OJSC Kapital Bank

Separate financial statements

Year ended 31 December 2023
together with independent auditor's report

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Independent auditor's report

To the Shareholders and Supervisory Board of
OJSC Kapital Bank

Opinion

We have audited the separate financial statements of OJSC Kapital Bank (hereinafter, the "Bank"), which comprise the separate statement of financial position as at 31 December 2023, and the separate statement of profit or loss, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policy information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2023, and its separate financial performance and its separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditor's responsibilities for the audit of the separate financial statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and Audit Committee for the separate financial statements

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

In preparing the separate 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.

The Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 separate 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 separate 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 auditor's report to the related disclosures in the separate 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 auditor's 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 separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

We communicate with the Audit Committee 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.

Ernst & Young Holdings (CIS) B.V.

Baku, Azerbaijan

19 March 2024

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Notes to the separate financial statements

Separate statement of financial position

As at 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022 (restated*)*
Assets			
Cash and cash equivalents	6	1,149,545	1,561,597
Amounts due from credit institutions	7	1,289,482	392,424
Investment securities	8	1,595,697	2,522,423
Loans to customers	9	4,110,501	3,030,852
Investment in subsidiary	1	63,090	31,360
Right-of-use assets	12	29,264	35,032
Property and equipment	10	80,336	72,644
Intangible assets	11	29,587	26,200
Other assets	15	446,817	211,507
Total assets		**8,794,319**	**7,884,039**
Liabilities			
Amounts due to Central Bank of the Republic of Azerbaijan and government organizations	18	436,904	403,936
Amounts due to credit institutions	19	482,496	18,669
Amounts due to customers	16	6,464,415	6,158,046
Current income tax liabilities		18,618	47,066
Deferred income tax liabilities	13	23,206	39,291
Lease liabilities	12	36,066	41,031
Debt securities issued	17	59,578	59,578
Subordinated loan	20	–	8,521
Other liabilities	15	151,956	121,894
Total liabilities		**7,673,239**	**6,898,032**
Equity			
Share capital	21	265,850	265,850
Additional paid-in capital		20,870	20,870
Unrealized gain on investment securities		8,182	6,506
Revaluation reserve for premises		2,400	2,067
Retained earnings		823,778	690,714
Total equity attributable to shareholders of the Bank		**1,121,080**	**986,007**
Total liabilities and equity		**8,794,319**	**7,884,039**

** Certain figures indicated here do not correspond to those in the separate statement of financial position as at 31 December 2022 and reflect restatements as disclosed in Note 3.*

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

Farid Huseynov Chairman of the Executive Board, Chief Executive Officer

Emin Mammadov Member of Executive Board, Chief Financial Officer

19 March 2024

AZƏRBAYCAN RESPUBLİKASI ACIQ SƏHMDAR CƏMİYYƏTİ Kapital Bank OPEN JOINT STOCK COMPANY AZERBAIJAN REPUBLIC

The accompanying notes on pages 6 to 70 are an integral part of these financial statements.

Separate statement of profit or loss

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022 (restated*)*
Interest income			
Loans to customers at amortised cost		545,374	509,337
Investment securities		106,061	81,170
Cash and cash equivalents		27,792	3,038
Amounts due from credit institutions		3,513	10,217
Interest income calculated using effective interest rate		**682,740**	**603,762**
Loans to customers at fair value through profit or loss		38,541	22,860
Other interest income		**38,541**	**22,860**
Total interest income		**721,281**	**626,622**
Interest expense			
Amounts due to customers		(81,698)	(62,529)
Amounts due to credit institutions		(10,750)	(1,189)
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations		(8,722)	(7,227)
Lease liabilities	12	(4,507)	(4,571)
Debt securities issued		(3,995)	(3,995)
Other		(330)	(510)
		(110,002)	**(80,021)**
Net interest income		**611,279**	**546,601**
Credit loss expense on financial assets	14	(17,184)	(62,433)
Net interest income after credit loss expense		**594,095**	**484,168**
Fee and commission income	23	307,567	252,678
Fee and commission expense	23	(175,768)	(86,466)
Net fee and commission expense		**131,799**	**166,212**
Net gains from foreign currencies		55,754	70,236
Net losses realised on sale of investment securities		(267)	(4,330)
Net (losses) / gains on loans to customers at fair value through profit or loss		(568)	541
Other operating income	24	12,157	17,351
Non-interest income		**198,875**	**250,010**
Personnel expenses	25	(204,216)	(164,407)
General and administrative expenses	26	(157,673)	(125,852)
Depreciation of property and equipment and amortisation of intangible assets	10, 11	(32,403)	(28,587)
Depreciation of right-of-use assets	12	(9,478)	(8,924)
(Charge for) / reversal of impairment for credit related commitments and other impairment, net	14	(619)	249
Non-interest expenses		**(404,389)**	**(327,521)**
Profit before income tax expense		**388,581**	**406,657**
Income tax expense	13	(84,417)	(88,914)
Profit for the year		**304,164**	**317,743**

* *Certain figures indicated here do not correspond to those in the separate statement of profit or loss for the year ended 31 December 2022 and reflect restatements as disclosed in Note 3.*

The accompanying notes on pages 6 to 70 are an integral part of these financial statements.

Separate statement of comprehensive income

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022 (restated*)*
Profit for the year		**304,164**	**317,743**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through other comprehensive income		173	(375)
Reclassification of cumulative gains on disposal of debt instruments at fair value through other comprehensive income to the income statement		(26)	(147)
Income tax relating to components of other comprehensive income		(29)	104
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**118**	**(418)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Revaluation of premises	10	416	910
Gain / (loss) on equity instruments at fair value through other comprehensive income		1,947	(213)
Income tax relating to components of other comprehensive income		(472)	(139)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		**1,891**	**558**
Other comprehensive income for the year, net of tax		**2,009**	**140**
Total comprehensive income for the year		**306,173**	**317,883**

* *Certain figures indicated here do not correspond to those in the separate statement of comprehensive income for the year ended 31 December 2022 and reflect restatements as disclosed in Note 3.*

The accompanying notes on pages 6 to 70 are an integral part of these financial statements.

Separate statement of changes in equity

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Share capital	*Additional paid-in capital*	*Unrealized gain on investment securities*	*Revaluation reserve for premises*	*Retained earnings*	*Total Equity*
1 January 2022	**245,850**	**20,870**	**7,094**	**1,339**	**526,244**	**801,397**
Profit for the year (restated*)	–	–	–	–	317,743	**317,743**
Other comprehensive (loss) / income for the year	–	–	(588)	728	–	**140**
Total comprehensive (loss) / income for the year			**(588)**	**728**	**317,743**	**317,883**
Issuance of ordinary shares (*Note 21*)	20,000	–	–	–	–	**20,000**
Dividends to shareholders of the Bank (*Note 21*)	–	–	–	–	(153,273)	**(153,273)**
31 December 2022 (restated*)	**265,850**	**20,870**	**6,506**	**2,067**	**690,714**	**986,007**
Profit for the year	–	–	–	–	304,164	**304,164**
Other comprehensive income for the year	–	–	1,676	333	–	**2,009**
Total comprehensive income for the year			**1,676**	**333**	**304,164**	**306,173**
Dividends to shareholders of the Bank (*Note 21*)	–	–	–	–	(171,100)	**(171,100)**
31 December 2023	**265,850**	**20,870**	**8,182**	**2,400**	**823,778**	**1,121,080**

* *Certain figures indicated here do not correspond to those in the separate statement of changes in equity for the year ended 31 December 2022 and reflect restatements as disclosed in Note 3.*

The accompanying notes on pages 6 to 70 are an integral part of these financial statements.

Separate statement of cash flows

For the year ended 31 December

(Amounts presented are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022*
Cash flows from operating activities			
Interest received		735,358	617,807
Interest paid		(100,660)	(75,192)
Fees and commissions received		306,222	259,743
Fees and commissions paid		(175,768)	(86,466)
Net realized gains from foreign currency operations		65,862	59,780
Other operating income received		11,711	16,797
Personnel expenses paid		(193,069)	(152,158)
General and administrative expenses paid		(152,152)	(128,521)
Recoveries of loans to customers previously written off		16,299	7,217
Payment for issued letters of guarantee		–	(23,775)
Cash flows from operating activities before changes in operating assets and liabilities		**513,803**	**495,232**
Net increase in operating assets			
Amounts due from credit institutions		(898,663)	(138,357)
Loans to customers		(1,108,970)	(568,926)
Other assets		(243,203)	(45,472)
Net increase/(decrease) in operating liabilities			
Amounts due to customers		278,349	781,239
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations		32,881	64,096
Amounts due to credit institutions		463,198	7,812
Other liabilities		14,881	(7,770)
Net cash flows from operating activities before income tax		**(947,724)**	**587,854**
Income tax paid		(129,462)	(39,700)
Net cash from operating activities		**(1,077,186)**	**548,154**
Cash flows used in investing activities			
Purchase of investment securities		(989,694)	(2,968,215)
Proceeds from sale and redemption of investment securities		1,914,249	1,579,077
Investment in subsidiary	1	(31,730)	(22,820)
Purchase of property and equipment		(29,258)	(26,568)
Proceeds from sale of property and equipment		446	552
Purchase of intangible assets		(14,645)	(11,235)
Net cash used in investing activities		**849,368**	**(1,449,209)**
Cash flows used in financing activities			
Proceeds from issue of share capital	21	–	20,000
Lease liability paid	12	(8,374)	(12,030)
Repayment of subordinated debt	20	(8,500)	–
Dividends paid to shareholders of the Bank	21	(171,100)	(153,273)
Net cash used in financing activities		**(187,974)**	**(145,303)**
Effect of exchange rates changes on cash and cash equivalents		3,740	70
Net (decrease)/increase in cash and cash equivalents		**(412,052)**	**(1,046,288)**
Cash and cash equivalents, beginning		1,561,597	2,607,885
Cash and cash equivalents, ending	6	**1,149,545**	**1,561,597**

The accompanying notes on pages 6 to 70 are an integral part of these financial statements.

Separate financial statements

As at 31 December

(Amounts presented are in thousands of Azerbaijani manats)

1. Principal activities

Open Joint Stock Company Kapital Bank (the "Bank") was established in accordance with the legislation of the Republic of Azerbaijan. The Bank operates under banking license No. 244 issued by the Central Bank of the Republic of Azerbaijan ("the CBAR") on 25 February 2000.

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 31 December 2023, the Bank's network comprised of head office, 118 branches (2022: 114) and 46 divisions (2022: 26).

The Bank participates in the State deposit insurance program, which was introduced by the Azeri Law, *Insurance of Individual Deposits in the Republic of Azerbaijan* dated 29 December 2006. Azerbaijan Deposit Insurance Fund fully guarantees deposits for a period of three years in local currency with an interest rate up to 12% (2022: 12%), as well as deposits in foreign currency with an interest rate up to 2.5% (2022: 2.5%).

The number of Bank's employees as at 31 December 2023 was 5,313 (2022: 4,828).

The Bank's registered legal address is 71 Fuzuli Street, Baku, AZ1014, Azerbaijan.

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

Shareholder	***2023, %***	***2022 %***
PASHA Holding LLC	99.89	99.89
Individuals	0.11	0.11
Total	**100.00**	**100.00**

As at 31 December 2023 and 2022, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Bank.

BirKart NBCO LLC

As at 31 December 2023 and 2022, the Bank owns 100% of "Birkart non-bank credit organization" Limited Liability Company (the "subsidiary" or "Birkart NBCO"), which was established by the Bank on 3 May 2018 in accordance with the legislation of the Republic of Azerbaijan. During 2023, the Bank additionally paid up in full for 3,173 new shares of AZN 10 each of the subsidiary and as of 31 December 2023, the share capital of the subsidiary totalled AZN 63,090 (2022: AZN 31,360). The subsidiary is not involved in any lending activity.

Competo LLC

On 6 March 2020 the subsidiary purchased 25% of the share capital in "Competo" LLC (the "associate") amounting to AZN 50. "Competo" LLC was established on 9 February 2018 and is operating in retail Banking IT and consulting service.

During 2023 "BirKart NBCO" made additional investment in "Competo LLC" in amount of AZN 21,876 (2023: AZN 4,569) and as at 31 December 2023 the total value of gross investment ot associate amounted to AZN 33,895 (2022: AZN 12,019) and as a result the subsidiary`s share in "Competo LLC" increased to 48% as at 31 December 2023 (31 December 2022: 25%).

PashaPay LLC

On 18 August 2021 the subsidiary purchased 20% of the share capital in "Komtec LTD" LLC (the "associate") amounting to AZN 4. "Komtec LTD" was established in 2008 and is operating in the market of electronic payments and cash payment terminals. As at 10 March 2022, the subsidiary purchased the additional 79% of the share capital in "Komtec LTD" LLC and became 99% owner of the entity. The Bank has rebranded subsidiary to "PashaPay" LLC after acquisition. During 2023 "BirKart NBCO" LLC made additional investment in "PashaPay" LLC in amount of AZN 18,000.

As at 31 December 2023 and 2022, the subsidiary owns 100% of "Red Hearts" Charity Foundation, which was established by the subsidiary on 15 December 2020. As at 31 December 2023, the subsidiary fully paid up issued and outstanding share capital totaling AZN 35 divided into 35 shares, each with a par value of AZN 1. (2022: AZN 35).

(Amounts presented are in thousands of Azerbaijani manats)

2. Basis of preparation

General

These separate financial statements (hereinafter: “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Bank has prepared the financial statements on the basis that it will continue to operate as a going concern.

The Azerbaijani manat is the functional and presentation currency of the Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Bank maintains its records and prepares its financial statements in Azerbaijani manat and in accordance with IFRS. These financial statements are presented in thousands of Azerbaijani manat (“AZN”), except per share amounts and unless otherwise indicated. These financial statements have been prepared under the historical cost convention except for premises and investment securities at FVOCI and derivative financial assets and liabilities, which have been measured at fair value.

Estimation uncertainty

To the extent that information is available as at 31 December 2023, the Bank has reflected revised estimates of expected future cash flows in its ECL assessment (Note 9), estimation of fair values of financial instruments (Note 28).

