capital amounted to AZN 333 million.

PASHA Bank's sustainable corporate development performance has been recognized by the international financial community and rating agencies. Thus, the Bank received a long-term credit rating of 'BB-' and a short-term rating of 'B' from Standard & Poor's and Fitch Ratings. Additionally, the Bank was named "The Best Bank of Azerbaijan" at the EMEA Finance Europe Banking Awards 2015.

PASHA Bank has encouraged active stakeholder engagement with its sustainability efforts in order to promote the concept of sustainable business in Azerbaijan.

Shareholding Structure





ABOUT PASHA HOLDING

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

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

TOTAL ASSETS:	AZN 3 billion
TOTAL EQUITY:	AZN 800 million
EMPLOYEES:	2500+

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.





PASHA Insurance is an open joint stock company (OJSC) with an issued share capital of AZN 50 million. PASHA Insurance provides 36 categories of mandatory and voluntary insurance to both corporate and individual customers.



PASHA Travel was founded in 2003 to provide premium quality travel services to companies and individuals.



PASHA Construction was established in 2006 as a full service construction and development company with an issued share capital of AZN 10.4 million. The company has completed some of the most prestigious projects in Baku. It has a project portfolio totaling over 1 million sqm, with over 1 million sqm currently under construction.



PASHA Life was founded in 2010 under the name PASHA Insurance and has an issued share capital of AZN 40,250 million. The company operates in line with the insurance regulations set out under Azerbaijani law.



PASHA Capital was established in June 2012 to provide broker, dealer and asset management services to individual and institutional investors. The company has issued share capital of AZN 250,000 and holds broker and dealer licenses from the Azerbaijan State Securities Committee. On August 31, 2012, PASHA Capital became a member of the Baku Stock Exchange.

VISION, MISSION AND STRATEGIC GOALS

Vision

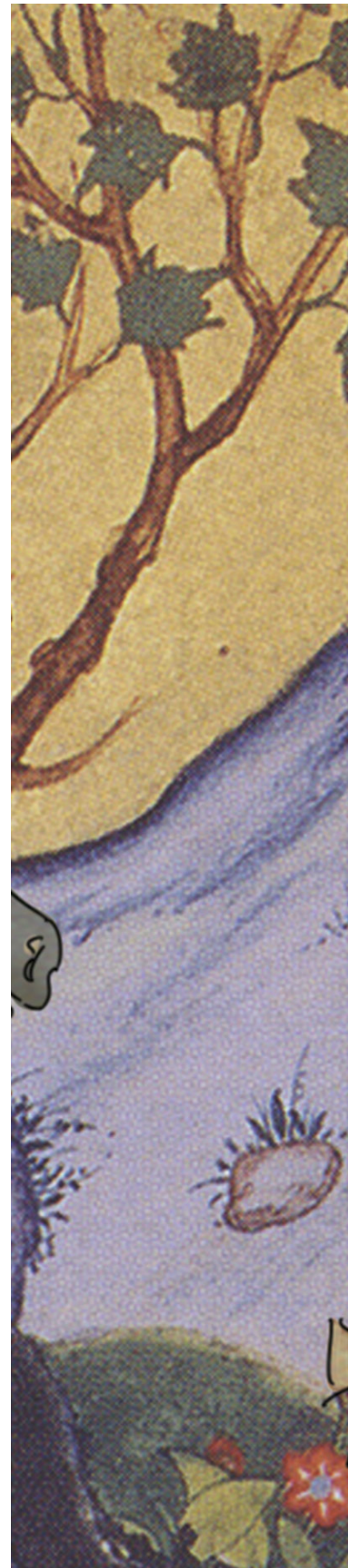
Our vision is to be one of Azerbaijan's leading banks. We are committed to maintaining the highest ethical standards, a sound business reputation beyond reproach, world class products and services, and exemplary financial strength.

Mission

- Contributing to the growth of our customers by delivering high quality products and services tailored to our customers' needs
- Employing, training and cultivating highly competent and devoted personnel
- Boosting the welfare and cultural development of society
- Maintaining a strong financial position
- Conducting our operations in a transparent and prudent manner

Strategic Goals

- Enhancement of capital and organizational efficiency
- Strengthening core capabilities
- Expanding market position
- Bolstering customer service
- Creating synergies with the Group





FINANCIAL AND OPERATIONAL INDICATORS

In a challenging market environment, PASHA Bank maintained profitability and achieved its financial targets in 2015.

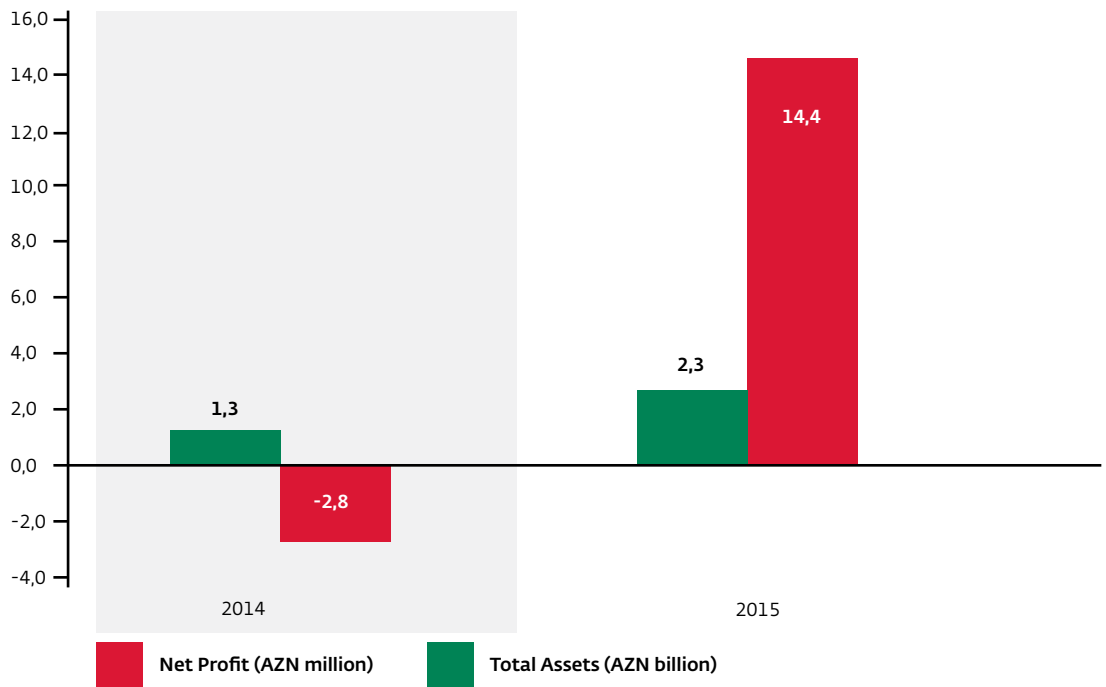
Key Financial Highlights (AZN million)

	2013	2014	2015
Total Assets	704.1	1,273.3	2,292.7
Loans	329.2	538.9	902.2
Deposits	302.8	703.1	1,374.1
Customer Time Deposits	119.3	144.8	472.9
Customer Current Accounts	183.5	558.2	901.2
Shareholders' Equity	234.9	323.7	432.4
Interest Income	54.8	64.3	100.3
Fee & Commission Income	6.0	7.4	12.7
Operating Profit	51.6	60.2	116.3
Total Operating Expenses	22.6	29.3	47.4
Net Profit	12.0	-2.8	14.4

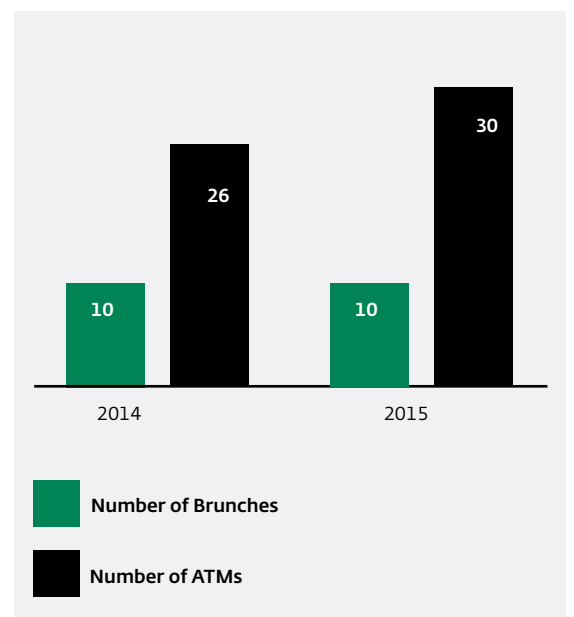
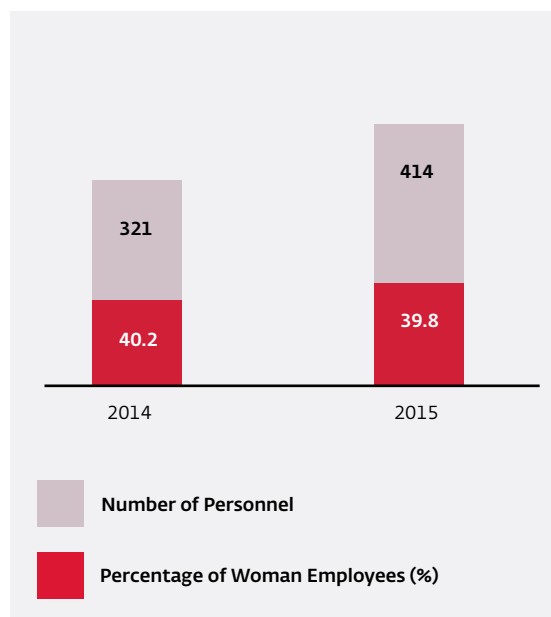
Key Financial Ratios (%)

	2013	2014	2015
Loans/Total Assets	46.8	42.3	39.4
Loans/Deposits	1.1	76.6	65.7
NPL Ratio	7.91	10.76	3.82
Demand Deposits/ Total Deposits	60.6	79.4	65.6
Shareholders' Equity/ Total Liabilities	50.0	34.1	23.2
Capital Adequacy Ratio	36	33	17

Financial Highlights



Operational Highlights



In 2015, PASHA Bank boasted total assets of AZN 2.3 billion, accounting for 6.1% of the sector total.



MANAGEMENT



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

Dear Colleagues, Customers and Stakeholders,

A review of major pertinent events in 2015 that occurred globally, in Azerbaijan and at PASHA Bank is outlined below.

Worldwide economic activity was lackluster during 2015.

In 2015, the economic outlook deteriorated in some advanced economies due to increased global uncertainty and setbacks to growth. A slow expansion in developing countries, in particular China, a low commodity price environment, and the Fed's interest rate hike topped the year's global agenda. Sharp declines in oil and commodity prices have kept risk at an elevated level in emerging markets. These developments have tightened financial conditions in both advanced and developing economies, raised credit risks and reduced risk appetite.

Azerbaijan's economy felt the negative effects caused by falling oil prices.

As was the case for all oil-producing countries, the drastic decline in global oil prices challenged the Azerbaijani economy in 2015. Plunging oil prices and falling foreign exchange rates resulted in lower private purchasing power as well as public budget cuts. As problems in the outside world mounted, the possibility to remain an island of prosperity became more difficult for Azerbaijan. Thus, a dramatic devaluation in the manat was inevitable. On the positive side, the sharp devaluation helped balance the budget and preserve the nation's foreign exchange reserves. However, it also created difficulty in the monetary system, in banking especially. As a result, the country's economy expanded only 1.1% in 2015.

Rising risks to financial stability and weakening global demand curbed private sector

credit growth, which in turn further deteriorated banks' balance sheets. The Azerbaijani banking industry faced challenges resulting from the nearly 98% devaluation of the national currency. Given that at the start of the year 35% of banks' assets were denominated in foreign currency, the country's banking sector demonstrated growth in nominal terms under the declining manat. In 2015, net assets sector-wide increased 38.6% nominally year-on-year as the loan portfolio expanded 17.1% to AZN 21.7 billion. However, in real terms, excluding the effect of the manat's devaluation, asset growth was negative, with the loan portfolio contracting 9.7% over the previous year.

As a result of the pressure that the economic slowdown caused in the financial industry, some banks started to reduce operating expenses by cutting staff and rationalizing their branch networks. In addition, the Central Bank of the Azerbaijan Republic (CBAR) revoked the banking licenses of six banks during the year for failing to comply with statutory minimum capital requirements, not having the ability to fulfill debt obligations, and not managing current operations in a sound and prudent manner.

PASHA Bank recorded successful financial results for the year.

Despite the fluctuations in the economic environment and the negative geopolitical situation, PASHA Bank achieved its financial targets in 2015. During the year, PASHA Bank increased its asset market share by 0.5% to AZN 2.3 billion, accounting for 6.1% of the sector's total assets. The Bank's loan portfolio expanded by 33% to AZN 722 million in 2015. Meanwhile, the quality of the loan portfolio did not deteriorate, with non-performing loans making up 5% of total loans, compared to 6.1% in December 2014. The deposit base also showed

a positive performance, increasing in nominal terms by 101% year-on-year. At end-2015, PASHA Bank reported total deposits of AZN 1.3 billion, the highest among private commercial banks. The Bank was also able to maintain a liquidity ratio of 53%, which supported its growth during the year.

PASHA Bank also boosted its operational effectiveness in 2015. The Bank's cost to income ratio as of December 2015 was 31%, the best in the market. For the year, the Bank reported profit of AZN 14 million with a capital adequacy ratio of 17%, maintaining its strong capital position.

Despite the challenges the local banking industry faced in 2015, PASHA Bank adhered to its vision of sustainable growth by providing world class banking services to its clients. As this was the first year of the Bank's new three-year planning period, a new forward-looking strategic plan was successfully developed. PASHA Bank's strategic priorities for the coming period were set with special projects and initiatives developed to meet these objectives.

In 2015 the international ratings agency Fitch Ratings has upgraded rating of PASHA Bank to 'BB-' from 'B+'. Rating agency's upgrade is a strong signal that, despite the macroeconomic challenges currently facing the region, PASHA Bank is a dependable financial institution and a reliable partner of the real sector.

Today, PASHA Bank can proudly state that we are satisfied with the results delivered by our team. We reached almost all the targets that were set at the start of the reporting year and achieved key milestones in strategically important projects and initiatives. In 2015, the Bank developed a new organizational structure, which allows for more clearly delineated responsibilities between the Bank's

units and a reconfigured front-line to focus better on customer. During the year, PASHA Bank bolstered its Human Resources and Finance divisions, leading to more efficient resource allocation and improved organizational alignment. In addition, the Bank adopted a performance management system and enhanced its planning and budgeting processes.

PASHA Bank has strategically positioned itself to capitalize on regional trade and investment flows. In the recent past, the Bank took major steps to bolster its presence in international markets. By acquiring a controlling stake in Turkey's TAIB Bank and opening PASHA Bank Georgia, the Bank consolidated its position in this fast-growing region. These expansion efforts also put in place the means to attract additional foreign direct investment to Azerbaijan.

Social responsibility is central to our business.

In addition to conducting our banking operations in 2015, PASHA Bank continued its social responsibility efforts to contribute to the welfare and sustainable development of the country. In line with our strategy of shifting from the classic corporate social responsibility model to active stakeholder engagement, we began to focus more on sustainability-oriented activities. This approach includes developing projects and organizing seminars that will ensure our stakeholders follow the same path with us toward society's long-term sustainable development. One of the most important of our many initiatives is the Sustainable Enterprise Development Program (SEDP). This program aims to promote SME development through the creation of enterprises founded by the younger generation, by providing entrepreneurial and business training to young women and men. As of end-2015, 120 budding entrepreneurs

have been trained under our SEDP initiative, promising a brighter tomorrow for the country with their innovative ventures.

About 2016...

According to forecasts from leading international organizations, Azerbaijan is expected to post positive economic growth in 2016. The World Bank states that the country's recovery would be helped by instituting structural reforms, diversifying the economy, improving resource allocation, strengthening corporate governance, and with ongoing investment in the non-oil sector. The Azerbaijani government has already begun formulating proposals to diversify the economy, implementing measures to improve the business climate and fostering entrepreneurship via various efforts. We believe that the government's new reform policy will help to restore economic stability and lead to more sustainable, long-term growth. However, we anticipate that 2016 will remain challenging for the country's banking industry.

PASHA Bank plans to adhere to its strategy of improving organizational efficiency and strengthening core capabilities in the coming period. Several major projects in these areas are scheduled to enter the final stages in 2016. We will also continue to focus on the local non-oil sector, in line with the country's economic diversification strategy.

We firmly believe that PASHA Bank will reach its targets with the ongoing support and loyalty of our employees, customers, and business partners in 2016. We would like to express our deepest gratitude to the entire PASHA Bank family, who has helped us build this solid foundation of success, and to all our clients and stakeholders, who accompany us as we achieve greater successes in the coming years.

Respectfully yours,

Mir Jamal Pashayev
Chairman of the Supervisory Board

Taleh Kazimov
Chief Executive Officer and Chairman of
the Executive Board



MANAGEMENT STRUCTURE

PASHA Bank Management

Mir Jamal Pashayev Chairman of Supervisory Board

Mir Jamal Pashayev graduated from the Physics Department at Moscow State University in 1993, and went on to obtain his Master of Science in Engineering from the University of California in 1996, followed by a Master of Business Administration from American University in Washington D.C. in 1998. He joined the Mobil Corporation as a business project consultant to the company's Dallas and Washington offices in 1998 before arriving in Baku in 1999, where he took on the position of consultant to the Central Bank of Azerbaijan. In 2000, Mir Jamal Pashayev joined the European Bank of Reconstruction and Development (EBRD) as financial analyst in 2000, 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 fields of infrastructure, telecommunications and financial services. Mir Jamal Pashayev has been the Managing Director at PASHA Holding since 2006. He is also Chairman of the Board of Directors of PASHA Insurance.

Farid Akhundov Member of Supervisory Board

Farid Akhundov graduated from the Institute of Economics of Azerbaijan in 1992. He is an alumnus of the Management courses of Nottingham Trent University. In 1994 Farid Akhundov was one of the first Azerbaijani citizens to win Chevening Scholarship; a prestigious UK Government award administered by the Foreign and Commonwealth Office of Great Britain and in 1995, obtained MBA degree from Salford University, Manchester, UK. He began his career in 1991 as an economist at a metal plant. After a year he moved 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), where he moved from the position of financial control manager to the head of customer services and corporate banking departments and subsequently promoted to the Deputy CEO of HSBC Azerbaijan. In 2003, Farid Akhundov joined Most Bank Azerbaijan as the Chairman of the Executive Board where he had overseen the restructuring and rebranding of Most Bank, Azerbaijan to Bank Standard JSC -one of the largest commercial banks of the country then. Farid Akhundov joined PASHA Bank in 2007 as the Chairman of the Executive Board and was appointed to the Supervisory Board on 1 July 2015.

