“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

International Financial Reporting Standards
Financial Statements and
Independent Auditors’ Report
For the Year Ended December 31, 2022

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Azer-Turk Bank" Open Joint Stock Company (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2022, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS Standards").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS Standards;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2022 were authorized for issue on May 24, 2023 by the Management Board of the Bank.

Signed and authorized for release on behalf of the Management Board of the Bank:

Mr. Orkhan Huseynov	**Mr. Orkhan Gadirbey**
Chairman of the Management Board	Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan

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Independent Auditors' Report

To the Shareholders and Supervisory Board of "Azer-Turk Bank" Open Joint Stock Company

Opinion

We have audited the financial statements of "Azer-Turk Bank" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2022, statement of profit or loss, statement of comprehensive income, statement of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (*IESBA code*) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Azerbaijan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Company as at and for the year ended 31 December 2021 were audited by other auditors who expressed an unmodified opinion of those statements on 27 April 2022.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditors' report is:

Nasiba Muradkhanova

KPMG Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

24 May 2023

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022

(*Figures in tables are in thousands of Azerbaijani Manats*)

	Notes	December 31, 2022	December 31, 2021 after reclassification
Assets			
Cash and cash equivalents	5, 24	446,763	99,235
Amounts due from credit institutions	6, 24	45,304	3,563
Loans to customers	7, 24	319,164	227,653
Investment securities	8, 24	122,232	48,623
Property and equipment	9	10,519	8,491
Intangible assets	10	6,114	5,718
Deferred income tax assets		-	247
Other assets	13	15,918	16,746
Total assets		**966,014**	**410,276**
Liabilities			
Amounts due to credit institutions and government organizations	14, 24	421,152	113,847
Amounts due to customers	15, 24	458,360	231,187
Lease liabilities	13	4,266	3,097
Current income tax liability		3,708	477
Deferred income tax liabilities	11	20	-
Other liabilities	13	13,803	8,855
Total liabilities		**901,309**	**357,463**
Equity	16		
Share capital		50,000	50,000
Retained earnings		14,735	2,602
Fair value reserve		(30)	211
Total equity		**64,705**	**52,813**
Total liabilities and equity		**966,014**	**410,276**

Signed and authorized for release on behalf of the Management Board of the Bank:

Mr. Orkhan Huseynov
Chairman of the Management Board
Baku, the Republic of Azerbaijan

Mr. Orkhan Gadirbey
Deputy Chairman of the Management Board
Baku, the Republic of Azerbaijan

The accompanying notes on pages 10 to 55 are an integral part of these financial statements

STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2022
(*Figures in tables are in thousands of Azerbaijani Manats*)

	Notes	*Year ended December 31, 2022*	*Year ended December 31, 2021*
Interest income			
Loans to customers		28,340	18,894
Amounts due from credit institutions		3,902	254
Investment securities		3,269	2,882
Interest income calculated using the effective interest method		**35,511**	**22,030**
Interest expense			
Amounts due to customers		(6,663)	(4,498)
Amounts due to credit institutions and government organizations		(4,570)	(2,096)
Lease liabilities	13	(367)	(191)
		(11,600)	**(6,785)**
Net interest income		**23,911**	**15,245**
Credit (loss)/recovery on financial assets	12	(615)	1,987
Net interest income		**23,296**	**17,232**
Fee and commission income	18	15,319	11,117
Fee and commission expense	18	(11,652)	(9,359)
Fee and commission income, net	18	**3,667**	**1,758**
Net gains from foreign currencies:			
- dealing	19	15,951	1,615
- translation differences		320	167
Other income	19	294	1,154
Non-interest income		**20,232**	**4,694**
Personnel expenses	20	(14,260)	(11,784)
General and administrative expenses	20	(8,270)	(5,774)
Depreciation and amortization	9, 10	(4,620)	(4,000)
Provision for credit related commitments and other impairment	13,17	(235)	412
Non-interest expenses		**(27,385)**	**(21,146)**
Profit before income tax expense		**16,143**	**780**
Income tax expense	11	(4,010)	(226)
Profit for the year		**12,133**	**554**

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Baku, the Republic of Azerbaijan

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Deputy Chairman of the Management Board
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STATEMENT OF COMREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(*Figures in tables are in thousands of Azerbaijani Manats*)

	Notes	*Year ended December 31, 2022*	*Year ended December 31, 2021*
Profit for the year		**12,133**	**554**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Changes in allowances for expected credit losses on debt instruments at FVOCI	8	102	161
Net change in fair value of debt instruments at fair value through other comprehensive income	8	(403)	147
Income tax relating to components of other comprehensive income	11	60	(62)
Other comprehensive loss for the year, net of tax		**(241)**	**246**
Total comprehensive income for the year		**11,892**	**800**

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Baku, the Republic of Azerbaijan

____

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"AZER-TURK BANK" OPEN JOINT STOCK COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022
(*Figures in tables are in thousands of Azerbaijani Manats*)

	Share capital	*Fair value reserve*	*Retained earnings*	*Total equity*
January 1, 2021	**50,000**	**(35)**	**2,048**	**52,013**
Net profit for the year	-	-	554	**554**
Other comprehensive loss for the year	-	246	-	**246**
December 31, 2021	**50,000**	**211**	**2,602**	**52,813**
Net profit for the year	-	-	12,133	**12,133**
Other comprehensive loss for the year	-	(241)	-	**(241)**
December 31, 2022	**50,000**	**(30)**	**14,735**	**64,705**

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Deputy Chairman of the Management Board
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“AZER-TURK BANK” OPEN JOINT STOCK COMPANY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

(*Figures in tables are in thousands of Azerbaijani Manats*)

	Notes	*Year ended December 31, 2022*	*Year ended December 31, 2021 after reclassification*
Cash flows from operating activities			
Interest received		36,143	21,424
Interest paid		(10,080)	(5,516)
Fees and commissions received		15,293	11,047
Fees and commissions paid		(11,679)	(8,274)
Net realized gains from currency dealing operations		15,951	1,615
Personnel expenses paid		(14,643)	(11,614)
General and administrative expenses paid		(10,833)	(6,393)
Other income received		294	1,043
Cash flows provided from operating activities before changes in operating assets and liabilities		**20,446**	**3,332**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(41,684)	548
Loans to customers		(92,016)	(65,791)
Other assets		2,083	(7,870)
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions and government organizations		279,916	(2,550)
Amounts due to customers		226,230	41,574
Other liabilities		4,906	3,989
Net cash flows provided from /(used in) operating activities before income tax		**399,881**	**(26,768)**
Income tax paid		(436)	(144)
Net cash provided from /(used in) operating activities		**399,445**	**(26,912)**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		240,608	189,242
Purchase of investment securities		(313,604)	(178,274)
Purchase of property and equipment		(1,963)	(2,569)
Acquisition of intangible assets		(1,883)	(710)
Net cash(used in)/provided from investing activities		**(76,842)**	**7,689**
Cash flows from financing activities			
Proceeds from amounts due to credit institutions and government organizations	14	43,257	30,457
Repayment of amounts due to credit institutions and government organizations	14	(10,112)	(15,661)
Lease liability paid	13	(1,758)	(2,037)
Net cash used in financing activities		**31,387**	**12,759**
Effect of exchange rate fluctuations on cash and cash equivalents		(6,462)	(569)
Net increase/(decrease) in cash and cash equivalents		**347,528**	**(7,033)**
Cash and cash equivalents, beginning	5	99,235	106,268
Cash and cash equivalents, ending	5	**446,763**	**99,235**

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Baku, the Republic of Azerbaijan

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(Figures in tables are in thousands of Azerbaijani Manats)

1. Principal activities

Azer-Turk Bank Open Joint Stock Company (the “Bank”) was incorporated in the Republic of Azerbaijan in May 1995. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan (the “CBAR”) and the Bank conducts its business under license number 234.

The Bank’s principal business activity is corporate and retail banking operations. This includes deposit taking and commercial lending in freely convertible currencies and in Azerbaijani manat (“AZN”), transfer payments in Azerbaijan and abroad, support of clients’ export/import transactions, foreign currency exchange and other banking services to its commercial and retail customers.

As at December 31, 2022, the Bank’s network comprised of head office and 13 branches (2021: head office, 1 customer service department, 7 branches and 1 unit service).

The number of Bank’s employees as at December 31, 2022 was 513 (2021: 408).

The Bank’s registered address is 85 J. Mammadguluzade Street, 192/193, Baku, AZ1078, the Republic of Azerbaijan.

As at December 31, the following shareholders owned the outstanding shares of the Bank*:*

Shareholder	***2022, %***	***2021, %***
Government of the Republic of Azerbaijan	75.00	75.00
T.C. Ziraat Bankasi A.Ş	12.37	12.37
“AzRe Reinsurance” OJSC	6.55	6.55
“Qala Life” Insurance Company OJSC	5.00	5.00
“Ziraat Bank International AG”	1.08	1.08
Total	**100.00**	**100.00**

As at December 31, 2022 and 2021, the ultimate shareholder of the Bank is the Government of the Republic of Azerbaijan, acting through the State Service on Property Issues under the Ministry of Economy of the Republic of Azerbaijan (the “Government”).

