“NAKHCHIVANBANK” OPEN JOINT-STOCK COMPANY

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

"NAKHCHIVANBANK" OPEN JOINT-STOCK COMPANY

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“NAKHCHIVANBANK” OJSC

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of “Nakhchivanbank” Open Joint-Stock Company and its subsidiary (together refer to the “Group”) as at December 31, 2022, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards (“IFRS”).

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group’s consolidated financial position and financial performance; and
- Making an assessment of the Group’s ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group’s transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2022 were approved by management on April 25, 2023.

On behalf of the Management Board:

Mr. Isa Isayev
Acting Chairman of the Management Board

The Nakhchivan Autonomous Republic
April 25, 2023

AZƏRBAYCAN RESPUBLİKASI AÇIQ SƏHMDAR CƏMİYYƏTİ NAXÇIVANBANK OPEN JOINT-STOCK COMPANY AZERBAIJAN REPUBLIC

Mr. Turab Guliyev
Finance Director

The Nakhchivan Autonomous Republic
April 25, 2023

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of "Nakhchivanbank" Open Joint-Stock Company:

Opinion

We have audited the consolidated financial statements of "Nakhchivanbank" Open Joint-Stock Company (the "Bank") and its subsidiary (together refer to the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2022, and its financial performance and its 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 Auditors' Responsibilities for the audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Group for the year ended December 31, 2021 were audited by another auditor, who expressed an unqualified opinion on those financial statements on April 25, 2022.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

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

April 25, 2023
Baku, the Republic of Azerbaijan

Azərbaycan Respublikası "NEXIA EA" QSC
NEXIA EA
"NEXIA EA" CJSC Azerbaijan Republic

"NAKHCHIVANBANK" OJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022
(in thousands of Azerbaijani Manats)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents	7	86,260	207,623
Mandatory reserves with the CBAR	7	7,256	992
Due from banks	8	13,897	4,896
Investment securities	9	59,613	1,459
Loans and advances to customers	10, 28	167,733	135,508
Premises and equipment	11	6,224	5,289
Intangible assets	11	597	307
Other financial assets	12	952	457
Other assets	12	391	183
TOTAL ASSETS		**342,923**	**356,714**
LIABILITIES			
Term borrowings	13	67,949	63,998
Customer accounts	14, 28	155,216	186,026
Unearned premiums written		1,783	2,006
Deferred income	15	200	207
Current income tax liability		2,277	930
Deferred income tax liability	22	957	974
Other financial liabilities	16	1,113	642
Other liabilities	16	126	251
TOTAL LIABILITIES		**229,621**	**255,034**
EQUITY			
Share capital	17	94,000	89,750
Revaluation reserve		2,621	2,424
Net unrealized loss on investment securities		(525)	-
Capital reserve		482	482
Retained earnings		16,724	9,024
TOTAL EQUITY		**113,302**	**101,680**
TOTAL LIABILITIES AND EQUITY		**342,923**	**356,714**

On behalf of the Management Board:

Mr. Isa Isayev
Acting Chairman of the Management Board

The Nakhchivan Autonomous Republic
April 25, 2023

AZƏRBAYCAN RESPUBLİKASI AÇIQ SƏHMDAR CƏMİYYƏTİ NAXÇIVANBANK OPEN JOINT-STOCK COMPANY AZERBAIJAN REPUBLIC

Mr. Turab Guliyev
Finance Director

The Nakhchivan Autonomous Republic
April 25, 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Interest income	18, 28	21,725	14,206
Interest expense	18	(975)	(818)
Net interest income		**20,750**	**13,388**
Charge of expected credit losses	19	(737)	(1,356)
Net interest income		**20,013**	**12,032**
Fee and commission income	20, 28	5,296	3,797
Fee and commission expense	20, 28	(2,558)	(1,947)
Gains less losses from trading in foreign currencies		551	557
Net foreign exchange gain/(loss)		10	(58)
Administrative and operating expenses	21	(7,138)	(4,370)
Gross premiums written		2,333	2,509
Change in insurance reserves, net		205	(576)
Other non-operating expense, net		(637)	(528)
Profit before income tax		**18,075**	**11,416**
Income tax expense	22	(3,755)	(2,413)
Net profit for the year		**14,320**	**9,003**
Items that will not be reclassified subsequently to profit or loss			
Net gain resulting on revaluation of property and equipment		246	3,030
Income tax recorded directly in other comprehensive income	22	(49)	(606)
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of investment securities		(656)	-
Income tax recorded directly in other comprehensive income	22	131	-
Other comprehensive (loss)/income for the year		**(328)**	**2,424**
Total comprehensive income for the year		**13,992**	**11,427**
Earnings per share for profit attributable to the owners of the Group, basic and diluted (expressed in AZN per share)	23	**14.32**	**9.00**