3. Material accounting policy information

Changes in accounting policies

New and amended standards and interpretations

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD’s BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity’s exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

   - An indication of the proportion of an entity’s profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
   - An indication of how the entity’s overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Bank has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank’s financial statements at 31 December 2023.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Changes in accounting policies (continued)

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments have had an impact on the Bank's disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank's financial statements.

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. Limited scope exceptions apply.

Other than the exceptions outlined below, the Bank has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the financial statements for the year ended 31 December 2023.

As part of this determination, the Bank assessed credit cards and similar products that include insurance coverage. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Bank has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17.

For loan contracts that meet the definition of an insurance contract, but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract, e.g., a loan with waiver on death, there is a choice to apply either IFRS 17 or IFRS 9 to such contracts. This choice is made at a portfolio level and is irrevocable. The Bank has made an irrevocable choice to apply IFRS 9 to each portfolio of these products. Once the Bank applied IFRS 9 to such loan contracts, it caused contracts to fail the SPPI test and measure at fair value through profit or loss.

The Bank adopted change in accounting policy for the loan contracts with death waivers retrospectively.

The following restatements have been made to the statement of financial position as at 31 December 2022 upon adopting the change in accounting policy mentioned above:

	As previously reported	*Restatement*	*As restated*
Loans to customers	3,028,281	2,571	3,030,852
Deferred income tax liabilities	38,777	514	39,291
Retained earnings	688,657	2,057	690,714

The following restatements have been made to the statement of profit or loss for the year ended 31 December 2022 upon adopting the change in accounting policy mentioned above:

	As previously reported	*Restatement*	*As restated*
Interest income on Loans to customers at amortised cost	532,197	(22,860)	509,337
Interest income on Loans to customers at fair value through profit or loss	–	22,860	22,860
Credit loss expense on financial assets	(64,463)	2,030	(62,433)
Net (losses) / gains on loans to customers at fair value through profit or loss	–	541	541
Income tax expense	(88,400)	(514)	(88,914)

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Changes in accounting policies (continued)

The impact of adopting change in accounting policy as at 1 January 2022 rounds to zero, therefore the Bank did not present a third statement as at the beginning of the preceding period.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

Fair value measurement

The Bank measures financial instruments carried at FVPL and FVOCI and non-financial assets such as premises 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 recognised 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 FVPL, transaction costs are added to, or subtracted from, this amount.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Financial assets and liabilities (continued)

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:

- Amortised cost;
- FVOCI;
- FVPL.

The Bank classifies and measures its derivative and trading portfolio at FVPL. The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised 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 amortised cost

The Bank only measures amounts due from credit institutions, loans to customers, investment debt securities and other financial investments 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 Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Financial assets and liabilities (continued)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

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 revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs 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 amortised 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.

Loans to customers at FVPL

Loans to customers at FVPL are mostly represented by project finance loans that are economically or contractually non-recourse, and loans with embedded derivatives at terms that are inconsistent with basic lending arrangement. Information on fair value measurement of Loans to customers at FVPL is presented in Note 28.

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. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Financial assets and liabilities (continued)

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 2023.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

Derivative financial instruments

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

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

Derivatives embedded in liabilities and non-financial host contacts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

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 customers, amounts due to the Central Bank of the Republic of Azerbaijan and government organizations, amounts due to credit institutions and debt securities issued. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Borrowings (continued)

Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortization process.

If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

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.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

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 POCI. Restructuring of impaired loans does not result in derecognition of financial instrument. 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, presented within interest income calculated using EIR in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

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.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Taxation

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

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

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

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

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

Property and equipment

Equipment is 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 equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Following initial recognition at cost, premises are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Any revaluation surplus is credited to the revaluation reserve for property and equipment included in other comprehensive income, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the revaluation reserve for property and equipment.

An annual transfer from the revaluation reserve for property and equipment to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

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:

	Years
Premises	20
Leasehold improvements	10
Computers and other office equipment	5
Furniture, fixtures, vehicles and others	5

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 general and administrative expenses, unless they qualify for capitalization.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Intangible assets

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic lives of 1 to 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Provisions

Provisions are recognised 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 has no significant post-employment benefits.

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 and other contributions made by shareholders are recognised as additional paid-in capital.

Dividends

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

Segment reporting

The Bank`s segmental reporting is based on the following operating segments: Corporate, Retail and Treasury.

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.

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Recognition of income and expenses (continued)

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortised 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 income by calculating the credit-adjusted EIR and applying that rate to the amortised 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 amortised cost of the POCI assets.

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 as revenue as the service are provided (for example, servicing plastic card operations, settlement operations, cash operations and others);
- Income which forms an integral part of the effective interest rate of a financial instrument is recognized as an adjustment to the effective interest rate and recorded in 'interest income'.

Customer loyalty programs

The Bank offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Bank acts as an agent or as a principal under the contract. For point-based programs, the Bank generally recognized a liability for the accumulated points that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Cashbacks on plastic card transactions reduce fee and commission income.

Dividend income

Revenue is recognized when the Bank's right to receive the payment is established.

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.

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 net gains (losses) from foreign currency 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 31 December in the preparation of these financial statements:

	2023	*2022*
1 US dollar	AZN 1.7000	AZN 1.7000
1 euro	AZN 1.8766	AZN 1.8114

(Amounts presented are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Standards issued but not yet effective

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

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16. Earlier application is permitted and that fact must be disclosed.

The amendments are not expected to have a material impact on the Bank's financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after 1 January 2024 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments are not expected to have a material impact on the Bank's financial statements.

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 28*.

(Amounts presented are in thousands of Azerbaijani manats)

4. Significant accounting judgments and estimates

Estimation uncertainty (continued)

Impairment losses on financial assets

The measurement of impairment 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 internal credit grading model, which assigns PDs to the individual grades;
- 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 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 9* and *27*.

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (for example, when the Bank does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Bank's functional currency).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Bank's credit rating).

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management believes that as at 31 December 2023 and 2022 its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

5. Segment reporting

The Bank discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. The Bank's reportable segments under IFRS 8 are therefore as follows:

- Corporate Banking − direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;
- Retail Banking – private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Treasury − interbank lending and borrowings, securities trading swaps, foreign exchange services, issuance of bonds and promissory notes and other treasury functions.

(Amounts presented are in thousands of Azerbaijani manats)

5. Segment reporting (continued)

	Corporate		*Retail*		*Treasury*		*Unallocated*		*Total*	
	2023	***2022***	***2023***	***2022***	***2023***	***2022***	***2023***	***2022***	***2023***	***2022***
Interest income	96,596	75,838	487,319	456,359	137,366	94,425	–	–	**721,281**	**626,622**
Interest expense	(53,756)	(37,495)	(39,606)	(35,424)	(15,075)	(5,694)	(1,565)	(1,408)	**(110,002)**	**(80,021)**
Net interest income	**42,840**	**38,343**	**447,713**	**420,935**	**122,291**	**88,731**	**(1,565)**	**(1,408)**	**611,279**	**546,601**
Credit loss (expense) / reversal	(2,531)	(6,364)	(14,002)	(53,124)	(174)	(3,305)	(477)	360	**(17,184)**	**(62,433)**
Net interest income after provision for impairment losses	**40,309**	**31,979**	**433,711**	**367,811**	**122,117**	**85,426**	**(2,042)**	**(1,048)**	**594,095**	**484,168**
Fee and commission income	104,346	55,173	201,886	196,173	1,335	1,332	–	–	**307,567**	**252,678**
Fee and commission expense	(4,904)	(4,979)	(162,985)	(74,423)	(7,879)	(7,064)	–	–	**(175,768)**	**(86,466)**
Net gains from operations in foreign currencies	27,247	28,841	23,652	14,330	4,855	27,065	–	–	**55,754**	**70,236**
Net losses realised on sale of investment securities	–	–	–	–	(267)	(4,330)	–	–	**(267)**	**(4,330)**
Net (losses) / gains from loans to customers at fair through profit or loss	–	–	(568)	541	–	–	–	–	**(568)**	**541**
Other operating income	–	–	–	–	–	–	12,157	17,351	**12,157**	**17,351**
Non−interest income	**126,689**	**79,035**	**61,985**	**136,621**	**(1,956)**	**17,003**	**12,157**	**17,351**	**198,875**	**250,010**
Operating expenses	(31,005)	(28,540)	(139,073)	(112,853)	(857)	(933)	(233,454)	(185,195)	**(404,389)**	**(327,521)**
Non−interest expense	**(31,005)**	**(28,540)**	**(139,073)**	**(112,853)**	**(857)**	**(933)**	**(233,454)**	**(185,195)**	**(404,389)**	**(327,521)**
Profit/(loss) before income tax expense	**135,993**	**82,474**	**356,623**	**391,579**	**119,304**	**101,496**	**(223,339)**	**(168,892)**	**388,581**	**406,657**
Income tax (expense)/benefit	(17,673)	(13,506)	(51,241)	(59,856)	(15,503)	(15,552)	–	–	**(84,417)**	**(88,914)**
Net profit/(loss) for the year	**118,320**	**68,968**	**305,382**	**331,723**	**103,801**	**85,944**	**(223,339)**	**(168,892)**	**304,164**	**317,743**
Segment assets	**1,253,255**	**909,002**	**3,253,632**	**2,369,513**	**4,151,664**	**4,492,416**	**135,768**	**113,108**	**8,794,319**	**7,884,039**
Segment liabilities	**4,888,108**	**4,849,490**	**2,150,680**	**1,867,362**	**549,078**	**86,049**	**85,373**	**95,131**	**7,673,239**	**6,898,032**

The amount of revenues from entities that are under common control with the Bank is disclosed in Note 30 “Related party disclosures”.

The geographic information comprises:

	Azerbaijan Republic		**OECD countries**		**Non-OECD countries**		**Total**	
	2023	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Revenue	1,079,719	962,577	15,780	1,620	1,260	2,690	**1,096,759**	**966,887**
Non-current assets	139,187	133,876	–	–	–	–	**139,187**	**133,876**

Revenue includes operating income excluding interest expense, fee and commission expense, and provision for impairment loss

Non–current assets for this purpose consists of property, equipment and right-of-use assets and goodwill and other intangible assets.

(Amounts presented are in thousands of Azerbaijani manats)

6. Cash and cash equivalents

Cash and cash equivalents comprise:

	2023	*2022*
Cash on hand	769,567	784,132
Current accounts with the CBAR	104,364	577,825
Current accounts with other credit institutions	129,422	164,958
Time deposits with the credit institutions up to 90 days	130,554	–
Reverse repurchase agreements up to 90 days	15,638	34,682
Cash and cash equivalents	**1,149,545**	**1,561,597**

As at 31 December 2023, current accounts with other credit institutions consist of non-interest-bearing correspondent accounts balances with resident and non-resident banks in the amount of AZN 6,741 (2022: AZN 8,759) and AZN 122,681 (2022: AZN 156,199), respectively.

Cash equivalents in amount of AZN 371,847 (2022: AZN 759,741) are allocated to Stage 1 and cash equivalents in amount of AZN 8,131 (2022: AZN 17,724) are allocated to Stage 2. The ECL relating to cash equivalents of the Bank rounds to zero in both years.

7. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2023	*2022*
Obligatory reserve with the CBAR	1,213,070	261,538
Loans to credit institutions	29,195	79,049
Block accounts with other credit institutions	24,872	33,071
Time deposits with credit institutions	7,102	5,026
Other amounts from credit institutions	15,243	13,740
Amounts due from credit institutions	**1,289,482**	**392,424**

As at 31 December 2023, blocked accounts with credit institutions in amount of AZN 7,440 (2022: 26,608) mainly represented funds blocked by three (2022: three) non-resident credit institutions against letters of guarantee issued to seven (2022: eight) customers. In addition, funds are blocked by two (2022: two) non-resident credit institutions in amount of AZN 17,432 (2022: AZN 6,463) on behalf of Master Card Incorporated and Visa incorporated.

As at 31 December 2023, loans to credit institutions include AZN 29,195 (2022: AZN 79,049) issued to three non-resident banks and seven resident non-bank credit institutions (2022: one non-resident and two resident banks and seven resident non-bank credit institutions).

As at 31 December 2023, time deposits with credit institutions consist of interest bearing short-term deposits placed in one resident bank (2022: one resident bank) in the amount of AZN 7,102 (2022: AZN 5,026).

On 20 November 2023, the CBAR made certain updates on the calculation of mandatory reserves and as at 31 December 2023, credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR as per new updates. New differentiation criteria were introduced on the basis of which mandatory reserve rates are determined. The differentiation criteria are as follows:

- Whether the deposits of legal entities in local currency are less than AZN 1,000,000 (AZN 750,000 for foreign currency);
- Whether the proportion of deposits from related parties to total deposits is below than 20%;
- Whether the proportion of Bank-related deposits to total deposits is below than 20%.

Since the Bank`s average deposits from legal entities in local currency exceeds AZN 1,000,000 and the proportion of deposits from related parties exceeds 20%, while only the segment of Bank-related deposits falls under 20% of total deposits, the applicable mandatory reserve rate was 20% for deposits in local currency as of 31 December 2023.

For foreign currency deposits mandatory reserve rate was 12% since the Bank`s average deposits from legal entities in foreign currency does not exceed AZN 750,000 and Bank-related deposits falls under 20% of total deposits.

This is an increase from the previous rates of 4% of previous month average balances of certain liabilities in AZN and 5% of the previous month average balances of certain liabilities in foreign currencies respectively, which were in effect until February 15, 2023 when the CBAR made the decision to increase the rates.

(Amounts presented are in thousands of Azerbaijani manats)

7. Amounts due from credit institutions (continued)

The Bank's ability to withdraw Obligatory reserve with the CBAR is restricted by statutory legislation.

All amounts due from credit institutions are allocated to Stage 1 (2022: AZN 391,900 are allocated to Stage 1 and AZN 524 are allocated to Stage 2). The ECL relating to Amounts due from credit institutions of the Bank rounds to zero in both years.