In August 2020, in order to improve the business activity of the government-owned organizations, the President of the Republic of Azerbaijan approved decree on establishment of Azerbaijan Investment Holding ("AIH") and on November 5, 2020, the list of state-owned companies to be transferred to the management of Azerbaijan Investment Holding was approved. The transfer of the "Azer-Turk Bank" OJSC to the management of the AIH and the regulation of a number of related issues was approved by the Decree of the President of the Republic of Azerbaijan dated September 22,2021.

Business environment

The Bank’s operations are primarily located in Azerbaijan. Consequently, the Bank is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan.

The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government continued major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on the oil and gas sector. During 2022 the oil prices reached 7-year maximum which created significant surplus in the country’s current account and increased foreign currency reserves. The Central Bank of Azerbaijan Republic (CBAR) maintained stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD since 2018. The CBAR refinancing rate was increased from 6.25 to 7.25 per cent during 2021 and further increased to 7.75 per cent during 2022, to address rising prices in global markets and increased inflationary pressure in Azerbaijan.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

The financial statements reflect management’s assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Bank. The future business environment may differ from management’s assessment.

2. Basis of preparation

General

These financial statements have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards). These financial statements have been prepared assuming that the Bank is a going concern and will continue in operation for the foreseeable future.

The Azerbaijani manat ("AZN") is the functional and presentation currency of the Bank as the majority of transactions are denominated, measured, or funded in AZN. Transactions in other currencies are treated as transactions in foreign currencies. The Bank is required to maintain its records and prepare its financial statements in AZN and in accordance with IFRS Standards. The financial statements are presented in thousands of AZN except per share amounts and unless otherwise indicated.

The financial statements have been prepared under the historical cost convention except investment securities that have been measured at fair value.

Changes in presentation of comparative figures. As at 31 December 2021 comparative information is reclassified to conform to changes in presentation in the current year as described below in order to give a clearer presentation of the business and its operations:

Cash and cash equivalents amounting AZN 890 thousand, previously presented as Amounts due from credit institutions, is reclassified to cash and cash equivalents.

Net change in amounts due to credit institutions and government organizations amounting to AZN 14,796 thousand, previously presented within cash flows from operating activities, was reclassified to cash flows from financing activities. The Bank has disclosed separately proceeds from and repayments of amounts due to credit institutions and government organizations. At the same time, the Bank continues to present changes in current accounts due to credit institutions and government organisations within cash flows from operating activities.

The following table summarizes the impact from the above retrospective changes on the Bank's financial statements:

31 December 2021 **AZN'000**	**As previously reported**	**Reclassification amount**	**Financial statement caption after reclassification**
Statement of financial position			
Cash and cash equivalents	98,345	890	99,235
Amounts due from credit institutions	4,453	(890)	3,563

2021	**As previously reported**	**Reclassification amount**	**Financial statement caption after reclassification**
Statement of cash flows (Increase)/decrease in operating assets:			
Amounts due from credit institutions	576	(28)	548
Net cash flows (used in)/provided from operating activities before income tax	(26,740)	(28)	(26,768)
Net cash flows (used in)/provided from operating activities	(26,884)	(28)	(26,912)
Net (decrease)/increase in cash and cash equivalents	(7,005)	(28)	(7,033)
Cash and cash equivalents, beginning	105,350	918	106,268
Cash and cash equivalents, ending	98,345	890	99,235
Amounts due to credit institutions and government organizations	12,246	(14,796)	(2,550)
Proceeds from amounts due to credit institutions and government organizations	-	30,457	30,457
Repayment of amounts due to credit institutions and government organizations	-	(15,661)	(15,661)

3. Summary of accounting policies

Fair value measurement

The Bank measures financial instruments carried at Fair value through other comprehensive income ("FVOCI") such as investment securities, at fair value at each balance sheet date.

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 Bank. 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 Bank 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 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 financial statements on a recurring basis, the Bank 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 and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at Fair value though profit or loss ("FVPL"), transaction costs are added to, or subtracted from, this amount.

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortized cost (AC);
- FVOCI;
- FVPL.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at amortized cost

The Bank only measures amounts due from credit institutions and loans to customers, investment debt securities and other financial investment at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimizing potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank’s control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “held to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realizing cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The SPPI test

Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument’s underlying base interest rate, for example a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument’s cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset’s principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual paramount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

Debt instruments at FVOCI

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The Expected credit losses ("ECL") for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognised in profit or loss as other income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2022.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Bank of Azerbaijan Republic ("CBAR"), including obligatory reserves of CBAR, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Repurchase and reverse repurchase agreements and securities lending

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge 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 investment securities or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

Borrowings

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank 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 credit institutions and government organizations and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortized 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

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount is reported in the 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; and
- 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 statement of financial position.

Renegotiated loans

Where possible, the Bank 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 Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchased or originated credit impaired ("POCI"). When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether here has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. For assets in Stages 2 and 3 of ECL calculation to be transferred to Stage 1, all the following criteria should be met (subject to compliance):

- There is no delay of more than 30 days in the payments of the last 6 months for the financial instrument,
- The dynamics of changes in the market factors that led to the classification of the financial asset in the 2nd and 3rd classification groups have been reversed (exchange rate, collateral prices, inadequate changes in the sector),
- The financial asset was removed from the control of structural units engaged in the management of non-performing loans and transferred to the control of the Corporate, Retail Credits or Treasury department,
- The PD on the financial asset or its external rating has returned to its previous position or to a better one.

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 derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Bank 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 Bank 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 Bank 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 recognised to the extent of the Bank`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 Bank 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 Bank`s continuing involvement is the amount of the transferred asset that the Bank 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 Bank`s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised 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 recognised in profit or loss.

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the balance sheet 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 income 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 income 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.

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

Current and deferred income taxes 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 income tax are also recognised in other comprehensive income or directly in equity, respectively.

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 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 begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful life in years
Furniture and fixtures	5-10
Computer	5
Vehicles	5
Right of use assets	3-5
Leasehold improvements	3-5
Other fixed assets	5-8

The asset’s residual values, useful lives 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 other operating expenses, unless they qualify for capitalization.

Intangible assets

Intangible assets include computer software and licenses.

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 amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

Provisions

Provisions are recognized when the Bank 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 Bank 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 Bank does not provide post-retirement benefits to its employees.

Share capital

Share capital

Ordinary shares and non-redeemable preference shares with discretionary dividends are both 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 recognized 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 financial statements are authorised for issue.

Government grants and government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be, or have already been complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized against the expenses which government grants are intended to compensate in the statement of profit or loss for the period in which it becomes receivable.

Contingencies

Contingent liabilities are not recognised in the 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 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 Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

The Bank calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR 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 Bank 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 revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest income on all financial assets at FVPL is recognised using the contractual interest rate in "Other interest income" in the statement of profit or loss.

Fees and commissions

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- Income earned from the provision of service is recognized point-in-time, once the respective transactions take place. (for example, servicing plastic card operations, settlement operations, cash operations and others);
- Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

(Figures in tables are in thousands of Azerbaijani Manats)

Foreign currency translation

The financial statements are presented in Azerbaijani manat, 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 the statement of profit or loss 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 from dealing operations.

The Bank used the following official exchange rates at December 31 in the preparation of these financial statements:

	2022	***2021***
1 US Dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.8114	AZN 1.9265

Standards and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

(a) Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)
The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Company accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Company will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2022, the deductible temporary difference in relation to the right-of-use asset is 327 thousand AZN and the deductible temporary difference in relation to the lease liability is 73 thousand AZN (Note 11), resulting in a net deferred tax asset of 254 thousand AZN (Note 11). There will be no impact on retained earnings on adoption of the amendments.

(b) Other standards.

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

– Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

– IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.

– Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).

– Definition of Accounting Estimates (Amendments to IAS 8).

– Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

4. Significant accounting judgments and estimates

Estimation uncertainty

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the 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. Additional details are provided in Note 22.

Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ► The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Losses ("LTECL") basis and the qualitative assessment;
- ► The segmentation of financial assets when their ECL is assessed on a collective basis;
- ► Development of ECL models, including the various formulae and the choice of inputs;
- ► Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ► Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 7 and 21.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- •fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Bank due to changes in the CBAR key rate, if the loan agreement entitles the Bank to do so.

The Bank performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Bank assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Bank analogizes to the guidance on the derecognition of financial liabilities.

(Figures in tables are in thousands of Azerbaijani Manats)

The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- •change the currency of the financial asset;
- •change in collateral or other credit enhancement;
- •change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Bank further performs qualitative evaluation of whether the modification is substantial.
If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 2(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

The fair value measurement of term borrowings at initial recognition

The fair value measurement at initial recognition of term borrowings requires judgement in determining the inputs to the valuation technique used, including the discount rate and any applicable risk adjustments (see Note 14).

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	December 31, 2022	*December 31, 2021*
Cash on hand	30,500	24,996
Obligatory reserve with the CBAR	11,441	890
Current accounts with the CBAR	75,198	38,618
Current accounts with other banks	64,059	34,731
Time deposits with the CBAR up to 90 days	25,009	-
Time deposits with other banks up to 90 days	240,556	-
Cash and cash equivalents	**446,763**	**99,235**

As at December 31, 2022 the Bank has 3 current accounts with other banks (December 31, 2021: one) with outstanding balance exceeding 10% of total current accounts with other banks. The gross value of this balance as at December 31, 2022 is 52,862 AZN thousand (December 31, 2021: AZN 34,705).