Vadim Shneyer Member of Supervisory Board

Vadim Shneyer graduated from Department of Law at Baku State University with Honors Diploma in Law in 1991. In 1991-1997, he worked as lawyer in different Azerbaijani and foreign companies, including Baku Interbank Currency Exchange and Far East Levingston Shipbuilding. In 1997-2001, he was a managing partner in Baku office of Dr. Entezari & Associates law firm. In 2001, he joined Almaty office of Michael Wilson & Partners law firm and worked there till 2005. In 2005, he joined BM Law Firm Baku office and worked there till 2007. Starting from 2007, Vadim Shneyer works in PASHA Holding LLC as the Head of Legal Department and in 2011, he was appointed a Deputy Director of PASHA Holding LLC. During 2008-2013, Vadim Shneyer was a Chairman of the Supervisory Council of Kapital Bank OJSC.

Kamala Nuriyeva
Member of Supervisory Board

Kamala Nuriyeva graduated Banking Management at Western University with Bachelor Degree in 1998, and earned Master degree in Finance from Azerbaijan State Economic University in 2002. In 1996, she commenced her professional career in Postbank OJSC on the position of IT specialist. During 7 years she rose to the Head of Credit Department. In 2003, she joined Agricultural Rural Investment Fund established under TACIS program for development of agricultural industry in regions of Azerbaijan and worked as Loan Officer responsible for attracting customers, loan origination and management. In the same year, she received job offer from Unibank OJSC for the position of Treasury control and was responsible for currency and market risk management. During 2004 -2005, she worked in McDermott Caspian Contractors Inc. as Cost Controller on the project of fabrication and installation of Central Azeri Offshore Platforms. In 2005, she joined Bank of Baku OJSC and worked as Deputy Chief Accountant until 2007 responsible for accounting activities and management reporting. In 2007, she started her career in PASHA Bank as internal auditor and in 2010, headed Risk Management department.

In 2011 she moved to PASHA Holding as Group internal auditor and was appointed on position of Chairman of PASHA Bank's Audit Committee. In 2013, she was appointed on Head of Group Risk Management in PASHA Holding and on 11 June 2013, became Member of the Supervisory Board of PASHA Bank OJSC.

Nariman Sardarli
Member of Supervisory Board

Nariman Sardarly graduated with Bachelor's Degree in Business, Management and Finance from Brooklyn College at City University of New-York in 2004. In the same year he commenced his professional career as an Audit

Associate in Deloitte, Azerbaijan. In 2005, he joined PwC Baku office as an auditor. In 2007, he joined newly established PASHA Bank as an expert in MIS in Financial Management Department. Responsible for internal and external financial reports. In 2009, he joined PASHA Holding's Investments and Projects Department as investment manager responsible for developing PE/VC financing vehicle of PASHA Holding. In March, 2009 he was appointed Head of Audit Committee of PASHA Bank, in 2010 - a member of Supervisory Board of PASHA Bank. In 2012, he received scholarship from State Program to obtain his Master's degree in Business Administration from IE Business School participating in exchange program with Kellogg School of Management at Northwestern University. In February 1, 2015 he was appointed Director of Investments and Projects Department of PASHA Holding.

Taleh Kazimov
CEO and Chairman of the Executive Board

Taleh Kazimov first joined PASHA Bank in 2007 as Risk Manager. In 2011, Mr. Kazimov was appointed Chief Investment Officer of the Bank and Member of the Executive Board and subsequently promoted to CEO and Chairman of PASHA Bank Executive Board in 2015. He started his professional career in financial services in 2004 at CJSC Bank Standard, as a Specialist in the Treasury Department. He went on to become the Head of the Accounting, Budget Management and Planning Division before being promoted to Deputy Director of the Corporate Credits Department. In 2006, Taleh Kazimov joined Ernst & Young as Auditor. From 2007, he worked as General Director at FinEko Informational Analytical Agency. Mr. Kazimov obtained his undergraduate degree from Azerbaijan Technical University in 2004, where he majored in Automation and Computer Engineering. Mr. Kazimov also holds an MBA from Azerbaijan

State Oil Academy and a Business degree with a concentration in Finance from Georgia State University. In addition, he is an alumnus of London Business School and Harvard Business School.

Emil Hajiye
Deputy CEO, Chief Operating Officer
 (dismissed as of December 15)

Emil Hajiye joined PASHA Bank in 2007 as Chief Operation Officer. Previously, he held various positions in National Bank of Azerbaijan, such as economist at the Operations Department; economist and subsequently as leading economist at the Currency regulation and control department; head of SWIFT Group in Settlements Department. Following the structural changes at the National Bank of Azerbaijan, he has been appointed as the Chief Economist of the Payment Systems and Settlements Department. He obtained his higher education degree from the faculty of Industrial Automation Processes at Azerbaijan Institute of Oil and Chemistry named after M. Azizbayov in 1990-1995. In 1993, he graduated with Honors from the International Business School of the Baku Social Management and Political Science Institute under International Institutional Development Association. From 2000 to 2002, he studied at the faculty of International Relations of Azerbaijan State University of Economy and graduated with a degree in Economics.

Shirin Aliyeva
Member of the Executive Board,
Chief Legal Officer

Shirin Aliyeva joined PASHA Bank in 2011 as Director of the Legal Department, and was appointed Chief Legal Officer in 2015. Previously, she held various positions at a company in the oil and gas industry, ultimately serving as Legal Advisor at Nobel Oil Limited from 2005 to 2007. Between 2007 and 2011, Mrs. Aliyeva worked in

the gold mining sector as Head of Legal at Azerbaijan International Mineral Resources Operating Company (AIMROC). Shirin Aliyeva graduated from Baku State University, Department of Law in 2004. In addition, she has completed executive education programs at several leading graduate business schools; these include London Business School as well as Harvard Business School's High Potential Leadership Program.

Aydin Atakishiyev
Member of the Executive Board,
Chief Strategy Officer

Aydin Atakishiyev joined PASHA Bank in 2013 as Head of Strategic Marketing and was appointed Chief Strategy Officer in 2015. Mr. Atakishiyev received an undergraduate degree in Mathematical Economics from Baku State University in 2002. He went on to obtain an MA in Economics from Central European University (Budapest, Hungary) in 2006 and an MBA from Rotterdam School of Management (Netherlands) in 2013. In addition, he was an International Business Exchange scholar at the University of Chicago Booth School of Business in 2012. Mr. Atakishiyev started his professional career in sports event management in 2002; he joined the financial services industry as a Loan Officer in 2006. He was with PASHA Holding LLC from 2007 to 2011, serving as Investment Analyst and Project Manager.

Hayala Naghiyeva
Member of the Executive Board,
Chief Financial Officer

Hayala Naghiyeva joined PASHA Bank in 2015 as Credit Risk Assessment Director and was later appointed Chief Financial Officer and Member of the Executive Board. Previously, she worked as Investment Manager at PASHA Holding LLC from 2009 and has served as a member of PASHA Bank's Audit Committee since 2010. Ms. Naghiyeva started her professional career



in 2003 as Auditor in the Financial Services Industry with Deloitte CIS. Subsequently, she was promoted to Senior Advisor in Financial Advisory Services at Deloitte CIS and seconded to Almaty, Kazakhstan, where she managed a number of local and regional projects. Ms. Naghiyeva holds a degree from Azerbaijan State Economic University, where she graduated from in 2004 with distinction. She attended Slippery Rock University (Pennsylvania, USA) for part of her undergraduate education. Ms. Naghiyeva is an alumna of Harvard Business School, London Business School, Ashridge Business School (UK) and IE Business School (Spain).

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

Shahin Mammadov majored in Accounting at Azerbaijan State Economic University, obtaining his undergraduate degree in 2002. In 2004, he was awarded a Master's degree from the same university and he obtained a Ph.D. in Economics in 2010. Mr. Mammadov started work at Kocbank Azerbaijan Ltd. in 2003, where he held the roles of Accountant and Deputy Chief Accountant. He joined Deloitte & Touche in 2005 as Associate Auditor and was subsequently promoted to Audit Manager. Mr. Mammadov has been ACCA certified since 2014. In 2009, Shahin Mammadov was appointed Director of the Financial Management Department at PASHA

Bank headquarters; he became a Member of the Executive Board in 2011. In 2013, he moved to PASHA Bank Georgia to hold the position of Business Development Director. Since July 2014, Shahin Mammadov has served as CEO at PASHA Bank Georgia.

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

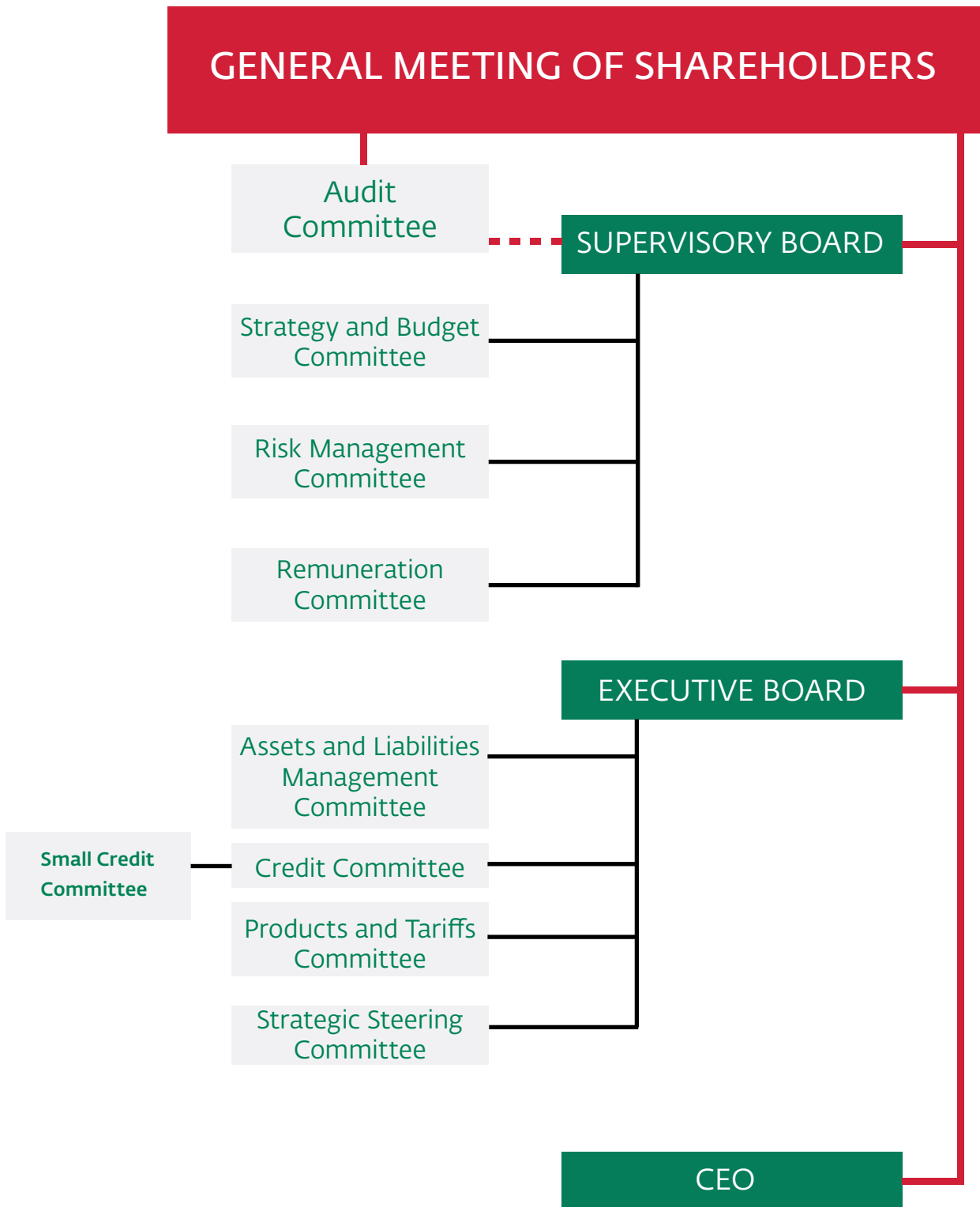
Goga Japaridze joined PASHA Bank as Commercial Director in January 2014. Since April 2015, Mr. Japaridze has served as a Member of the Board of Directors at PASHA Bank Georgia. Mr. Japaridze began his banking career in 2003 as an Associate at BG Capital, the investment banking subsidiary of Bank of Georgia. He went on to work as Senior Equity Banker at Bank of Georgia in 2005. Later, Mr. Japaridze served as Principal Banker at the EBRD's private equity facility in Tbilisi and London from 2006 to 2011. Subsequently, he was the Head of Corporate Banking at Bank Republic Soci t  G n rale Group. Goga Japaridze graduated from Tbilisi State University in 1996. He obtained an MBA degree from Hofstra University's Zarb Business School in 2002.

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

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

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

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



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

The Bank's supreme management body is the General Meeting of Shareholders. Control over the Bank's management and operations is carried out by the Supervisory Board. The Audit Committee oversees the Bank's audit activities. The Bank's executive body is the Executive Board.

Board and Committee Members

Supervisory Board:

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

Executive Board:

Taleh Kazimov – Chairman
Emil Hajiyev – Deputy Chairman (position vacated as of December 15, 2015)
Shirin Aliyeva – Member
Aydin Atakishiyev – Member
Hayala Naghiyeva – Member

Strategy and Budget Committee:

Chairman of the Executive Board,
Taleh Kazimov – Chairman
Member of the Executive Board, Chief Financial Officer – Member
Director of Strategy Department – Member
Specialist at PASHA Holding Banking Group,
Vugar Akhundov – Independent Member
Chief Operations Officer/Deputy CEO of PASHA Holding, Agha-Ali Kamalov – Independent Member
Chief Accountant of PASHA Holding, Akbar Ibrahimov – Independent Member
Advisor to CEO of PASHA Bank, Turkhan Mahmudov – Independent Member

Remuneration Committee:

Chairman of the Supervisory Board, Mir Jamal Pashayev – Chairman
Pasha Holding LLC Head of the Banking Group,

Jalal Qasimov – Member
Pasha Holding LLC Group Director of Human Resources and Administration,
Aytan Abbasli – Member
Chairman of the Executive Board,
Taleh Kazimov – Member
Director of the Department of Human Resources, Chimnaz Gasimova – Member

Risk Management Committee:

Member of the Supervisory Board,
Kamala Nuriyeva – Chairman
Member of the Supervisory Board,
Vadim Shneyer – Member
Chairman of the Executive Board, Taleh Kazimov – Member
Member of the Executive Board and Chief Financial Officer, Hayala Naghiyeva – Member
Chairman of the Audit Committee, Azer Sadigov – Non-voting Member (pursuant to the "Corporate Governance Standards in Banks")
Chief Information Security Officer,
Natig Huseynov – Non-voting Member (pursuant to the "Corporate Governance Standards in Banks")

Strategic Steering Committee:

All Executive Board Members
Director of the Strategy Department
Director of the Human Resource Department

Credit Committee:

Chairman of the Executive Board,
Taleh Kazimov – Chairman
Member of the Executive Board and Chief Legal Officer, Shirin Aliyeva – Member
Advisor to the Chairman of the Executive Board,
Javid Gouliyev – Member
Director of Corporate and Institutional Banking,
Melih Mengü – Member
Director of Strategy Department, Aqshin Mirzazade – Member

Counsel on Credit Risks,
Padikkal Abdurahiman – Non-voting Member

Small Credit Committee:

Head of the Department of Corporate and Institutional Banking Department,
Credit Structuring, Saida Huseyn – Chairman
Director of the Treasury Department,
Bahruz Naghiyev – Member
Director of the Operation and Control Department, Rashad Mammadov – Member
Corporate and Institutional Banking, Head of the Department of Small and Medium Enterprises,
Heydar Suleymanov – Member
Corporate and Institutional Banking Department, Head of Product and Segment Strategy, Vafa Hasanova – Member

Assets and Liabilities Management Committee:

Member of the Executive Board and Chief Strategy Officer, Aydin Atakishiyev – Chairman
Advisor to the Chairman of the Executive Board,
Javid Gouliyev – Member
Director of the Risk Management Department,
Heydar Qasimov – Member
Director of the Trade Finance Department,
Shota Dekanosidze – Member
Director of the Treasury Department,
Bahruz Naghiyev – Member

Product and Tariff Committee:

Chief Strategy Officer – Chairman
Commercial and Institutional Banking Department Director – Member
Risk Management Department Director – Member
Application Development and Support Department, Head of Application Program Development – Member
Compliance Department Director – Member

Personal Banking Department Director – Member
Operation and Control Director – Member

Audit Committee:

Azer Sadigov – Chairman
Jamil Mammadov – Member
Parvin Ahadzade – Member

The rapid drop in oil prices led to a considerable fall in foreign currency inflows to Azerbaijan, which in turn created pressure on the national currency. This resulted in a highly challenging market environment for many of the country's industries in 2015.





GLOBAL MACROECONOMIC
OUTLOOK AND AZERBAIJAN'S
ECONOMY

GLOBAL MACROECONOMIC OUTLOOK AND AZERBAIJAN'S ECONOMY

Global Macroeconomic Outlook

2015 was marked by disappointing economic expansion rates in countries around the world. Growth in emerging markets declined for the fifth consecutive year, while a modest rebound continued in advanced economies. According to the latest IMF report, three key transitions are currently affecting the global outlook:

- The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services;
- A lower price environment for energy and other commodities;
- A gradual tightening in monetary policy in the United States against the background of a resilient recovery there while several other major advanced economy central banks – the EU and Japan in particular – continue their expansionary monetary policies.

In May 2013, the Federal Reserve (Fed) began to signal that it would implement a tighter monetary policy, and started to scale back its bond-buying program in December 2013. Two years later, in December 2015, the Fed finally raised interest rates from a range of 0-0.25% to 0.25-0.50%. As a result, the US dollar grew stronger against other world currencies and developing countries experienced significant capital outflow coupled with the effect of sharply lower commodity prices.

Advanced economies such as the US, Europe and Japan entered a period of moderate recovery while Brazil, Russia and other commodity producing countries entered a deep recession, as China's economy also slowed. In light of these developments, the IMF revised down its global growth forecast for 2015, from 3.4% to 3.1% while projecting 1.5% growth for the

Eurozone. Meanwhile, developing countries are expected to expand by 4%, their slowest pace since 2009.

In 2015, worldwide demand remained sluggish in parallel with the slowdown in emerging economies, China in particular. In addition, the world's oil glut led to a drastic fall in oil prices. During the year, oil prices fell around 40%, hitting an 11 year low in December, with the price of Brent per barrel falling to USD 36. The plunge in commodities prices decelerated growth in commodity-exporting countries.