8. Investment securities

Investment securities comprise:

	2023	2022
Debt securities at amortized cost		
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	405,791	1,341,613
Notes issued by the Ministry of Finance of the Republic of Azerbaijan pledged under repurchase agreements	402,859	–
Corporate bonds	379,368	371,662
Bills issued by the CBAR	96,186	399,613
US Treasury bills	–	84,952
Reverse repurchase agreements for more than 90 days	–	20,819
Less - allowance for impairment	(6,500)	(6,336)
	1,277,704	**2,212,323**
Debt securities at FVOCI		
Bonds issued by the Azerbaijan Mortgage and Credit Guarantee Fund	177,000	216,720
Bills issued by the CBAR	127,938	–
US Treasury notes	–	82,272
	304,938	**298,992**
Equity securities at FVOCI		
Corporate shares	13,055	11,108
	13,055	**11,108**
Investment securities	**1,595,697**	**2,522,423**

In 2023, the Bank made loss in amount of AZN 267 (2022: AZN 4,330) due to the proceeds of investment securities at amortized cost.

An analysis of changes in the gross carrying amounts and associated ECLs in relation to debt securities at amortized cost during the year ended 31 December 2023 is as follows:

Debt securities at amortised cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**2,215,968**	**–**	**2,691**	**2,218,659**
New assets originated or purchased	226,970	–	–	**226,970**
Assets repaid	(1,161,425)	–	–	**(1,161,425)**
As at 31 December 2023	**1,281,513**	**–**	**2,691**	**1,284,204**

Debt securities at amortised cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2023	**(3,645)**	**–**	**(2,691)**	**(6,336)**
New assets originated or purchased	(228)	–	–	**(228)**
Assets repaid	1,191	–	–	**1,191**
Changes to inputs used for ECL calculations	(1,127)	–	–	**(1,127)**
As at 31 December 2023	**(3,809)**	**–**	**(2,691)**	**(6,500)**

(Amounts presented are in thousands of Azerbaijani manats)

8. Investment securities (continued)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI during the year ended 31 December 2023 is as follows:

Debt securities at FVOCI	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**298,992**	**–**	**–**	**298,992**
New assets originated or purchased	252,856	–	–	**252,856**
Assets sold	(246,910)	–	–	**(246,910)**
As at 31 December 2023	**304,938**	**–**	**–**	**304,938**

Debt securities at FVOCI	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2023	**(276)**	**–**	**–**	**(276)**
New assets originated or purchased	(202)	–	–	**(202)**
Assets sold	192	–	–	**192**
As at 31 December 2023	**(286)**	**–**	**–**	**(286)**

An analysis of changes in the gross carrying amounts and associated ECLs in relation to debt securities at amortized cost during the year ended 31 December 2022 is as follows:

Debt securities at amortised cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**991,140**	**–**	**–**	**991,140**
New assets originated or purchased	1,601,315	–	–	**1,601,315**
Assets repaid	(373,796)	–	–	**(373,796)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	(2,691)	–	2,691	**–**
As at 31 December 2022	**2,215,968**	**–**	**2,691**	**2,218,659**

Debt securities at amortised cost	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2022	**(2,995)**	**–**	**–**	**(2,995)**
New assets originated or purchased	(1,321)	–	–	**(1,321)**
Assets repaid	668	–	–	**668**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	–	–	–	**–**
Transfers to Stage 3	3	–	(3)	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	(2,688)	**(2,688)**
As at 31 December 2022	**(3,645)**	**–**	**(2,691)**	**(6,336)**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI during the year ended 31 December 2022 is as follows:

Debt securities at FVOCI	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**134,779**	**–**	**–**	**134,779**
New assets originated or purchased	269,033	–	–	**269,033**
Assets sold	(104,820)	–	–	**(104,820)**
As at 31 December 2022	**298,992**	**–**	**–**	**298,992**

Debt securities at FVOCI	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2022	**(312)**	**–**	**–**	**(312)**
New assets originated or purchased	(238)	–	–	**(238)**
Assets sold	274	–	–	**274**
As at 31 December 2022	**(276)**	**–**	**–**	**(276)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers

Loans to customers comprise:

	2023	*2022*
Government related entities	378,153	260,941
Corporate loans	605,542	484,257
Loans to individuals − consumer loans	1,957,831	1,676,560
Loans to individuals − mortgage loans	571,201	418,325
Individual entrepreneurs	370,721	168,269
Gross loans to customers at amortised cost	**3,883,448**	**3,008,352**
Less: allowance for loan impairment	(137,507)	(118,473)
Loans to customers at amortised cost	**3,745,941**	**2,889,879**
Loans to individuals − consumer loans	364,560	140,973
Loans to customers at FVTPL	**364,560**	**140,973**
Loans to customers	**4,110,501**	**3,030,852**

Loans are extended to the following types of customers:

	2023	*2022*
Individuals	2,893,592	2,235,858
Private entities	605,542	484,257
Government related entities	378,153	260,941
Individual entrepreneurs	370,721	168,269
Loans to customers, gross	**4,248,008**	**3,149,325**

Loans are made principally in the following industry sectors:

	2023	*2022*
Individuals	2,893,592	2,235,858
Trade and services	781,754	327,449
Manufacturing	205,566	303,700
Construction	134,315	133,942
Agriculture and food processing	90,259	48,250
Telecommunication	55,619	25,972
Transport	17,586	14,714
Other	69,317	59,440
Loans to customers, gross	**4,248,008**	**3,149,325**

As at 31 December 2023, the Bank had a concentration of loans represented by AZN 573,389 or 13% of gross loan portfolio (2022: AZN 387,360 or 12%) due from twelve (2022: twelve) largest borrowers of the Bank. An allowance of AZN 1,440 (2022: AZN 3,192) was recognized against these loans.

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Government related loans during the year ended 31 December 2023 is as follows:

Government related entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**260,846**	**36**	**59**	**260,941**
New assets originated or purchased	233,979	–	–	**233,979**
Assets derecognized or repaid (excluding write-offs)	(116,731)	(36)		**(116,767)**
As a 31 December 2023	**378,094**	**–**	**59**	**378,153**

Government related entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(2,287)**	**(2)**	**(49)**	**(2,338)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(321)	–	–	**(321)**
Assets derecognized or repaid (excluding write-offs)	2,226	2	–	**2,228**
Changes to inputs used for ECL calculations	(1)	–	(5)	**(6)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(5)	**(5)**
As at 31 December 2023	**(383)**	**–**	**(59)**	**(442)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended 31 December 2023 is as follows:

Corporate loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**391,471**	**85,507**	**7,279**	**484,257**
New assets originated or purchased	458,940	–	–	**458,940**
Assets derecognized or repaid (excluding write-offs)	(262,772)	(70,373)	(5,406)	**(338,551)**
Transfers to Stage 1	7,289	(7,258)	(31)	**–**
Transfers to Stage 2	(30,986)	31,057	(71)	**–**
Transfers to Stage 3	(4,162)	(1,496)	5,658	**–**
Recoveries	–	–	1,029	**1,029**
Amounts written off	–	–	(133)	**(133)**
As at 31 December 2023	**559,780**	**37,437**	**8,325**	**605,542**

Corporate loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(7,848)**	**(4,053)**	**(5,218)**	**(17,119)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(8,616)	–	–	**(8,616)**
Assets derecognized or repaid (excluding write-offs)	4,881	3,017	4,550	**12,448**
Transfers to Stage 1	(791)	772	19	**–**
Transfers to Stage 2	1,369	(1,407)	38	**–**
Transfers to Stage 3	256	456	(712)	**–**
Impact on period end ECL of exposures transferred between stages during the period	662	(193)	(2,825)	**(2,356)**
Changes to inputs used for ECL calculations	(119)	71	(234)	**(282)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(291)	**(291)**
Recoveries	–	–	(1,029)	**(1,029)**
Amounts written off	–	–	133	**133**
As at 31 December 2023	**(10,206)**	**(1,337)**	**(5,569)**	**(17,112)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Loans to individuals – consumer loans during the year ended 31 December 2023 is as follows:

Loans to individuals – consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**1,502,612**	**127,638**	**46,310**	**1,676,560**
New assets originated or purchased	1,390,560	–	–	**1,390,560**
Assets derecognized or repaid (excluding write-offs)	(998,921)	(78,482)	(28,576)	**(1,105,979)**
Transfers to Stage 1	29,850	(28,908)	(942)	**–**
Transfers to Stage 2	(69,587)	75,988	(6,401)	**–**
Transfers to Stage 3	(51,564)	(4,949)	56,513	**–**
Unwinding of discount	276	551	885	**1,712**
Changes to contractual cash flows due to modifications not resulting in derecognition	(170)	(1,202)	(1,937)	**(3,309)**
Recoveries	–	–	15,175	**15,175**
Amounts written off	–	–	(16,888)	**(16,888)**
As at 31 December 2023	**1,803,056**	**90,636**	**64,139**	**1,957,831**

Loans to individuals – consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(26,635)**	**(27,464)**	**(32,359)**	**(86,458)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(24,342)	–	–	**(24,342)**
Assets derecognized or repaid (excluding write-offs)	17,358	16,121	23,996	**57,475**
Transfers to Stage 1	(5,808)	5,192	616	**–**
Transfers to Stage 2	1,233	(5,283)	4,050	**–**
Transfers to Stage 3	914	1,304	(2,218)	**–**
Impact on period end ECL of exposures transferred between stages during the period	6,359	(14,980)	(39,644)	**(48,265)**
Changes to inputs used for ECL calculations	1,384	1,457	(1,692)	**1,149**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(3,101)	**(3,101)**
Recoveries	–	–	(15,175)	**(15,175)**
Amounts written off	–	–	16,888	**16,888**
As at 31 December 2023	**(29,537)**	**(23,653)**	**(48,639)**	**(101,829)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Loans to individuals – mortgage loans during the year ended 31 December 2023 is as follows:

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**397,991**	**19,139**	**1,195**	**418,325**
New assets originated or purchased	200,009	–	–	**200,009**
Assets derecognized or repaid (excluding write-offs)	(44,434)	(2,609)	(90)	**(47,133)**
Transfers to Stage 1	2,096	(1,668)	(428)	**–**
Transfers to Stage 2	(11,661)	11,672	(11)	**–**
Transfers to Stage 3	(204)	(18)	222	**–**
As at 31 December 2023	**543,797**	**26,516**	**888**	**571,201**

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(461)**	**(469)**	**(245)**	**(1,175)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(203)	–	–	**(203)**
Assets derecognized or repaid (excluding write-offs)	62	48	38	**148**
Transfers to Stage 1	(176)	90	86	**–**
Transfers to Stage 2	35	(37)	2	**–**
Transfers to Stage 3	7	–	(7)	**–**
Impact on period end ECL of exposures transferred between stages during the period	181	(278)	(50)	**(147)**
Changes to inputs used for ECL calculations	(180)	361	3	**184**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(18)	**(18)**
As at 31 December 2023	**(735)**	**(285)**	**(191)**	**(1,211)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Loans to individual entrepreneurs loans during the year ended 31 December 2023 is as follows:

Individual entrepreneurs	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**150,485**	**12,421**	**5,363**	**168,269**
New assets originated or purchased	314,445	–	–	**314,445**
Assets derecognized or repaid (excluding write-offs)	(100,553)	(9,417)	(1,724)	**(111,694)**
Transfers to Stage 1	1,822	(1,822)	–	**–**
Transfers to Stage 2	(7,833)	7,833	–	**–**
Transfers to Stage 3	(2,309)	(6)	2,315	**–**
Recoveries	–	–	36	**36**
Amounts written off	–	–	(335)	**(335)**
As at 31 December 2023	**356,057**	**9,009**	**5,655**	**370,721**

Individual entrepreneurs	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(6,239)**	**(1,841)**	**(3,303)**	**(11,383)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(11,937)	–	–	**(11,937)**
Assets derecognized or repaid (excluding write-offs)	4,393	1,204	1,399	**6,996**
Transfers to Stage 1	(281)	281	–	**–**
Transfers to Stage 2	535	(535)	–	**–**
Transfers to Stage 3	199	1	(200)	**–**
Impact on period end ECL of exposures transferred between stages during the period	231	(405)	(1,273)	**(1,447)**
Changes to inputs used for ECL calculations	952	62	(252)	**762**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(203)	**(203)**
Recoveries	–	–	(36)	**(36)**
Amounts written off	–	–	335	**335**
As at 31 December 2023	**(12,147)**	**(1,233)**	**(3,533)**	**(16,913)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Government related entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**324,875**	**41,623**	**115**	**366,613**
New assets originated or purchased	8,934	–	–	**8,934**
Assets derecognized or repaid (excluding write-offs)	(72,927)	(41,623)	(56)	**(114,606)**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	(36)	36	–	**–**
Transfers to Stage 3	–	–	–	**–**
As a 31 December 2022	**260,846**	**36**	**59**	**260,941**

Government related entities	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(1,991)**	**(1,798)**	**(60)**	**(3,849)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(935)	–	–	**(935)**
Assets derecognized or repaid (excluding write-offs)	570	1,798	7	**2,375**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	1	(1)	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	(1)	–	**(1)**
Changes to inputs used for ECL calculations	68	–	10	**78**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(6)	**(6)**
As at 31 December 2022	**(2,287)**	**(2)**	**(49)**	**(2,338)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Corporate loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**252,761**	**72,158**	**18,643**	**343,562**
New assets originated or purchased	359,666	–	–	**359,666**
Assets derecognized or repaid (excluding write-offs)	(170,381)	(33,989)	(9,774)	**(214,144)**
Transfers to Stage 1	4,185	(3,824)	(361)	**–**
Transfers to Stage 2	(51,162)	51,162	–	**–**
Transfers to Stage 3	(3,598)	–	3,598	**–**
Recoveries	–	–	366	**366**
Amounts written off	–	–	(5,193)	**(5,193)**
As at 31 December 2022	**391,471**	**85,507**	**7,279**	**484,257**

Corporate loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(6,857)**	**(3,097)**	**(8,158)**	**(18,112)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(9,322)	–	–	**(9,322)**
Assets derecognized or repaid (excluding write-offs)	3,764	2,226	1,616	**7,606**
Transfers to Stage 1	(1,086)	863	223	**–**
Transfers to Stage 2	3,604	(3,604)	–	**–**
Transfers to Stage 3	514	–	(514)	**–**
Impact on period end ECL of exposures transferred between stages during the period	906	(641)	(2,231)	**(1,966)**
Changes to inputs used for ECL calculations	629	200	(559)	**270**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(422)	**(422)**
Recoveries	–	–	(366)	**(366)**
Amounts written off	–	–	5,193	**5,193**
As at 31 December 2022	**(7,848)**	**(4,053)**	**(5,218)**	**(17,119)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Loans to individuals – consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**1,003,749**	**388,525**	**68,761**	**1,461,035**
New assets originated or purchased	1,211,869	–	–	**1,211,869**
Assets derecognized or repaid (excluding write-offs)	(681,048)	(229,080)	(20,556)	**(930,684)**
Transfers to Stage 1	118,188	(113,071)	(5,117)	**–**
Transfers to Stage 2	(94,062)	98,451	(4,389)	**–**
Transfers to Stage 3	(55,964)	(17,077)	73,041	**–**
Unwinding of discount	146	517	991	**1,654**
Changes to contractual cash flows due to modifications not resulting in derecognition	(266)	(627)	(1,041)	**(1,934)**
Recoveries	–	–	6,786	**6,786**
Amounts written off	–	–	(72,166)	**(72,166)**
As at 31 December 2022	**1,502,612**	**127,638**	**46,310**	**1,676,560**