As at December 31, 2022 the Bank has 3 time deposits with other banks up to 90 days (December 31, 2021: none) with outstanding balance exceeding 10% of total time deposits with other banks up to 90 days. The gross value of this balance as at December 31, 2022 is 222,019 AZN thousand (December 31, 2021: nil).

(Figures in tables are in thousands of Azerbaijani Manats)

An analysis by credit quality of amounts of cash and cash equivalents (excluding cash on hand) is as follows:

	December 31, 2022	***December 31, 2021***
rated A- to A+ (Fitch Ratings)	76,644	-
rated BBB- to BBB+ (Fitch Ratings)	181,901	-
rated below BBB- (Fitch Ratings)	157,410	74,234
not rated	308	5
Total correspondent accounts with other banks	**416,263**	**74,239**

All balances of cash equivalents are allocated to Stage 1. As at December 31, 2022 and 2021 ECL relating to cash and cash equivalents rounds to zero.

As at 31 December 2022, included in Cash balances with the CBAR are obligatory reserve with CBAR totaling 11,441 thousand (December 31, 2021: AZN 890 thousand). As at 31 December 2022, credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at 4% of the previous month average balances of certain liabilities in AZN and 5% of the previous month average balances of certain liabilities in foreign currencies respectively, attracted from customers by the credit institutions. This is an increase from the previous rates of 0.5% and 1% respectively, which were in effect until 6 June 2022 when the CBAR made the decision to increase the rates.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	December 31, 2022	***December 31, 2021***
Time deposits for more than 90 days	43,855	3,001
Pledged accounts with credit institutions	1,563	377
Reverse repurchase agreements with credit institutions up to 3 months	-	185
Total gross amount for Loans to Banks	**45,418**	**3,563**
Less: allowance for impairment losses	(114)	-
Total Loans to Banks	**45,304**	**3,563**

As at December 31, 2022, time deposits for more than 90 days include interest bearing time deposits placed in one resident and seven non-resident credit institutions in the amount of AZN 3,606 thousand (2021: AZN 2,997 thousand) and AZN 40,249 thousand (2021: none) respectively.

As at December 31, 2022, blocked accounts with credit institutions represented funds blocked by one (2021: one) non-resident credit institutions against letters of guarantee and letters of credit (2021: letters of guarantee and letters of credit) issued to one customers (2021: one customer).

As at December 31, 2022, accrued interest income included in due from banks and other financial institutions amounted to AZN 283 thousand (December 31, 2021: nil).

All balances of due from credit institutions are allocated to Stage 1. As at December 31, 2022 ECL relating to amounts due from credit institutions equals to AZN 114 thousand (2021: nil).

(Figures in tables are in thousands of Azerbaijani Manats)

7. Loans to customers

Loans to customers comprise:

	December 31, 2022	***December 31, 2021***
Loans to individuals-mortgage	143,638	105,695
Loans to individuals-consumer	145,298	83,454
Corporate loans	28,831	31,999
Loans to government owned entities	-	11,921
Loans to individuals-entrepreneurship	6,675	3,552
Gross loans to customers at amortized cost	**324,442**	**236,621**
Less: allowance for expected credit losses	(5,278)	(8,968)
Loans to customers at amortized cost	**319,164**	**227,653**

Concentration of loans to customers

Loans are made principally in the following industry sectors:

	December 31, 2022	***December 31, 2021***
Individuals	295,611	192,701
Trading enterprises	19,829	23,820
Oil and gas	2	11,921
Transport	-	2,870
Manufacturing	4,035	1,558
Agriculture and food processing	1,125	99
Others	3,840	3,652
Loans to customers, gross	**324,442**	**236,621**

As at December 31, 2022, the Bank had a concentration of loans represented by AZN 14,392 thousand or 4.5% of gross loan portfolio (2021: AZN 35,404 thousand or 14.9%) due from ten (2021: ten) largest borrowers of the Bank. An allowance of AZN 126 thousand (2021: AZN 2,833 thousand) was recognized against these loans.

As at December 31, 2022, accrued interest income included in loans to customers amounted to AZN 2,107 thousand (December 31, 2021: AZN 3,673 thousand).

During the year ended December 31, 2022 the Bank did not restructure loans under the COVID-19 restructuring program (2021: AZN 2,602 thousand).

Allowance for impairment of loans to customers at amortized cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals-mortgage during the year ended December 31, 2022 is as follows:

Loans to individuals-mortgage	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at January 1, 2022	**104,185**	**775**	**735**	**105,695**
New assets originated or purchased	42,740	-	-	42,740
Assets repaid	(4,773)	-	(29)	(4,802)
Transfers to Stage 1	540	(234)	(306)	-
Transfers to Stage 2	(416)	601	(185)	-
Transfers to Stage 3	(167)	(251)	418	-
Unwinding of discount	-	-	5	5
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2022	**142,109**	**891**	**638**	**143,638**

(Figures in tables are in thousands of Azerbaijani Manats)

Loans to individuals-mortgage	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at January 1, 2022	**(74)**	**(73)**	**(120)**	**(267)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(51)	-	-	(51)
Assets repaid	2	-	33	35
Transfers to Stage 1	(74)	43	31	-
Transfers to Stage 2	-	(2)	2	-
Transfers to Stage 3	-	15	(15)	-
Net remeasurement of loss allowance	82	7	(54)	35
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(5)	(5)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2022	**(115)**	**(10)**	**(128)**	**(253)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals-consumer loans during the year ended December 31, 2022 is as follows:

Loans to individuals-consumer	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at January 1, 2022	**77,640**	**1,053**	**4,549**	**212**	**83,454**
New assets originated or purchased	118,944	1,433	1,251	-	121,628
Assets repaid	(56,072)	(482)	(1,617)	(64)	(58,235)
Net remeasurement of POCI	-	-	-	-	-
Transfers to Stage 1	54	(43)	(11)	-	-
Transfers to Stage 2	(671)	695	(24)	-	-
Transfers to Stage 3	(1,105)	(253)	1,358	-	-
Unwinding of discount	-	-	173	-	173
Recoveries	-	-	442	-	442
Amounts written off	-	-	(2,090)	(74)	(2,164)
At December 31, 2022	**138,790**	**2,403**	**4,031**	**74**	**145,298**

Loans to individuals-consumer	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at January 1, 2022	**(1,116)**	**(413)**	**(2,541)**	**-**	**(4,070)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss					
New assets originated or purchased	(991)	(243)	(574)	-	(1,808)
Assets repaid	603	18	-	(219)	402
Transfers to Stage 1	(72)	43	29	-	-
Transfers to Stage 2	16	(50)	34	-	-
Transfers to Stage 3	19	240	(259)	-	-
Net remeasurement of loss allowance	425	10	(921)	145	(341)
Movements without impact on credit loss allowance (charge)/reversal in profit or loss					
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(173)	-	(173)
Recoveries	-	-	(442)	-	(442)
Amounts written off	-	-	2,090	74	2,164
At December 31, 2022	**(1,116)**	**(395)**	**(2,757)**	**-**	**(4,268)**

(Figures in tables are in thousands of Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2022 is as follows:

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at January 1, 2022	**24,459**	**807**	**6,733**	**31,199**
New assets originated or purchased	12,608	-	-	12,608
Assets repaid	(10,318)	(217)	(2,266)	(12,801)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(74)	131	(57)	-
Transfers to Stage 3	(56)	(589)	645	-
Unwinding of discount	-	-	40	40
Recoveries	-	-	490	490
Amounts written off	-	-	(3,505)	(3,505)
At December 31, 2022	**26,619**	**132**	**2,080**	**28,831**

Corporate loans	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at January 1, 2022	**(630)**	**(293)**	**(3,033)**	**(3,956)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(127)	-	-	(127)
Assets repaid	25	-	-	25
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	4	(35)	31	-
Transfers to Stage 3	1	293	(294)	-
Net remeasurement of loss allowance	519	10	(103)	426
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(40)	(40)
Recoveries	-	-	(490)	(490)
Amounts written off	-	-	3,505	3,505
At December 31, 2022	**(208)**	**(25)**	**(424)**	**(657)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to government owned entities during the year ended December 31, 2022 is as follows:

Loans to government owned entities	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at January 1, 2022	**11,921**	-	-	**11,921**
New assets originated or purchased	-	-	-	-
Assets repaid	(11,921)	-	-	(11,921)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2022	**-**	**-**	**-**	**-**

The Bank did not recognize any credit loss allowance for Loans to government owned entities for the year ended 31 December 2022.