Azerbaijan's Economy

The dramatic decline in world oil prices contributed to an economic slowdown in Azerbaijan during the reporting year. In 2015, Azerbaijan's GDP expanded only 1.1%, to AZN 54.4 billion, down from 2.8% growth in 2014. Plunging oil prices resulted in significantly lower export earnings and a sharp currency depreciation. As of year-end 2015, the Azerbaijan manat lost 98% of its value from the start of the year. These factors also negatively affected household consumption and public investment.

The non-oil sector of the country's economy expanded by 1.1%, while the oil-gas sector grew 0.6%. In the oil-gas sector, the extraction of crude oil declined by 0.7% although gas extraction recorded 5.5% growth. The proportion of the non-oil sector in total GDP (current prices) increased to 63.5% during the year.

In 2015, the industrial sector in Azerbaijan contracted by 1.9%, versus 0.5% positive growth in 2014, as a steep decline in construction activity outweighed improvements in mining and manufacturing. Cuts in public investment and lower demand for real estate reversed



a 9.1% expansion in construction in 2014 to a 13.4% contraction in 2015. Growth in services slowed to 4.5%, down from 7.4% a year earlier, due to a slowdown consumer spending and other services. Agriculture posted the strongest increase, as government concessions on inputs contributed to 6.6% growth, following a 2.6% decline in 2014.

On the demand side, private and public

consumption are projected to have decreased because of currency depreciation and some tightening in lending later in the year. This occurred even as household savings went up 31.7% in 2015, more than double the 12.4% growth rate in 2014. Net exports fell sharply because of lower oil prices, as hydrocarbons constitute more than 90% of the country's exports.

Economic Indicators* (%)	2015	2016F	2017F
GDP Growth	1.1	-1.0	1.0
Inflation	4.0	12.0	5.2
Current Account Balance (Share of GDP)	0.4	-0.6	1.5

Source: Asian Development Outlook 2016.

Six banks closed in the Azerbaijani market in 2015, resulting in industry consolidation and a flight to quality, reputable banks by customers.

Banking Industry

Azerbaijan's banking industry was also negatively affected by the broad economic slowdown. The rapid drop in oil prices led to a considerable fall in foreign currency inflows to the country, which in turn created pressure on the national currency. Devaluation from the beginning of 2015 deteriorated the asset quality, capital, profitability and funding of Azerbaijani banks.

Non-performing loans sector-wide rose to 9.5% (2014: 8.3%) while the banking industry's liquidity and capital adequacy ratios deteriorated in 2015. Six banks were forced to close after their licenses were revoked by the CBAR. Although the banking sector's credit portfolio expanded 17% in nominal terms – from AZN 18.54 billion to AZN 21.72 billion – the uptick was mainly caused by devaluation of the manat. The quality of the credit portfolio worsened substantially with non-performing loans rising

by 55%, from AZN 976.3 million to AZN 1.5 billion. Deposits industry-wide increased 53%, from AZN 11.16 billion to AZN 17.10 billion, again primarily driven by the currency devaluation.

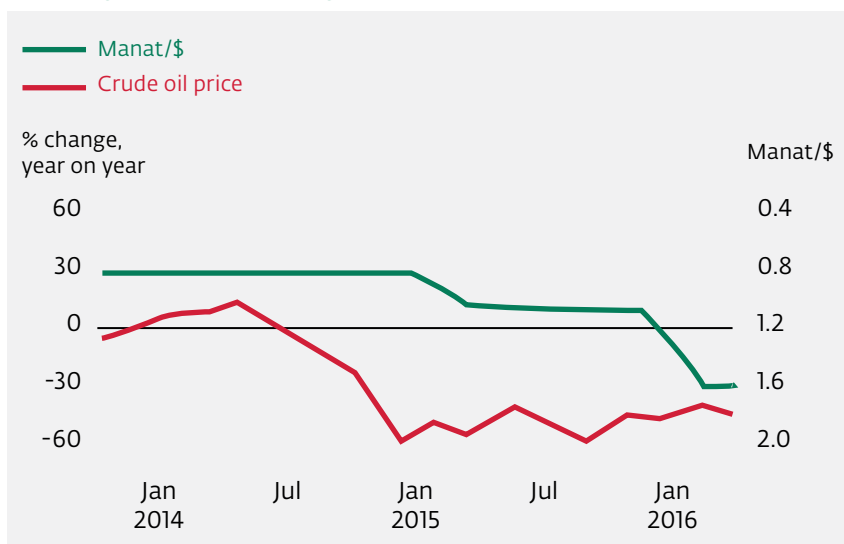
Together with the sharp decrease in deposits and savings in real terms, the devaluation of the manat triggered a shift in currency composition of assets and the rapid dollarization of banks' balance sheets. Foreign currency deposits more than doubled, climbing to 85% of total deposits at end-2015. Foreign currency lending surged from 27% to 49% of total loans.

2016 Projections

As a result of the economic downturn and worsening macroeconomic indicators, 2015 marked the start of economic reforms. The Azerbaijan government has already begun formulating proposals to diversify the economy and implementing measures to improve the business climate and foster entrepreneurial activity. According to projections from leading international organizations, the country is expected to record positive economic growth once again in 2016. The latest edition of the World Bank's "Global Economic Prospects" forecasts Azerbaijan's economy to expand 0.8% in the coming year. The World Bank states that recovery would be helped by instituting structural reforms, diversifying the economy, improving resource allocation, strengthening corporate governance, and continuing investment in the non-oil sector. According to the World Economic Forum's "Global Competitiveness Report 2015-2016," Azerbaijan places 40th in the competitiveness ranking of 140 countries, and first in the CIS.

Fitch Ratings recently affirmed Azerbaijan's sovereign credit rating at an investment grade 'BBB-' with a stable outlook. However,

Exchange rate and average crude oil price



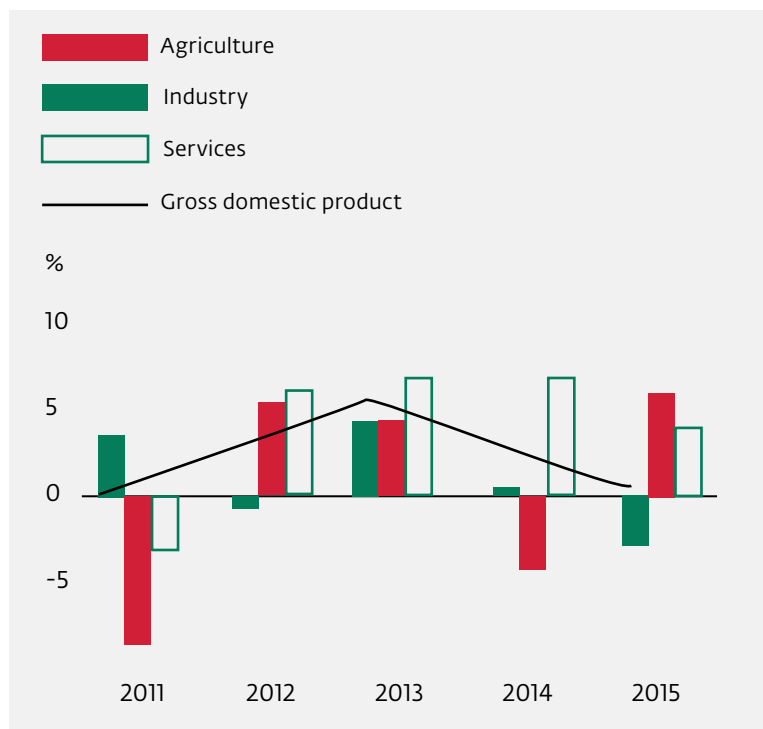
Sources: Central Bank of the Republic of Azerbaijan; Haver Analytics

Faced with below-potential GDP forecasts, Azerbaijan is instituting reforms to diversify the economy, improve the business climate and foster entrepreneurial activity.

Standard & Poor's and Moody's downgraded the country's credit rating to 'BB+' and 'Ba1', respectively. Moody's projects real GDP growth of 0.7% in 2016 and 1% in 2017. The rationale to cut Azerbaijan's credit rating includes the impact of a further fall in oil prices, projected to be sustained for several years, on the nation's economic strength, the related and rising pressures on the country's financial system and balance of payments position and the deteriorating fiscal position and debt metrics.

The country ranks first in the CIS region in competitiveness.

GDP growth by sector



Source: State Statistical Committee of the Republic of Azerbaijan

In 2015, PASHA Bank continued efforts to enhance the quality of its digital banking services – an area of strategic focus.



2015 ACTIVITIES



CORE BANKING BUSINESS

Direct Banking

PASHA Bank derives competitive strength from its vision to develop innovative, world class products and services in line with global trends. Since its founding, the Bank has introduced a number of innovations to Azerbaijan's banking industry. In 2015, PASHA Bank continued efforts to enhance the quality of its digital banking services – an area of strategic focus. The Bank sees that future growth and success depend on embracing technology and innovation, to better serve an expanding, tech-savvy customer base and as a means of reducing costs. To these ends, PASHA Bank executed the following projects in 2015.

- **H2H with Millikart:**

In April 2015, the Bank launched a direct link to Millikart, the second largest credit card transaction processor in the country, boosting its systems infrastructure. This connection allows PASHA Bank to be part of a large domestic network of cashless transactions. In addition, the project reduced operational costs and allowed the Bank to offer flexible tariffs to customers.

- **3D Acquiring (E-Commerce):**

In August 2015, as part of its digital banking strategy, the Bank launched an online payment platform provided by Tieto Card Suite, a secure online channel that connects online merchants and provides online payment acceptance facilities to customers. Many customers already benefit from using the platform to accept payments from all over the world.

- **Visa payWave cards:**

As a final step in executing a contactless payments strategy, the Bank finalized a project with Visa International in February 2015. Customers can now benefit from fast and secure contactless payment using Visa payWave cards.

- **Fraud Management Project (start: 2015 completion: March 2016):**

Following the launch of E-Commerce, a service which enables online merchants to accept online card payments, PASHA Bank prioritized security of online and other payments at merchants. The Fraud Management System was implemented to prevent and detect possible fraud on the acquiring side of the business. Based on industry best practices as well as the Bank's business specific rules, the system monitors transaction flow online and offline to ensure security of every payment.

Internet Banking

In 2015, PASHA Bank identified digital banking as one of its strategic priorities. During the year, the Bank doubled the number of its active online banking users. In addition, it increased the ratio of online transactions in comparison to paper-based operations from 26% to 47%. New products and services, such as the capability to make fully automated payroll (salary) payments and to execute Intrabank and Interbank payments 24/7, contributed to clients' flexibility and boosted their efficiency.

In the coming year, PASHA Bank plans to step up its efforts in Internet and Mobile Banking to meet the growing demand for product and service delivery in these burgeoning areas.

Vendor Finance

PASHA Bank differentiates from its competitors by not only working closely with its customers but also strengthening their business development opportunities. With this objective, the Bank launched its new Vendor Finance Program in 2015. This program is focused on providing financing solutions for the end-users of the Bank's clients. In this type of lending, the Bank and customer (vendor) enters into a partnership in order to increase the client's sales. PASHA

Bank pioneered the Vendor Finance Program in cooperation with corporate clients from the information technology and telecommunication industries. The Bank is currently working to expand this program via cooperation agreements with companies in additional sectors.



CORPORATE AND COMMERCIAL BANKING

In 2015, PASHA Bank was very active in financing projects that boost production, increase employment and create high added value. The Bank is a major supporter of Azerbaijan's economic growth and development under all market conditions

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

Project Finance

In 2015, PASHA Bank was very active in financing projects that boost production, increase employment and create high added value. The Bank continued to perform marketing and feasibility studies as well as technical and fiscal analyses for a wide range of client projects. As a result of these studies, the Bank provided funding opportunities to investment projects that will contribute to Azerbaijan's industrial development.

PASHA Bank also provided financial support to Azeristeel, a new Garadagh metal structures plant with a 12,600 m² production area operating at world class standards. Currently, the state-of-the-art facility manufactures 5,000 tons of metal products/month. The plant is equipped with the latest equipment from Kaltenbach (Germany), Corimpex (Italy) and Akyapak (Turkey).

In 2015, PASHA Bank and German Commerzbank AG executed a EUR 17 million Individ-

ual Loan Agreement to finance the purchase of equipment from Germany for Qizildash Cement Plant to be constructed in Garadagh, Baku. The total cost of the project is USD 240 million.

Project finance will remain a significant business line at PASHA Bank in the coming period. The Bank plans to maintain a leading position in financing projects in areas that are vital to the development of the country's economy, by transferring well-needed funds to the real sector.



INVESTMENT BANKING

In 2015, new investment products were introduced by PASHA Bank's Investment Banking team. The Bank sees future growth opportunity in this area as Azerbaijan's economy develops and diversifies.

Even though it was only established in fourth quarter 2015, the Investment Banking Department provides a wide range of products and services. The Department's product and service offerings include:

- Fixed Income Products: Purchase and sale of bonds in local and international financial markets.
- Brokerage Operations: Brokerage access, leverage capabilities through repo and ABL (asset based lending), account administration, transaction settlements, collections of receivables and related advisory.
- Private Equity Investment: PASHA Capital* advises various companies from the region in equity fund raising activities.
- Research: Currently, the PASHA Capital team produces weekly commentary reports covering major events in global and domestic capital markets.
- Advisory Services: Advisory to institutional clients in capital structure optimization, rating advisory, equity and debt financing, among others.

In 2015, new investment products were introduced by the Investment Banking team, including:

- Commodity Linked Notes with Capital Protection.
- Forward on FX Linked to Underlying Bond Portfolio.
- Leveraged Buyout of Bond Portfolio with the Guaranteed Return in EUR.

PASHA Capital has been the largest broker in terms of turnover on the Baku Stock Ex-

change for the last two years. In 2015, PASHA Capital recorded a total trading volume of AZN 1,593,418,183.50. PASHA Capital has direct access to the Stock Exchange and National Depository Center through an electronic based trading platform.

As Azerbaijan's economy develops and diversifies, PASHA Bank projects that demand for investment banking products and services will grow. The Bank's solid reputation and highly capable team of professionals position it well in this strategic segment.

**According to Azerbaijan legislation, banks cannot provide customers with brokerage and investment services. However PASHA Capital as a subsidiary of Pasha Holding provides customers with investment and investment advisory services.*

As of end-2015, PASHA Bank's Assets under Treasury Management totaled AZN 1,299.4 million, 56.7% of the Bank's total assets.

Closely monitoring fluctuations in financial markets, PASHA Bank's Treasury Department worked to minimize risks and achieve high returns through the use of alternative investment instruments in 2015. By improving asset quality, the Department made a significant contribution to PASHA Bank's profitability in line with 2015 targets.

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

As of end-2015, PASHA Bank's Assets under Treasury Management totaled AZN 1,299.4 million, 56.7% of the Bank's total assets. These assets consisted of a AZN 51.9 million securities portfolio, 1,021.3 million in cash and cash equivalents and AZN 225,8 million in receivables due from credit institutions. The Treasury portfolio generated 22.2% of the Bank's interest income, which amounted to AZN 22.3 million in the reporting year.

In 2015, PASHA Bank underwrote bonds totaling AZN 10 million in successful public issues. Additionally, the Bank continued to provide daily liquidity for Unibank (two issues), Finca, AG Bank, Bakcell, AccessBank and the first issue of mortgage bonds by serving as market maker.

In the coming year, the Bank expects these business areas to grow as more corporate players turn to the capital markets.

INSTITUTIONAL BANKING

PASHA Bank is one of the leading banks in Azerbaijan in terms of trade finance. As of end-2015, the Bank boasted the largest trade finance portfolio among the country's privately owned commercial banks: AZN 263.8 million. It is well positioned to grow in this business area in tandem with the country's expanding economy.

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 local currency as well as in 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 clean 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 in order to always meet generally recognized international standards.

PASHA Bank is one of the leading banks in Azerbaijan in terms of trade finance. As of December 31, 2015, the Bank boasted the largest trade finance portfolio among the country's privately owned commercial banks at AZN 263.8

million. It is well positioned to grow in this business area in tandem with the country's developing economy.

Cooperation with International Financial Institutions

In 2015, PASHA Bank actively worked to expand its correspondent banking network. For the third consecutive year, the Bank participated in a SIBOS conference and was successful in boosting the number of its correspondent bank relationships via that event. During the year, PASHA Bank added 10 financial institutions to its network, expanding its capabilities in terms of cash management, trade finance, money market and FX products.

Thanks to solid relationships forged with both domestic and international financial institutions, PASHA Bank was able to secure AZN 52 million in deposits from local private & government FIs and AZN 30 million from IFIs. Besides private organizations, the Bank also managed to obtain a USD 4 million credit line from the World Bank for developing the agriculture sector in Azerbaijan.

PASHA Private Banking provides both core banking and alternative financial products and services to private segment clients with a high level of specialization. Private banking is a reputation-driven business, and PASHA Bank plans to capitalize on its prestige to grow in this segment.

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

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

PASHA Private Banking provides both core banking and alternative financial products and services to private segment clients with a high level of specialization. This specialty product and service offering includes:

- Bank safe deposit boxes
- Securities of domestic companies
- International Banking Precious Metals

Account

- Deposit services
- Mobile Banking
- Internet Banking
- Credit lines
- Cash secured loans
- Mortgage products
- Financial consultancy services
- Non-financial services, including real es-

tate, healthcare and education related services

- Global concierge services

Pursuant to its strategic priority of maintaining and boosting its market share across the segment, PASHA Private Banking continued to achieve impressive growth from an already significant base in 2015. The Bank's topline customer base and assets under management (AUM) grew by 92% and 188%, respectively, delivering accelerated revenue growth. These strong results reflect both more efficient organization and management of AUM and also the payback of brand and reputation investments made in previous years.

PASHA Private Banking places great importance on regularly organizing events that provide its valued clients with the opportunity to enjoy, network and learn.

In January 2015, together with the world's leading independent property advisor and our esteemed partner Knight Frank, the Bank held an exclusive travel event where three different destinations were explored for the benefit of Private Banking clients. Speakers representing each destination showed attendees the beauty of the Caribbean islands; a taste of a gastronomic voyage to France and Italy; and the serenity of the Himalayas. At the end of the evening, a drawing with valuable prizes was held for attendees.

Private banking is a reputation-driven business, and PASHA Bank plans to capitalize on its prestige to grow in this segment.

RISK MANAGEMENT

By increasing its capacity and capability in risk management, PASHA Bank also aims to raise its corporate profile as a sector leader that embraces best practices and makes them a reality in the local market

One of PASHA Bank's key achievements in 2015 was the formulation of the Bank's Risk Strategy and updated Risk Framework. The Risk Management Committee (RMC), Credit Committee (CC) and Assets & Liabilities Committee (ALCO) are directly involved in overseeing the Bank's risk profile, The Bank's Chief Risk Officer and the supervisory Executive Board member are members of each of these committees, demonstrating senior management's commitment to bolstering risk management in at PASHA Bank and to achieving institutional excellence.