On behalf of the Management Board:

Mr. Isa Isayev
Acting Chairman of the Management Board

The Nakhchivan Autonomous Republic
April 25, 2023

AZƏRBAYCAN RESPUBLİKASI "NAXÇIVANBANK" AÇIQ SƏHMDAR CƏMİYYƏTİ AZERBAIJAN REPUBLIC OPEN JOINT-STOCK COMPANY

Mr. Turab Guliyev
Finance Director

The Nakhchivan Autonomous Republic
April 25, 2023

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Azerbaijani Manats)

	Share capital	Revaluation reserve	Net unrealized loss on investment securities	Capital reserve	Retained earnings	Total equity
Balance at January 1, 2021	**82,430**	**-**	**-**	**482**	**7,341**	**90,253**
Net profit for the year	-	-	-	-	9,003	9,003
Other comprehensive income for the year	-	2,424	-	-	-	2,424
Retained earnings directed to share capital	7,320	-	-	-	(7,320)	-
Balance at December 31, 2021	**89,750**	**2,424**	**-**	**482**	**9,024**	**101,680**
Net profit for the year	-	-	-	-	14,320	14,320
Other comprehensive gain/(loss) for the year	-	197	(525)	-	-	(328)
Retained earnings directed to share capital	4,250	-	-	-	(4,250)	-
Dividends declared	-	-	-	-	(2,370)	(2,370)
Balance at December 31, 2022	**94,000**	**2,621**	**(525)**	**482**	**16,724**	**113,302**

On behalf of the Management Board:

Mr. Isa Isayev
Acting Chairman of the Management Board

The Nakhchivan Autonomous Republic
April 25, 2023

AZƏRBAYCAN RESPUBLİKASI AÇIQ SƏHMDAR CƏMİYYƏTİ NAXÇIVANBANK OPEN JOINT-STOCK COMPANY AZERBAIJAN REPUBLIC

Mr. Turab Guliyev
Finance Director

The Nakhchivan Autonomous Republic
April 25, 2023

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

(in thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Cash flows from operating activities			
Interest received		19,869	13,677
Interest paid		(921)	(802)
Fees and commissions received		5,296	3,797
Fees and commissions paid		(2,558)	(1,947)
Income received from trading in foreign currencies		551	557
Staff costs paid		(3,774)	(2,459)
Administrative and operating expenses paid		(2,374)	(1,141)
Premiums received		2,333	2,509
Other non-operating expenses paid		(681)	(539)
Income tax paid		(2,386)	(2,791)
Cash flows from operating activities before changes in operating assets and liabilities		**15,355**	**10,861**
Net (increase)/decrease in:			
- mandatory cash balances with the CBAR		(6,264)	(273)
- due from banks		(8,826)	(3,455)
- loans and advances to customers		(32,367)	(23,649)
- other financial assets		(510)	(157)
- other assets		6	-
Net increase/(decrease) in:			
- customer accounts		(30,663)	46,306
- other financial liabilities		463	163
- other liabilities		-	51
Net cash (used in)/provided from operating activities		**(62,806)**	**29,847**
Cash flows from investing activities			
Purchases of investment securities	9	(114,935)	-
Proceeds from redemption of investment securities	9	57,133	1,041
Purchase of premises and equipment		(1,653)	(1,009)
Purchase of intangible assets		(529)	(76)
Proceeds on disposal of property and equipment		34	-
Net cash used in investing activities		**(59,950)**	**(44)**
Cash flows from financing activities			
Proceeds from term borrowings	13	11,079	9,631
Repayment of term borrowings	13	(7,182)	(7,933)
Dividends paid		(2,370)	-
Net cash provided from financing activities		**1,527**	**1,698**

"NAKHCHIVANBANK" OJSC

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)

(in thousands of Azerbaijani Manats)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Effect of exchange rate changes on cash and cash equivalents		(121)	(157)
Effect of net change in accrued interest on cash and cash equivalents		44	-
Effect of net amortized discount on cash and cash equivalents		76	-
Effect of transaction costs on cash and cash equivalents		(133)	-
Net (decrease)/increase in cash and cash equivalents		**(121,363)**	**31,344**
Cash and cash equivalents at the beginning of the year	7	207,623	176,279
Cash and cash equivalents at the end of the year	7	**86,260**	**207,623**

On behalf of the Management Board:

Mr. Isa Isayev
Acting Chairman of the Management Board

The Nakhchivan Autonomous Republic
April 25, 2023

Mr. Turab Guliyev
Finance Director

The Nakhchivan Autonomous Republic
April 25, 2023

1 INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2022 for "Nakhchivanbank" OJSC (the "Bank") and its subsidiary (together referred as "Group").