(Figures in tables are in thousands of Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-entrepreneurship during the year ended December 31, 2022 is as follows:

Loans to individuals-entrepreneurship	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at January 1, 2022	**1,919**	**566**	**1,067**	**3,552**
New assets originated or purchased	6,224	-	-	6,224
Assets repaid	(1,542)	(566)	(1,021)	(3,129)
Transfers to Stage 1	1	-	(1)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwinding of discount	-	-	(1)	(1)
Recoveries	-	-	35	35
Amounts written off	-	-	(6)	(6)
At December 31, 2022	**6,602**	**-**	**73**	**6,675**

Loans to individuals-entrepreneurship	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at January 1, 2022	**(70)**	**(5)**	**(600)**	**(675)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(96)	-	-	(96)
Assets repaid	39	5	624	668
Transfers to Stage 1	(3)	-	3	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	30	-	1	31
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	1	1
Recoveries	-	-	(35)	(35)
Amounts written off	-	-	6	6
At December 31, 2022	**(100)**	**-**	**-**	**(100)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-mortgage during the year ended December 31, 2021 is as follows:

Loans to individuals-mortgage	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at January 1, 2021	**79,181**	**691**	**437**	**80,309**
New assets originated or purchased	30,536	55	132	30,723
Assets repaid	(5,226)	(20)	(91)	(5,337)
Transfers to Stage 1	331	(293)	(38)	-
Transfers to Stage 2	(410)	552	(142)	-
Transfers to Stage 3	(227)	(210)	437	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2021	**104,185**	**775**	**735**	**105,695**

(Figures in tables are in thousands of Azerbaijani Manats)

Loans to individuals-mortgage	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at January 1, 2021	**(292)**	**(80)**	**(59)**	**(431)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(27)	(13)	(13)	(53)
Assets repaid	4	-	6	10
Transfers to Stage 1	(73)	69	4	-
Transfers to Stage 2	2	(12)	10	-
Transfers to Stage 3	2	14	(16)	-
Net remeasurement of loss allowance	310	(51)	(52)	207
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2021	**(74)**	**(73)**	**(120)**	**(267)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals-consumer loans during the year ended December 31, 2021 is as follows:

Loans to individuals-consumer	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at January 1, 2021	**43,671**	**1,234**	**3,894**	**274**	**49,073**
New assets originated or purchased	62,825	455	426	-	63,706
Assets repaid	(27,637)	(594)	(1,188)	(84)	(29,503)
Net remeasurement of POCI	-	-	-	22	22
Transfers to Stage 1	521	(343)	(178)	-	-
Transfers to Stage 2	(624)	800	(176)	-	-
Transfers to Stage 3	(1,116)	(499)	1,615	-	-
Unwinding of discount	-	-	55	-	55
Recoveries	-	-	107	-	107
Amounts written off	-	-	(6)	-	(6)
At December 31, 2021	**77,640**	**1,053**	**4,549**	**212**	**83,454**

Loans to individuals-consumer	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at January 1, 2021	**(740)**	**(143)**	**(2,416)**	**(3,299)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(1,002)	(219)	(306)	(1,527)
Assets repaid	294	105	261	660
Transfers to Stage 1	(140)	93	47	-
Transfers to Stage 2	9	(41)	32	-
Transfers to Stage 3	16	174	(190)	-
Net remeasurement of loss allowance	447	(382)	187	252
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(55)	(55)
Recoveries	-	-	(107)	(107)
Amounts written off	-	-	6	6
At December 31, 2021	**(1,116)**	**(413)**	**(2,541)**	**(4,070)**

(Figures in tables are in thousands of Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2021 is as follows:

Corporate loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at January 1, 2021	**19,988**	**3,225**	**7,930**	**31,143**
New assets originated or purchased	9,640	530	1,657	11,827
Assets repaid	(8,131)	(2,319)	(2,623)	(13,073)
Transfers to Stage 1	3,002	(274)	(2,728)	-
Transfers to Stage 2	-	146	(146)	-
Transfers to Stage 3	(40)	(501)	541	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	2,126	2,126
Amounts written off	-	-	(24)	(24)
At December 31, 2021	**24,459**	**807**	**6,733**	**31,199**

Corporate loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at January 1, 2021	**(943)**	**(411)**	**(2,678)**	**(4,032)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(309)	(225)	(894)	(1,428)
Assets repaid	241	585	13	839
Transfers to Stage 1	(203)	47	156	-
Transfers to Stage 2	-	(79)	79	-
Transfers to Stage 3	-	15	(15)	-
Net remeasurement of loss allowance	584	(225)	2,408	2,767
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	(2,126)	(2,126)
Amounts written off	-	-	24	24
At December 31, 2021	**(630)**	**(293)**	**(3,033)**	**(3,956)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to government owned entities during the year ended December 31, 2021 is as follows:

Loans to government owned entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at January 1, 2021	**6,312**	-	-	**6,312**
New assets originated or purchased	11,921	-	-	11,921
Assets repaid	(6,312)	-	-	(6,312)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2021	**11,921**	-	-	**11,921**

The Bank did not recognize any credit loss allowance for Loans to government owned entities for the year ended 31 December 2021.

(Figures in tables are in thousands of Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-entrepreneurship during the year ended December 31, 2021 is as follows:

Loans to individuals-entrepreneurship	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at January 1, 2021	**273**	**489**	**1,160**	**1,922**
New assets originated or purchased	1,899	547	6	2,452
Assets repaid	(278)	(443)	(372)	(1,093)
Transfers to Stage 1	49	(49)	-	-
Transfers to Stage 2	-	25	(25)	-
Transfers to Stage 3	(24)	(3)	27	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	271	271
Amounts written off	-	-	-	-
At December 31, 2021	**1,919**	**566**	**1,067**	**3,552**

Loans to individuals-entrepreneurship	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL as at January 1, 2021	**(4)**	**(121)**	**(624)**	**(749)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(69)	-	(2)	(71)
Assets repaid	-	101	16	117
Transfers to Stage 1	(21)	21	-	-
Transfers to Stage 2	-	(25)	25	-
Transfers to Stage 3	-	1	(1)	-
Net remeasurement of loss allowance	24	18	257	299
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	(271)	(271)
Amounts written off	-	-	-	-
At December 31, 2021	**(70)**	**(5)**	**(600)**	**(675)**

Collateral and other credit enhancements

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 corporate and governmental lending, charges over real estate properties and blocked cash;
- For retail lending, mortgages over residential properties.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment. As at December 31, 2022, the maximum exposure of collateralized loans in Stage 3 amounted to AZN 2,149 thousand (2021: 10,768 thousand) for which ECL of AZN 128 thousand (2021: AZN 4,827 thousand) was recognized. If these loans were not collateralized the ECL amount for these loans would be AZN 2,147 thousand (2021: 8,927 thousand).

Loans issued at below-market interest rate

During the year ended 31 December 2022, there was no loan issued at a below-market interest rate. (2021: AZN 11,921 thousand). During the year ended 31 December 2021, the Bank issued a loan to customer at below-market interest rate in amount of AZN 11,921 thousand without any gain or loss recognised on initial recognition due to short-term maturity of the loan. This is syndicated loan disbursed in collaboration with two commercial banks of the Republic of Azerbaijan which is collateralized with the guaranty of Ministry of Finance. This loan was fully repaid during 2022.

(Figures in tables are in thousands of Azerbaijani Manats)

8. Investment securities

Investment securities comprises:

	December 31, 2022	*December 31, 2021*
Debt securities at FVOCI		
Notes issued by the CBAR	62,268	18,883
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	18,036	12,691
Corporate bonds	23,487	17,049
Corporate shares – unquoted (FVOCI)	402	-
Total of debt securities	**104,192**	**48,623**
Repurchase agreements with financial institutions (AC)	18,040	-
Total amount for investment securities	**122,232**	**48,623**

The movements in allowances for credit losses were as follows:

	2022	*2021*
ECL as at January 1	(161)	(54)
New assets originated or purchased	(164)	(107)
Remeasurement	62	-
ECL as at December 31	**(263)**	**(161)**

During 2022, new repurchase agreements amounted AZN 9,644 thousand at interest rate 4% and AZN 8,396 thousand at interest rate 4.5% were obtained from Ministry of Finance of Azerbaijan.

All balances of investment securities are allocated to Stage 1. The Bank recognized AZN 263 thousand credit loss allowance for investment securities for the year ended 31 December 2022 (2021: none).

As at December 31, 2022, accrued interest income included in investment securities amounted to AZN 1,108 thousand (December 31, 2021: AZN 253 thousand).

Details of corporate unquoted shares designated as FVOCI are:

Name	**Nature of business**	**% of ownership**	***2022***	***2021***
"Milli Kart" LLC	Card processing	2.4	120	-
Bashak Inam Insurance Company	Insurance company	5.0	282	-
Total investment securities			**402**	**-**

The Bank recognized loss in OCI on fair value change of debt investment securities in the amount of AZN 403 thousand during the year ended December 31, 2022 (2021: AZN 147 thousand gain on fair value change of debt investment securities).

At December 31, 2022 debt securities from Ministry of Finance with a fair value of AZN 18,040 thousand have been pledged to the Bank as collateral with respect to repurchase agreements (December 31, 2021: nil).

At December 31, 2022 debt securities at FVOCI with a fair value of AZN 21,043 thousand have been pledged to third parties as collateral with respect to repurchase agreements (December 31, 2021: nil). Refer to Note 15.