During the year, the Bank boosted its credit risk management function to a new, more advanced level. This was reflected in the approach to lending and credit risk assessment by the respective bodies. A more efficient credit risk underwriting practice was the most significant

change to the credit risk assessment process at PASHA Bank. The positive impact of the upgraded credit risk approach was seen in the Bank's solid financial results and high asset quality despite the challenging market environment.

The Risk Management Department consists of three units: Credit Risk, Market Risk and Operational Risk.

The Credit Risk Management Unit has a variety of roles to ensure proper growth of the loan portfolio and appropriate risk exposure. The Unit aims to provide fast, sound and effective credit assessment and decision-making in a transparent, open and value added manner. The Unit continuously analyzes the economic situation in the country and produces internal economic and industry reports to better align the Bank's loan portfolio with the growth areas and in line with the overall strategy.

The Bank has adopted world class standards in its credit risk model development, validation, documentation and application processes,



while continuously improving and updating these procedures to ensure effective credit risk management.

PASHA Bank uses a variety of periodic internal reports to regularly assess its own risk position. Work is ongoing to deploy a fully automated, live multi-platform reporting system. The new system will feature position limit controls and triggers, sensitivity and stress test results, an early warning mechanism, authorization limits, and more.

The internally developed and implemented Incident Management System demonstrates the Department's commitment to achieving world class standards. This effort also reflects the Bank's focus on identifying gaps, addressing shortcomings and adopting a continuous improvement approach in risk management.

2015 was another year of capacity building in all areas of risk management at PASHA Bank. However, the Bank especially focused on developing in-house tools, improving credit risk underwriting, and implementing a credit processing approach based on best global practice and adjusted for the Azerbaijani market and the Bank's profile. An internal measurement of the Bank's Risk Maturity Level using a COSO based methodology indicates regular improvement with a current maturity level of 3 (on a scale of 1 to 5). As a result, the Bank is well on its way to establishing an integrated ERM system that includes all facets of the Bank's operations to reach a higher risk maturity level.

Based on the results of its latest risk management efforts, PASHA Bank has entered the transformation stage in risk management. The Bank's 2016 risk management operational plan identifies new opportunities to further improve the Bank's risk profile in the challenging market environment it faces. By increasing its

capacity and capability in risk management, PASHA Bank also aims to raise its corporate profile as a sector leader that embraces best practices and makes them a reality in the local market.

With the acquisition of TAIB Bank, PASHA Bank plans to target corporate clients based in neighboring Turkey – one of the world's top 20 economies.



INTERNATIONAL ACTIVITIES



DOMESTIC AND INTERNATIONAL DEVELOPMENT



PASHA Bank is actively positioning itself 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's Board of Directors 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 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 operations in Georgia. The Bank's subsidiary office makes it easier to better serve existing customers and grow the client base as well. Another key goal with this initiative is to contribute to the development of the economies of both Georgia and Azerbaijan.

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 also 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.

SUPPORT TO SUSTAINABLE ECONOMIC DEVELOPMENT

In support of the country's rising economy, PASHA Bank contributes to capacity building and the financial education of small and medium enterprises in Azerbaijan. The Bank sees SMEs as a major driver of economic growth in the country and seeks to expand together with them.

PASHA Bank, in partnership with the State Securities Committee, conducts programs that contribute to the advancement and development of Azerbaijan's financial services and securities market. These efforts aim to further integrate Azerbaijan into international capital markets.

In 2015, PASHA Bank partnered with KPMG to hold a conference on "Raising Capital in Baku and London: New Opportunities." The event focused on the latest trends in public offerings on the stock exchange and opportunities to raise capital in emerging markets. Speakers included representatives from the London Stock Exchange, Baku Stock Exchange, KPMG and other capital market experts.

PASHA Bank also teamed up with the Azerbaijan Entrepreneurs Association to organize a seminar on opportunities in emerging markets during periods of volatility. The event focused on the latest developments in the global and regional economy and steps for the sustainable conduct of business. The timely seminar was enthusiastically welcomed by the local business community, representatives of think tanks, members of the media, among others. Representatives from Parliament, Ministry of Economy and Industry, Center of Strategic Research and other intuitions shared their vision and ways to move forward in volatile times.

SME Financial Literacy

In support of the country's economy, PASHA Bank contributes to capacity building

and the financial education of small and medium enterprises in Azerbaijan.

The Bank holds seminars for SMEs from different industries with participation from local and international organizations, including International Finance Corporation (IFC), Azerbaijan Entrepreneurs Association and the Central Bank of Azerbaijan.

Events Co-hosted with The Economist

Since 2013, PASHA Bank has played co-host to invitation-only meetings that explore economic risks and scenarios via panel discussions with industry experts. The events focus on the outlook for growth, linking global risks and developments to strategic decisions facing business leaders in Azerbaijan and the Caspian Region.

In 2014 and 2015, PASHA Bank partnered with the world renowned Economist Group to organize Azerbaijan Investment Summits where policymakers, investors, and non-governmental organizations from a number of countries gathered to discuss opportunities for Azerbaijan to accelerate its economic development.



INTERNATIONAL REPUTATION

In a volatile year, PASHA Bank maintained its creditworthiness, which was recognized by solid credit ratings from international agencies and a stable outlook. In addition, the Bank received a number of prestigious awards on international platforms in recognition of its excellence.

Credit Ratings

Even though 2015 presented a volatile market environment with many challenges, PASHA Bank maintained its creditworthiness, which was recognized by international ratings agencies.

In 2015, PASHA Bank was assigned 'BB-' long-term and 'B' short-term counterparty credit ratings with a stable outlook by Standard & Poor's. In November, Fitch Ratings upgraded Bank's long-term foreign currency Issuer Default Rating (IDR) from 'B+' to 'BB-' and short-term IDR as 'B'. This is the one of the highest rating given to an Azerbaijani commercial bank with 100% local capital and the second highest for a private bank in the country.

Awards, Events and Sponsorships

As one of the country's leading financial institutions, PASHA Bank continues to attract the attention of some of the most distinguished members of the global financial community. In 2015, the Bank received a number of prestigious awards on international platforms in recognition of its excellence:

- PASHA Bank was selected as the "Best Bank in Azerbaijan" by Global Finance magazine.
- EMEA Finance named PASHA Bank the "Best Bank in Azerbaijan" at the Europe Banking Awards 2015, an honor it also received the prior year.
- The Bank received the "Participant of the Year" and "Leading Company Promoting Gender Equality" awards from the Azerbaijan Microfinance Association (AMFA).

- PASHA Bank's Human Resources team was named "HR Team of the Year" at Marketing Kingdom Baku in 2015.

PASHA Bank also continued to sponsor major local and international events that boost its reputation and recognition globally in 2015. These events included:

- Seminar on "The Financial Markets of Azerbaijan" (27 January 2015), London, UK – organizational and sponsorship support
 - Azerbaijan Banking and Finance Forum, Baku, Azerbaijan – organizational and sponsorship support
 - Caspian Energy Forums, Baku, Azerbaijan – organizational and sponsorship support
 - Azerbaijan Investment Summit by The Economist, Baku, Azerbaijan – organizational and sponsorship support
 - Seminar on "Crisis Brings New Opportunities, Baku, Azerbaijan – organizational and sponsorship support
 - Marketing Kingdom by World, Baku, Azerbaijan – sponsorship support
 - Asian Development Bank Annual Meeting – participation
 - EBRD Annual Meeting – participation
 - US-Azerbaijan Banking & Finance Forum, New York, US – organizational and sponsorship support
 - London Stock Exchange's Financial Markets Forum, Baku, Azerbaijan – organizational and sponsorship support
 - American Chamber of Commerce in Azerbaijan and British Business Group in Azerbaijan – presentations at luncheons
 - SIBOS Exhibitions – participation
 - Baku Sustainability and CSR Conference, Baku, Azerbaijan – sponsorship support
 - Italian Week in Baku, Baku, Azerbaijan – sponsorship support

- Mugam Festival, Baku, Azerbaijan – sponsorship support
- HR Experience by P World, Baku, Azerbaijan – organizational and sponsorship support
- USACC Trade Mission to Azerbaijan – organizational and sponsorship support
- International BakuTel Exhibition, Baku, Azerbaijan – participation
- Seminar on Export Stimulation, Baku, Azerbaijan – organizational support
- Christmas Bazaar for members of Baku's expatriate community – sponsorship support

SUPPORT UNITS

In 2015, PASHA Bank was the only bank in Azerbaijan to become a member of Factors Chain International (FCI). The Bank sees the country's market environment as ripe for factoring services, and intends to grow in this key area.

Factoring

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

In 2015, PASHA Bank was the only bank in Azerbaijan to become a member of Factors Chain International (FCI). FCI is a global network of the world's leading factoring companies. Through the network, PASHA Bank obtains access to a wide range of more than 400 corresponding factoring providers in 90 countries.

The main requirements for factoring include:

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

The benefits of factoring include:

- Immediately receiving up to 90% of 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

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

Information Technologies

PASHA Bank deploys advanced technologies that will enhance the speed and quality of service it delivers in every aspect of its operations in order 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.

Throughout 2015, PASHA Bank continued with various efforts to upgrade and renew its technology to ensure that the Bank's business processes comply with international standards. The Department's projects during the year included:

- Developing a new highly available IT systems infrastructure via the Stretched Data Center project, which will consist of two data centers in two different locations in Baku to ensure the continuity of the Bank's operations even if one these centers faced some disaster;
- Completing the processing of regular backups of all systems;

In 2015, PASHA Bank was the only bank in Azerbaijan to become a member of Factors Chain International (FCI). The Bank sees the country's market environment as ripe for factoring services, and intends to grow in this key area.

Switching all web applications to https, a more secure communication protocol.

Since its founding, PASHA Bank has introduced numerous innovations to Azerbaijan's banking industry, from technological breakthroughs to innovative products and services. In 2015, PASHA Bank became the country's first bank that can fully automate the processing of orders coming to the Bank from different governmental bodies, such as the Ministry of Taxes.

PASHA Bank's IT team also developed and implemented several large-scale projects that aim to automate and decrease the life cycle time of the Bank's major processes, such as the Salary Module in the core banking system. These efforts resulted in greater optimization of resources and raised related business processes to a new level of efficiency.

Committed to providing uninterrupted, comprehensive services to all customers across all platforms, PASHA Bank made key advances that enable clients to access banking services remotely – via Internet and Mobile Banking – in 2015. During the year, the Bank introduced an Internet Banking function that enables corporate customers to process their employee salary payments via Internet, yet another first in Azerbaijan's banking sector.

Taking a leap forward in getting closer to customers via mobile platforms, PASHA Bank developed an interface that enables internal bank payments and online money transfers from "loro" to card accounts. This removed the need for customers to complete a domestic

payment form and also shortened the duration of payment processing.

In 2015, customers were also provided with the ability to request their actual credit card balance online.

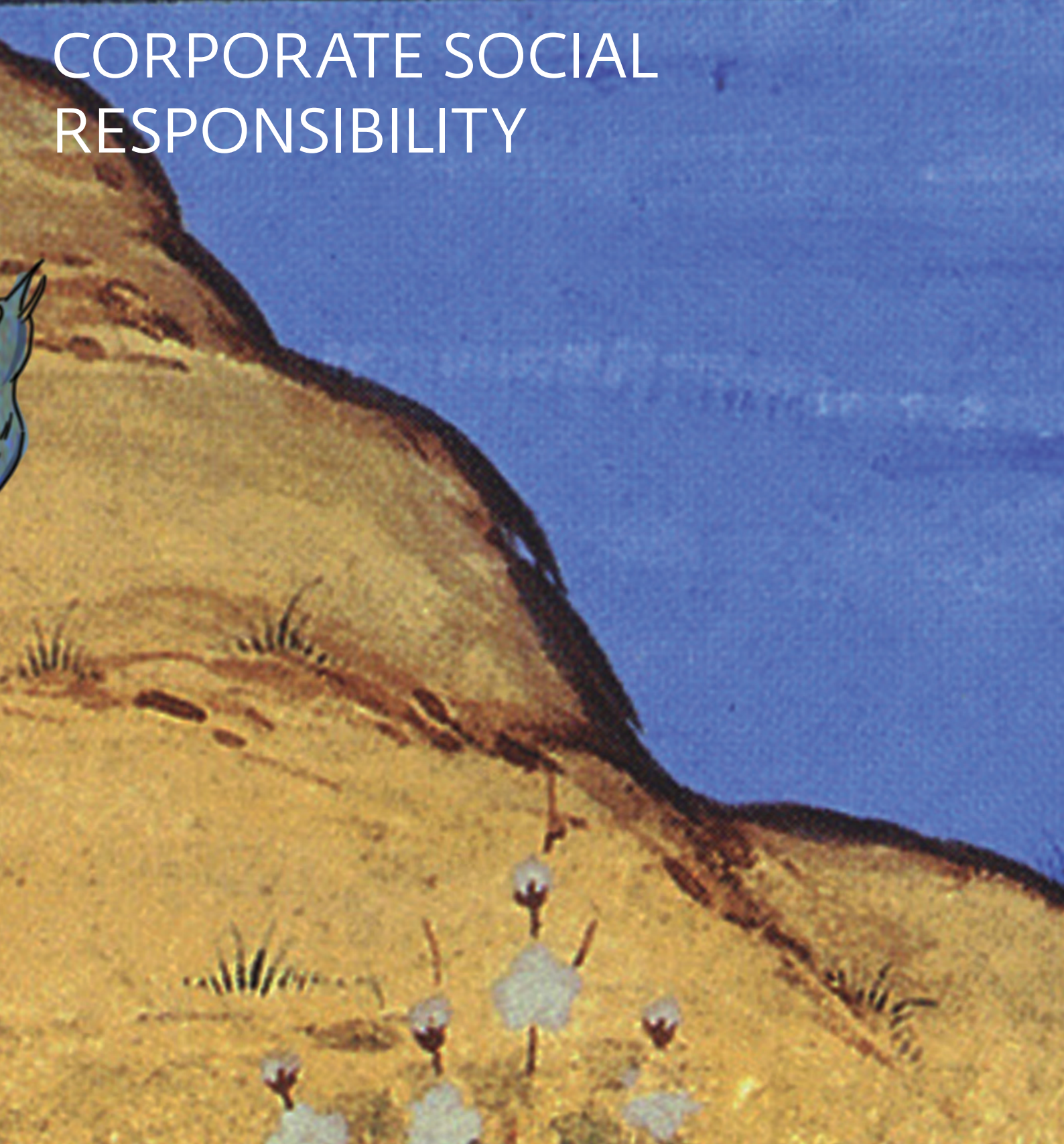
In the coming year, PASHA Bank plans to step up its efforts in technology and innovation, as the market embraces digital and mobile banking in particular.

PASHA Bank shifted from a traditional model of corporate social responsibility to a more modern approach of stakeholder engagement in 2015. This shift will focus the Bank's efforts on entrepreneurship, human capital, good governance and capacity building – to improve the lives of the Azerbaijani people.





CORPORATE SOCIAL RESPONSIBILITY



CORPORATE SOCIAL RESPONSIBILITY



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

In today's volatile and rapidly globalizing world, an entity and its stakeholders should follow the same path in order to ensure long-term sustainable growth. To this end, PASHA Bank shifted from a traditional model of corporate social responsibility to a more modern approach of stakeholder engagement in 2015. This shift will ensure that the Bank's focus remains on improving the lives of the Azerbaijani people.

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

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

We Empower Entrepreneurship

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

Project Portfolio

Sustainable Enterprise Development Program (SEDP): Launched in collaboration with Junior Achievement Azerbaijan since 2014, this program aims to cultivate the founding of SMEs by the younger generation in Azerbaijan and enhance the efficiency of these enterprises via capacity-building activities and a supportive environment. In 2013-2014, SEDP was implemented in the Ganja and Zaqatala regions.

Ideya Qazandi: A reality television program and the first of its kind in the country, Ideya Qazandi is broadcast locally in Azerbaijan. The show includes 10 series where young entrepreneurs pitch their business ideas in order to secure seed capital from a panel of

investors, who include representatives of large corporations and financial institutions like PASHA Bank and successful business owners. Ideya Qazandi aims to develop entrepreneurship and small-medium enterprises while improving business know-how and ethical practices among young people.

BARAMA Innovation & Entrepreneurship Center: Since 2015, PASHA Bank supports the BARAMA Innovation and Entrepreneurship Center, a business incubation project launched by Azercell in 2009 to boost entrepreneurial activity in Azerbaijan. BARAMA provides technical and consultancy assistance to small businesses, mainly in the IT sector, during the start-up period.

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

We Empower Human Capital

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

Project Portfolio

Azerbaijan Business Case Competition (ABCC): An annual event, ABCC brings teams from the country's major universities together to work under time limits to solve real-life business problems using their knowledge in various business disciplines. Participants use their knowledge of finance, marketing, accounting, technology and management, to present their solutions to a panel of judges from major businesses in Azerbaijan.

Banks in Action: This innovative effort is structured much like a professional development training program but with a special focus on the basics of the banking sector. Banks in Action not only educates participants about the banking industry, but also encourages them to become better citizens and smarter consumers.

Essay Writing Competition: This project, carried out in conjunction with the British Council, is designed to address the issues of economic growth and development by engaging students at institutions of higher learning in an essay competition. The objective is to encourage and support the active participation of students in the future economic development of the country. The winners of the competition are awarded an exciting opportunity attend summer business school at the prestigious King's College in London, UK.

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

We Empower Good Governance and Build Capacity

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

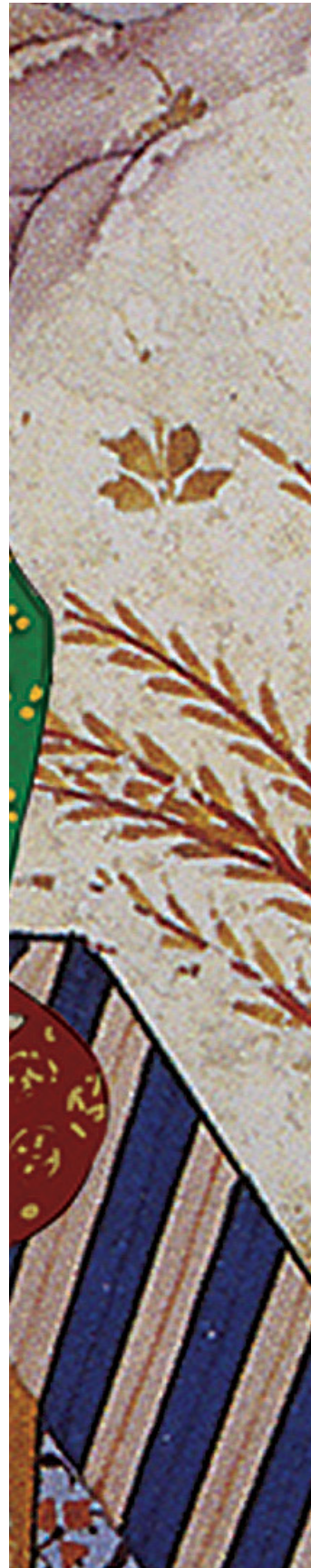
Project Portfolio

Business Journalism: This project's goal is to raise the standards of business news reporting

in Azerbaijan, by strengthening professional competencies and skills of the national media through a special training program tailored to meet the needs of the selected 11 journalists. The program is run in cooperation with the Thomson Foundation, one of Europe's biggest media organizations, and envisages a valuable opportunity for the journalists learn from leading media outlets like Reuters, BBC, Guardian, among others.