Loans to individuals – consumer loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(10,775)**	**(31,102)**	**(51,903)**	**(93,780)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(31,390)	–	–	**(31,390)**
Assets derecognized or repaid (excluding write-offs)	815	6,448	14,122	**21,385**
Transfers to Stage 1	(11,319)	7,950	3,369	**–**
Transfers to Stage 2	16,893	(19,830)	2,937	**–**
Transfers to Stage 3	1,269	13,921	(15,190)	**–**
Impact on period end ECL of exposures transferred between stages during the period	8,794	(2,854)	(46,181)	**(40,241)**
Changes to inputs used for ECL calculations	(922)	(1,997)	(107)	**(3,026)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(4,786)	**(4,786)**
Recoveries	–	–	(6,786)	**(6,786)**
Amounts written off	–	–	72,166	**72,166**
As at 31 December 2022	**(26,635)**	**(27,464)**	**(32,359)**	**(86,458)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**290,653**	**1,383**	**504**	**292,540**
New assets originated or purchased	154,030	–	–	**154,030**
Assets derecognized or repaid (excluding write-offs)	(27,995)	(35)	(200)	**(28,230)**
Transfers to Stage 1	1,153	(960)	(193)	**–**
Transfers to Stage 2	(19,029)	19,049	(20)	**–**
Transfers to Stage 3	(821)	(298)	1,119	**–**
Amounts written off	–	–	(15)	**(15)**
As at 31 December 2022	**397,991**	**19,139**	**1,195**	**418,325**

Loans to individuals – mortgage loans	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(1,035)**	**(181)**	**(117)**	**(1,333)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(420)	–	–	**(420)**
Assets derecognized or repaid (excluding write-offs)	126	6	55	**187**
Transfers to Stage 1	(159)	118	41	**–**
Transfers to Stage 2	260	(262)	2	**–**
Transfers to Stage 3	10	49	(59)	**–**
Impact on period end ECL of exposures transferred between stages during the period	157	(201)	(175)	**(219)**
Changes to inputs used for ECL calculations	600	2	–	**602**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(7)	**(7)**
Amounts written off	–	–	15	**15**
As at 31 December 2022	**(461)**	**(469)**	**(245)**	**(1,175)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost (continued)

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

Individual entrepreneurs	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**50,186**	**4,801**	**5,246**	**60,233**
New assets originated or purchased	140,584	–	–	**140,584**
Assets derecognized or repaid (excluding write-offs)	(28,480)	(3,275)	(712)	**(32,467)**
Transfers to Stage 1	308	(308)	–	**–**
Transfers to Stage 2	(11,152)	11,203	(51)	**–**
Transfers to Stage 3	(961)	–	961	**–**
Recoveries	–	–	68	**68**
Amounts written off	–	–	(149)	**(149)**
As at 31 December 2022	**150,485**	**12,421**	**5,363**	**168,269**

Individuals – entrepreneurs	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(2,727)**	**(772)**	**(3,218)**	**(6,717)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(6,356)	–	–	**(6,356)**
Assets derecognized or repaid (excluding write-offs)	1,733	467	615	**2,815**
Transfers to Stage 1	(43)	43	–	**–**
Transfers to Stage 2	921	(960)	39	**–**
Transfers to Stage 3	82	-	(82)	**–**
Impact on period end ECL of exposures transferred between stages during the period	39	(705)	(415)	**(1,081)**
Changes to inputs used for ECL calculations	112	86	(45)	**153**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest income)	–	–	(278)	**(278)**
Recoveries	–	–	(68)	**(68)**
Amounts written off	–	–	149	**149**
As at 31 December 2022	**(6,239)**	**(1,841)**	**(3,303)**	**(11,383)**

(Amounts presented are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Modified and restructured loans

The Bank derecognizes 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 recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes unless the new loan is deemed to be POCI. During 2023, the Bank did not have any Stage 3 originated loan, however has one POCI instrument with the balance rounds to zero.

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, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and 3 assets that were modified during the period, with the related modification loss suffered by the Bank.

	2023	***2022***
Loans modified during the period		
Amortised cost before modification	93,850	70,904
Net modification loss	(3,309)	(1,934)

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 lending, charges over real estate properties and vehicles, third party guarantees;
- For retail lending, mortgages over residential properties.

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

The Bank calculates LGD rate of several corporate and small lending loans in Stage 3 using discounted value of collaterals. As at 31 December 2023, maximum exposure of such loans amounted to AZN 1,612 (2022: AZN 2,934) for which ECL of AZN 522 (2022: AZN 1,475) was recognized. If these loans were not collateralized, ECL amount for these loans would be AZN 1,612 (2022: AZN 2,379) based on collective assessment.

(Amounts presented are in thousands of Azerbaijani manats)

10. Property and equipment

The movements in property and equipment were as follows:

	Premises	*Leasehold improvements*	*Computers and other office equipment*	*Furniture, fixtures, vehicles and others*	*Total*
Cost or revaluation					
1 January 2022	**5,666**	**16,944**	**20,719**	**100,874**	**144,203**
Additions	–	7,146	3,341	17,608	**28,095**
Disposals	–	(973)	(4,096)	(8,377)	**(13,446)**
Effect of revaluation	625	–	–	–	**625**
31 December 2022	**6,291**	**23,117**	**19,964**	**110,105**	**159,477**
Additions	–	7,394	6,636	14,160	**28,190**
Disposals	–	–	(866)	(4,187)	**(5,053)**
Effect of revaluation	102	–	–	–	**102**
31 December 2023	**6,393**	**30,511**	**25,734**	**120,078**	**182,716**
Accumulated depreciation and impairment					
1 January 2022	**–**	**(4,990)**	**(12,293)**	**(64,067)**	**(81,350)**
Depreciation charge	(283)	(1,963)	(2,827)	(13,094)	**(18,167)**
Disposals	–	462	3,903	8,036	**12,401**
Effect of revaluation	283	–	–	–	**283**
31 December 2022	**–**	**(6,491)**	**(11,217)**	**(69,125)**	**(86,833)**
Depreciation charge	(314)	(2,701)	(3,296)	(14,242)	**(20,553)**
Disposals	–	–	763	3,929	**4,692**
Effect of revaluation	314	–	–	–	**314**
31 December 2023	**–**	**(9,192)**	**(13,750)**	**(79,438)**	**(102,380)**
Net book value					
31 December 2021	**5,666**	**11,954**	**8,426**	**36,807**	**62,853**
31 December 2022	**6,291**	**16,626**	**8,747**	**40,980**	**72,644**
31 December 2023	**6,393**	**21,319**	**11,984**	**40,640**	**80,336**

As at 31 December 2023, property and equipment amounting to AZN 50,957 (2022: AZN 45,579) were fully depreciated but in use.

As at 31 December 2023, property and equipment contained items in warehouse amounting to AZN 6,753 (2022: AZN 3,933).

The Bank engaged an independent appraiser, "Vecon Consulting" LLC (2022: "KONEKO" LLC), to determine the revalued amount of its premises as at 31 December 2023 and 2022. Revalued amount is determined by reference to market and income-based evidences. The valuation method used was sales-comparison and income analysis. The revaluation gain amounting to AZN 416 (2022: gain AZN 910) has been recognized within other comprehensive income.

If the premises were measured using the cost model, the carrying amounts would be as follows:

	2023	*2022*
Cost	8,031	8,031
Accumulated depreciation	(5,790)	(5,388)
Net carrying amount	**2,241**	**2,643**

(Amounts presented are in thousands of Azerbaijani manats)

11. Intangible assets

The movements in intangible assets were as follows:

	License	*Computer software*	*Total*
Cost			
1 January 2022	**21,443**	**20,410**	**41,853**
Additions	6,254	4,754	**11,008**
Disposals	(6,430)	(1,541)	**(7,971)**
31 December 2022	**21,267**	**23,623**	**44,890**
Additions	10,510	4,727	15,237
Disposals	(5,616)	(118)	(5,734)
31 December 2023	**26,161**	**28,232**	**54,393**
Accumulated amortization			
1 January 2022	**(8,387)**	**(7,854)**	**(16,241)**
Amortisation charge	(7,343)	(3,077)	**(10,420)**
Disposals	6,430	1,541	**7,971**
31 December 2022	**(9,300)**	**(9,390)**	**(18,690)**
Amortisation charge	(8,782)	(3,068)	(11,850)
Disposals	5,616	118	5,734
31 December 2023	**(12,466)**	**(12,340)**	**(24,806)**
Net book value			
31 December 2021	**13,056**	**12,556**	**25,612**
31 December 2022	**11,967**	**14,233**	**26,200**
31 December 2023	**13,695**	**15,892**	**29,587**

12. Right of use assets and lease liability

The movements in right-of-use assets were as follows:

	2023	*2022*
As at 1 January	**35,032**	**34,034**
Additions	901	6,684
Lease modification	2,809	3,238
Depreciation expense	(9,478)	(8,924)
As at 31 December	**29,264**	**35,032**

The movements in lease liability were as follows:

	2023	*2022*
As at 1 January	**41,031**	**38,954**
Additions	901	6,684
Lease modifications	2,508	2,852
Interest expense	4,507	4,571
Payments	(12,881)	(12,030)
As at 31 December	**36,066**	**41,031**

(Amounts presented are in thousands of Azerbaijani manats)

13. Taxation

The corporate income tax expense comprises:

	2023	*2022*
Current tax charge	(101,003)	(92,251)
Deferred benefit − origination of temporary differences	16,085	3,302
Less: deferred tax recognised in other comprehensive income	501	35
Income tax expense	**(84,417)**	**(88,914)**

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

	2023	*2022*
Net (gain) / loss on debt instruments designated at fair value through OCI	(29)	104
Net (gain) / loss on equity instruments designated at fair value through OCI	(389)	43
Revaluation of premises	(83)	(182)
Income tax charged to other comprehensive income	**(501)**	**(35)**

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

	2023	*2022*
Profit before income tax expense	**388,581**	**406,657**
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	**(77,716)**	**(81,331)**
Tax effect of items which are not deductible or assessable for taxation purposes		
Non-deductible expenses	(6,528)	(7,615)
Other	(173)	32
Income tax expense	**(84,417)**	**(88,914)**

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

		Origination and reversal of temporary differences			*Origination and reversal of temporary differences*		
	2021	*In the statement of profit or loss*	*In other compre-hensive income*	*2022*	*In the statement of profit or loss*	*In other compre-hensive income*	*2023*
Tax effect of deductible temporary differences							
Amounts due from credit institutions	−	583	−	**583**	(449)	−	**134**
Investment securities	−	105	147	**252**	225	(418)	**59**
Provision for credit related commitments and other impairment	315	(315)	−	**−**	416	−	**416**
Amounts due to customers	812	(136)	−	**676**	(676)	−	**−**
Lease liability	8,787	99	−	**8,886**	(1,673)	−	**7,213**
Other assets	−	−	−	−	291	−	**291**
Other liabilities	7,935	832	−	**8,767**	5,272	−	**14,039**
Deferred tax assets	**17,849**	**1,168**	**147**	**19,164**	**3,406**	**(418)**	**22,152**
Amounts due from credit institutions	(221)	221	−	**−**	−	−	**−**
Investment securities	(26)	26	−	**−**	−	−	**−**
Intangible assets	(82)	(146)	−	**(228)**	(70)	−	**(298)**
Provision for credit related commitments and other impairment	−	(338)	−	**(338)**	338	−	**−**
Loans to customers	(45,872)	2,657	−	**(43,215)**	6,568	−	**(36,647)**
Right of use assets	(7,803)	192	−	**(7,611)**	1,758	−	**(5,853)**
Property and equipment	(3,604)	548	(182)	**(3,238)**	761	(83)	**(2,560)**
Other assets	(2,834)	(991)	−	**(3,825)**	3,825	−	−
Deferred tax liabilities	**(60,442)**	**2,169**	**(182)**	**(58,455)**	**13,180**	**(83)**	**(45,358)**
Net deferred income tax (liabilities)/asset	**(42,593)**	**3,337**	**(35)**	**(39,291)**	**16,586**	**(501)**	**(23,206)**

(Amounts presented are in thousands of Azerbaijani manats)

14. Credit loss expense 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 31 December 2023:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Investment securities	8	(174)	–	–	**(174)**
Loans to customers at amortised cost	9	(9,538)	7,321	(14,315)	**(16,532)**
Other financial assets	15	(14)	(22)	(442)	**(478)**
Credit loss on financial assets		**(9,726)**	**7,299**	**(14,757)**	**(17,184)**
Financial guarantees	22	(160)	87	47	(26)
Letters of credit	22	(1,740)	(77)	1,294	(523)
Undrawn loan commitments	22	20	1	–	21
Credit related commitments		**(1,880)**	**11**	**1,341**	**(528)**
Total credit loss expense		**(11,606)**	**7,310**	**(13,416)**	**(17,712)**

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Investment securities	8	(614)	–	(2,691)	**(3,305)**
Loans to customers at amortised cost	9	(20,085)	3,121	(42,524)	**(59,488)**
Other financial assets	15	12	1	347	**360**
Credit loss on financial assets		**(20,687)**	**3,122**	**(44,868)**	**(62,433)**
Financial guarantees	22	832	(120)	(723)	**(11)**
Letters of credit	22	(79)	43	–	**(36)**
Undrawn loan commitments	22	(485)	881	(504)	**(108)**
Credit related commitments		**268**	**804**	**(1,227)**	**(155)**
Total credit loss expense		**(20,419)**	**3,926**	**(46,095)**	**(62,588)**

The movements in other impairment allowances and provisions were as follows:

	Performance guarantees
1 January 2022	**(11,993)**
Reversal	404
Movements without impact on (Provision)/reversal of provision for credit related commitments and other impairment in profit or loss	
Payment for issued letter of performance guarantee	9,510
31 December 2022	**(2,079)**
Charge	(91)
31 December 2023	**(2,170)**

15. Other assets and liabilities

Other assets comprise:

	2023	*2022*
Other financial assets		
Receivables from Azerbaijan Deposit Insurance Fund	111,594	–
Funds in settlement	249,114	116,381
Receivable from local budget	12,495	12,590
Derivative financial assets	5,346	15,972
Accrued commission	3,580	2,747
Less: allowance for impairment of other assets	(4,507)	(4,029)
Total other financial assets	**377,622**	**143,661**
Other non-financial assets		
Prepaid rent and other deferred expenses	51,030	49,099
Repossessed collateral	10,048	10,420
Prepayments	7,915	8,113
Spare parts	202	214
Total other non-financial assets	**69,195**	**67,846**
Other assets	**446,817**	**211,507**

(Amounts presented are in thousands of Azerbaijani manats)

15. Other assets and liabilities (continued)

The Bank`s receivable from Azerbaijan Deposit Insurance Fund (hereinafter "ADIF") are associated with the discontinuation of resident bank in 2023. Following resident banks` cessation, the Bank was obliged to reimburse deposits and current accounts in amount of AZN 111,594 to customers of the respective bank and was anticipating compensation from ADIF as of 31 December 2023.