(Figures in tables are in thousands of Azerbaijani Manats)

9. Property and equipment

The movements in property and equipment were as follows:

	Furniture and fixtures	*Computer*	*Vehicles*	*Other fixed assets*	*Leasehold improve-ments*	*Right of use asset*	*Total*
Cost							
January 1, 2021	**4,675**	**4,499**	**1,017**	**285**	**3,252**	**6,158**	**19,886**
Additions	438	626	117	3	1,125	1,306	3,615
Disposals/derecognition of lease agreement	(84)	(93)	(180)	(3)	-	(230)	(590)
Lease remeasurement	-	-	-	-	-	1,768	1,768
December 31, 2021	**5,029**	**5,032**	**954**	**285**	**4,377**	**9,002**	**24,679**
Additions	1,152	1,228	113	70	470	1,253	5,535
Lease remeasurement	-	-	-	-	-	1,307	58
December 31, 2022	**6,181**	**6,260**	**1,067**	**355**	**4,847**	**11,562**	**30,272**
Accumulated depreciation							
January 1, 2021	**(3,069)**	**(2,675)**	**(998)**	**(215)**	**(2,269)**	**(4,159)**	**(13,385)**
Depreciation charge	(394)	(512)	(30)	(21)	(674)	(1,532)	(3,163)
Disposals	84	93	180	3	-	-	360
December 31, 2021	**(3,379)**	**(3,094)**	**(848)**	**(233)**	**(2,943)**	**(5,691)**	**(16,188)**
Depreciation charge	(454)	(536)	(33)	(24)	(883)	(1,635)	(3,565)
December 31, 2022	**(3,833)**	**(3,630)**	**(881)**	**(257)**	**(3,826)**	**(7,326)**	**(19,753)**
Net book value							
December 31, 2021	**1,650**	**1,938**	**106**	**52**	**1,434**	**3,311**	**8,491**
December 31, 2022	**2,348**	**2,630**	**186**	**98**	**1,021**	**4,236**	**10,519**

As at December 31, 2022, property and equipment amounting to AZN 7,374 thousand (2021: AZN 4,605 thousand) were fully depreciated.

Right of use asset includes branches area of the Bank.

(Figures in tables are in thousands of Azerbaijani Manats)

10. Intangible assets

The movements in intangible assets were as follows:

	Licenses	*Computer software*	*Total*
Cost			
January 1, 2021	**2,688**	**5,356**	**8,044**
Additions	28	625	653
December 31, 2021	**2,716**	**5,981**	**8,967**
Additions	645	805	1,450
December 31, 2022	**3,361**	**6,786**	**10,147**
Accumulated amortization			
January 1, 2021	**(754)**	**(1,388)**	**(2,142)**
Amortization charge	(323)	(514)	(837)
December 31, 2021	**(1,077)**	**(1,902)**	**(2,979)**
Amortization charge	(359)	(695)	(1,054)
December 31, 2022	**(1,436)**	**(2,597)**	**(4,033)**
Net book value			
December 31, 2021	**1,639**	**4,079**	**5,718**
December 31, 2022	**1,925**	**4,189**	**6,114**

As at December 31, 2022, intangible assets amounting to AZN 410 thousand (2021: AZN 16 thousand) were fully amortized.

11. Taxation

The corporate income tax expense comprises:

	Year ended December 31, 2022	*Year ended December 31, 2021*
Current income tax charge	(3,410)	(336)
Deferred income tax credit − origination and reversal of temporary differences	(326)	110
Add: Previous year’s profit tax remeasurement	(274)	-
Income tax expense	**(4,010)**	**(226)**

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

	Year ended December 31, 2022	*Year ended December 31, 2021*
Net gains/loss on debt instruments designated at FVOCI	60	(62)
Income tax charged to other comprehensive income	**60**	**(62)**

(Figures in tables are in thousands of Azerbaijani Manats)

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

	Year ended December 31, 2022	*Year ended December 31, 2021*
Profit before tax	**16,143**	**780**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(3,229)**	**(156)**
Tax effect of non-deductible expenses	(507)	(70)
Previous year's profit tax remeasurement	(274)	-
	(4,010)	**(226)**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	January 1, 2021	*In the statement of profit or loss*	*In other compre-hensive income*	*December 31, 2021*	*In the statement of profit or loss*	*In other compre-hensive income*	*December 31, 2022*
Tax effect of deductible temporary differences							
Amounts due from credit institutions	(10)	64	-	54	23	-	77
Lease Liability	428	(283)	-	145	73	-	218
Other liabilities	336	246	-	582	(424)	-	158
Investment securities	81	(17)	(62)	2	(78)	60	(16)
Property and equipment	(50)	390	-	340	411	-	751
Other assets	(42)	(101)	-	(143)	244	-	101
Deferred income tax assets	**743**	**299**	**(62)**	**980**	**249**	**60**	**1,289**
Tax effect of taxable temporary differences							
Intangible assets	(280)	80	-	(200)	101	-	(99)
Amount due to customers	(79)	2	-	(77)	(1)	-	(78)
Amounts due to banks and government organizations	(108)	(16)	-	(124)	35	-	(89)
Loan to customers	(77)	(255)	-	(332)	(711)	-	(1,043)
Deferred income tax liabilities	**(544)**	**(189)**	**-**	**(733)**	**(576)**	**-**	**(1,309)**
Net deferred income tax assets/(liabilities)	**199**	**110**	**(62)**	**247**	**(327)**	**60**	**(20)**

12. Credit loss recovery and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended December 31, 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to customers at amortized cost	7	351	354	(1,432)	(74)	(801)
Investment securities		300	-	-	-	300
Due from credit institutions		(114)	-	-	-	(114)
Credit (loss)/gain on financial assets		**537**	**354**	**(1,432)**	**(74)**	**(615)**
Financial guarantees	17	9	-	-	-	9
Credit related commitments		**9**	**-**	**-**	**-**	**9**
Total credit loss (expense)/recovery		**546**	**354**	**(1,432)**	**(74)**	**(606)**

(Figures in tables are in thousands of Azerbaijani Manats)

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended December 31, 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans to customers at amortized cost	7	89	(29)	2,012	22	2,094
Investment securities		(107)	-	-	-	(107)
Credit (loss)/gain on financial assets		**(18)**	**(29)**	**2,012**	**22**	**1,987**
Financial guarantees	17	412	-	-	-	412
Credit related commitments		**412**	**-**	**-**	**-**	**412**
Total credit loss (expense)/recovery		**394**	**(29)**	**2,012**	**22**	**2,399**

Provisions for credit related commitments and performance guarantees are recorded in other liabilities.

13. Other assets and liabilities

Other assets comprise:

	December 31, 2022	*December 31, 2021*
Other financial assets		
Receivables from intermediaries	5,705	8,510
Settlements on money transfers	4,513	2,033
Settlements on operations with plastic cards	2,018	1,316
Total other financial assets	**12,236**	**11,859**
Other non-financial assets		
Deferred expenses	1,460	555
Repossessed collaterals	1,030	2,859
Prepayments for acquisition of property, equipment and intangible assets	773	712
Prepayments for services	379	678
Settlement with government budget	40	83
Total other non-financial assets	**3,682**	**4,887**
Total amount for Other assets	**15,918**	**16,746**

An analysis of movement in ECL in relation to other assets during the year ended December 31, 2022 is as follows:

	Year ended December 31, 2022
Opening balance	-
Addition	244
Write-off	(244)
Closing balance	**-**

There is no ECL recognized in relation to other assets during the year ended December 31, 2021.

(Figures in tables are in thousands of Azerbaijani Manats)

Other liabilities comprise:

	December 31, 2022	*December 31, 2021*
Other financial liabilities		
Funds in settlement	11,149	2,853
Blocked accounts of customers	682	2,783
Total other financial liabilities	**11,831**	**5,636**
Other non-financial liabilities		
Payable to employees	539	707
Accrued expenses	494	1,477
Deferred income	470	497
Settlements with government budget	281	341
Provision for ECL for credit related commitment and other provision (Note 17)	188	197
Total other non-financial liabilities	**1,972**	**3,219**
Other liabilities	**13,803**	**8,855**

The movements in lease liability were as follows:

	December31, 2022	*December 31, 2021*
As at January 1	**3,097**	**2,139**
Additions	1,253	1,306
Derecognitions	-	(270)
Remeasurement	1,307	1,768
Interest expense	367	191
Payments	(1,758)	(2,037)
As at December 31	**4,266**	**3,097**

The Bank had total cash outflows for leases of AZN 2,075 thousand in 2022 (2021: AZN 2,037 thousand). The Bank also had non-cash additions to right-of-use assets and lease liabilities of AZN 1,253 thousand in 2022 (2021: AZN 1,306 thousand).

Extension options

Some leases of office premises and branches contain extension options exercisable by the Bank up to one year before the end of non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

14. Amounts due to credit institutions and government organizations

Amounts due to credit institutions and government organizations comprise:

	December 31, 2022	*December 31, 2021*
Current accounts	260,886	4,820
Amounts due to the Azerbaijan Mortgage and Credit Guarantee Fund	138,843	102,251
Time deposits and loans	15,031	-
Loans received from the Entrepreneurship Development Fund	5,138	5,105
Amounts due to the Ministry of Finance	1,064	1,386
Amounts due to CBAR	190	285
Amounts due to credit institutions and government organizations	**421,152**	**113,847**

As at December 31, 2022 and 2021, the Bank had time deposit placed by the Ministry of Finance which matures in 2024 and bears contractual interest rate of 0.5% p.a., and was used for financing of a loan.

(Figures in tables are in thousands of Azerbaijani Manats)

As at December 31, 2022, the Bank had time deposit with one resident bank in the amount of AZN 15,031 thousand (2021: nil) that matures during 2023 and bears interest rate of 2.5%.