Financial Literacy for Secondary Schoolchildren and University Students: PASHA Bank works in close collaboration with the Central Bank of the Republic of Azerbaijan and the State Securities Committee on various efforts to raise the general population's awareness of the securities market and educate society on the capital markets. At the same time, the Bank also supports initiatives aimed at developing students' knowledge and skills. For example, the Bank organizes "Open Day" at PASHA Bank, an educational event for schoolchildren.

The Bank has also provided support to the following projects implemented by the State Securities Committee: the "Brain Ring" tournament in Ganja, "Capital Markets" tournament at Azerbaijan State Economic University and the "Three Ideas" tournament. These activities are designed to engage youth and students with an economics background in current issues so they feel ownership of the changes taking place in the country's economy, which will ultimately benefit them.





By preserving stability and continuing to meet customers' needs while the market was weak, PASHA Bank capitalized on the client relationships that it has developed in recent years. As a result, the Bank reported total deposits of AZN 1,374,113 thousand (USD 881,181 thousand) at year-end 2015.



REVIEW OF FINANCIAL STATEMENTS



REVIEW OF FINANCIAL STATEMENTS

In a highly challenging market environment beset by bank closures, PASHA Bank remained a safe harbor of stability. During the year, the Bank preserved its solid capital structure while delivering positive results. A selection of key figures and performance indicators of PASHA Bank and its subsidiaries (PASHA Bank Georgia and PASHA Yatırım Bankası) for the year ended 31 December 2015 follow below.

In 2015, PASHA Bank maintained its position as Azerbaijan's largest commercial bank by total equity. The Bank recorded total equity of AZN 432,489 thousand (USD 277,343 thousand¹) at year's end, compared with AZN 323,706 thousand (USD 412,680 thousand³) at end-2014.

As of 31 December 2015, PASHA Bank registered total assets of AZN 2,292,739 thousand (USD 1,470,270 thousand¹), up 80% over the prior year's AZN 1,273,258 thousand (USD 1,623,225 thousand³) (The effect of foreign currency was AZN 497,081 due to two waves of currency devaluation in 2015, so in absolute terms the increase was 41%.)

The breakdown of Bank's assets as of year-end 2015:

- Cash and cash equivalents – 45%
- Loans to customers – 39%
- Securities portfolio – 6%
- Receivables due from credit institutions – 6%
- Other current and non-current assets – 4%

We generated strong loan growth in 2015. Our gross portfolio expanded by 66% to AZN 949,848 thousand (USD 609,111 thousand¹), compared to AZN 573,642 thousand (USD 731,313 thousand³) a year earlier. (The effect of forex

was AZN 118,250 due to devaluation in 2015, so in absolute terms the increase was 45%).

The effective provision rate on the loan portfolio was 5.0% (2014: 6.1%). In 2015, PASHA Bank's overall non-performing loan ratio fell to 3.82%, down from 10.76% in 2014 according to IFRS requirements and best practices in credit risk management. However, the Bank implements in parallel a more conservative internal methodology and treatment of NPLs, an item closely monitored by the Bank's Credit Committee and Executive Board in line with local regulatory requirements. Based on the internal approach, PASHA Bank's non-performing loans increased from 5.84% of the gross portfolio at end-2014 to 8.68% at end-2015 due to challenging local market conditions

By preserving stability and continuing to meet customers' needs while the market was weak, PASHA Bank capitalized on the client relationships that it has developed in recent years. As a result, the Bank reported total deposits of AZN 1,374,113 thousand (USD 881,181 thousand) at year-end 2015. Customer deposits were allocated to demand and term accounts at the rates of 66% and 34%, respectively (2014: 79% and 21%).

For the year, the Bank's posted net profit of AZN 14,383 thousand (USD 13,984 thousand²), compared to a net loss of AZN 2,796 thousand (USD 3,565 thousand⁴) in 2014. Total operating income at year-end 2015 was AZN 116,253 thousand (USD 113,032 thousand²), up 93% from AZN 60,205 thousand (USD 76,753 thousand⁴) a year earlier.

PASHA Bank registered interest income of AZN 100,280 thousand (USD 97,501 thousand²) and non-interest income of AZN 40,308

thousand (USD 39,191 thousand²) in 2015. The Bank's ratio of non-interest income to overall operating income was 35%.

In 2015, PASHA Bank continued to provide corporate clients with services linked to effective financial instruments (e.g. currency derivatives). An expanding corporate customer base and revenue boosted trading profit in 2015. Generating revenue on both FX buy/sell sides enabled the Bank to offer derivative products to meet different customer needs, in turn increasing profit. The Bank recorded trading profit of AZN 5,467 thousand (USD 5,316 thousand) for the year.

The Bank reported a Tier 1 capital adequacy ratio of 17% (2014: 33%), well over the Central Bank of the Republic of Azerbaijan's capital requirements. We remain committed to meeting the required levels of capital adequacy once Basel II and Basel III are applied in the country. We are also committed to generating solid return on capital for our shareholders.

*All figures are presented as of 31 December 2015 if not indicated otherwise, and are based on consolidated audited financial statements.

*The following exchange rates are used for translation from AZN to USD:

¹ 2015 balance sheet items: 1.5594 (exchange rate as of 31.12.2015)

² 2015 P&L items: 1.0285 (average exchange rate for 2015)

³ 2014 balance sheet items: 0.7844 (exchange rate as of 31.12.2014)

⁴ 2014 P&L items: 0.7844 (average exchange rate for 2014)





OJSC PASHA Bank Consolidated financial statements

Year ended 31 December 2015
together with independent auditors' report



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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of OJSC PASHA Bank

We have audited the accompanying consolidated financial statements of OJSC PASHA Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of OJSC PASHA Bank and its subsidiaries as at 31 December 2015, and their financial performance and cash flows for the year 2015 in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

4 May 2016

OJSC PASHA Bank
2015 Consolidated financial statements
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	31 December 2015	31 December 2014
Assets			
Cash and cash equivalents	6	1,021,306	347,980
Trading securities	7	46,238	28,599
Amounts due from credit institutions	8	137,895	72,691
Investment securities			
- available-for-sale	9	5,696	209,467
- loans and receivables	9	87,903	-
Derivative financial assets	18	324	-
Loans to customers	10	902,150	538,875
Investment property	11	1,668	2,000
Property and equipment	12	15,851	16,244
Goodwill and other intangible assets	13	56,730	4,126
Current income tax assets		287	1,367
Deferred income tax assets	19	1,555	1,013
Prepayment for equity investment		-	41,971
Other assets	14	15,136	8,925
Total assets		2,292,739	1,273,258
Liabilities			
Amounts due to banks and government funds	15	369,693	174,377
Amounts due to customers	16	1,374,113	703,058
Other borrowed funds	17	93,814	55,451
Derivative financial liabilities	18	991	87
Deferred income tax liabilities	19	9,688	-
Provision for guarantees and letters of credit	22	379	2,683
Dividends payable to shareholders	20	-	10,832
Other liabilities	14	11,572	3,064
Total liabilities		1,860,250	949,552

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.

	Notes	31 December 2015	31 December 2014
Equity	20		
Share capital		333,000	333,000
Retained earnings/(accumulated deficit)		19,283	(5,929)
Net unrealised (loss)/gain on investment securities available-for-sale		(100)	98
Foreign currency translation reserve		80,244	(3,463)
Total equity attributable to shareholders of the Bank		432,427	323,706
Non-controlling interests		62	–
Total equity		432,489	323,706
Total liabilities and equity		2,292,739	1,273,258

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

Taleh Kazimov

Chairman of the Executive Board

Hayala Nagiyeva

Chief Financial Officer

4 May 2016

OJSC PASHA Bank
2015 Consolidated financial statements
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2015
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended 31 december 2015	Year ended 31 december 2015
Interest income			
Loans to customers		78,032	46,606
Investment securities available-for-sale		6,846	9,772
Amounts due from credit institutions		6,799	3,392
Trading securities		5,160	3,954
Cash and cash equivalents		3,382	541
Securities purchased under agreements to resell		61	70
		100,280	64,335
Interest expense			
Amounts due to customers		(16,700)	(9,220)
Amounts due to banks and government funds		(5,401)	(4,500)
Other borrowed funds		(2,174)	(1,666)
Other		(60)	(7)
		(24,335)	(15,393)
Net interest income			
		75,945	48,942
Provision for impairment of interest earning assets	22	(52,171)	(31,092)
Net interest income after provision for impairment of interest bearing assets			
		23,774	17,850
Non-interest income			
Net fee and commission income	23	7,686	4,203
Net (losses)/gains from trading securities		(3,678)	47
Net losses from investment securities available-for-sale		(145)	(160)
Net gains/(losses) from foreign currencies:			
dealing		17,635	7,019
translation differences		12,992	(159)
operations with foreign currency derivatives		5,467	–
Other income		351	313
Non-interest income			
		40,308	11,263
Non-interest expenses			
Personnel expenses	24	(21,835)	(11,006)
General and administrative expenses	24	(21,265)	(14,620)
Depreciation and amortisation	12, 13	(4,342)	(3,705)
Reversal of provision/(provision) for guarantees and letters of credit	22	2,304	(2,534)
Non-interest expenses			
		(45,138)	(31,865)

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.

	Notes	Year ended 31 december 2015	Year ended 31 december 2015
Profit/(loss) before income tax expense		18,944	(2,752)
Income tax expense	19	(4,561)	(44)
Net profit/(loss) for the year		14,383	(2,796)
Attributable to:			
shareholders of the Bank		14,380	(2,796)
non-controlling interests		3	–
		14,383	(2,796)

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.

OJSC PASHA Bank
2015 Consolidated financial statements
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended 31 december 2015	Year ended 31 december 2015
Net profit/(loss) for the year		14,383	(2,796)
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>			
Gross unrealised (losses)/gains on investment securities available-for-sale		(393)	18
Realised losses on investment securities available-for-sale reclassified to the consolidated statement of profit or loss		145	160
Net unrealised (losses)/gains on investment securities available-for-sale	20	(248)	178
Tax effect of net (losses)/gains on investment securities available-for-sale	19	50	(36)
Foreign currency translation difference net of tax	20	83,707	(2,731)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		83,509	(2,589)
Total comprehensive income/(loss) for the year		97,892	(5,385)
Attributable to:			
shareholders of the Bank		97,889	(5,385)
non-controlling interests		3	–
		97,892	(5,385)

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.

OJSC PASHA Bank
2015 Consolidated financial statements
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015
(Figures in tables are 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 2013	228,000	7,699	(44)	(732)	234,923	–	234,923
Net loss for the year	–	(2,796)	–	–	(2,796)	–	(2,796)
Other comprehensive loss for the year	–	–	142	(2,731)	(2,589)	–	(2,589)
Total comprehensive loss for the year	–	(2,796)	142	(2,731)	(5,385)	–	(5,385)
Dividends declared (Note 20)	–	(10,832)	–	–	(10,832)	–	(10,832)
Cash contribution for share capital increase (Note 20)	105,000	–	–	–	105,000	–	105,000
As at 31 December 2014	333,000	(5,929)	98	(3,463)	323,706	–	323,706
Net profit for the year	–	14,380	–	–	14,380	3	14,383
Other comprehensive income for the year	–	–	(198)	83,707	83,509	–	83,509
Total comprehensive income for the year	–	14,380	(198)	83,707	97,889	3	97,892
Cancellation of dividends declared in 2014 (Note 20)	–	10,832	–	–	10,832	–	10,832
Acquisition of subsidiary (Note 5)	–	–	–	–	–	97	97
Decrease in non-controlling interest	–	–	–	–	–	(38)	(38)
31 December 2015	333,000	19,283	(100)	80,244	432,427	62	432,489

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.

OJSC PASHA Bank
2015 Consolidated financial statements
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015
(Figures in tables are in thousands of Azerbaijani manats)

	Notes	Year ended 31 december 2015	Year ended 31 december 2015
Cash flows from operating activities			
Interest received		88,989	59,195
Interest paid		(22,444)	(15,072)
Fees and commissions received		12,337	7,706
Fees and commissions paid		(4,926)	(3,188)
Net realized losses on sale of investment securities available-for-sale		(145)	(160)
Net realized gain/(loss) from trading securities		178	(71)
Realised gains less losses from dealing in foreign currencies and operations with foreign currency derivatives		23,641	7,019
Personnel expenses paid		(18,430)	(12,494)
General and administrative expenses paid		(18,790)	(13,653)
Other operating income received		334	168
		60,744	29,450
Cash flows from operating activities before changes in operating assets and liabilities			
<i>Net (increase)/decrease in operating assets</i>			
Trading securities		(28,098)	22,732
Amounts due from credit institutions		63,618	(23,356)
Loans to customers		(202,467)	(239,755)
Other assets		(597)	(3)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to banks and government funds		19,990	65,659
Amounts due to customers		342,791	418,704
Other borrowed funds		(6,976)	17,968
Other liabilities		1,022	1,267
		250,027	292,666
Net cash from operating activities before income tax			
Income tax paid		(970)	(4,960)
		249,057	287,706
Cash flows from investing activities			
Acquisition of a subsidiary, net of cash acquired (Note 5)		371	–
Purchase of investment securities available-for-sale		(539,479)	(296,820)
Proceeds from sale and redemption of investment securities available-for-sale		690,411	242,048

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.

	Notes	Year ended 31 december 2015	Year ended 31 december 2015
Purchase and prepayments for property and equipment		(3,999)	(5,758)
Acquisition of intangible assets		(4,406)	(1,667)
Proceeds from sale of property and equipment		1,410	1,646
Net cash from/(used in) investing activities		144,308	(60,551)
Cash flows from financing activities			
Share capital contribution	20	–	105,000
Dividends paid	20	–	(14,992)
Net cash from financing activities		–	90,008
Effect of exchange rates changes on cash and cash equivalents		279,961	(17,239)
Net increase in cash and cash equivalents		673,326	299,924
Cash and cash equivalents, beginning	6	347,980	48,056
Cash and cash equivalents, ending	6	1,021,306	347,980

The accompanying notes on page 80 to 141 are an integral part of these consolidated financial statements.





OJSC PASHA Bank
Notes to 2015 consolidated
financial statements



NOTES TO 2015 CONSOLIDATED FINANCIAL STATEMENTS

1. Principal activities

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

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

The Bank has three service points and two branches in Azerbaijan as at 31 December 2015 (31 December 2014: 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 31 December 2015 and 2014, the following shareholders owned the outstanding shares of the Bank:

Shareholders	31 december 2015 (%)	31 december 2014 (%)
PASHA Holding Ltd.	60	60
Ador Ltd.	30	30
Mr. Arif Pashayev	10	10
Total	100	100

As at 31 December 2015 and 2014, the Group is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, who exercise joint control over the Group.

PASHA Bank Georgia JSC, a wholly – owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as of 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 thousand as at 31 December 2015. 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. (Note 5). 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, 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Azerbaijani manat is the functional and presentation currency of OJSC PASHA Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Group is required to maintain its records and prepare its

financial statements in Azerbaijani manat and in accordance with IFRS. These consolidated financial statements are presented in thousands of Azerbaijani manat ("AZN"), except when otherwise indicated. The consolidated financial statements have been 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.

Reclassifications

The following reclassifications have been made to 2014 balances to conform to the 2015 presentation:

	As previously reported	Reclassification	As adjusted
Consolidated statement of financial position			
Loans to banks	21,621	(21,621)	–
Amounts due from credit institutions	51,070	21,621	72,691
Amounts due to credit institutions	55,451	(55,451)	–
Other borrowed funds	–	55,451	55,451
Consolidated statement of profit or loss			
Interest income on:			
Loans to banks	1,097	(1,097)	–
Amounts due from credit institutions	2,836	556	3,392
Cash and cash equivalents	–	541	541
Interest expense on:			
Amounts due to credit institutions	1,666	(1,666)	–
Other borrowed funds	–	1,666	1,666
Consolidated statement of cash flows			
Loans to banks	(3,776)	3,776	–
Amounts due from credit institutions	(19,580)	(3,776)	(23,356)
Amounts due to credit institutions	17,968	(17,968)	–
Other borrowed funds	–	17,968	17,968

3. Summary of significant accounting policies

Changes in accounting policies

The Group has adopted the following amended IFRS which are effective for annual periods beginning on or after 1 January 2015:

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

IFRS 13 Short-term Receivables and Payables – Amendments to IFRS 13

This amendment to IFRS 13 clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these in consolidated financial statements. They include:

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

Meaning of effective IFRSs – Amendments to IFRS 1

The amendment clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 had no impact on the Group, since the Group is an existing IFRS preparer.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Bank, are consolidated. Control is achieved when the Bank is exposed, or has rights, to variable returns from its

involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee:
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Bank's voting rights and potential voting rights

Subsidiaries are consolidated from the date on which control is transferred to the Bank and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

A change in the ownership interest of a subsidiary, without a change of control, is

accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Bank loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the acquiree's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the

relative values of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures financial instruments, such as trading and available-for-sale securities and derivative financial instruments at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 26.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of

unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets

Initial recognition

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Date of recognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase

the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are included in Net trading income. In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in profit or loss when the investments are impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale

and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Group places deposits with banks as well as issues loans to banks. According to the terms of deposit agreements the Group is allowed to withdraw deposits before maturity while as per terms of loan agreements the Group is not allowed to do so and loans can be demanded by the Group at maturity.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to the consolidated statement of profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Reclassification of financial assets

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- a financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Group has the intention and

ability to hold it for the foreseeable future or until maturity;

- other financial assets may be reclassified to available for sale or held to maturity categories only in rare circumstances.

A financial asset classified as available for sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Group has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, NBG and CBRT, excluding obligatory reserves, and amounts due from credit institutions with no maturity and less than 90 days of the date of origination and that are free from contractual encumbrances.

Repurchase and reverse repurchase agreements

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as separate

account on the consolidated statement of financial position if material or as cash and cash equivalents or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from trading securities or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in profit or loss.

Borrowings

Issued financial instruments or their components are classified as liabilities, where

the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include Amounts due to banks and government funds, other borrowed funds and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

Leases

Operating – Bank as lessee

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as expenses on a straight-line basis over the lease term and included into other operating expenses.