The Group is presented by the following companies:

1. "Nakhchivanbank" Open Joint-Stock Company – Parent Entity;
2. "Nakhchivansigorta" Open Joint-Stock Company – Insurance Company, (the "Subsidiary").

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. The Bank was established on April 29, 2008, in accordance with regulations of the Republic of Azerbaijan and registered by the Central Bank of the Republic of Azerbaijan on August 4, 2008 and conducting its business under the general banking license number 252.

On March 14, 2014, the Group registered its fully-owned subsidiary, "Nakhchivansigorta" OJSC at the Ministry of Taxes of Nakhchivan Autonomous Republic. It operates in insurance market rendering insurance products including automobile, third party liability, property and compulsory property insurance.

As at December 31, 2022 and 2021 the immediate owners of the Bank were the following:

Shareholders	**Current ownership interest, %**	**Previous ownership interest, %**
Mr. Talibov Rza Vasif	63.66	63.66
Mr. Talibov Seymur Vasif	20.48	20.48
Mrs. Talibova Baharkhanim Vasif	9.82	9.82
Mrs. Sultanova Sevil Rza	6.04	6.04
Total	**100.00**	**100.00**

As at December 31, 2022, the Group was ultimately controlled by Mr. Talibov Rza Vasif, who owned 63.66% of the Bank's shares (December 31, 2021: 63.66%).

The Group had 7 branches and 1 division (December 31, 2021: 7 branches and 2 divisions) within the Republic of Azerbaijan. The Group had 175 employees as at December 31, 2022 (December 31, 2021: 150 employees).

Registered address and place of business. The Group's registered address is:

7 Jalil Mammadguluzadeh Street, Nakhchivan AZ7000, Nakhchivan Autonomous Republic, the Republic of Azerbaijan.

Presentation currency. These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN").

2 OPERATING ENVIRONMENT OF THE GROUP

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

Azerbaijan economy also has a significant exposure to level of international energy prices. Crude oil prices increased in the first half of the year because of supply concerns however starting from the second half of the year oil prices generally decreased as concerns about a possible economic recession reduced demand. The Brent crude oil spot price averaged USD 100 per barrel in 2022. Strong oil prices supported economic growth of the country.

The depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in business environment, therefore government took all required actions to keep the exchange rate stable over the past 5 years. As a result, continuous fluctuation in global oil prices did not affect the local currency and therefore did not increase the uncertainty in the business environment. The COVID-19 coronavirus pandemic has affected businesses significantly in 2020, however, after a successful vaccination campaign of the government majority of businesses steadily returned to their normal activities during 2021 and the first half of 2022. The sustainability of the cease-fire arrangement over the Karabakh region also improves the business environment as there are number of government-led projects to attract investment and develop the territories released from occupation.

GDP reached AZN 133.8 billion (USD 78.7 billion) in 2022 with 4.6% growth compared to 2021. During 2022 foreign trade turnover of the Republic of Azerbaijan reached about USD 52.69 billion of which export equaled to USD 38.15 billion and import equaled to USD 14.54 billion according to the statistics of State Custom Committee.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in nine months of 2022 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the period and the range was between 7.25% - 8.25% with a steady increase in rates.

On June 6, 2022 the Central Bank has increased minimum reserve deposit rates to 4% and 5% for national and foreign currencies, respectively.

Inflation rate increased from 6.7% in December 2021 to 13.9% in December 2022.

By the end of December 2022 number of active plastic cards issued by banks increased to a historic high of 13,257 thousand compared to 11,040 thousand in 2021.

During 2022 proportion of foreign currency deposits of individuals dropped to 39.2% from 41% in 2021.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as "BB+". Moody's Investors Service set a "Ba1" credit rating for the country.