As at December 31, 2022 the Bank has 2 banks and other financial institutions (December 31, 2021: one) with outstanding balance exceeding 10% of total current accounts of due to credit institutions and government organizations. The gross value of this balance as at December 31, 2022 is 174,534 AZN thousand (December 31, 2021: AZN 3,394).

On December 20, 2006, the Bank signed a credit agreement with the Azerbaijan Mortgage and Credit Guarantee Fund, for granting long term mortgage loans to individuals. Under this program, funds are made available to the Bank at an interest rate of 1-4% p.a. (2021: 1-4% p.a.) which matures through in 2023-2052 (2021: 2022-2051). The Bank relends these funds to eligible borrowers at rates not higher than 8.0% p.a.

On December 23, 2010, the Bank signed a credit agreement with the Entrepreneurship Development Fund of the Republic of Azerbaijan, for financing of small and medium sized enterprises. Under this program, funds are made available to the Bank at an interest rate of 1% p.a. (2021: 1% p.a.) which matures through 2023-2027 (2021: 2022-2025). The Bank uses these funds to issue loans to eligible borrowers at rate of 6% p.a.

The Bank management believes that there are no other financial instruments similar to term borrowings from Entrepreneurship Development Fund of Azerbaijan Republic and Azerbaijan Mortgage Fund and considers this market as a separate market.

A reconciliation of the opening and closing amounts of term borrowings with relevant cash and non-cash changes from financing activities is stated below:

	2022	***2021***
January 1	**109,027**	**92,221**
Cash flows		
Proceeds	43,257	30,457
Repayment	(7,265)	(13,981)
Interest paid	(2,847)	(1,680)
Non-cash changes		
Interest expense	3,063	2,009
December 31	**145,234**	**109,027**

As at December 31, 2022, accrued interest expense included in amounts due to credit institutions and government organizations amounted to AZN 1,063 thousand (December 31, 2021: AZN 768 thousand).

15. Amounts due to customers

The amounts due to customers include the following:

	December 31, 2022	***December 31, 2021***
Current accounts	314,763	163,776
Time deposits	122,554	67,411
Borrowings under repurchase agreements	21,043	-
Amounts due to customers	**458,360**	**231,187**
Held as security against guarantees and letters of credit (Note 17)	1,580	1,393
Held as security against loans to customers	1,001	1,906
Held as security against other purposes	330	-

At December 31, 2022, the Bank had amounts due to 10 (2020: 10) largest customers with aggregate balance of AZN 212,348 thousand or 46% of total amounts due to customers (2021: AZN 101,970 thousand or 44%).

As at December 31, 2022, included in amounts due to customers are liabilities of AZN 21,043 thousand (December 31, 2021: nil) from repurchase agreements. The Bank pledged investments in debt securities as collateral that it was not allowed to sell or repledge. Refer to Note 8.

(Figures in tables are in thousands of Azerbaijani Manats)

Customer accounts by economic sectors are as follows:

	December 31, 2022	*December 31, 2021*
Individuals	210,115	98,882
Insurance companies and other non-bank financial institutions	111,218	66,462
State and public organizations	65,736	7,966
Trade and services	29,076	41,741
Transportation and communication	14,825	7,812
Manufacturing	7,506	1,848
Construction	2,781	4,891
Agriculture	357	181
Other	16,746	1,404
Amounts due to customers	**458,360**	**231,187**

As at December 31, 2022, accrued interest expense included in amounts due to customers amounted to AZN 4,271 thousand (December 31, 2021: AZN 3,040 thousand).

16. Equity

As at December 31, 2022 and 2011, the Bank's share capital is represented by authorized, issued and fully paid up 50,000,000 ordinary shares with nominal amount of 1 (one) Azerbaijani manat per share. Each ordinary share carries one vote.

The share capital of the Bank was contributed by shareholders in Azerbaijani manats and they are entitled to dividends and any capital distribution in Azerbaijani manat.

Fair value reserve

This reserve records fair value changes on financial assets at FVOCI.

17. Commitment and contingencies

Legal

In the ordinary course of business, the Bank 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 Bank.

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. The last tax audit covered second quarter of 2015 and third quarter of 2016.

In management's view, the relevant legislation as at December 31, 2022 is appropriate and the Bank'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.

Compliance with CBAR requirements

CBAR requires banks to maintain certain prudential norms computed based on statutory financial statements. As at December 31, 2022 and 2021, the Bank was in compliance with these norms.

(Figures in tables are in thousands of Azerbaijani Manats)

Financial commitments and contingencies

The Bank 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 Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank 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.

The undrawn loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

As at December 31, the Bank’s commitments and contingencies comprised the following:

	December 31, 2022	*December 31, 2021*
Credit related commitments		
Financial guarantees	27,921	25,272
Undrawn loan commitments	9,676	10,958
Letters of credit	655	-
	38,252	**36,230**
Performance guarantees	7,527	3,196
Commitments and contingencies	**45,779**	**39,426**
Provisions for ECL for credit related commitments	188	197
Deposits held as security against financial guarantees (Note 15)	690	931
Deposits held as security against performance guarantees (Note 15)	235	462
Deposits held as security against letters of credit (Note 15)	655	-

Financial commitments and contingencies

An analysis of changes in the ECLs during the year ended December 31, 2022 is as follows:

Credit related commitments	*Stage 1*	*Stage 2*	*Total*
ECLs as at January 1, 2022	**(197)**	-	**(197)**
New exposures	(103)	(6)	(109)
Exposures derecognised or matured (excluding write-offs)	91	13	104
Transfers to Stage 1	14	(14)	–
Net remeasurement of loss allowance	27	(13)	14
At December 31, 2022	**(168)**	**(20)**	**(188)**

An analysis of changes in the ECLs during the year ended December 31, 2021 is as follows:

Credit related commitments	*Stage 1*	*Stage 2*	*Total*
ECLs as at January 1, 2021	**(609)**	–	**(609)**
New exposures	(114)	–	(114)
Exposures derecognised or matured (excluding write-offs)	114	–	114
Net remeasurement of loss allowance	412	–	412
At December 31, 2021	**(197)**	–	**(197)**

As at December 31, 2022 and December 31, 2021 ECL relating to undrawn loan commitments is zero.

(Figures in tables are in thousands of Azerbaijani Manats)

18. Net fee and commission income

Net fee and commission income comprises:

	Year ended December 31, 2022	*Year ended December 31, 2021*
Servicing plastic card operations	7,635	6,673
Settlements operations	3,682	1,660
Cash operations	1,603	1,412
Foreign exchange operations	1,208	549
Guarantees and letter of credit	664	492
Other	527	331
Fee and commission income	**15,319**	**11,117**
Servicing plastic card operations	(9,466)	(7,939)
Settlements operations	(627)	(367)
Cash operations	(213)	(174)
Guarantees and commitments	(44)	(42)
Other	(1,302)	(837)
Fee and commission expense	**(11,652)**	**(9,359)**
Net fee and commission income	**3,667**	**1,758**

19. Other income

Other income comprises:

	Year ended December 31, 2022	*Year ended December 31, 2021*
Income from sale of repossessed collaterals	276	130
Income from disposal of investment securities	-	861
Other income	18	163
Total other income	**294**	**1,154**

During 2022, the Bank additionally had gain from dealing in foreign exchange transactions in the amount of AZN 15,951 thousand (2021: AZN 1,615 thousand). Dealing operations of the Bank has increased as a result of global changes affected to Russia due to sanctions. As a result, during the year 2022, dealing gain from RUB exchanges increased.

20. Personnel, general and administrative expenses

Personnel expenses comprise:

	Year ended December 31, 2022	*Year ended December 31, 2021*
Salaries and bonuses	(11,140)	(9,292)
Social security costs	(2,779)	(2,212)
Other employee related expenses	(341)	(280)
Personnel expenses	**(14,260)**	**(11,784)**

(Figures in tables are in thousands of Azerbaijani Manats)

General and administrative expenses comprise:

	Year ended December 31, 2022	***Year ended December 31, 2021***
Data processing	(1,358)	(1,232)
Deposit insurance expense	(837)	(566)
Repair and maintenance of property and equipment	(795)	(302)
Communication	(711)	(1,024)
Marketing and advertising	(687)	(380)
Legal and consultancy	(669)	(157)
Collection services	(593)	(328)
Operating taxes other than income tax	(442)	(538)
Utility expenses	(430)	(321)
Office supplies	(376)	(253)
Security	(368)	(329)
Business travel and related expenses	(173)	(40)
Auction expenses	(48)	-
Membership expenses	(43)	(84)
Other	(740)	(220)
Total general and administrative expenses	**(8,270)**	**(5,774)**

21. Risk management

Introduction

Risk is inherent in the Bank'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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. 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 Bank'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 Bank.

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

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank’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 Bank’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 Bank 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 Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk 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 Bank.

For all levels throughout the Bank, 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 Bank on the utilization of market limits and liquidity, plus any other risk developments.

Risk mitigation

The 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 Bank’s performance to developments affecting a particular industry.

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

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank 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 concentrations, and by monitoring exposures in relation to such limits.