Measurement of financial instruments at initial recognition

When financial instruments are recognised initially, they are measured at fair value, adjusted, in the case of instruments not at fair value through profit or loss, for directly attributable fees and costs.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price. If the Group determines that the fair value at initial recognition differs from the transaction price, then:

- if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or based on a

valuation technique that uses only data from observable markets, the Group recognises the difference between the fair value at initial recognition and the transaction price as a gain or loss;

- in all other cases, the initial measurement of the financial instrument is adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the Group recognises that deferred difference as a gain or loss only when the inputs become observable, or when the instrument is derecognized.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- the normal course of business;
- the event of default;
- the event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred

after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Amounts due from credit institutions and loans to customers

For amounts due from credit institutions and loans to customers carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risks characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that

have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current year profit. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the consolidated statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of

historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group or their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the other comprehensive income is reclassified from other comprehensive income to the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss; increases in their fair value after impairment are recognized in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recognized in the consolidated statement of profit or loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

Held to maturity financial investments

For held to maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the consolidated statement of comprehensive income.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of

new loan conditions.

The accounting treatment of such restructuring is as follows:

- If the currency of the loan has been changed the old loan is derecognised and the new loan is recognised.
- If the loan restructuring is not caused by the financial difficulties of the borrower the Group uses the same approach as for financial liabilities described below.
- If the loan restructuring is due to the financial difficulties of the borrower and the loan is impaired after restructuring, the Group recognizes the difference between the present value of the new cash flows discounted using the original effective interest rate and the carrying amount before restructuring in the provision charges for the period. In case loan is not impaired after restructuring the Group recalculates the effective interest rate.

Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original or current effective interest rate.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in

full without material delay to a third party under a 'pass-through' arrangement; and

- the Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on

substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of profit or loss.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit and guarantees. Financial guarantees are initially recognized in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss. The premium received is recognized in profit or loss on a straight-line basis over the life of the guarantee.

The interest rate is applied to amount of guarantees without consideration of effective interest rate method.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan and of the countries in which the Group has offices and branches and where its subsidiaries are located.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences

arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Azerbaijan also has various operating taxes that are assessed on the Group's activities. These taxes are included as a component of general and administrative expenses.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property and equipment

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the

cost of replacing part of property and equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset, including construction in progress, begins when it is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

The asset's residual values, useful lives

	Years
Buildings	20
Furniture and fixtures	4
Computers and other equipment	4
Vehicles	4
Other equipment	5
Leasehold improvements	6

and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment property

Investment property is land or building or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently is stated at cost less accumulated depreciation and any accumulated impairment losses. For disclosure purposes investment property is re-measured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

Earned rental income is recorded in the income statement within income arising from non-banking activities. Gains and losses resulting from changes in the fair value of investment property are recorded in the consolidated statement of profit or loss and presented within income or expense arising from non-banking activities.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the investee's net identifiable assets acquired and liabilities assumed. Goodwill on an acquisition of a subsidiary is included in goodwill and other intangible assets. Goodwill on an acquisition of an associate is included in the investments

in associates. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than the operating segment as defined in IFRS 8 Operating Segments before aggregation.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets other than goodwill

Intangible assets consist of banking license, other licenses and computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the

date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Banking license is represented by an intangible asset acquired in a business combination and has indefinite useful life.

Intangible assets with indefinite useful lives are not amortised and assessed for impairment at least at each financial year-end whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Retirement and other employee benefit obligations

The Group does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no post-retirement benefits.

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Expenses are recognized when incurred. The following specific recognition criteria must also be met before revenue and expense is recognised.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing securities

classified as trading or available-for-sale, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee and commission income and expense

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income includes cash collection and withdrawal fees and customer services fees, which are recognized as revenue as the services are provided. Fee and commission expense consists of documentary operations (letters of credit and guarantees), customer, brokerage, custodian and foreign currency purchase/sale fees.

Foreign currency translation

The consolidated financial statements are presented in AZN, which is the Bank's functional

and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in current year profit as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

As at the reporting date, the assets and liabilities of the Bank's subsidiaries whose functional currency is different from the presentation currency of the Bank are translated into AZN at the rate of exchange ruling at the reporting date and, their statement of profit or loss are translated at the weighted average exchange rates for the year. The exchange rate differences arising on the translation are taken to consolidated statement of comprehensive income.

The Group used the following official exchange rates at 31 December 2015 and 2014 in the preparation of these consolidated financial statements:

	31 December 2015 (AZN)	31 December 2014 (AZN)
1 US Dollar	1.5594	0.7844
1 Euro	1.7046	0.9522
1 Georgian Lari	0.6511	0.4244
1 Turkish Lira	0.5358	0.3381

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to

revenue arising from contracts with customers. Revenue arising from lease contracts within the scope of IAS 17 Leases, insurance contracts within the scope of IFRS 4 Insurance Contracts and financial instruments and other contractual rights and obligations within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if early adopted) is out of IFRS 15 scope and is dealt by respective standards.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

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 principles for business combinations 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 while 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, in-

cluding 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, with early adoption permitted. These amendments are not expected to have any impact to the Group.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is 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, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate

financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group currently considers whether to apply these amendments for preparation of its separate financial statements. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the acknowledged inconsistency between the requirements in IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. The amendments clarify that an investor recognises a full gain or loss on the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture. The gain or loss resulting from the re-measurement at fair value of an investment retained in a former subsidiary is recognised only to the extent of unrelated investors' interests in that former subsidiary. The amendments are applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements 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 finan-

cial 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 statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases with an effective date of annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 Leases. Lessees will recognise a “right of use” asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as in IAS 17. The Group is currently assessing the impact of IFRS 16 on its financial statements.

IAS 12 Income Taxes

In January 2016, the IASB issued amendments to IAS 12 Income Taxes. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealised losses, to address diversity in practice. Entities are required to apply the

amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted. These amendments are not expected to have any impact on the Group.

4. Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has made the following judgements and made estimates which have affected the amounts recognised in the consolidated financial statements:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Allowance for loan impairment

The Group regularly reviews its loans and receivables to assess impairment. The Group uses its experienced judgement to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Group estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence

of impairment similar to those in the group of loans and receivables. The Group uses its experienced judgement to adjust observable data for a group of loans or receivables to reflect current circumstances.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

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. The valuations of collaterals are performed based on review of similar collaterals available on the market.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. If actual results differ from those estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that an assessment of future utilization indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in the consolidated statement of profit or loss.

Impairment of goodwill and banking license

The Group determines whether goodwill

is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2015 was AZN 3,885 thousand (2014: nil). More details are provided in Note 13.

The recoverable amount of banking license is measured annually, irrespective of whether there is any indication that it may be impaired. This requires an estimation of the value in use of the cash-generating unit. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The Group reviews and validates at the end of each reporting period its decision to classify the useful life of an intangible asset as indefinite. If events and circumstances no longer support an indefinite useful life, the change from indefinite to finite life is accounted for as a change in accounting estimate under IAS 8, which requires such changes to be recognised prospectively. Furthermore, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. The carrying amount of banking license at 31 December 2015 was AZN 45,045 thousand (2014: nil). More details are provided in Note 13.

5. Business combination

Acquisition of TAIB Yatirim Bank

On 27 January 2015, the Bank completed acquisition of 79.92% of the voting common

shares of TAIB Yatirim Bank A.Ş. The Bank also acquired a call option for purchase of 20.00% of voting shares that were held by one shareholder.

The fair value of the identifiable assets and liabilities acquired and goodwill arising as at the date of acquisition was:

	Fair value recognised on acquisition
Cash and cash equivalents	371
Loans to customers	15,570
Investment securities available-for-sale	587
Property and equipment (Note 12)	97
Intangible assets (Note 13)	28,042
Other assets	1,041
	45,708
Borrowings	2,194
Money markets	366
Deferred income tax liabilities (Note 19)	4,497
Other financial liabilities	45
Other liabilities and provisions	623
Total identifiable net assets	7,725
	37,983
Non-controlling interests	97
Goodwill arising on acquisition (Note 13)	2,413
Purchase consideration transferred	40,299

The transaction costs of AZN 1,610 have been expensed and are included in other operating expenses.

This minority shareholder also acquired put option over these 20.00% voting shares. The option was exercised on 30 October 2015. The transaction was registered by the Banking Regulation and Supervision Agency ("the BRSA") of the Republic of Turkey on 23 December 2015. As at 31 December 2015, the Bank holds 99.92% of voting common shares of PASHA Yatirim Bankasi A.Ş.

As at 31 December 2015, accounting for the business combination was completed. While making a purchase price allocation the Bank identified a banking license (the "License"), an intangible asset with indefinite useful life, for which respective fair value exercise was made which amounted to AZN 27,978 thousand (Note 13). The License is not accounted in the separate financial statements of PASHA Yatirim Bankasi A.Ş.

The goodwill of AZN 2,413 thousand comprises the value of expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

From the date of acquisition, PASHA Yatirim Bankasi A.Ş. has contributed AZN 9,855 thousand of interest income, AZN 582 thousand of non-interest income and AZN 4,517 thousand to the net profit before tax of the Bank.

Cash outflow on acquisition of the subsidiary

Transaction costs of the acquisition (Note 24)	(1,610)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	371
Cash paid	(40,299)
Net cash outflow	(41,538)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2015	31 December 2014
Cash on hand	116,763	69,993
Current accounts with the CBAR, the NBG and the CBRT	199,708	16,321
Current accounts with other credit institutions	335,481	222,734
Time deposits with credit institutions up to 90 days	369,354	38,932
Cash and cash equivalents	1,021,306	347,980

Current accounts with other credit institutions consist of interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 554 thousands (31 December 2014 – AZN 2,603 thousands) and AZN 643 thousands, respectively, and non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 7,462 thousands (31 December 2014 – AZN 972 thousands) and AZN 326,822 thousands (31 December 2014 – AZN 219,159 thousands), respectively.

As at 31 December 2015, the Group placed AZN 369,354 thousands in time deposits with two resident banks and seven non-resident

banks maturing through March 2016 with interest rates ranging between 0.13% and 13.00% p.a (31 December 2014 – AZN 38,932 matured in March 2015 with interest rates ranging between 0.04% and 11.00% p.a.).

7. Trading securities

Trading securities comprise:

	31 December 2015		31 December 2014	
	Annual interest rate	Carrying value	Annual interest rate	Carrying value
Bonds of financial institutions	9.75%-14.00%	26,468	9%-14%	14,626
Corporate bonds	9.00%	19,770	9%-11%	13,973
Trading securities		46,238		28,599

As at 31 December 2015, the Bank carried market maker service activities and acquired securities of three (31 December 2014 – seven) local entities amounting to AZN 46,238 thousand (31 December 2014 – AZN 28,599 thousand).

In December 2015, the Bank's management decided to reclassify trading securities with fair value of AZN 7,609 thousand into category loans and receivables of investment securities due to deterioration of issuer's financial standing.

8. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2015	31 December 2014
Time deposits with banks	92,261	39,277
Loans to banks	23,386	21,621
Obligatory reserve with the CBAR, the NBG and the CBRT	19,196	5,620
Restricted deposits	3,832	6,173
	138,675	72,691
Less: allowance for impairment (Note 22)	(780)	–
Amounts due from credit institutions	137,895	72,691

As at 31 December 2015, time deposits with banks mature between January 2016 and November 2017 (31 December 2014 – between February 2015 and June 2015) with interest rates ranging between 0.02% and 12.5% p.a. (31 December 2014 – between 3% and 10% p.a.).

As at 31 December 2015, the Group had outstanding amount of AZN 23,386 thousands (31 December 2014 – AZN 21,621 thousands) of unsecured loans issued to four resident commercial banks (31 December 2014 – six resident commercial banks) with contractual maturity through May 2017 (31 December 2014 – November 2015) and with interest rates ranging between 7.5% and 16% p.a. (31 December 2014 – 7.5%-12% p.a.).

Credit institutions in the Republic of Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at the level of 0.5% (2014 – 2%) of the previous month average of funds attracted from customers by a credit institution in local and foreign currency. Credit institutions in the Republic of Georgia are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 10% and 15% 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 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" which are interest earning.

9. Investment securities

Investment securities available-for-sale comprise:

	31 December 2015		31 December 2014	
	Carrying value	Nominal value	Carrying value	Nominal value
Turkey Government Bonds	5,154	5,090	–	–
Bonds of financial institutions	306	300	7,179	7,151
Bonds of the Ministry of Finance of the Republic of Azerbaijan	236	235	18,163	18,000
Notes issued by the Azerbaijan Mortgage Fund	–	–	155,210	154,585
Treasury bonds of the Ministry of Finance of Georgia	–	–	3,464	3,454
Treasury bills of the Ministry of Finance of Georgia	–	–	22,660	22,566
Certificates of Deposits of financial institutions	–	–	1,619	1,619
Corporate bonds	–	–	1,172	1,139
Investment securities available-for-sale	5,696	5,625	209,467	208,514

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

	31 December 2015		31 December 2014	
	%	Maturity	%	Maturity
Turkey Government Bonds	10.80%	November 2016	–	–
Bonds of financial institutions	8.79%	April 2016	9.00%-14.00%	January 2015 – May 2018
Bonds of the Ministry of Finance of the Republic of Azerbaijan	3.59%	May 2016	3.25%-5.00%	May 2015 – May 2017

	31 December 2015		31 December 2014	
	%	Maturity	%	Maturity
Notes issued by the Azerbaijan Mortgage Fund	–	–	3.00%	May 2016 – December 2023
Treasury bills of the Ministry of Finance of Georgia	–	–	4.34%-7.10%	January 2015 – August 2015
Treasury bonds of the Ministry of Finance of Georgia	–	–	7.43%-8.00%	March 2016 – August 2016
Certificates of Deposits of financial institutions	–	–	5.25%	January 2015
Corporate bonds	–	–	9.00%	December 2017

Loans and receivables comprise:

	31 December 2015	31 December 2014
Treasury bonds of the Ministry of Finance of Georgia	25,209	–
Bonds of financial institutions	23,660	–
Treasury bills of the Ministry of Finance of Georgia	15,319	–
Certificates of deposit of the NBG	9,979	–
Certificates of deposits of financial institutions	7,946	–
Corporate bonds	5,790	–
Loans and receivables	87,903	–

On 1 July 2015, Asset and Liability Committee of PASHA Bank Georgia JSC decided to reclassify certain of PASHA Bank Georgia JSC's investment securities from the available-for-sale category into category of loans and receivables because of absence of active market in 2015 in Georgia. The bank has no history of sale of any of its securities before maturity. The bank assessed

that based on the changing market conditions it is not intending to sell the securities in future and will hold them till their contractual maturities. The fair value of available-for-sale securities at the date of reclassification was AZN 43,912 thousand.

10. Loans to customers

Loans to customers comprise:

	31 December 2015	31 December 2014
Legal entities	823,212	506,551
Individuals	126,636	67,091
Loans to customers (gross)	949,848	573,642
Less – allowance for impairment (Note 22)	(47,698)	(34,767)
Loans to customers (net)	902,150	538,875

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

	Corporate lending	Individual lending	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
31 December 2014			
Individual impairment	(27,971)	(164)	(28,135)
Collective impairment	(6,431)	(201)	(6,632)
	(34,402)	(365)	(34,767)
Gross amount of loans, individually determined to be impaired before deducting any individually assessed impairment allowance	60,936	767	61,703

Loans are made in the following industry sectors:

	31 December 2015	31 December 2014
Trade and services	327,626	268,315
Manufacturing	167,224	63,395
Individuals	126,636	67,091
Construction	101,295	72,094
Non banking credit organizations	84,344	21,420
Agriculture and food processing	48,795	35,504
Mining	30,239	16,110
Transport and telecommunication	26,281	15,695
Energy	16,513	7,511
Leasing	14,994	5,288
Other	5,901	1,219
Total loans (gross)	949,848	573,642

As at 31 December 2015, loans granted to top 5 customers (31 December 2014 – 5 customers) amounted to AZN 215,005 thousand (31 December 2014 – AZN 155,677 thousand), which individually exceeded 5% of the Group's equity.

Interest income accrued on loans, for which individual impairment allowances have been recognized, for the year ended 31 December 2015, comprised AZN 3,718 thousands (2014 – AZN 7,629 thousands).

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.

11. 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 31 December 2015, the fair value of this investment property amounted to AZN 1,668 thousand (31 December 2014 – AZN 2,342 thousand). The Bank recognized impairment in the amount of AZN 332 thousand as of 31 December 2015 (31 December 2014 – nil) due to decrease in recoverable amount.

12. Property and equipment

The movements in property and equipment were as follows:

	Land	Buildings	Furniture and fixtures	Computers and other equipment	Vehicles	Other equipment	Leasehold improvements	Construction in progress	Total
Cost									
31 December 2013	–	6,774	5,135	4,081	1,120	471	1,549	–	19,130
Additions	415	328	877	874	103	23	–	3,851	6,471
Disposals	–	(1,531)	(27)	(137)	(268)	(6)	–	–	(1,969)
Foreign currency translation difference	–	–	(22)	(27)	(18)	(6)	(58)	–	(131)
31 December 2014	415	5,571	5,963	4,791	937	482	1,491	3,851	23,501
Acquisition through business combinations	–	–	97	–	–	–	–	–	99
Additions	–	–	634	2,861	311	28	2	–	3,836
Disposals	–	(1,464)	(164)	(930)	(174)	(9)	–	–	(2,741)
Foreign currency translation difference	–	–	509	539	53	102	433	–	1,634
Transfers	–	–	2,139	770	–	–	942	(3,851)	–
31 December 2015	415	4,107	9,178	8,031	1,127	603	2,868	–	26,329
Accumulated depreciation									
31 December 2013	–	(326)	(1,920)	(1,432)	(637)	(110)	(316)	–	(4,741)
Depreciation charge	–	(332)	(1,165)	(942)	(235)	(95)	(307)	–	(3,076)
Disposals	–	62	26	137	235	2	–	–	462
Foreign currency translation difference	–	–	23	29	19	4	23	–	98
31 December 2014	–	(596)	(3,036)	(2,208)	(618)	(199)	(600)	–	(7,257)
Depreciation charge	–	(253)	(1,461)	(1,148)	(175)	(97)	(311)	–	(3,445)
Disposals	–	113	155	671	174	7	–	–	1,120
Foreign currency translation difference	–	–	(254)	(312)	(22)	(48)	(260)	–	(896)
31 December 2015	–	(736)	(4,596)	(2,997)	(641)	(336)	(1,172)	–	(10,478)
Net book value									
31 December 2015	415	3,371	4,582	5,034	486	267	1,696	–	15,851
31 December 2014	415	4,975	2,927	2,583	319	284	890	3,851	16,244
31 December 2013	–	6,448	3,215	2,649	483	361	1,233	–	14,389

13. Goodwill and other intangible assets

The movements in goodwill and other intangible assets were as follows:

	Goodwill	Banking license	Licenses	Computer software	Total
Cost					
31 December 2013	–	–	2,337	2,692	5,029
Additions	–	–	631	407	1,038
Disposals	–	–	(267)	(98)	(365)
Foreign currency translation difference	–	–	(23)	(7)	(30)
31 December 2014	–	–	2,678	2,994	5,672
Acquisition through business combination (Note 5)	2,413	27,978	–	64	30,455
Additions	–	–	2,085	2,302	4,387
Disposals	–	–	(389)	(429)	(818)
Transfers	–	–	990	(990)	–
Foreign currency translation difference	1,472	17,067	111	639	19,289
31 December 2015	3,885	45,045	5,475	4,580	58,985
Accumulated amortization					
31 December 2013	–	–	(257)	(783)	(1,040)
Amortisation charge	–	–	(465)	(164)	(629)
Disposals	–	–	57	59	116
Foreign currency translation difference	–	–	5	2	7
31 December 2014	–	–	(660)	(886)	(1,546)
Amortisation charge	–	–	(457)	(440)	(897)
Disposals	–	–	222	198	420
Transfers	–	–	(455)	455	–
Foreign currency translation difference	–	–	(23)	(209)	(232)
31 December 2015	–	–	(1,373)	(882)	(2,255)
Net book value					
31 December 2015	3,885	45,045	4,102	3,698	56,730
31 December 2014	–	–	2,018	2,108	4,126
31 December 2013	–	–	2,080	1,909	3,989

Impairment testing of goodwill and other intangible assets with indefinite lives

Goodwill and banking license acquired through business combination with indefi-

nite lives have been allocated to one individual cash-generating unit for impairment testing which is PASHA Yatirim Bankasi A.Ş.