Nakhchivan Autonomous Republic. The Group is mainly based in the Nakhchivan Autonomous Republic. Nakhchivan Autonomous Republic is internationally recognized as a constituent part of the Republic of Azerbaijan governed by its own elected legislative assembly. The economy of the Nakhchivan Autonomous Republic is supported majorly by industries which include mining of minerals, agriculture and cattle ranching. The economy of the Nakhchivan Autonomous Republic is also supported by the Republic of Azerbaijan.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorised at fair value through profit or loss ("FVPL") and at fair value through other comprehensive income ("FVOCI") and revaluation of buildings category of premises and equipment. These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue in operation for the foreseeable future. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group's policies.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortized cost as described below.

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 27.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by either observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date when the Group commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments. A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVPL”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give right on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give right on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment. The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio management as well as compliance with those policies and practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest. For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g., non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g., periodical reset of interest rates, which is not consistent with the interest payment period.

Reclassification of financial assets. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. The reclassification has a prospective effect.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognized as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortized cost, net of allowance for ECL, are recognized in profit or loss and other changes in carrying value are recognized in OCI as gains less losses on debt instruments at FVOCI.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL"). If the Group identifies SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 24 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 24. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 24 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Presentation of allowance for ECL in the consolidated statement of financial position. Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognized as part of fair value reserve.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due. However, there is no reasonable expectation of recovery.

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Republic of Azerbaijan (the "CBAR") with an original maturity of less or equal to 90 days, notes issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") up to 90 days and amounts due from credit institutions with an original maturity of less or equal to 90 days and are free from contractual encumbrances. Funds restricted for a period of more than one business day on origination are excluded from cash and cash equivalents, both in the consolidated statement of financial position and for the purposes of the consolidated statement of cash flows. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVPL.

Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan. Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan represent the amount of obligatory reserves deposited with the Central Bank of the Republic of Azerbaijan in accordance with requirements established by the Central Bank of the Republic of Azerbaijan, which subject to restrictions on their availability. In view of the above, the amount of the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan is not included as a cash equivalent in the consolidated statement of cash flows.

Due from banks. Amounts due from banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Investments securities. Based on the business model and the cash flow characteristics, the Group classifies investments securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognized in profit or loss. An impairment allowance estimated using the expected credit loss model is recognized in profit or loss for the year. All other changes in the carrying value are recognized in OCI. When the debt security is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers captions in the consolidated statement of financial position include:

- loans and advances measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Credit-related commitments. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

Premises and equipment. Premises and equipment except buildings, are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

In 2021 the Group changed the accounting policy of subsequent measurement of buildings category from cost model to revaluation model. Shortly from the date of change, the buildings are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

The date of the latest appraisal was April 8, 2022.

Any revaluation increase arising on the revaluation of such buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the statement of comprehensive income to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit and loss accounts. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other operating income or expenses).

Depreciation. Depreciation on items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	13-33
Furniture and fixtures	5
Computers and other equipment	5
Vehicles	5
Other fixed assets	5

The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group’s intangible assets have a definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Capitalised computer software is amortized on a straight-line basis over expected useful lives of 5 to 10 years.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Term borrowings. Term borrowings include loans from a resident financial institution with fixed maturity and fixed interest rate. Term borrowings are carried at amortized cost.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period.

The income tax charge/credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods.

Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry-forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is not recognized on post-acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries where the Group controls the subsidiary's dividend policy, and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Income and expense recognition. Interest income and expense are recorded for debt instruments measured at amortized cost or at FVOCI on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at FVPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (net of the expected credit loss ("ECL") provision); and
- Financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

Fee and commission income and expense. All other fees, commissions and other income and expense items are generally recorded on an accrual basis over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Group performs, usually on a straight-line basis.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned when the Group satisfies the performance obligation are recorded upon the completion of the transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Group performs, usually on a straight-line basis. Asset management fees relating to investment funds are recognized over the period in which services are rendered as the customer simultaneously receives and consumes the benefits as the Group performs, usually on a straight-line basis. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Bank and its subsidiaries, and the Group's presentation currency, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBAR at the end of the respective reporting period.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBAR, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2022	December 31, 2021
AZN/1 US Dollar	1.7000	1.7000
AZN/1 Euro	1.8114	1.9265

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

Deferred income. Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set-off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Group by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Description of insurance products. The Group offers insurance products covering all common insurance risks. The Group's main lines of business are as follows:

- motor;
- third party liability ("TPL");
- property;
- personal accident insurance.

Property and motor insurance ensure that Group's customers are paid compensation for the damage caused to their property or cover their financial interests. Customers are also indemnified for income losses caused by their inability to use an insured property in their economic activities as a result of the occurrence of an insured event (business interruption).