The Bank 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 Bank 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 Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank 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 statement of financial position, 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 carrying value represents 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 detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

Impairment assessment

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

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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

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

Stage 1: When loans are first recognized, the Bank recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognized based on a credit-adjusted EIR. ECL are only recognized or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Default and Credit-impaired assets:
  - Loans with principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
  - Loans that have been restructured;
  - Any loan considered by management as non-performing.
- Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition.
- Default on other financial instruments of the same borrower.
- Default according to external rating.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

The Bank runs separate models for its key portfolios. The models incorporate quantitative information and utilise supplemental external information that could affect the borrower's behaviour. In order to consider the impact of macroeconomic factors on probability of default, sensitivity of probabilities to the macroeconomic factors are calculated by statistical regression method. Where practicable, PDs, incorporate forward looking macroeconomic information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings to determine PD and LGD.

Consumer lending and residential mortgages

Consumer lending comprises secured and unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by days past due.

The probability of default for consumer loans is calculated using migration matrices. For this purpose, simplified migration matrices, which reflect the change from respective month of one year to the same month of the next year are prepared based on the amounts of loans in each matrices. Other key inputs into the models are real GDP growth and AZN/USD rates.

Corporate and small business lending

The same approach and inputs as for consumer lending applies to corporate and small business lending. For corporate loans, migration matrices used in the PD calculations are determined by the number of loans in each matrix. LGD is calculated based on so-called roll rates, which only uses available historical data on the month recoveries of defaulted loans (the data is displayed monthly and discounted).

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

Loss given default

For corporate lending assets, LGD values are assessed at least quarterly by account managers and reviewed and approved by the Bank.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.
The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type) as well as borrower characteristics.

Where appropriate, further recent data is used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 segment of each asset class.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. The other criteria used for the significant increase in credit risk are as follows:

- The financial instrument is in foreign currency, and from the moment of its initial recognition until the reporting date, the foreign currency exchange rate has increased by 20%,
- The value of the collateral for the financial asset after the corresponding depreciation and amortization is less compared to the initial assessment, at the same time compared to the residual value of the financial asset, and there is a delay in repayments of 15-30 days for the asset,
- The probability of default on the financial asset has increased by 10-30%,
- The financial instrument has been restructured and currently the number of overdue days on principal debt and/or interest is below 30

For interbank operations and bonds issued by the banks:

- Deteriorating change in external rating;
- Monitoring suggests borrower has financial difficulties.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortized cost and FVOCI).

ECL on all other assets calculated on collective basis.

Forward-looking information

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP;
- Real GDP;
- Non-oil real GDP;
- Nominal people income;
- Nominal salaries;
- Budget deficit;
- Volume of overdue credits in the country;
- Total credit portfolio of all banks in Azerbaijan.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit quality per class of financial assets

The Bank classifies its credit related assets as follows:

High grade − counterparties with highly liquid collaterals or strong government support, excellent financial performance, 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 0-30 overdue days in principal and interest.

Sub-standard grade − counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and 30-90 overdue days in principal and interest.

Impaired − counterparties with unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and more than 90 overdue days in principal and interest.

(Figures in tables are in thousands of Azerbaijani Manats)

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

December 31, 2022	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	262,474	184,289	-	-	**446,763**
Amounts due from credit institutions	6	Stage 1	21,975	23,329	-	-	**45,304**
Loans to customers at amortized cost	7						
- Government related entities		Stage 1	-	-	-	-	
- Loans to individuals − consumer loans		Stage 1	-	138,790	-	-	**138,790**
		Stage 2	-	-	2,403	-	**2,403**
		Stage 3	-	-	-	4,105	**4,105**
- Corporate loans		Stage 1	-	26,619	-	-	**26,619**
		Stage 2	-	-	132	-	**132**
		Stage 3	-	-	-	2,080	**2,080**
- Loans to individuals − entrepreneurs		Stage 1	-	6,602	-	-	**6,602**
		Stage 2	-	-	-	-	**-**
		Stage 3	-	-	-	73	**73**
- Loans to individuals − mortgage loans		Stage 1	-	142,109	-	-	**142,109**
		Stage 2	-	-	891	-	**891**
		Stage 3	-	-	-	638	**638**
Debt securities at FVOCI	8	Stage 1	84,787	37,445	-	-	**122,232**
Other financial assets	13	Stage 1	2,450	9,786	-	-	**12,236**
Undrawn loan commitments	17	Stage 1	-	9,676	-	-	**9,676**
Letters of credit	17	Stage 1	-	655	-	-	**655**
Performance guarantees	17	Stage 1	-	7,504	-	-	**7,504**
Performance guarantees	17	Stage 2	-	-	23	-	**23**
Financial guarantees	17	Stage 1	13,471	14,338	-	-	**27,809**
Financial guarantees	17	Stage 2	-	-	112	-	**112**
Total			**385,157**	**601,142**	**3,561**	**6,896**	**996,756**

(Figures in tables are in thousands of Azerbaijani Manats)

December 31, 2021	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	90,195	9,040	-	-	**99,235**
Amounts due from credit institutions	6	Stage 1	562	3,001	-	-	**3,563**
Loans to customers at amortized cost	7						
- Government related entities		Stage 1	11,921	-	-	-	**11,921**
- Loans to individuals − consumer loans		Stage 1	-	77,640	-	-	**77,640**
		Stage 2	-	-	1,053	-	**1,053**
		Stage 3	-	-	-	4,761	**4,761**
- Corporate loans		Stage 1	6,399	18,060	-	-	**24,459**
		Stage 2	-	-	807	-	**807**
		Stage 3	-	-	-	6,733	**6,733**
- Loans to individuals − entrepreneurs		Stage 1	-	1,919	-	-	**1,919**
		Stage 2	-	-	566	-	**566**
		Stage 3	-	-	-	1,067	**1,067**
- Loans to individuals − mortgage loans		Stage 1	-	104,185	-	-	**104,185**
		Stage 2	-	-	775	-	**775**
		Stage 3	-	-	-	735	**735**
Debt securities at FVOCI	8	Stage 1	43,869	4,754	-	-	**48,623**
Other financial assets	13	Stage 1	2,009	9,850	-	-	**11,859**
Undrawn loan commitments	17	Stage 1	2,465	8,493	-	-	**10,958**
Letters of credit	17	Stage 1	-	-	-	-	**-**
Performance guarantees	17	Stage 1	-	3,196	-	-	**3,196**
Financial guarantees	17	Stage 1	13,470	11,802	-	-	**25,272**
Total			**170,890**	**251,940**	**3,201**	**13,296**	**439,327**

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, undrawn loan commitments and letters of credit are assessed and a provision for expected credit losses is calculated in similar manner as for loans, see Note 17.

The geographical concentration of Bank’s financial assets and liabilities is set out below:

	December 31, 2022				***December 31, 2021***			
	Azerbaijan	*OECD*	*CIS and other foreign countries*	*Total*	*Azerbaijan*	*OECD*	*CIS and other foreign countries*	*Total*
Assets								
Cash and cash equivalents	142,215	295,033	9,515	**446,763**	64,530	28,582	6,123	**99,235**
Amounts due from credit institutions	3,599	33,091	8,614	**45,304**	3,186	377	-	**3,563**
Investment securities	121,106	-	1,126	**122,232**	46,032	-	2,591	**48,623**
Loans to customers	319,164			**319,164**	227,653	-	-	**227,653**
Other financial assets	8,748	2,461	1,027	**12,236**	9,786	2,010	63	**11,859**
	594,832	**330,585**	**20,282**	**945,699**	**351,187**	**30,969**	**8,777**	**390,933**
Liabilities								
Amounts due to credit institutions and government organizations	314,200	661	106,291	**421,152**	113,839	8	-	**113,847**
Amounts due to customers	451,733	3,396	3,231	**458,360**	224,396	3,805	2,986	**231,187**
Lease liabilities	4,266	-	-	**4,266**	3,097	-	-	**3,097**
Other financial liabilities	11,831	-	-	**11,831**	5,636	-	-	**5,636**
	782,030	**4,057**	**109,522**	**895,609**	**346,968**	**3,813**	**2,986**	**353,767**
Net assets	**(187,198)**	**326,528**	**(89,240)**	**50,090**	**4,219**	**27,156**	**5,791**	**37,166**

(Figures in tables are in thousands of Azerbaijani Manats)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank 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 Bank maintains a portfolio of 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. The CBAR requires banks to maintain instant liquidity ratio of more than 30%. As at December 31, these ratios were as follows:

	2022, %	*2021, %*
Instant liquidity ratio (assets receivable or realisable within one day / liabilities repayable on demand)	73.75	75.60

Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at December 31, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. In accordance with Azerbaijani legislation, the Bank is obliged to repay the principal amounts of a term deposit upon demand of the depositor. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

As at December 31, 2022	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions and government organizations	276,632	2,594	20,201	193,654	**493,081**
Amounts due to customers	361,547	81,127	21,985	-	**464,659**
Lease Liabilities	635	1,566	2,945	-	**5,146**
Other financial liabilities	11,831	-	-	-	**11,831**
Total undiscounted financial liabilities	**650,645**	**85,287**	**45,131**	**193,654**	**974,717**

As at December 31, 2021	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
Financial liabilities					
Amounts due to credit institutions and government organizations	6,175	1,768	12,920	143,022	**163,885**
Amounts due to customers	182,589	23,793	29,823	-	**236,205**
Lease Liabilities	130	842	2,504	-	**3,476**
Other financial liabilities	5,636	-	-	-	**5,636**
Total undiscounted financial liabilities	**194,530**	**26,403**	**45,247**	**143,022**	**409,202**

The table below shows the contractual expiry by maturity of the Bank's credit related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee and letters of credit contracts, the maximum amount is allocated to the earliest period in which the contract could be called.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total*
2022	38,252	-	-	-	**38,252**
2021	36,230	-	-	-	**36,230**

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

(Figures in tables are in thousands of Azerbaijani Manats)

The Bank'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 individuals and entities period less than one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. This level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank 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.