The carrying amount of goodwill and value of the banking license acquired allocated to the cash-generating units is AZN 3,885 thousand and AZN 45,045 thousand respectively.

Key assumptions used in value in use calculations

The recoverable amount of the subsidiary in Turkey have been determined based on a value in use method, applied dividend discount model calculation, based on equity estimations in financial budgets approved by senior management covering a three-year period. Since the investor does not have intention to collect dividends during the foreseeable future, the expected cash inflow from the investment was determined based on equity value considering the market multiple. The following rates are used by the Bank.

	2015
Discount rate	23%
Equity multiple	1.5
Expected growth rate of net income, average for the period	40%

The calculation of value in use is most sensitive to the following assumptions:

- Interest margins;
- Corporate and commercial loan portfolio volumes projected;
- Discount rates; and
- Local inflation rates.

Interest margins

Interest margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated market conditions. The interest rates range between 11.8% and 13.3% for corporate loans and 12.5% and 14% for commercial loans in TL. In foreign

currency denominated loans the interest rates are forecasted as 4.5% per annum for total loan portfolio.

Corporate and commercial loan portfolio volumes projected

Macro-economic assumptions are based on published researches. The corporate loan portfolio growth in local Turkish currency was estimated in average 34% per year during the forecast period. The portfolio in foreign currency was forecasted with comparatively aggressive growth rate in average with the range between 40% and 62% growth rate per annum. Toward the end of the forecast period the growth rates are more stable and declining. The same trend is applicable for the commercial portfolio with much higher growth rate estimations.

Discount rates

Discount rates reflect management's estimate of return of capital employed (ROCE) required in each business. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. Discount rates are calculated by using the Weighted Average Cost of Capital (WACC) method.

Local inflation rates

The inflation rate considered for the forecasted period is 6.7%, with stable average USD/TL exchange rates.

Sensitivity to changes in assumptions

Management believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

14. Other assets and liabilities

Other assets comprise:

	31 December 2015	31 December 2014
Other financial assets		
Clearance cheque accounts	2,263	–
Settlements on money transfers	2,071	850
Accrued interest receivable on guarantees and letters of credit	430	419
	4,764	1,269
Other non-financial assets		
Deferred expenses	4,848	4,205
Prepayments for acquisition of property, equipment and intangible assets	3,142	2,912
Repossessed collateral	1,537	–
Other prepayments	802	–
Taxes, other than income tax	43	539
	10,372	7,656
Other assets	15,136	8,925

As at 31 December 2015, clearance cheque accounts consist of receivables from other banks for which cheques stand as collateral.

As at 31 December 2015, deferred expenses of AZN 2,036 thousand (31 December 2014 – AZN 3,013 thousand), related to the long term prepayment for the rent of the service points located in Baku and AZN 1,101 thousand (31 De-

ember 2014 – nil) related to long term software support.

As at 31 December 2015, included in prepayments for the purchase of property, equipment and intangible assets are prepayments for new software in the amount of AZN 2,442 thousand (31 December 2014 – AZN 1,561 thousand).

	31 December 2015	31 December 2014
Other financial liabilities		
Settlements on money transfer	3,310	1,431
Clearance cheque accounts	2,263	–
Financial lease liabilities	596	–
Accrued expenses	172	146
Payables for professional services	–	96
Other	72	27
	6,413	1,700
Other non-financial liabilities		
Payable to employees	4,415	564

	31 December 2015	31 December 2014
Deferred income	234	778
Other provision	165	–
Taxes, other than income tax	291	22
Other	54	–
	5,159	1,364
Other liabilities	11,572	3,064

15. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	31 December 2015	31 December 2014
Short-term deposits from banks	246,210	81,424
Loans from the National Fund for Support of Entrepreneurship	67,436	44,767
Loans from the CBAR and NBG	48,383	–
Amount due to Azerbaijan Mortgage Fund	4,667	1,643
Amount due to IT Development Fund	2,400	2,000
Correspondent accounts with other banks	597	4,139
Long-term deposits from banks	–	40,404
Amounts due to banks and government funds	369,693	174,377

As at 31 December 2015, the Group received short-term funds from one resident commercial bank (31 December 2014 – five) and six non-resident commercial bank (31 December 2014 – one) comprising AZN 246,210 thousands (31 December 2014 – AZN 81,424 thousands) maturing on 18 November 2016 (31 December 2014 – 19 November 2015) and with interest rates ranging between 1% and 3% p.a. (31 December 2014 – 3%-5% p.a.).

As at 31 December 2015, the Group had loans received from the National Fund for Support of Entrepreneurship amounting to AZN 67,436 thousand (31 December 2014 – AZN 44,767 thousand), maturing through September 2025

(31 December 2014 – through May 2023), 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 2014 – 6% p.a.).

As at 31 December 2015, the Group had loans received from the CBAR and NBG amounting to AZN 48,383 thousand (31 December 2014 – nil), maturing through November 2017 with interest rates ranging between 3.5% and 9.11% p.a.

As at 31 December 2015, the Group had loans refinanced from the Azerbaijan Mortgage Fund amounting to AZN 4,667 thousand (31 December 2014 – AZN 1,643 thousand), maturing through May 2040 (31 December 2014 – through November 2037) and bearing interest rate of 4.0% p.a.

16. Amounts due to customers

The amounts due to customers include the

	31 December 2015	31 December 2014
Demand deposits	901,216	558,229
Time deposits	472,897	144,829
Amounts due to customers	1,374,113	703,058
Held as security against guarantees issued (Note 21)	8,090	2,500

An analysis of customer accounts by economic sector follows:

	31 December 2015	31 December 2014
Investment holding companies	481,678	289,970
Individuals	367,234	194,757
Trade and services	184,048	125,256
Transport and communication	82,876	15,110
Construction	66,385	10,463
Insurance	58,299	27,154
Manufacturing	56,207	1,864
Non banking credit organizations	18,256	8,407
Hotel business	17,904	13,696
Public organizations	17,863	10,925
Mining	11,859	329
Energy	844	37
Agriculture	207	198
Other	10,453	4,892
Amounts due to customers	1,374,113	703,058

As at 31 December 2015, customer deposits included balances with five (31 December 2014 – five) largest customers comprised AZN 623,366 thousand or 45% of the total

customer deposits portfolio (31 December 2014 – AZN 370,629 thousand or 53% of the total customer deposits portfolio).

17. Other borrowed funds

As at 31 December 2015, other borrowed funds included balances with five (31 December 2014 – six) foreign banks amounting to AZN 93,814 thousand (31 December 2014 – AZN 55,451 thousand), maturing through April 2021 (31 December 2014 – through April 2021) and bearing interest rates ranging between 1.67% and 6.35% p.a. (31 December 2014 – between 1.45% and 10.13% p.a.). These unsecured borrowings are for trade finance of import operations (letters of credit) of the customers of the Group.

18. Derivative financial instruments

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

As at 31 December 2015 and 2014, the Group has positions in the following types of derivatives:

Forwards

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

Swaps

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

Options

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

	31 December 2015			31 December 2014		
	Notional amount	Fair values		Notional amount	Fair values	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Options – domestic	3,350	–	(22)	–	–	–
Foreign exchange contracts						
Forwards and swaps – foreign	38,158	324	(26)	9,730	–	(87)
Options – domestic	3,283	–	(943)	–	–	–
Total derivative assets/(liabilities)		324	(991)		–	(87)

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

19. Taxation

The corporate income tax expense comprises:

	Year ended 31 December 2015	Year ended 31 December 2014
Current tax charge	(2,708)	(3,062)
Deferred tax charge/(credit) – origination and reversal of temporary differences	(1,803)	2,982
Less: deferred tax recognised in other comprehensive income	(50)	36
Income tax expense	(4,561)	(44)

Deferred tax related to items charged or credited to other comprehensive income during the year is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Net losses/(gains) on investment securities available-for-sale	50	36
Income tax credited/(charged) to other comprehensive income	50	36

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Profit/(loss) before income tax expense	18,944	(2,752)
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	(3,789)	550
Tax effect of non-deductible expenses	(1,350)	(394)
Change in unrecognized deferred tax assets	498	(386)
Utilised tax losses carried forward, not recognized previously	151	–
Tax effect of tax-exempt income	199	192
Effect of difference in tax rate in foreign country	15	–
Other	(285)	(6)
Income tax expense	(4,561)	(44)

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	Origination and reversal of temporary differences			Origination and reversal of temporary differences			Effect of business combination (Note 5)	Translation difference	
	2013	In the statement of profit or loss	In other comprehensive income	2014	In the statement of profit or loss	In other comprehensive income			
Tax effect of deductible temporary differences									
Tax losses carried forward	265	689	–	954	(1,244)	–	1,052	554	1,316
Trading securities	–	–	–	–	572	–	–	–	572
Loans to customers	177	1,094	–	1,271	(52)	–	–	27	1,246
Investment securities	11	–	(11)	–	–	–	–	–	–
Investment property	–	–	–	–	66	–	–	–	66
Property and equipment	–	55	–	55	43	–	–	(50)	48
Intangible assets	–	15	(3)	12	(12)	–	–	–	–
Derivative financial liabilities	–	–	–	–	193	–	–	–	193
Provision for guarantees and letters of credit	–	185	–	185	(185)	–	–	–	–
Other liabilities	540	(329)	–	211	704	–	50	(63)	902
Gross deferred tax assets	993	1,709	(14)	2,688	85	–	1,102	468	4,343
Unrecognised deferred tax asset	(265)	(386)	–	(651)	664	–	–	(13)	–
Deferred tax asset	728	1,323	(14)	2,037	749	–	1,102	455	4,343
Tax effect of taxable temporary differences									
Trading securities	(119)	72	–	(47)	47	–	–	–	–
Amounts due from credit institutions	(124)	(98)	–	(222)	(1,797)	–	–	–	(2,019)
Investment securities	–	(2)	(22)	(24)	–	50	(3)	(36)	(13)
Loans to customers	(1,796)	1,085	–	(711)	286	–	–	168	(257)
Property and equipment	(303)	283	–	(20)	(394)	–	–	–	(414)
Intangible assets	(46)	46	–	–	(72)	–	–	(20)	(92)
Provision for guarantees and letters of credit	(309)	309	–	–	(672)	–	–	–	(672)
Deferred tax arisen at acquisition	–	–	–	–	–	–	(5,596)	(3,413)	(9,009)
Deferred tax liabilities	(2,697)	1,695	(22)	(1,024)	(2,602)	50	(5,599)	(3,301)	(12,476)
Net deferred tax assets/ (liabilities)	(1,969)	3,018	(36)	1,013	(1,853)	50	(4,497)	(2,846)	(8,133)

The temporary differences associated with investments in subsidiaries arising from consolidation for which a deferred tax liability (2014 – deferred tax assets) has not been recognised, aggregate to AZN 16,186 (2014 – AZN 546).

Deferred taxes in the consolidated statement of financial position as at 31 December 2015 and 2014 can be reconciled as follows:

	31 December 2015	31 December 2014
Deferred tax assets	1,555	1,013
Deferred tax liabilities	(9,688)	–
Net deferred tax (liabilities)/assets	(8,133)	1,013

20. Equity

As at 31 December 2015 and 2014, the Bank's authorized, issued and fully paid capital amounted to AZN 333,000 thousands 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 14 February 2014, the shareholders of the Bank decided to increase share capital of the Bank by additional cash contribution amounting to AZN 105,000 thousands. Increase of share capital has been finalized on 22 April 2014. The increase was carried out by converting 10,000 shares with a par value of AZN 22,800.00 per ordinary share into an equal number of shares with a par value of AZN 33,300.00 per share.

On 7 May 2014, the Bank paid dividends to shareholders totalling AZN 14,992 thousands. On 25 December 2014, the shareholders of the Bank declared dividends totalling AZN 10,832 thousands which is payable as at 31 December 2014.

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

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. Gain in the amount of AZN 83,707 (2014 – loss in the amount AZN 2,731 thousand) occurred due to two devaluations of AZN (2014 – appreciation of AZN) throughout the year (Note 3).

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

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

21. 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 0.7862 to AZN 1.0500 for 1 USD on 21 February 2015 and further to AZN 1.5500 for 1 USD on 21 December 2015. Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced floating exchange rate.

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.

Legal

In the ordinary course of business, the Group is subject to legal actions and complaints.

Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Taxation

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

Management believes that its interpretation of the relevant legislation as at 31 December 2015 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 the CBAR ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2015, the Bank was in compliance with these ratios except for the followings:

- 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 31 December 2015 the Bank's ratio was 22.42%;

- Ratio of the share in one legal entity which should not exceed 10% of total capital. As at 31 December 2015 the Bank's ratio was 49.21%;

- Ratio of the total share in other legal entities which should not exceed 40% of total capital. As at 31 December 2015 the Bank's ratio was 72.23%.

Throughout the year the Bank submitted information to CBAR regarding these breaches on a monthly basis and no sanctions were ever applied to the Bank. In previous years, the Bank received a letter from CBAR that currently no sanctions were considered against the Bank for the first breach mentioned above. Also in November 2015 the Bank received a clearance letters from CBAR regarding acceptance of

the action plans and non-application of sanctions against the Bank for the aforementioned breaches. Management believes that the Bank will not face any sanctions against the Bank in the future.

Financial commitments and contingencies

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

Financial commitments and contingencies comprise:

	31 December 2015	31 December 2014
Credit-related commitments		
Guarantees issued	232,587	66,994
Unused credit lines	44,184	28,912
Letters of credit	20,733	24,604
	297,504	120,510
Operating lease commitments		
Not later than 1 year	2,593	2,072
Later than 1 year but not later than 5 years	5,936	6,500
Later than 5 years	3,280	4,597
	11,809	13,169
Less – provisions (Note 22)	(379)	(2,683)
Commitments and contingencies (before deducting collateral)	308,934	130,996
Less – cash held as security against guarantees issued (Note 16)	(8,090)	(2,500)
Commitments and contingencies	300,844	128,496

22. 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 provision for guarantees and letters of credit were as follows:

Year ended 31 December 2015						
	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)/recovery for the year	(45,337)	(6,054)	(51,391)	(780)	(52,171)	2,304
Amounts written off	37,038	849	37,887	-	37,887	-
Acquisition of subsidiary	(181)	-	(181)	-	(181)	-
Exchange difference	754	-	754	-	754	-
At 31 December	(42,127)	(5,571)	(47,698)	(780)	(48,478)	(379)
Year ended 31 December 2014						
	Corporate lending	Individual lending	Total loans to customers	Amounts due from credit institutions	Total	Guarantees and letters of credit
At 1 January	(21,486)	(252)	(21,738)	-	(21,738)	(150)
Charge for the year	(30,818)	(274)	(31,092)	-	(31,092)	(2,534)
Amounts written off	17,902	161	18,063	-	18,063	1
At 31 December	(34,402)	(365)	(34,767)	-	(34,767)	(2,683)

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.

23. Net fee and commission income

Net fee and commission income comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Guarantees and letters of credit	4,686	2,615
Settlements operations	2,857	1,482
Servicing plastic card operations	2,493	1,499
Cash operations	1,609	981
Securities operations	645	785
Other	364	37
Fee and commission income	12,654	7,399
Servicing plastic card operations	(2,799)	(1,604)
Guarantees and letters of credit	(856)	(749)
Settlements operations	(778)	(556)
Cash operations	(172)	(59)
Securities operations	(145)	(134)
Other	(218)	(94)
Fee and commission expense	(4,968)	(3,196)
Net fee and commission income	7,686	4,203

24. Personnel, general and administrative expenses

Personnel expenses comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and bonuses	(16,682)	(7,517)
Social security costs	(2,963)	(1,513)
Other employee related expenses	(2,190)	(1,976)
Total personnel expenses	(21,835)	(11,006)

General and administrative expenses comprise:

	Year ended 31 December 2015	Year ended 31 December 2014
Operating leases	(4,863)	(4,009)
Professional services	(3,463)	(3,150)
Advertising costs	(2,006)	(1,672)
Transaction costs of the acquisition	(1,610)	–
Registration fee	(1,165)	–
Software cost	(948)	(953)
Charity and sponsorship	(719)	(1,873)
Loss on disposal of property and equipment	(683)	(46)
Utilities	(482)	(357)
Insurance	(443)	(296)
Entertainment	(443)	–
Stationery	(442)	(114)
Repair and maintenance	(411)	(274)
Transportation and business trip expenses	(378)	(453)
Security expenses	(344)	(215)
Impairment of investment property	(332)	–
Taxes, other than income tax	(331)	(35)
Communications	(278)	(251)
Membership fees	(272)	(61)
Penalties incurred	(168)	(1)
Printing expenses	(86)	(46)
Other expenses	(1,398)	(814)
Total general and administrative expenses	(21,265)	(14,620)

25. Risk management

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to

operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for the fundamental audit issues and monitoring Internal Audit's activities.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Group.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions

Risk Management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

Bank Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit

Risk management processes throughout the Group are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit

discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions and liquidity ratios. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess

and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Group on the utilisation of market limits and liquidity, plus any other risk developments.