During 2022, the Bank has entered into a 20-year lease agreement with a related party for a new head office premise with the commencement date expected at the end of December 2024. To secure this lease, the Bank was required to make an upfront payment. As at 31 December 2023, prepaid rent and other deferred expenses includes prepaid rental fee for a 5-year period for the new head office in the amount of AZN 38,213 which is paid in 2022. During 2023, there was not any prepayment regarding the new head office lease.

An analysis of changes in the ECLs for other financial assets for 31 December 2023 is, as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2023	**(3)**	**(36)**	**(3,990)**	**(4,029)**
Charge for the period	(14)	(22)	(442)	(478)
As at 31 December 2023	**(17)**	**(58)**	**(4,432)**	**(4,507)**

An analysis of changes in the ECLs for other financial assets for 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL at 1 January 2022	**(15)**	**(37)**	**(4,362)**	**(4,414)**
Reversal/(charge) for the period	12	1	347	**360**
Amounts written-off	–	–	25	**25**
As at 31 December 2022	**(3)**	**(36)**	**(3,990)**	**(4,029)**

Other liabilities comprise:

	2023	*2022*
Other financial liabilities		
Funds in settlement	28,391	18,313
Accrued expenses	14,431	8,510
Provision for financial guarantees and other credit related commitments	11,094	10,566
Total other financial liabilities	**53,916**	**37,389**
Other non-financial liabilities		
Payables to employees	52,694	45,341
Payables to local budget	15,867	11,355
Contract liabilities	14,681	11,709
Deferred revenue	8,616	11,834
Taxes other than income tax	4,012	2,187
Provision for performance guarantees	2,170	2,079
Total other non-financial liabilities	**98,040**	**84,505**
Other liabilities	**151,956**	**121,894**

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

	31 December 2023			*31 December 2022*		
	Notional	*Fair values*		*Notional*	*Fair value*	
	amount	*Asset*	*Liability*	*amount*	*Asset*	*Liability*
Foreign exchange contracts						
Swaps – domestic	147,547	5,346	–	325,530	15,972	–
Total derivative assets		**5,346**			**15,972**	

(Amounts presented are in thousands of Azerbaijani manats)

16. Amounts due to customers

Amounts due to customers comprise:

	2022	*2022*
Legal entities		
Current accounts	3,540,110	4,089,591
Term deposits	867,819	298,665
Individuals		
Current accounts	1,393,818	1,205,998
Term deposits	662,668	563,792
Amounts due to customers	**6,464,415**	**6,158,046**
Held as security against guarantees and letters of credit (*Note 22*)	26,694	(31,077)

At 31 December 2023, the Bank had amounts due to ten (2022: ten) largest customers with aggregate balance of AZN 1,956,382 or 30% of total amounts due to customers (2022: AZN 2,527,056 or 41%).

An analysis of customer accounts by economic sector follows:

	2023		*2022*	
	Amount	*%*	*Amount*	*%*
Individuals	2,056,486	32%	1,769,790	29%
Trade and services	1,511,726	23%	1,126,641	18%
Construction	1,119,723	17%	1,226,926	20%
Energy	647,072	10%	596,994	10%
Insurance	384,344	6%	720,277	12%
Education	226,014	4%	237,850	4%
Manufacturing	158,849	2%	116,562	2%
Transportation & Communication	141,566	2%	158,066	2%
Agriculture	121,341	2%	139,061	2%
Other	97,294	2%	65,879	1%
Amounts due to customers	**6,464,415**	**100%**	**6,158,046**	**100%**

17. Debt securities issued

As at 31 December 2023, the Bank had one class of bonds in USD amounting to AZN 59,578 issued in December 2020 and maturing on 24 December 2027 (2022: 24 December 2027). The issuance was conducted through private placement on Baku Stock Exchange, and the bonds were delisted after being purchased by counterparties. The Bank is not obliged to comply with any financial or non-financial covenants in relation to these debt securities.

18. Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations

Amounts due to the CBAR and government organizations comprise:

	2023	*2022*
Azerbaijan Mortgage and Credit Guarantee Fund	325,957	276,006
Educational Student Credit Fund	79,385	90,463
Entrepreneurship Development Fund of the Republic of Azerbaijan	29,272	34,530
Agency for Agro Credit and Development	1,750	1,857
Central Bank of the Republic of Azerbaijan	540	1,080
Amounts due to the CBAR and government organizations	**436,904**	**403,936**

In 2005, the Bank signed a credit agreement with National Fund for Support of Entrepreneurship, a program under the Ministry of Economic Development of the Republic of Azerbaijan, for financing of small and medium sized enterprises. Name of the fund was change to Entrepreneurship Development Fund of the Republic of Azerbaijan in 2018. Under this program, funds are made available to the Bank at an interest rate of 1% p.a. (2021: 1% p.a.) and mature during 2024-2031 (2022: 2023-2031). The Bank uses these funds to issue loans to eligible borrowers at rates not higher than 7% p.a.

(Amounts presented are in thousands of Azerbaijani manats)

18. Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations (continued)

In 2016, the Bank signed a credit agreement with the Azerbaijan Mortgage Fund OJSC for granting long-term mortgage loans to individuals. Name of the fund was change to Azerbaijan Mortgage and Credit Guarantee Fund OJSC in 2018. Under this program, funds are made available to the Bank at interest rates between 1% and 4% p.a. (2022: 1% and 4% p.a.) and mature in 2024-2053 (2022: 2023-2052). The Bank is obliged to make these funds to issue loans to eligible borrowers at rates not higher than 8.0% p.a.

In 2018, the Bank signed a credit agreement with the Agency for Agro Credit and Development, a program under the Ministry of Agriculture of the Republic of Azerbaijan, for financing enterprises in agriculture sector. Under this program, funds are made available to the Bank at interest rates 2% and 3% p.a. (2022: 2% and 3% p.a.) and mature in 2024-2027 (2022: 2023-2027). The Bank is obliged to make these funds to issue loans to eligible borrowers at rates not higher than 7% p.a. (2022: 7% p.a.).

In 2021, the Bank signed a credit agreement with Educational Student Credit Fund, a program under the Ministry of Education of the Republic of Azerbaijan, for financing students' education fees. Educational Student Credit Fund was created by the decree of the President of Azerbaijan Republic in 2021 and the charter of this fund is AZN 79,385 (2022: AZN 90,463) which has been transferred to the Bank as a current account of the Fund. Under this program, loans terms and interest rates will be defined by the Fund. The Bank will finance loans of eligible students and the Fund will subsequently transfer financed amount to the Bank. The Fund will bear all credit risks associated with those loans.

19. Amounts due to credit institutions

Amounts due to credit institutions comprise:

	2023	***2022***
Repurchase agreements	403,760	−
Long-term loans received from credit institutions	40,366	−
Current accounts	19,986	15,900
Time deposits from financial institutions	18,384	2,769
Amounts due to credit institutions	**482,496**	**18,669**

As at 31 December 2023, the fair value of notes issued by the Ministry of Finance of the Republic of Azerbaijan pledged under repurchase agreements is AZN 404,453.

20. Subordinated loan

During 2023, the Bank paid its subordinated debt obligation to resident bank and the Bank did not have any subordinated loan as at 31 December 2023 (2022: AZN 8,521).

21. Equity

As at 31 December 2022, the Bank's share capital is represented by ordinary and preference shares. Ordinary shares were registered at State Securities Committee of the Republic of Azerbaijan on 17 July 2014, thus, authorized, issued and fully paid up capital comprised of 16,614,205 ordinary shares with nominal amount of 12.39 Azerbaijani manat per ordinary share as at 31 December 2023 (2022: 15,000,000). Each ordinary share carries one vote.

On 12 October 2022, in accordance with the decision of shareholders, the Bank authorized to issue ordinary shares with nominal amount of 12.39 for the total amount of AZN 20,000, which were fully paid by the shareholders by the end of 2022. The share capital of the Bank was contributed by shareholders in Azerbaijani manat and they are entitled to dividends and any capital distribution in Azerbaijani manat. As at 31 December 2023, the balance of share capital is AZN 265,850 (2022: AZN 265,850).

According to the decision of the General Shareholders' Meeting held on 12 January 2023, 31 March 2023 and 06 July 2023, the Bank declared and paid dividends in respect of the year ended 31 December 2022 in the amount of AZN 9,000 on preference shares (1.86 Azerbaijani manat per share), AZN 148,400 and AZN 13,700 on ordinary shares, respectively (9.76 Azerbaijani manat per share). All amounts include 10% withholding tax to be paid on behalf of shareholders. Preference shares have a fixed dividend (15%), and do not have any voting rights.

(Amounts presented are in thousands of Azerbaijani manats)

21. Equity (continued)

According to the decision of the General Shareholders' Meeting held on 14 March 2022, the Bank declared dividends in respect of the year ended 31 December 2021 in the amount of AZN 144,273 on ordinary shares (8.68 Azerbaijani manat per share) and in the amount of AZN 9,000 on preference shares (1.86 Azerbaijani manat per share). Both amounts include 10% withholding tax to be paid on behalf of shareholders. The dividends were fully paid during 2022.

All amounts include 10% withholding tax to be paid on behalf of shareholders.

Additional paid-in capital

Additional paid-in capital represents accumulated contribution from shareholders other than payments for the value of issued shares.

Revaluation reserve for premises

The revaluation reserve is used to record increases in the fair value of premises and decreases to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

Unrealised gains on investment securities

This reserve records fair value changes on investment securities designated at FVOCI.

22. Commitments and contingencies

Operating environment

General overview

The Bank conducts all of its operations in the Republic of Azerbaijan.

The economy of Azerbaijan is particularly sensitive to hydrocarbon prices. However, during recent years, the Azerbaijani Government has initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the hydrocarbon sector, which currently accounts for almost half of the country's GDP.

Economic performance

GDP of Azerbaijan grew by 4.6% in 2022, driven by strong growth in the oil and non-oil sector, which is largely due to increased foreign currency inflows as the high global prices of hydrocarbons boosted export revenues. Increased money supply, as a result of these factors, led to surplus liquidity and record high profits in banking sector during 2023, coupled with considerable decrease in default rates.

Global hydrocarbon prices experienced decline during the second half of 2022 and most of 2023, before slightly rebounding during September – October period of 2023. The country's GDP grew by only 1.8% in 2023.

The high average hydrocarbon prices during 2022 and 2023 added additional stability to the local currency.

Monetary policy

During 2022 and 2023 the CBAR actively controlled the refinancing rate and mandatory reserve requirements to promptly react to inflation and liquidity levels in the banking sector. In 2022, which was marked with high inflation rates, the refinancing rate was increased from 7.5% to 8.25%. During 2023, however, the inflation slowed down considerably, from 13.9% in the previous year to 8.8% at the conclusion of 2023. The CBAR reduced the refinancing rate to 8.00% as at 31 December 2023. In contrast, the CBAR's mandatory reserve ratios have been tightened in 2023 in response to considerable increase in surplus liquidity in the banking sector.

During 2022 and 2023, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period.

Credit Rating Assessment

During 2023 global rating agencies assessed Azerbaijani Government`s credit rating as "Ba1". Assessment reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future shocks despite the post pandemic period. Fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices.

(Amounts presented are in thousands of Azerbaijani manats)

22. Commitments and contingencies (continued)

Operating environment (continued)

Management response

The Bank's management is monitoring economic developments in the current environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Bank's business in the foreseeable future. The Bank considers its current liquidity position to be sufficient for its sustainable functioning. The Bank monitors its liquidity position on a daily basis.

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 first half of 2017.

Management's interpretation of the relevant legislation as at 31 December 2023 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 the CBAR ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2023, the Bank was in compliance with these ratios except for:

- Maximum credit exposure of a bank per a single borrower or a group of related borrowers that should not exceed 10 percent of the bank's Tier 1 capital on unsecured loan. As at 31 December 2023, the Bank's ratio was 11.11% (2022: 12.48%).

The breach of this ratio was caused by investment made for government related projects.

Throughout the year the Bank submitted information regarding these breaches to the CBAR on a monthly basis and no sanctions were imposed on the Bank. Management believes that the Bank will not face any sanctions against the Bank in the future in relation to the mentioned breach.

As discussed in Note 32, CBAR adopted new "Rules on the Operations with Related Parties" effective 13 March 2024. Based on these rules the Bank should apply new guidelines in calculation of respective ratios since the effective date. The new rules revised definition of the related party for ratio calculation purposes and may provide result that will differ from existing calculated ratios. The Bank is currently assessing the impact of these rules.

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.