Third-party liability insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees or society (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Personal accident insurance is mandatory for individuals and businesses that want to engage in certain financially risky activities, such as operating an automobile or operating a business with employees. Personal accident insurance is supposed to protect accident victims against the costs of recovering from an accident that someone else, such as another driver or an employer, has caused. Insurance is regulated at the state level, so each state decides what types of insurance will be compulsory and how much coverage policyholders must purchase. Policyholders may purchase higher limits of coverage if they think the compulsory minimums are insufficient.

Premiums. Upon inception of the contract, premiums are recorded as written and are earned on a pro-rata basis over the term of the related policy coverage.

The reserve for unearned premiums represents the proportion of premiums written in the year that relate to unexpired terms of policies in force at the reporting date, calculated on a time apportionment basis.

Losses. Losses including loss adjustment expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred. Reserves for losses include two types of reserves: reserve for reported but not settled losses ("RBNS") and reserve for incurred but not reported losses ("IBNR"). RBNS reserve is calculated for each unsettled claim. If the amount of loss is not determined, the maximum possible amount of losses not exceeding the insurance limit, stated in the insurance policy, is accepted as RBNS. IBNR is calculated by the Group for each line of business; the calculation includes assumptions based on prior year's claims and claims handling experience. The method of determining such estimates and establishing the resulting provisions is continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise. Loss provision is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

Reinsurance. The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance receivables include balances due from reinsurance companies for paid claims, including claims handling expenses and premiums receivable ceded to the Group. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers.

The Group assesses its reinsurance assets for impairment and if there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in profit or loss for the year.

Acquisition cost. The Group pays commission to agents and brokers for ceding premiums to reinsurers. This type of commission is recorded within the insurance activity result in the consolidated statement of profit or loss. Commission expense is deferred and amortized over the period in which the related written premiums are earned. All other acquisition costs are charged to expense as incurred. Deferred acquisition costs ("DAC") are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each accounting period to ensure they are recoverable based on future estimates.

Liability adequacy test. At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the additional unexpired risk reserve ("AURR"). When the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities. Any DAC written off as a result of this test cannot subsequently be reinstated.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 24 for analysis of financial instruments by expected maturity.

4 CRITICAL ACCOUNTING ESTIMATES, AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies.

Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Classification of financial assets. Assessment of the business models within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding are disclosed in Note 3.

Measurement of ECL allowance. The measurement of expected credit loss allowance for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g., the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for a significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associate ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The credit loss allowance recognized for financial instruments is impacted by a variety of factors, as described below. The impact of these factors on credit loss allowance balance and charge for the year is presented in the notes related to the respective financial instruments.

- Transfers and corresponding remeasurement of credit loss allowances between Stage 1 (12-month ECL) and Stages 2 (Lifetime ECL not credit-impaired) or 3 (Lifetime ECL credit-impaired) due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL, as well as net remeasurement of credit loss allowance within the same stage;
- Changes to ECL measurement model assumptions and estimates due to changes in PDs, EADs and LGDs in the period, arising from a regular update of inputs to ECL models;
- Remeasurement of credit loss allowance to reflect all contractually receivable interest due to the passage of time because ECL is measured on a present value basis;
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period, as well as recoveries of amounts previously written off.

Information on the inputs, assumptions, estimation techniques and judgements used in measuring ECL is further detailed in Note 24.

Definitions of terms related to ECL measurement are detailed in Note 24.

Initial recognition of related party transactions. In the normal course of business, the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Transactions with related parties are disclosed in Note 28.

Term borrowings. The Group obtains long-term financing from the government at interest rates which are lower than rates at which the Group could source the funds from local lenders. As a result of such financing, the Group is able to advance funds to specific customers (under specific lending programmes) at advantageous rates. Management has considered whether gains or losses should arise on initial recognition of such instruments. Due to its unique terms and conditions, its subordinated nature and the absence of observable current market transactions providing evidence of a market rate for such instruments, the loan was originally recognized and is subsequently carried on the consolidated statement of financial position at amortized contractual value. Management's judgement is that these instruments are a separate market segment and the related lending are at the market rates and no initial recognition gains or losses should arise.

Buildings carried at revalued amounts. Buildings are measured at revalued amounts. The date of the latest appraisal was April 8, 2022. Fair value measurement of property requires the use of estimates and judgements.

Useful life of property and equipment. The Group assesses the remaining useful lives of items of premises and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss.

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Group has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2022.

In May 2020, the IASB issued **Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

Property, Plant and Equipment: Proceeds before Intended Use – **Amendments to IAS 16.** In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1.