Risk mitigation

Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit and customer's deposit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concen-

trations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Group to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more details on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings.

The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Group's credit rating system.

The Group classifies its loan related assets as follows:

	Notes	Neither past due nor impaired			Past due but not impaired	Individually impaired	Total
		High grade	Standard grade	Sub-standard grade			
31 December 2015							
Cash and cash equivalents (excluding cash on hand)	6	199,708	704,835	–	–	–	904,543
Trading securities	7	–	46,238	–	–	–	46,238
Amounts due from credit institutions	8	19,196	113,092	–	5,607	780	138,675
Investment securities	9	81,943	11,656	–	–	–	93,599
Loans to customers	10						
Corporate lending		–	693,412	21,942	76,185	31,673	823,212
Individual lending		–	119,737	1,617	700	4,582	126,636
Total		300,847	1,688,970	23,559	82,492	37,035	2,132,903
31 December 2014							
Cash and cash equivalents (excluding cash on hand)	6	16,321	261,666	–	–	–	277,987
Trading securities	7	–	28,599	–	–	–	28,599
Amounts due from credit institutions	8	5,620	67,071	–	–	–	72,691
Investment securities available-for-sale	9	209,467	–	–	–	–	209,467
Loans to customers	10						
Corporate lending		–	366,295	47,199	32,121	60,936	506,551
Individual lending		–	64,166	1,079	1,079	767	67,091
Total		231,408	787,797	48,278	33,200	61,703	1,162,386

High grade – counterparties with excellent financial performance or sovereign risk, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Standard grade – counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and overdue in principal and interest up to 30 days.

Sub-Standard grade – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Past due but not impaired – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest. An analysis of past due loans, by age, is provided below. The majority of the past due loans are not considered to be impaired.

Individually impaired – counterparties with satisfactory and unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

Aging analysis of past due but not impaired loans per class of financial assets:

	Less than 30 days	31 to 60 days	61 to 90 days	More than 90 days	Total
31 December 2015					
Amounts due from credit institutions	–	–	–	5,607	5,607
Loans to customers					
Corporate lending	–	32,496	17,785	25,904	76,185
Individual lending	–	–	–	700	700
Total	–	32,496	17,785	32,211	82,492
31 December 2014					
Loans to customers					
Corporate lending	–	–	–	32,121	32,121
Individual mortgages	–	–	–	1,079	1,079
Total	–	–	–	33,200	33,200

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Group determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans to customers that are not

individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

	31 December 2015				31 December 2014			
	The Republic of Azerbaijan	OECD countries	CIS and other non-OECD countries	Total	The Republic of Azerbaijan	OECD countries	CIS and other non-OECD countries	Total
Financial assets								
Cash and cash equivalents	330,824	671,580	18,902	1,021,306	89,584	253,478	4,918	347,980
Trading securities	46,238	–	–	46,238	28,599	–	–	28,599

	31 December 2015				31 December 2014			
	The Re-public of Azerbaijan	OECD countries	CIS and other non-OECD countries	Total	The Re-public of Azerbaijan	OECD countries	CIS and other non-OECD countries	Total
Amounts due from credit institutions	109,336	14,787	13,772	137,895	60,271	6,609	5,811	72,691
Investment securities	8,151	5,154	80,294	93,599	177,120	–	32,347	209,467
Derivative financial assets	–	324	–	324	–	–	–	–
Loans to customers	700,911	130,528	70,711	902,150	516,876	–	21,999	538,875
Other financial assets	2,501	2,263	–	4,764	1,269	–	–	1,269
	1,197,961	824,636	183,679	2,206,276	873,719	260,087	65,075	1,198,881
Financial liabilities								
Amounts due to banks and government funds	309,002	1,785	58,906	369,693	165,486	4,723	4,168	174,377
Amounts due to customers	1,360,252	–	13,861	1,374,113	700,853	–	2,205	703,058
Other borrowed funds	–	93,814	–	93,814	–	55,451	–	55,451
Derivative financial liabilities	965	26	–	991	–	–	87	87
Other financial liabilities	3,454	2,900	59	6,413	1,636	37	27	1,700
	1,673,673	98,525	72,826	1,845,024	867,975	60,211	6,487	934,673
Net assets/(liabilities)	(475,712)	726,111	110,853	361,252	5,744	199,876	58,588	264,208

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains obligatory reserves with the CBAR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. As at 31 December 2015 and 2014, these ratios were as follows:

	31 December 2015, (%)	31 December 2014, (%)
Instant Liquidity Ratio (30% is the minimum required by the CBAR) (assets receivable or realisable within one day/liabilities repayable on demand)	63	101

As at 31 December 2015, liquidity ratio of PASHA Bank Georgia JSC (average volume of liquid assets/average volume of liabilities) based on requirements established by the NBG was 34% (2014 – 102.66%). Minimum required level of liquidity by NBG is 30%.

As at 31 December 2015, liquidity ratio of PASHA Yatirim Bankasi A.S. based on requirements established by the CBRT was 322%. Minimum required level of liquidity by CBRT is 100%.

Analysis of financial liabilities by remaining

contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2015
As at 31 December 2015					
Amounts due to banks and government funds	199,791	105,121	52,716	37,127	394,755
Amounts due to customers	1,030,542	278,887	90,475	–	1,399,904
Other borrowed funds	5,944	16,481	80,934	2,204	105,563
Derivative financial liabilities	26	–	965	–	991
Other financial liabilities	5,967	446	–	–	6,413
Total undiscounted financial liabilities	1,242,270	400,935	225,090	39,331	1,907,626
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total 2014
As at 31 December 2014					
Amounts due to banks and government funds	40,883	95,302	26,494	16,181	178,860
Amounts due to customers	607,406	68,611	39,521	–	715,538
Other borrowed funds	8,273	20,225	27,019	3,329	58,846
Derivative financial liabilities	87	–	–	–	87
Dividends payable to shareholders	10,832	–	–	–	10,832
Other financial liabilities	1,700	–	–	–	1,700
Total undiscounted financial liabilities	669,181	184,138	93,034	19,510	965,863

The table below shows the contractual expiry by maturity of the Group's financial commitments and contingencies.

	Less than 3 months	3 to 12 months	1 to 5 years	Maturity undefined	Total
As at 31 December 2015	86,597	57,550	71,717	81,640	297,504
As at 31 December 2014	44,843	47,727	27,630	310	120,510

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from organizations of related parties in the period of one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to elim-

inate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group manages exposures to market risk based of sensitivity analysis. The Group has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's current year profit.

The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2015. The sensitivity of equity is calculated

by revaluing fixed rate available-for-sale financial assets at 31 December 2015 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve. However, as interest rate of available-for-sale securities in the local market is based on the carried accrued discount or premiums on these securities at the time of purchase or sale (as included in actual price of purchased or sold securities), thus, any change in the rates to be applied to the fixed-rate available-for-sale financial assets does not have any impact or effect on equity.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the

prevailing foreign currency exchange rates on its statement of financial position and statement of cash flows.

The Assets and Liabilities Management Committee controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the CBAR.

As at 31 December 2015, the Group had the following exposure to foreign currency exchange rate risk:

	AZN	USD	EURO	Other	Total 2015
Financial assets					
Cash and cash equivalents	170,087	486,535	348,590	16,094	1,021,306
Trading securities	46,238	–	–	–	46,238
Amounts due from credit institutions	58,545	50,647	22,104	6,599	137,895
Investment securities	12,198	10,311	–	71,090	93,599
Derivative financial assets	–	–	–	324	324
Loans to customers	443,904	182,833	137,516	137,897	902,150
Other financial assets	848	660	1,013	2,243	4,764
Total financial assets	731,820	730,986	509,223	234,247	2,206,276
Financial liabilities					
Amounts due to banks and government funds	77,517	236,238	20	55,918	369,693
Amounts due to customers	492,029	429,583	450,338	2,163	1,374,113
Other borrowed funds	–	39,451	54,024	339	93,814
Derivative financial liabilities	965	–	–	26	991
Other financial liabilities	2,723	249	417	3,024	6,413
Total financial liabilities	573,234	705,521	504,799	61,470	1,845,024
Net financial position	158,586	25,465	4,424	172,777	361,252

As at 31 December 2014 the Group had the following exposure to foreign currency exchange rate risk:

	AZN	USD	EURO	Other	Total 2014
Financial assets					
Cash and cash equivalents	43,004	48,412	251,427	5,137	347,980
Trading securities	28,599	–	–	–	28,599
Amounts due from credit institutions	42,055	15,475	10,448	4,713	72,691
Investment securities available-for-sale	177,120	1,619	–	30,728	209,467
Loans to customers	423,444	63,470	42,392	9,569	538,875
Other financial assets	482	213	574	–	1,269
Total financial assets	714,704	129,189	304,841	50,147	1,198,881
Financial liabilities					
Amounts due to banks and government funds	112,687	61,567	47	76	174,377
Amounts due to customers	366,241	61,348	274,829	640	703,058
Other borrowed funds	–	19,890	35,386	175	55,451
Derivative financial liabilities	–	–	–	87	87
Other financial liabilities	1,430	36	182	52	1,700
Total financial liabilities	480,358	142,841	310,444	1,030	934,673
Net financial position	234,346	(13,652)	(5,603)	49,117	264,208

Currency risk sensitivity

The following table details the Group's sensitivity to a 60% increase and 15% decrease in the USD and EUR against the AZN. These are the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated

monetary items and adjusts their translation at the end of the period for specified changes in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on profit before tax based on assets value as at 31 December 2015 and 2014:

	31 December 2015		31 December 2014	
	AZN/USD +15%	AZN/USD -60%	AZN/USD +8.74%	AZN/USD -35%
Impact on profit before tax	(3,820)	15,279	1,193	(4,778)

	31 December 2015		31 December 2014	
	AZN/EUR +15%	AZN/EUR -60%	AZN/EUR +10.7%	AZN/EUR -35%
Impact on profit before tax	(664)	2,654	600	(1,961)

26. Fair values of financial instruments

Fair value hierarchy

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

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
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

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
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

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets measured at fair value					
Trading securities	31 December 2014	160,120	–	27,743	28,599
Investment securities available-for-sale	31 December 2014		21,604		209,467
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2014	–	–	72,691	347,980
Amounts due from credit institutions	31 December 2014	–	–	538,500	72,691
Loans to customers	31 December 2014	–	–	2,342	538,500
Investment property	31 December 2014		–		2,342

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2014	–	87	–	87
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2014	–	–	174,377	174,377
Amounts due to customers	31 December 2014	–	–	703,058	703,058
Other borrowed funds	31 December 2014	–	–	55,451	55,451

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 car-

ried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2015	Fair value 2015	Unrecognized gain/(loss) 2015	Carrying value 2014	Fair value 2014	Unrecognized gain/(loss) 2014
Financial assets						
Cash and cash equivalents	1,021,306	1,021,306	–	347,980	347,980	–
Amounts due from credit institutions	137,895	137,895	–	72,691	72,691	–
Investment securities – loans and receivables	87,903	86,718	(1,185)	–	–	–
Loans to customers	902,150	884,654	(17,496)	538,875	538,500	(375)
Financial liabilities						
Amounts due to banks and government funds	369,693	369,693	–	174,377	174,377	–
Amounts due to customers	1,374,113	1,373,943	170	703,058	703,058	–
Other borrowed funds	93,814	93,814	–	55,451	55,451	–
Total unrecognised change in unrealised fair value			(18,511)			(375)

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

Fixed rate financial instruments

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

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

Movements in level 3 assets and liabilities at fair value

The following table shows a reconciliation of the opening and closing amount of Level 3 assets which are recorded at fair value:

	At 1 January 2015	Purchases	Interest income	(Loss) recorded in OCI	Settle- ments	Reclas- sifications	Currency translation difference	At 31 December 2015
Assets								
Investment securities available-for-sale	27,743	35,003	1,401	(352)	(27,335)	(38,232)	1,772	-
	27,743	35,003	1,401	(352)	(27,335)	(38,232)	1,772	-

	At 1 January 2014	Purchases	Interest income	(Loss) recorded in OCI	Settle- ments	Reclas- sifications	Currency translation difference	At 31 December 2014
Assets								
Investment securities available-for-sale	5,525	32,345	1,498	109	(10,296)	-	1,438	27,743
	5,525	27,743	1,498	109	(10,296)	-	1,438	27,743

The following table shows the quantitative information about significant unobservable inputs used in the fair value measurement categorized within level 3 of the fair value hierarchy:

31 December 2014	Carrying amount	Valuation techniques	Unobservable input	Range of discount rate
Investment securities available-for-sale				
Treasury bills of the Ministry of Finance of Georgia	22,660	Discounted cash flow	Discount rate	4.59%-5.34%
Government coupon bonds of the Ministry of Finance of Georgia	3,464	Discounted cash flow	Discount rate	6.47%
Corporate deposit certificates	1,619	Discounted cash flow	Discount rate	5.25%

27. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled See Note 25 "Risk management" for the Group's contractual undiscounted repayment obligations.

	31 December 2015			31 December 2014		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	1,021,306	–	1,021,306	347,980	–	347,980
Trading securities	23,862	22,376	46,238	10,047	18,552	28,599
Amounts due from credit institutions	133,607	4,288	137,895	72,691	–	72,691
Investment securities	53,857	39,742	93,599	37,198	172,269	209,467
Derivative financial assets	324	–	324	–	–	–
Loans to customers	438,100	464,050	902,150	268,048	270,827	538,875
Investment property	–	1,668	1,668	–	2,000	2,000
Property and equipment	–	15,851	15,851	–	16,244	16,244
Goodwill and other intangible assets	–	56,730	56,730	–	4,126	4,126
Current income tax assets	287	–	287	1,367	–	1,367
Deferred income tax assets	–	1,555	1,555	–	–	–
Prepayment for equity investment	–	–	–	–	–	–
Other assets	12,056	3,080	15,136	4,317	–	4,317
Total assets	1,683,399	609,340	2,292,739	741,648	176,686	918,334

	31 December 2015			31 December 2014		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Amounts due to banks and government funds	297,897	71,796	369,693	133,005	41,372	174,377
Amounts due to customers	1,293,886	80,227	1,374,113	670,890	32,168	703,058
Other borrowed funds	18,539	75,275	93,814	27,807	27,644	55,451
Derivative financial liabilities	–	991	991	87	–	87
Deferred income tax liabilities	–	9,688	9,688	–	–	–
Provision for guarantees and letters of credit	379	–	379	2,666	17	2,683
Dividends payable to shareholders	–	–	–	10,832	–	10,832
Other liabilities	11,236	336	11,572	2,430	634	3,064
Total liabilities	1,621,937	238,313	1,860,250	847,717	101,835	949,552
Net assets/(liabilities)	61,462	371,027	432,489	(106,069)	429,775	323,706

28. 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:

	31 December 2015					31 December 2014				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Amounts due from credit institutions	–	25,558	–	–	25,558	–	22,070	–	–	22,070
Loans outstanding at 1 January, gross	10	19,803	1,644	–	21,457	25	13,467	1,003	–	14,495

	31 December 2015					31 December 2014				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Loans issued during the year	–	47,733	6,745	–	54,478	40	32,964	2,367	3	35,374
Loan repayments during the year	(10)	(39,067)	(6,555)	–	(45,632)	(55)	(26,628)	(1,735)	(3)	(28,421)
Interest accrual	–	244	28	–	272	–	–	9	–	9
Foreign currency translation difference	–	2,415	828	–	3,243	–	–	–	–	–
Loans outstanding at 31 December, gross	–	31,128	2,690	–	33,818	10	19,803	1,644	–	21,457
Less: allowance for impairment at 31 December	–	(945)	(280)	–	(1,225)	–	(364)	(30)	–	(394)
Loans outstanding at 31 December, net	–	30,183	2,410	–	32,593	10	19,439	1,614	–	21,063
Interest income on loans	–	3,487	137	–	3,624	1	2,405	123	–	2,529
Deposit at 1 January	5,062	26,239	289	57,516	89,106	988	12,044	272	68,196	81,500
Deposits received during the year	18,812	123,874	121	58,937	201,744	24,200	20,766	96	87,813	132,875
Deposits repaid during the year	(4,200)	(15,700)	(99)	(58,726)	(78,725)	(20,143)	(6,744)	(79)	(98,493)	(125,459)
Interest accrual	9	522	6	125	662	17	173	–	–	190
Foreign currency translation difference	5,922	285	240	28,021	34,468	–	–	–	–	–
Deposits at 31 December	25,605	135,220	557	85,873	247,255	5,062	26,239	289	57,516	89,106

	31 December 2015					31 December 2014				
	Parent	Entities under common control	Key management personnel	Other	Total	Parent	Entities under common control	Key management personnel	Other	Total
Current accounts at 31 December	10,955	513,550	393	173,911	698,809	11,701	332,746	104	93,125	437,676
Interest expense on deposits	(480)	(8,133)	(8)	(3,035)	(11,656)	(1,144)	(2,400)	(29)	(2,950)	(6,523)
Guarantees issued	–	4,564	–	–	4,564	–	19,500	–	–	19,500
Letters of credit issued	–	2,026	–	–	2,026	–	1,609	–	–	1,609
Unused credit lines	163	558	269	34	1,024	153	4,369	516	44	5,082
Fee and commission income	14	1,426	1	1	1,442	15	558	12	1	586
Net gains/(losses) from foreign currencies: dealing	103	3,585	8	1,584	5,280	8	306	8	1,737	2,059
Other operating expenses	–	(4,037)	–	–	(4,037)	(17)	(4,003)	–	30	(3,990)

The Bank has guarantee from its parent received as a collateral in respect of deposits placed in local banks in the amount of AZN 21,219 thousand as at 31 December 2015 (2014 – nil).

During the period the Bank sold property in net book value amount of AZN 1,351 thousand to one entity under common control.

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

	Year ended 31 December 2015	Year ended 31 December 2014
Salaries and other benefits	(3,043)	(1,966)
Social security costs	(480)	(277)
Total key management compensation	(3,523)	(2,243)

29. Capital adequacy

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

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

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

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

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 10% (2014: 12%) of risk-weighted assets for regulatory capital. As at 31 December 2015 and 2014 the bank's capital adequacy ratio on this basis was as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
Tier 1 capital	339,059	333,000
Tier 2 capital	16,206	10,793
Less: Deductions from capital	(148,987)	(51,141)
Total regulatory capital	206,278	292,652
Risk-weighted assets	1,199,711	883,623
Capital adequacy ratio	17%	33%

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 11.4% (2014 - 12%) of risk-weighted assets for regulatory capital. As at 31 December 2015, capital adequacy ratio of PASHA Bank Georgia was 44% (31 December 2014 - 65%).

Capital Adequacy Standard Ratio of PASHA Yatirim is calculated in accordance with BRSA. As at 31 December 2015 the bank's capital adequacy ratio was 91.75% (31 December 2014: 135.43%).



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