(Amounts presented are in thousands of Azerbaijani manats)

22. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

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

	2023	*2022*
Undrawn loan commitments	1,467,747	912,857
Financial guarantees	811,132	584,476
Letters of credit	21,071	33,741
Less: provisions for ECL for credit related commitments	(11,094)	(10,566)
Credit related commitments	**2,288,856**	**1,520,508**
Performance guarantees	312,864	166,513
Less: provisions for performance guarantees (*Note 15*)	(2,170)	(2,079)
Commitments and contingencies (before deducting collateral)	**2,599,550**	**1,684,942**
Less: cash held as security against guarantees and letters of credit (*Note 16*)	(26,694)	(31,077)
Commitments and contingencies	**2,572,856**	**1,653,865**

An analysis of changes in the ECLs during the year ended 31 December 2023 is as follows:

Financial guarantees	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2023	**(711)**	**(353)**	**(47)**	**(1,111)**
New exposures	(880)	–	–	**(880)**
Exposures derecognised or matured (excluding write-offs)	544	271	47	**862**
Transfers to Stage 1	(9)	9	–	**–**
Transfers to Stage 2	193	(193)	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	4	(41)	–	**(37)**
Changes to inputs used for ECL calculations	(12)	41	–	**29**
Aa at 31 December 2023	**(871)**	**(266)**	**–**	**(1,137)**

Undrawn loan commitments	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2023	**(5,256)**	**(2,825)**	**(1,294)**	**(9,375)**
New exposures	(6,405)	–	–	**(6,405)**
Exposures derecognised or matured (excluding write-offs)	1,891	1,239	577	**3,707**
Transfers to Stage 1	(1,652)	954	698	**–**
Transfers to Stage 2	2,076	(2,095)	19	**–**
Transfers to Stage 3	13	6	(19)	**–**
Impact on period end ECL of exposures transferred between stages during the period	1,465	(403)	19	**1,081**
Changes to inputs used for ECL calculations	872	222	–	**1,094**
As at 31 December 2023	**(6,996)**	**(2,902)**	**–**	**(9,898)**

Letters of credit	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECLs as at 1 January 2023	**(79)**	**(1)**	**–**	**(80)**
New exposures	(50)	–	–	(50)
Exposures derecognised or matured (excluding write-offs)	68	1	–	69
Changes to inputs used for ECL calculations	2	–	–	2
As at 31 December 2023	**(59)**	**–**	**–**	**(59)**

(Amounts presented are in thousands of Azerbaijani manats)

22. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

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

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2022	**(1,543)**	**(233)**	**(13,589)**	**(15,365)**
New exposures	(759)	–	–	**(759)**
Exposures derecognised or matured (excluding write-offs)	651	196	–	**847**
Transfers to Stage 1	(254)	45	209	**–**
Transfers to Stage 2	362	(362)	–	**–**
Transfers to Stage 3	6	–	(6)	**–**
Impact on period end ECL of exposures transferred between stages during the period	244	(25)	(41)	**178**
Changes to inputs used for ECL calculations	582	26	(885)	**(277)**
Movements without impact on (Provision)/reversal of provision for credit related commitments and other impairment in profit or loss				
Payment for issued letter guarantee	–	–	14,265	**14,265**
Aa at 31 December 2022	**(711)**	**(353)**	**(47)**	**(1,111)**

Undrawn loan commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2022	**(4,771)**	**(3,706)**	**(790)**	**(9,267)**
New exposures	(5,942)	–	–	**(5,942)**
Exposures derecognised or matured (excluding write-offs)	2,607	1,512	222	**4,341**
Transfers to Stage 1	(1,493)	1,473	20	**–**
Transfers to Stage 2	1,916	(1,927)	11	**–**
Transfers to Stage 3	531	7	(538)	**–**
Impact on period end ECL of exposures transferred between stages during the period	1,284	(564)	(44)	**676**
Changes to inputs used for ECL calculations	612	380	(175)	**817**
As at 31 December 2022	**(5,256)**	**(2,825)**	**(1,294)**	**(9,375)**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECLs as at 1 January 2022	**–**	**(44)**	**–**	**(44)**
New exposures	(80)	–	–	**(80)**
Exposures derecognised or matured (excluding write-offs)	–	44	–	**44**
Transfers to Stage 1	–	–	–	**–**
Transfers to Stage 2	1	(1)	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	–	**–**
As at 31 December 2022	**(79)**	**(1)**	**–**	**(80)**

(Amounts presented are in thousands of Azerbaijani manats)

23. Net fee and commission income

Net fee and commission income comprises:

	2023	*2022*
Servicing plastic card operations	206,211	177,920
Settlement operations	34,861	26,060
Cash operations	35,440	27,203
Guarantees and commitments	18,921	14,544
Other	12,134	6,951
Fee and commission income	**307,567**	**252,678**
Servicing plastic card operations	(124,241)	(56,180)
Settlement operations	(35,214)	(17,105)
Cash operations	(4,718)	(4,785)
Guarantees and commitments	(942)	(655)
Other	(10,653)	(7,741)
Fee and commission expense	**(175,768)**	**(86,466)**
Net fee and commission income	**131,799**	**166,212**

24. Other operating income

As at 31 December 2023, other operating income of AZN 12,157 (2022: AZN 17,351) primarily comprise income from online payment services for utilities and telecommunication, income from plastic card campaigns and other individually insignificant items.

25. Personnel expenses

Personnel expenses comprise:

	2023	*2022*
Salaries and bonuses	(169,025)	(136,291)
Social security costs	(30,509)	(24,513)
Other employee related expenses	(4,682)	(3,603)
Personnel expenses	**(204,216)**	**(164,407)**

26. General and administrative expenses

General and administrative expenses comprise:

	2023	*2022*
Repair and maintenance of property and equipment	(27,958)	(17,619)
Communications	(23,451)	(13,881)
Sponsorship	(20,081)	(23,571)
Marketing and advertising	(14,879)	(13,029)
Blank plastic cards	(14,857)	(6,139)
Legal and consultancy	(13,164)	(15,002)
Deposit Insurance Fund expenses	(12,493)	(12,060)
Representation expenses	(5,791)	(4,498)
Security	(5,652)	(4,676)
Office supplies	(4,217)	(4,112)
Occupancy and rent	(2,959)	(2,069)
Utilities	(1,898)	(1,919)
Business travel and related expenses	(1,881)	(1,119)
Taxes other than income tax	(1,668)	(629)
Insurance on properties and equipment	(1,594)	(1,877)
Transportation and vehicle maintenance	(743)	(657)
Expenses on Equipment rent	(4)	(6)
Other	(4,383)	(2,989)
General and administrative expenses	**(157,673)**	**(125,852)**

Fees charged to the Bank for the provision of services by all EY network firms during the year covered by the financial statements are AZN 493 and AZN 99 for audit and non-audit services, respectively.

(Amounts presented are in thousands of Azerbaijani manats)

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

Supervisory Board

The Supervisory Board 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 risks types and activities.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Introduction (continued)

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 Management Board 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.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

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 9.

Impairment assessment

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

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 recognised based on a credit-adjusted EIR. ECL are only recognised 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.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

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;
  - Stage 3 level restructuring at the reporting date:
    - Granting a grace period of more than 6 months to the loan repayment schedule;
    - Extension of the term of loans more than 12 months;
    - Reduction of the total debt of the borrower/group of borrowers for the next 12 months in the payment schedule in group by more than 70%;
    - Restructuring of guarantees converted into a loan;
    - All restructurings with more than 90 days overdue;
    - Repayment of loan payments by a 3rd company/person or restructuring in the name of a 3rd party in case of insolvency;
  - Any loan considered by management as non-performing;
  - If non-performing loans are observed in other liabilities of the borrower, when the ratio of non-performing liabilities to the total liabilities exceeds 5%;
  - Retail loans, residential mortgages and private banking retail loans that have been restructured according to the following conditions:
    - All restructurings with more than 90 days overdue;
    - For those who have been restructured more than once, if the status of the previous restructured loan was Stage 3 or Stage 2 restructuring at the time of the last restructuring;
    - Transfer of liabilities under the loan of the borrower to another individual (excluding mortgage loans);
    - Full or partial forgiveness of accrued interest or principal;
    - Restructuring of the term of the new loan for a period longer than 7 years (excluding mortgage loans);
- Granting a grace period of more than 3 (three) months to the loan payment schedule;
- Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition;
- Default (according to IRB and External Rating);
- Default on other financial instruments of the same borrower.

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.

Internal rating and PD estimation process

The Bank's Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its corporate customers are rated based on Moody's model. Small and medium enterprises are scored from 1 to 20 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

The Bank uses specific variables to determine the PD base rates for consumer lending products such as unsecured personal loans, credit cards, and overdrafts. These variables include borrower attributes such as credit history, transaction volumes of customers with debit cards issued by the Bank, workplace, region of residence, age, and gender. The selection and weighting of these variables is based on statistical analysis of historical data and expert judgment, ensuring that the PD model accurately predicts the probability of default for different types of borrowers.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

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, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and residential mortgages

Probability of Default model incorporates a more comprehensive and detailed approach, accounting for a wider range of financial and borrower-specific factors, while the updated staging and recovery criteria consider more specific restructuring conditions.

Consumer lending comprises unsecured cash loans, credit card loans and overdrafts. The Bank categorizes these loans into four groups for internal management purposes - non-pension, pension, street and restructured. These categories have specific variables, such as credit history, transaction volumes of customers with debit cards issued by the Bank, workplace, region of residence, age, and gender of borrowers, which are used to determine base PD rates. These variables are critical in evaluating the risk of a borrower defaulting on a loan, and they are used to calculate the ECL. The final selection of variables for a predictive model is based on their economic and statistical significance and their relationship with the likelihood of default. Economic significance refers to the practical importance of the variable in predicting a default, while statistical significance is the degree to which the variable is associated with the probability of default. A strong relationship indicates a significant impact on default likelihood, while a moderate relationship indicates a relatively smaller impact.

The Bank has implemented modifications to its calculation of ECL for its consumer lending portfolio. The modifications include the adoption of the calibration of PD base rates utilizing actual default rates. Calibrating the PD rates to real-life default rates rational as it results a more precise estimation of the inherent risk associated with a loan. Actual default rates deliver tangible evidence on the count of loans that have defaulted, offering an empirical basis for estimating future defaults. This method ensures that the appraisal of PD is not merely theoretical but are grounded in actual performance and behaviour, leading to more prudent credit decisions. The impact of the calibration has been quantified at a favourable decrease in the ECL by AZN 10,178 as of 31 December 2023. Given the complexity of this modification and the uncertainty surrounding its impact in the future, the Bank has determined that it is impracticable to estimate the effect of the changes in future periods. The Bank has complied with the disclosure requirements of IAS 8 by disclosing this fact in its financial statements.

Residential mortgages are rated by scorecard tool primarily driven by debt to income (DTI) and payment to income (PTI) ratios. Other key inputs into the models are GDP growth, changes in personal income/salary levels, personal indebtedness.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

The Bank's internal credit rating grades are as follows:

Internal rating grade for SME	*Moody's based internal/external ratings for Corporate and Financial institutions*	*Internal rating description*
1	Aaa	High grade
2-4	Aa1 to Aa3	
5-7	A1 to A3	
8-10	Baa1 to Baa3	Standard grade
11-13	Ba1 to Ba3	
14-16	B1 to B3	
17-19	Caa1 to Caa3	Sub-standard grade
20	Ca	
Default	C	Impaired

Internal rating for consumer and mortgage loans is based on raw PD rate and score of the borrowers, respectively. Hence, mortgage borrowers above than or equal to 1.7 score and consumer loans with less than or equal to 15% raw PD rate are included in Standard grade and vice versa. High grade rating is used for local currency balances of the Central Bank of Azerbaijan Republic and the Ministry of Finance of the Republic of Azerbaijan.

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. To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

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, Stage 3 and POCI 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.

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.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

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:

- ► PD for all corporate and small business lending;
- ► LGD for Stage 3 corporate and small business lending which are above predetermined threshold and are collateralized.

Asset classes where the Bank calculates ECL on a collective basis include:

- ► PD and LGD for all retail consumer and mortgages lending;
- ► LGD for all corporate and small business lending which are in Stage 1 and Stage 2;
- ► LGD for corporate and small business lending which are in Stage 3, neither are above predetermined threshold nor are collateralized.

Forward-looking information and multiple economic scenarios

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

- ► GDP growth rates;
- ► NPL rates;
- ► Consumption growth rates;
- ► Inflation;
- ► Unemployment rate;
- ► Monetary policy rate;
- ► Dynamics of real and nominal effective exchange rates;
- ► Real estate price.

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.