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 and foreign exchanges. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank 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. As at December 31, 2022 and December 31, 2021, the Bank does not have any significant floating rate non-trading financial instruments.

Maturity analysis of assets and liabilities are representative of the interest repricing profile of the Bank.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBAR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at December 31, on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the manat, with all other variables held constant on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase.

Currency	*Increase in currency rate in % 2022*	*Effect on profit before tax 2022*	*Increase in currency rate in % 2021*	*Effect on profit before tax 2021*
USD	10.00%	179	10.00%	543
EUR	10.00%	(65)	10.00%	(118)

Currency	*Decrease in currency rate in % 2022*	*Effect on profit before tax 2022*	*Decrease in currency rate in % 2021*	*Effect on profit before tax 2021*
USD	-3.00%	(54)	-3.00%	(163)
EUR	-6.00%	39	-6.00%	71

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 Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Figures in tables are in thousands of Azerbaijani Manats)

22. Fair value measurement

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Bank 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 as explained above.

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities at FVOCI	December 31, 2022	-	100,633	-	**100,633**
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2022	-	446,763	-	**446,763**
Amounts due from credit institutions	December 31, 2022	-	-	45,313	**45,313**
Loans to customers	December 31, 2022	-	-	318,870	**318,870**
Investment securities at AC	December 31, 2022			18,018	**18,018**
Other financial assets	December 31, 2022	-	-	12,236	**12,236**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions and government	December 31, 2022	-	-	420,725	**420,725**
Amounts due to customers	December 31, 2022	-	-	458,888	**458,888**
Lease liabilities	December 31, 2022	-	-	4,266	**4,266**
Other financial liabilities	December 31, 2022	-	-	11,831	**11,831**

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities at FVOCI	December 31, 2021	-	48,623	-	**48,623**
Assets for which fair values are disclosed					
Cash and cash equivalents	December 31, 2021	-	99,235	-	**99,235**
Amounts due from credit institutions	December 31, 2021	-	-	3,563	**3,563**
Loans to customers	December 31, 2021	-	-	227,653	**227,653**
Other financial assets	December 31, 2021	-	-	11,859	**11,859**
Liabilities for which fair values are disclosed					
Amounts due to credit institutions and government organizations	December 31, 2021	-	109,026	4,821	**113,847**
Amounts due to customers	December 31, 2021	-	-	231,187	**231,187**
Lease liabilities	December 31, 2021			3,097	**3,097**
Other financial liabilities	December 31, 2021	-	-	5,636	**5,636**

(Figures in tables are in thousands of Azerbaijani Manats)

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 Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2022	*Fair value 2022*	*Carrying value 2021*	*Fair value 2021*
Financial assets				
Cash and cash equivalents	446,763	446,763	99,235	99,235
Amounts due from credit institutions	45,304	45,313	3,563	3,563
Investment securities	122,232	118,651	48,623	48,623
Loans to customers	319,164	318,870	227,653	227,653
Other financial assets	12,236	12,236	11,859	11,859
Financial liabilities				
Amounts due to credit institutions and government organizations	421,152	420,725	113,847	113,847
Amounts due to customers	458,360	458,888	231,187	231,187
Lease liabilities	4,266	4,266	3,097	3,097
Other financial liabilities	11,831	11,831	5,636	5,636

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Investment securities at FVOCI

Investment securities *at FVOCI* valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to government organizations and credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

(Figures in tables are in thousands of Azerbaijani Manats)

23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be due or settled. See Note 21 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	December 31, 2022			***December 31, 2021***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	446,763	-	**446,763**	99,235	-	**99,235**
Amounts due from credit institutions	-	45,304	**45,304**	3,563	-	**3,563**
Investment securities	99,236	22,996	**122,232**	24,675	23,948	**48,623**
Loans to customers	86,258	232,906	**319,164**	82,456	145,197	**227,653**
Other financial assets	12,236	-	**12,236**	11,859	-	**11,859**
Total	**644,493**	**301,206**	**945,699**	**221,788**	**169,145**	**390,933**
Amounts due to credit institutions and government organizations	277,196	143,956	**421,152**	5,612	108,235	**113,847**
Amounts due to customers	438,346	20,014	**458,360**	205,708	25,479	**231,187**
Lease liabilities	1,707	2,559	**4,266**	821	2,276	**3,097**
Other financial liabilities	11,831	-	**11,831**	5,636	-	**5,636**
Total	**729,080**	**166,529**	**895,609**	**217,777**	**135,990**	**353,767**
Net	**(84,587)**	**134,677**	**50,090**	**4,011**	**33,155**	**37,166**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank

Management believes that that although current accounts balance of AZN 314,763 thousand as of 31 December 2022 (December 31, 2021: AZN 163,776 thousand) is included under on within one year category in maturity table, apparently not all of these amounts will be withdrawn in period of one month. Past experience demonstrates that current account balances have not decreased more than 31% for the period of last ten years.

24. 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.

The Government of the Republic of Azerbaijan, acting through the Shareholders, controls the Bank activities. The Government of the Republic of Azerbaijan directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as "government institutions"). The Government of the Republic of Azerbaijan does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government. Under these circumstances, the management of the Bank disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge.

(Figures in tables are in thousands of Azerbaijani Manats)

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:

	December 31, 2022			*December 31, 2021*		
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Entities under common control*	*Key management personnel*
Loans outstanding at January 1, gross	**-**	**11,921**	**270**	**-**	**6,312**	**65**
Loans issued during the year	-	-	-	-	11,921	260
Loan repayments during the year	-	(11,921)	(108)	-	(6,312)	(55)
Loans outstanding at December 31	**-**	**-**	**162**	**-**	**11,921**	**270**
Interest income on loans	-	115	20	-	22	20

There was no ECL recognized in relation to the loans to the related parties during the year ended December 31,2022 and December 31,2021.

	December 31, 2022			*December 31, 2021*		
	Shareholders	*Entities under common control*	*Key management personnel*	*Shareholders*	*Entities under common control*	*Key management personnel*
Deposits at January 1,	**2,762**	**9,405**	**-**	**-**	**1,702**	**-**
Deposits received during the year	6,810	-	-	3,762	8,702	-
Deposits repaid during the year	(5,865)	(9,405)	-	(1,000)	(1,000)	-
Deposits at December 31,	**3,707**	**-**	**-**	**2,762**	**9,404**	**-**
Current accounts as at December 31 ,	1,435	66,401	678	1,930	16,115	48
Cash and cash equivalents	89	118,809	-	-	41,610	-
Due from credit institutions	3,624	-	-	-	890	-
Due to credit institutions and government organizations	8	145,347	-	-	109,035	-
Investment securities	-	84,664	-	-	35,306	-
Interest income on due from credit institutions	25	365	-	-	41	-
Interest income on investment securities	-	2,704	-	-	2,997	-
Interest expense on customer deposits	303	67	-	-	5	-
Interest expense on due to credit institutions and government organizations	-	2,890	-	-	1,808	-
Other operating expenses	-	1,279	-	-	1,104	-
Operating income	-	-	-	-	1,978	-

Compensation of key management personnel is as follows:

	Year ended December 31, 2022	*Year ended December 31, 2021*
Salaries and other benefits	768	700
Social security costs	180	170
Total key management personnel compensation	**948**	**870**

(Figures in tables are in thousands of Azerbaijani Manats)

25. 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 by the CBAR in supervising the Bank.

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 maximize 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 change was made in the objectives, policies and processes from the previous years.

As at December 31, 2022 the Bank's regulatory capital after deductions were AZN 63,164 thousand which is in the range of the required minimum of AZN 50,000 thousand set by CBAR (2021: AZN 51,204 thousand)

The government of Azerbaijan Republic stands ready to provide capital injection necessary to ensure Bank's compliance with regulatory requirements of the CBAR and enable it to continue normal operations.

Management believes that the Bank will not face any sanctions against the Bank in the future.

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 5% (2021: 5%) and 10% (2021: 10%), respectively, of risk-weighted assets for regulatory capital.

As at December 31, 2022 and 2021, the Bank's capital adequacy ratios on this basis were as follows:

	December 31, 2022 (unaudited)	***December 31, 2021 (unaudited)***
Tier 1 capital	48,496	48,397
Tier 2 capital	14,788	2,927
Less: deductions from capital	(120)	(120)
Total regulatory capital	**63,164**	**51,204**
Risk weighted assets	**474,647**	**226,155**
Capital adequacy ratio (Tier 1)	10.22%	21.40%
Capital adequacy ratio (Total Capital)	13.31%	22.64%