The Bank obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e.g. central banks, and international financial institutions). Experts of the Bank's Credit Risk Department determine the weights attributable to the multiple scenarios. The tables show the values of the key forward looking economic variables/ assumptions used in each of the economic scenarios for the ECL calculations. The figures for "Subsequent years" represent a long-term average and so are the same for each scenario as at 31 December 2023.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's 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.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

31 December 2023	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand and in transit	6	Stage 1	268,513	103,334	−	−	**371,847**
		Stage 2	−	−	8,131	−	**8,131**
Amounts due from credit institutions	7	Stage 1	1,112,293	177,189	−	−	**1,289,482**
Loans to customers at amortised cost	9						
− Government related entities		Stage 1	−	378,094	−	−	**378,094**
		Stage 3	−	−	−	59	**59**
− Corporate loans		Stage 1	−	511,044	48,736	−	**559,780**
		Stage 2	−	10,046	27,391	−	**37,437**
		Stage 3	−	−	−	8,325	**8,325**
− Loans to individuals − consumer loans		Stage 1	−	1,798,833	4,223	−	**1,803,056**
		Stage 2	−	51,042	39,594	−	**90,636**
		Stage 3	−	−	−	64,139	**64,139**
− Loans to individuals − mortgage loans		Stage 1	−	543,797	−	−	**543,797**
		Stage 2	−	25,767	749	−	**26,516**
		Stage 3	−	−	−	888	**888**
− Loans to individual entrepreneurs		Stage 1	−	354,633	1,424	−	**356,057**
		Stage 2	−	4,824	4,185	−	**9,009**
		Stage 3	−	−	−	5,655	**5,655**
Debt securities at amortised cost	8	Stage 1	804,339	421,000	56,174	−	**1,281,513**
		Stage 3	−	−	−	2,691	**2,691**
Debt securities at FVOCI	8	Stage 1	304,938	−	−	−	**304,938**
Financial guarantees	22	Stage 1	−	694,512	84,875	−	**779,387**
		Stage 2	−	10,332	21,413	−	**31,745**
Undrawn loan commitments	22	Stage 1	−	1,389,419	21,585	−	**1,411,004**
		Stage 2	−	38,163	17,166	−	**55,329**
		Stage 3	−	−	−	1,414	**1,414**
Letters of credit	22	Stage 1	−	11,797	−	−	**11,797**
		Stage 2	−	−	9,274	−	**9,274**
Total			**2,490,083**	**6,523,826**	**344,920**	**83,171**	**9,442,000**

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

31 December 2022	*Note*		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand and in transit	6	Stage 1	436,449	323,292	−	−	**759,741**
		Stage 2	−	−	17,724	−	**17,724**
Amounts due from credit institutions	7	Stage 1	264,014	125,141	2,745	−	**391,900**
		Stage 2	−	−	524	−	**524**
Loans to customers at amortised cost	9	Stage 1	−	235,346	25,500	−	**260,846**
- Government related entities		Stage 2	−	6	30	−	**36**
		Stage 3	−	−	−	59	**59**
		Stage 1	−	333,660	57,811	−	**391,471**
- Corporate loans		Stage 2	−	30,477	55,030	−	**85,507**
		Stage 3	−	−	−	7,279	**7,279**
- Loans to individuals − consumer loans		Stage 1	−	1,502,519	93	−	**1,502,612**
		Stage 2	−	116,952	10,686	−	**127,638**
		Stage 3	−	−	−	46,310	**46,310**
- Loans to individuals − mortgage loans		Stage 1	−	397,038	953	−	**397,991**
		Stage 2	−	17,863	1,276	−	**19,139**
		Stage 3	−	−	−	1,195	**1,195**
		Stage 1	−	143,621	6,864	−	**150,485**
- Loans to individual entrepreneurs		Stage 2	−	5,118	7,303	−	**12,421**
		Stage 3	−	−	−	5,363	**5,363**
Debt securities at amortised cost	8	Stage 1	1,387,037	828,931	−	−	**2,215,968**
		Stage 3	−	−	−	2,691	**2,691**
Debt securities at FVOCI	8	Stage 1	298,992	−	−	−	**298,992**
Financial guarantees	22	Stage 1	−	380,552	145,284	−	**525,836**
		Stage 2	−	15,460	43,047	−	**58,507**
		Stage 3	−	−	−	133	**133**
Undrawn loan commitments	22	Stage 1	−	831,197	7,947	−	**839,144**
		Stage 2	−	51,786	16,855	−	**68,641**
		Stage 3	−	−	−	5,072	**5,072**
Letters of credit	22	Stage 1	−	11,123	15,138	−	**26,261**
		Stage 2	−	112	7,368	−	**7,480**
Total			**2,386,492**	**5,350,194**	**422,178**	**68,102**	**8,226,966**

More detailed information with respect to the allowance for impairment of loans to customers is provided in Note 9.

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

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Credit risk (continued)

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

	2023				2022			
	Azerbaijan	*OECD*	*CIS and other countries*	*Total*	*Azerbaijan*	*OECD*	*CIS and other countries*	*Total*
Assets								
Cash and cash equivalents	916,318	200,017	33,210	**1,149,545**	1,405,397	101,433	54,767	**1,561,597**
Amounts due from credit institutions	1,245,293	16,303	27,886	**1,289,482**	345,446	18,573	28,405	**392,424**
Investment securities	1,406,059	182,328	7,310	**1,595,697**	2,143,669	369,242	9,512	**2,522,423**
Loans to customers	4,109,783	–	718	**4,110,501**	3,029,647	379	826	**3,030,852**
Other financial assets	353,920	20,033	3,669	**377,622**	131,069	9,695	2,897	**143,661**
	8,031,373	**418,681**	**72,793**	**8,522,847**	**7,055,228**	**499,322**	**96,407**	**7,650,957**
Liabilities								
Amounts due to customers	6,424,501	10,134	29,780	**6,464,415**	6,082,472	22,449	53,125	**6,158,046**
Amounts due to the Central Bank of the Republic of Azerbaijan, and government organizations	436,904	–	–	**436,904**	403,936	–	–	**403,936**
Debt Securities issued	59,578	–	–	**59,578**	59,578	–	–	**59,578**
Subordinated loan	–	–	–	**–**	8,521	–	–	**8,521**
Amounts due to credit institutions	473,529	13	8,954	**482,496**	17,587	13	1,069	**18,669**
Other financial liabilities	53,802	71	43	**53,916**	37,283	31	75	**37,389**
	7,448,314	**10,218**	**38,777**	**7,497,309**	**6,609,377**	**22,493**	**54,269**	**6,686,139**
Net assets	**583,059**	**408,463**	**34,016**	**1,025,538**	**445,851**	**476,829**	**42,138**	**964,818**

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 31 December, these ratios were as follows:

	2023, %	*2022, %*
Instant Liquidity Ratio per regulator	41.22	49.83

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Liquidity risk and funding management (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial liabilities at 31 December based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. 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 31 December 2022	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Financial liabilities					
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations	91,646	30,215	108,529	304,725	**535,115**
Amounts due to credit institutions	441,298	46,511	30	–	**487,839**
Amounts due to customers	5,111,929	1,134,942	293,648	7,582	**6,548,101**
Debt securities issued	1,076	2,996	71,418	–	**75,490**
Lease liability	3,290	8,868	28,295	2,453	**42,906**
Other financial liabilities	53,916	–	–	–	**53,916**
Total undiscounted financial liabilities	**5,703,155**	**1,223,532**	**501,920**	**314,760**	**7,743,367**

As at 31 December 2022	***Less than 3 months***	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
Financial liabilities					
Amounts due to the Central Bank of the Republic of Azerbaijan and government organizations	106,634	26,200	96,618	254,012	**483,464**
Amounts due to credit institutions	17,485	1,062	122	8	**18,677**
Amounts due to customers	5,466,443	527,549	205,569	38	**6,199,599**
Debt securities issued	1,076	2,996	75,403	–	**79,475**
Lease liability	3,050	8,999	28,558	10,869	**51,476**
Subordinated loan	149	383	10,010	–	**10,542**
Other financial liabilities	37,389	–	–	–	**37,389**
Total undiscounted financial liabilities	**5,632,226**	**567,189**	**416,280**	**264,927**	**6,880,622**

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 and all financial guarantees, letter of credits and performance guarantees are shown based on contractual expiry by maturity.

	Less than 3 months	***3 to 12 months***	***1 to 5 years***	***Over 5 years***	***Total***
2023	1,623,752	569,210	106,988	–	**2,299,950**
2022	1,127,552	323,195	80,327	–	**1,531,074**

Financial guarantees, letter of credits and performance guarantees could be called anytime throughout the period of agreement upon request of borrower, however the Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

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 amounts due to customers represented by government organizations in the period of 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.

(Amounts presented are in thousands of Azerbaijani manats)

27. Risk management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Bank does not have any significant equity, corporate fixed income, or derivatives holdings.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2023. The Bank does not have substantial amount of floating rate non-trading financial instruments as at 31 December 2023 and 2022.

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

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 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 Azerbaijani manats, with all other variables held constant on the statement of profit or loss. The effect on equity does not differ from the effect on profit or loss. A negative amount in the table reflects a potential net reduction in profit or loss or equity, while a positive amount reflects a net potential increase.

Impact on profit before tax based on net assets value as at 31 December:

	31 December 2023		***31 December 2022***	
USD	+10%/-10%	29,747 / (29,747)	+20%/-3%	106,091 / (15,914)
EUR	+10%/-10%	266 / (266)	+21%/-9%	13,920 / (5,966)

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.

28. Fair value measurements

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.

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

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 – debt securities at FVOCI	31 December 2023	−	304,938	−	**304,938**
Investment securities − equity securities at FVOCI	31 December 2023	10,052	−	3,003	**13,055**
Loans to customers – consumer loans at FVPL	31 December 2023	−	−	364,560	**364,560**
Derivative financial assets at FVPL – Currency swaps	31 December 2023	−	5,346	−	**5,346**
Property and equipment − premises	31 December 2023	−	−	6,393	**6,393**
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2023	454,520	755,305	53,750	**1,263,575**
Amounts due from credit institutions	31 December 2023	−	−	1,289,482	**1,289,482**
Loans to customers	31 December 2023	−	571,201	3,194,390	**3,765,591**
Other financial assets (excluding derivative financial assets)	31 December 2023	−	−	372,276	**372,276**

		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*
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2023	−	4,933,928	1,525,610	**6,459,538**
Amounts due to the CBAR and government organizations	31 December 2023	−	434,614	2,180	**436,794**
Amounts due to credit institutions	31 December 2023	−	423,746	58,750	**482,496**
Debt securities issued	31 December 2023	−	59,578	−	**59,578**
Other financial liabilities	31 December 2023	−	−	53,916	**53,916**

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

		Fair value measurement using			
	Date of valuation	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Assets measured at fair value					
Investment securities – debt securities at FVOCI	31 December 2022	82,272	216,720	−	**298,992**
Investment securities − equity securities at FVOCI	31 December 2022	8,105	−	3,003	**11,108**
Loans to customers – consumer loans at FVPL	31 December 2022	−	−	140,973	**140,973**
Derivative financial assets at FVPL – Currency swaps	31 December 2022	−	15,972	−	**15,972**
Property and equipment − premises	31 December 2022	−	6,291	−	**6,291**
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2022	516,510	793,590	880,858	**2,190,958**
Amounts due from credit institutions	31 December 2022	−	−	392,424	**392,424**
Loans to customers	31 December 2022	−	448,426	2,463,368	**2,911,794**
Other financial assets (excluding derivative financial assets)	31 December 2022	−	−	127,689	**127,689**

		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***
Liabilities for which fair values are disclosed					
Amounts due to customers	31 December 2022	−	5,295,589	861,737	**6,157,326**
Amounts due to the CBAR and government organizations	31 December 2022	−	400,999	2,712	**403,711**
Amounts due to credit institutions	31 December 2022	−	15,900	2,769	**18,669**
Debt securities issued	31 December 2022	−	59,578	−	**59,578**
Subordinated loan	31 December 2022	−	−	8,521	**8,521**
Other financial liabilities	31 December 2022	−	−	37,389	**37,389**

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Movements in Level 3 financial instruments measured at fair value

The following tables show a reconciliation of the opening and closing amounts of Level 3 financial assets and liabilities which are recorded at fair value. Transfers from Level 3 to Level 2 occur when the market for some securities became more liquid, which eliminates the need for the previously required significant unobservable valuation inputs. Since the transfer, these instruments have been valued using valuation models incorporating observable market inputs. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid. Therefore, the Bank requires significant unobservable inputs to calculate their fair value.

The following tables show the reconciliation of the opening and closing amounts of Level 3 financial assets measured at fair value:

As at 31 December 2023	*At 1 January 2023*	*Purchase*	*Sales*	*Issuances*	*Settle-ments*	*Transfers*	*Transfer from Level 3*	*Net interest income, net trading income and other income*	*Other comprehensive income*	*Exchange rate differen-ces*	*At 31 December 2023*	*Unrealised gains and losses related to balances held at the end of the period*
Assets measured at fair value on a recurring basis												
Investment securities − equity securities at FVOCI	3,003	−	−	−	−	−	−	−	−	−	3,003	−
Loans to customers – consumer loans at FVPL	140,973	−	−	329,463	(105,876)	−	−	38,541	−	−	364,560	−
Total financial assets measured at fair value	**143,976**	**−**	**−**	**329,463**	**(105,876)**	**−**	**−**	**38,541**	**−**	**−**	**367,563**	**−**

As at 31 December 2022	*At 1 January 2022*	*Purchase*	*Sales*	*Issuances*	*Settle-ments*	*Transfers*	*Transfer from Level 3*	*Net interest income, net trading income and other income*	*Other comprehensive income*	*Exchange rate differen-ces*	*At 31 December 2022*	*Unrealised gains and losses related to balances held at the end of the period*
Assets measured at fair value on a recurring basis												
Investment securities − equity securities at FVOCI	3,003	−	−	−	−	−	−	−	−	−	3,003	−
Loans to customers – consumer loans at FVPL	119,257	−	−	106,581	(84,865)	−	−	22,860	−	—	140,973	−
Total financial assets measured at fair value	**122,260**	**−**	**−**	**106,581**	**(84,865)**	**−**	**−**	**22,860**	**−**	**−**	**143,976**	**−**

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

	31 December 2023 Fair value of				31 December 2023 Range of Inputs				
					Full range		Core range		
	Level 3 Assets	Level 3 Liabilities	Valuation technique	Significant unobservable inputs	Low	High	Low	High	Unit
Investment securities − equity securities at FVOCI *	3,003	—	Market proxy	Instrument Price					
Loans to customers – consumer loans at FVPL	364,560	—	Discounted projected cash flow	Prepayment rate	—	100	2	37	%
				Recovery rates	—	37	27	37	%
				Discount margin/spread	16	21	19	20	%

	31 December 2022 Fair value of				31 December 2022 Range of Inputs				
					Full range		Core range		
	Level 3 Assets	Level 3 Liabilities	Valuation technique	Significant unobservable inputs	Low	High	Low	High	Unit
Investment securities − equity securities at FVOCI *	3,003	—	Market proxy	Instrument Price					
Loans to customers – consumer loans at FVPL	140,973	—	Discounted projected cash flow	Prepayment rate	—	100	2	39	%
				Recovery rates	—	37	27	37	%
				Discount margin/spread	20	27	24	27	%

* *Given the wide range of diverse investments and the correspondingly large differences in prices, the Bank does not disclose the ranges as it believes it would not provide meaningful information without a full list of the underlying investments, which would be impractical.*

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Quantitative analysis of significant unobservable inputs

Discount margin/spreads

Discount margin/spreads represent the discount rates used when calculating the present value of future cash flows. In discounted cash flow models, such spreads are added to the benchmark rate when discounting the future expected cash flows. Hence, these spreads reduce the net present value of an asset or increase the value of a liability. They generally reflect the premium an investor expects to achieve over the benchmark interest rate to compensate for the higher risk driven by the uncertainty of the cash flows caused by the credit quality of the asset. They can be implied from market prices and are usually unobservable for illiquid or complex instruments.

Recovery rates

Recovery rates reflect the estimated loss that the Bank will suffer given expected defaults. The recovery rate is given as a percentage and reflects the opposite of loss severity (i.e., 100% recovery reflects 0% loss severity). In line with general market convention, loss severity is applied to asset-backed securities while recovery rate is more often used as pricing input for corporate or government instruments. Higher loss severity levels / lower recovery rates indicate lower expected cash flows upon the default of the instruments. Recovery rates for complex, less liquid instruments are usually unobservable and are estimated based on historical data.

Prepayment rates

Prepayment rates represent the expected future speed at which a loan portfolio will be repaid ahead of the contractual terms of the underlying loans. They are important inputs into valuation of asset-backed securities. When there is insufficient market data to provide observable rates, the Bank uses a variety of evidence such as rates from proxy portfolios or other macroeconomic modelling.

Sensitivity of fair value measurements to changes in unobservable market data

The table below describes the effect of changing the significant unobservable inputs to reasonable possible alternatives. All changes except for debt instruments classified as fair value through other comprehensive income (FVOCI) would be reflected in the income statement. Sensitivity data are calculated using a number of techniques, including analysing price dispersion of different price sources, adjusting model inputs to reasonable changes within the fair value methodology.

The ranges are not comparable or symmetrical as the model inputs are usually not in the middle of the favourable/unfavourable range.

The table below shows data in relation to Level 3 inputs that are already aggregated on the underlying product levels without assuming any potential diversification effect, but including potential off-sets from economic or accounting hedge relationships in place. The Bank is of the opinion that, whilst there may be some diversification benefits, incorporating these would not be significant to the analysis.

	31 December 2023		***31 December 2022***	
In $ million	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Investment securities − equity securities at FVOCI	35	(25)	40	(20)
Loans to customers – consumer loans at FVPL	6,211	(5,974)	4,602	(4,374)
Total	**6,246**	**(5,999)**	**4,642**	**(4,394)**

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.

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

	Carrying value 2023	*Fair value 2023*	*Unrealized gain/(loss)*	*Carrying value 2022*	*Fair value 2022*	*Unrealized gain/(loss)*
Financial assets						
Amounts due from credit institutions	1,289,482	1,289,482	**–**	392,424	392,424	**–**
Investment securities – debt securities at amortized cost	1,277,704	1,263,575	**(14,129)**	2,212,323	2,190,958	**(21,365)**
Loans to customers	3,745,941	3,765,591	**19,650**	2,889,879	2,911,794	**21,915**
Other financial assets(excluding derivative financial assets)	372,276	372,276	**–**	127,689	127,689	**–**
Financial liabilities						
Amounts due to customers	6,464,415	6,459,538	**4,877**	6,158,046	6,157,326	**720**
Amounts due to the CBAR and government organizations	436,904	436,794	**110**	403,936	403,711	**225**
Amounts due to credit institutions	482,496	482,496	**–**	18,669	18,669	**–**
Debt securities issued	59,578	59,578	**–**	59,578	59,578	**–**
Subordinated loan	–	–	**–**	8,521	8,521	**–**
Other financial liabilities	53,916	53,916	**–**	37,389	37,389	**–**
Total unrecognized change in unrealized fair value			**10,508**			**1,495**

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 financial statements of financial position, but whose fair value is disclosed.

Loans at fair value through profit or loss

Loans at fair value through profit or loss and mandatorily required to be measured at FVPL (those that did not meet the SPPI criteria), are valued using a combination of approaches. For the specified loans, a discounted cash flow model has been employed, incorporating a weighted average interest rate obtained from the recent loan issuances by the major market makers within the locale. The non-observable inputs to the model include adjustment for credit risk associated with the expected cash flows from the borrower's operations, specifically for loans exhibiting significant increases in credit risk or identified impairments.

Loans at amortised cost

Where appropriate, the respective loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower’s operations or in respect of collateral valuation.

Assets for which fair value approximates carrying value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. The models incorporate various non-observable assumptions, which include market rate volatilities.

(Amounts presented are in thousands of Azerbaijani manats)

28. Fair value measurements (continued)

Fair value hierarchy (continued)

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which 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

Fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to the CBAR and 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.

29. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled. See Note 27 "Risk management" for the Bank's contractual undiscounted repayment obligations.

	2023			***2022***		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	1,149,545	-	**1,149,545**	1,561,597	−	**1,561,597**
Amounts due from credit institutions	33,895	1,255,587	**1,289,482**	25,169	367,255	**392,424**
Investment securities	680,271	915,426	**1,595,697**	1,256,222	1,266,201	**2,522,423**
Loans to customers	1,590,665	2,519,836	**4,110,501**	1,187,887	1,842,965	**3,030,852**
Investment in subsidiary	−	63,090	**63,090**	−	31,360	**31,360**
Right of use assets	−	29,264	**29,264**	−	35,032	**35,032**
Property and equipment	−	80,336	**80,336**	−	72,644	**72,644**
Intangible assets	−	29,587	**29,587**	−	26,200	**26,200**
Other assets	395,787	51,030	**446,817**	162,408	49,099	**211,507**
Total	**3,850,163**	**4,944,156**	**8,794,319**	**4,193,283**	**3,690,756**	**7,884,039**
Amounts due to customers	6,200,194	264,221	**6,464,415**	5,974,409	183,637	**6,158,046**
Amounts due to the CBAR and government organizations	113,016	323,888	**436,904**	125,547	278,389	**403,936**
Amounts due to credit institutions	482,466	30	**482,496**	18,546	123	**18,669**
Debt securities issued	78	59,500	**59,578**	78	59,500	**59,578**
Subordinated loan	−	−	**−**	21	8,500	**8,521**
Lease liability	8,118	27,948	**36,066**	10,667	30,364	**41,031**
Deferred income tax liabilities	−	23,206	**23,206**	−	39,291	**39,291**
Current tax liabilities	18,618	−	**18,618**	47,066	−	**47,066**
Other liabilities	151,956	−	**151,956**	121,894	−	**121,894**
Total	**6,974,446**	**698,793**	**7,673,239**	**6,298,228**	**599,804**	**6,898,032**
Net	**(3,124,283)**	**4,245,363**	**1,121,080**	**(2,104,945)**	**3,090,952**	**986,007**

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to management of the Bank. An unmatched position potentially enhances profitability and leverage, but can also increase the risk of unexpected 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.

(Amounts presented are in thousands of Azerbaijani manats)

29. Maturity analysis of assets and liabilities (continued)

Management believes that in spite of a substantial portion of amounts due to customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates that these amounts provide a long-term and stable source of funding for the Bank. The considerable part of amounts due to customers that is comprised of large number of individually insignificant accounts demonstrate the behaviour of a long-term financing, if taken as a whole. The Bank considers it to be unlikely that unusually large number of customers will withdraw their funds in a short time span.

The customers who hold the largest current account deposits with the Bank have a long established history as the Bank's customers. Management believes that 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 CBAR's minimum liquidity norm for banks of 30% is a reasonable precautionary measure taken by the regulator, which is based on the nature and established normal business practice in banking industry. The Bank has a reasonably high headroom above the minimum required liquidity ratio. The Bank`s actual ratio is 41% as at 31 December 2023 (2022: 49%).

Although the Bank holds considerable amounts of investment securities maturing in more than one year, the Bank is able to sell a substantial portion of such securities on an open market in case of urgent liquidity needs.

The Bank has established Treasury Department and Asset Liabilities Management Committee, which are responsible for overseeing the Bank's liquidity on day-to-day basis.

30. Related party disclosures

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

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

(Amounts presented are in thousands of Azerbaijani manats)

30. Related party disclosures (continued)

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

	2023				*2022*			
	Share-holders / ultimate owners	*Entities under common control*	*Other related parties*	*Key mana-gement personnel*	*Share-holders / ultimate owners*	*Entities under common control*	*Other related parties*	*Key mana-gement personnel*
Loans outstanding at 1 January, gross	–	**50,867**	**21,326**	**9,288**	–	**58,741**	**18,753**	**8,368**
Loans issued during the year	–	25,722	61,905	20,802	–	32,837	33,198	12,544
Loan repayments during the year	–	(51,873)	(61,181)	(17,946)	–	(40,601)	(30,786)	(11,654)
Other movements	–	(163)	22	14	–	(110)	161	30
Loans outstanding at 31 December, gross	–	**24,553**	**22,072**	**12,158**	–	**50,867**	**21,326**	**9,288**
Less: allowance for impairment at 31 December	–	(200)	(147)	(51)	–	(241)	(207)	(238)
Loans outstanding at 31 December, net	–	**24,353**	**21,925**	**12,107**	–	**50,626**	**21,119**	**9,050**
Due from Credit Institutions	–	29,451	–	–	–	69,118	–	–
Interest income due from Credit Institutions	–	905	–	–	–	4,135	–	–
Interest income on loans	–	13,566	1,883	941	–	28,015	2,185	711
Impairment reversal/(charge) for loans	–	41	60	187	–	228	303	(65)
Right-of-use asset	–	18,220	712	–	–	22,730	894	–
Depreciation of right-of-use assets	–	(4,480)	(182)	–	–	(4,471)	(166)	–
Other assets	21	198,884	203	–	–	97,951	35	–
Deposits at 1 January	**1,360**	**1,195**	**10,078**	**32,043**	**1,279**	**1,248**	**10,082**	**34,694**
Deposits received during the year	–	3,301	33,200	18,838	–	1,379	–	2,273
Deposits repaid during the year	–	(2,509)	(10,000)	(17,588)	–	(1,430)	–	(4,878)
Other movements	(159)	40	414	20	81	(2)	(4)	(46)
Deposits at 31 December	**1,201**	**2,027**	**33,692**	**33,313**	**1,360**	**1,195**	**10,078**	**32,043**
Current accounts at 31 December	10,433	159,888	5,368	7,983	215,734	55,914	3,066	9,055
Cash and cash equivalents	–	3,583	–	–	–	6,985	–	–
Investment Securities	–	20,942	–	–	–	38,201	–	–
Interest income on Investment securities	–	2,365	–	–	–	2,186	–	–
Lease liability	–	23,795	792	–	–	27,612	939	–
Interest expense on lease liability		(2,895)	(96)		–	(3,224)	(99)	–
Debt Securities issued	25,535	–	–	4,955	25,535	–	–	4,955
Interest expenses on debt securities issued	(1,697)	–	–	(310)	(1,697)	–	–	(310)
Other amounts owed to credit institutions	–	40,366	–	–	–	–	–	–
Other liabilities	63	11,252	–	–	–	1,401	–	–
Interest expense on other amounts owed to credit institutions	–	(2,471)	–	–	–	–	–	–
Interest expense on deposits	(81)	(67)	(1,558)	(742)	(81)	(48)	(600)	(760)
General and administrative expenses	(7)	(21,986)	(7,275)	–	–	(14,470)	(15,206)	–
Personnel expenses	–	(1,874)	–	–	–	(1,566)	–	–
Commission Income	57	30,060	268	21	3	17,796	196	22
Commission expense	(155)	(18,453)	(5,540)	–	–	(10,252)	(1,927)	–
Net gains/(loss) from foreign currencies: dealing	6	882	711	36	1	705	896	42
Letters of credit and guarantees issued	–	11,401	10,422	–	–	18,841	9,464	-
Unused credit lines	–	5,143	1,670	1,405	–	2,730	2,479	1,018

Items included under “Entities under common control” comprised of the entities under collective control of the ultimate owners.

(Amounts presented are in thousands of Azerbaijani manats)

30. Related party disclosures (continued)

The terms and conditions of transactions with related parties, such as the range of interest rates, are as follows for each class of related parties:

	2023				2022			
	Shareholders / ultimate owners	Entities under common control	Other related parties	Key management personnel	Shareholders / ultimate owners	Entities under common control	Other related parties	Key management personnel
Loans to customers	–	10%-13%	10-17%	4%-30%	–	11%-15%	10%-17%	4%-27%
Investment securities	–	11%	–	–	–	3%-11%	–	–
Due from Credit Institutions	–	4%-5%	–	–	–	4%-11%	–	–
Debt securities issued	7%	–	–	6%	7%	–	–	6%
Lease liability	–	10%-11%	10%	–	–	10%-11%	10%	–
Other amounts owed to credit institutions	–	11%	–	–	–	–	–	–
Deposits	1%-8%	3%-7%	2%-6%	0%-9%	1%-8%	3%-7%	6%	0%-8%

The terms and conditions of transactions with related parties, such as maximum remaining maturities with years, are as follows for each class of related parties:

	2023				2022			
	Shareholders / ultimate owners	Entities under common control	Other related parties	Key management personnel	Shareholders / ultimate owners	Entities under common control	Other related parties	Key management personnel
Loans to customers	–	3	3	27	–	3	2	28
Investment securities	–	1	–	–	–	2	–	–
Due from Credit Institutions	–	2	–	–	–	3	–	–
Debt securities issued	4	–	–	–	5	-	–	–
Lease liability	–	9	4	–	–	10	5	–
Other amounts owed to credit institutions	–	1	–	–	–	–	–	–
Deposits	3	1	1	3	1	2	1	3

The compensation of key management personnel is as follows:

	2023	2022
Salaries and other benefits	32,207	28,409
Social security costs	5,241	4,612
Total key management personnel compensation	**37,448**	**33,021**

31. 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 using the ratios established 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 changes were made in the objectives, policies and processes from the previous years.

The CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6% (2021: 6%) and 12 % (2021: 12%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

(Amounts presented are in thousands of Azerbaijani manats)

31. Capital adequacy (continued)

The CBAR capital adequacy ratio (continued)

As at 31 December 2023 and 2022, the Bank's capital adequacy ratios on this basis were as follows:

	2023	***2022***
Tier 1 capital after deductions	583,113	449,552
Tier 2 capital	324,544	394,914
Less: deductions from capital	(74,554)	(42,822)
Total regulatory capital	**833,103**	**801,644**
Risk weighted assets	**6,360,351**	**4,733,425**
Capital adequacy ratio (Tier 1)	9.17%	9.50%
Capital adequacy ratio (Total Capital)	13.10%	16.94%

32. Events after the reporting period

Subsequently, the Bank made additional investment in "Competo LLC" in amount of AZN 20,205 during 2024. As a result, the subsidiary`s share in "Competo LLC" increased to 60%.

Based on CBAR decision dated 31 January 2024, new "Rules on Operations with Related Parties" were adopted and considered to be effective since 13 March 2024.