IFRS 9 Financial Instruments – Fees in the "10 percent" test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

"IAS 41 Agriculture" – Taxation in fair value measurements. As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

Unless otherwise disclosed, the new standards did not have a material effect on the financial statements of the Group.

6 STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

At the date of authorization of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group in advance of their effective dates, the following Interpretations were in issue but not yet effective.

IFRS 17 "Insurance contracts" – was issued in May 2017 and replaced IFRS 4 "Insurance contracts". The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 "Insurance Contracts" to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. This standard is not applicable to the Bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 - In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides 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 to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

Definition of Accounting Estimates - Amendments to IAS 8 - In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 - In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

IASB has issued **"Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)" with amendments** that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

(in thousands of Azerbaijani Manats)

On October 2022, IASB has published **"Non-current Liabilities with Covenants (Amendments to IAS 1)"** to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. According to the amendment, only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the consolidated financial statements of the Group.

7 CASH AND CASH EQUIVALENTS AND MANDATORY BALANCES WITH THE CBAR

	December 31, 2022	**December 31, 2021**
Cash on hand	27,173	39,165
Other cash balances with the CBAR	14,209	146,524
CBAR notes	28,366	16,445
Mandatory cash balances with the CBAR	7,256	992
Correspondent accounts and overnight placements with other banks:		
- The Republic of Azerbaijan	16,451	5,489
- The Republic of Turkey	61	-
Total cash and cash equivalents and mandatory balances with the CBAR	**93,516**	**208,615**

The balances with the CBAR as at December 31, 2022 and 2021 include AZN 7,256 thousand and AZN 992 thousand which represent the obligatory minimum reserve deposits with the CBAR. The Group is entitled to use all funds on its correspondent account provided that average daily balance for one month period will eventually be higher than required mandatory reserve. The Group is required to maintain the reserve balance at the CBAR at all times.

Included in cash and cash equivalents is accrued interest receivable in the amount of AZN 75 thousand and AZN 31 thousand as at December 31, 2022 and 2021, respectively.

(in thousands of Azerbaijani Manats)

The credit quality of cash and cash equivalents balances (excluding cash on hand) at December 31, 2022, may be summarised as follows:

	Cash balances with the CBAR, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
- Central Bank of the Azerbaijan Republic	49,831	-	49,831
- Rated Azerbaijani banks:			
"B+" *"Fitch rating" with stable outlook*	-	10,934	10,934
"B" *"Fitch rating" with stable outlook*		8	8
"B-" *"Fitch rating" with stable outlook*	-	9	9
"Medium Size" banks	-	5,561	5,561
Total cash and cash equivalents, excluding cash on hand	**49,831**	**16,512**	**66,343**

Mandatory cash balances with the CBAR in the amount of 7,256 thousand and 992 thousand were excluded from cash and cash equivalents for the purposes of consolidated statement cash flows.

The credit quality of cash and cash equivalents balances (excluding cash on hand) at December 31, 2021, may be summarised as follows:

	Cash balances with CBAR, including mandatory reserves	Correspondent accounts and overnight placements with other banks	Total
- Central Bank of the Azerbaijan Republic	163,961	-	163,961
- Rated Azerbaijani banks:			
"BB" *"Fitch rating" with stable outlook*	-	1,714	1,714
"Medium Size" banks	-	3,775	3,775
Total cash and cash equivalents, excluding cash on hand	**163,961**	**5,489**	**169,450**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognize any credit loss allowance for cash and cash equivalents. Refer to Note 24 for the ECL measurement approach.

Refer to Note 27 for the estimated fair value of each class of cash and cash equivalents. Maturity, geographical, interest rate and currency analysis of cash and cash equivalents is disclosed in Note 24.

(in thousands of Azerbaijani Manats)

8 DUE FROM BANKS

	December 31, 2022	December 31, 2021
Term placements with resident banks	12,753	3,673
Due from other financial institutions	571	578
Restricted balances with resident banks	1,134	1,213
Restricted balances with non-resident banks	10	10
	14,468	**5,474**
Less: Allowance for expected credit loss	(571)	(578)
Net due from other banks	**13,897**	**4,896**

As at December 31, 2022 term placements with local banks included term placements with three local banks (December 31, 2021: two local banks) with principal balance amounting to the equivalent of AZN 12,500 thousand and bearing 2.7% average interest rate per annum (December 31, 2021: AZN 3,600 thousand and 4% average interest rate per annum). As at December 31, 2022 the Group recognized credit loss allowance in the amount of AZN 571 thousand against due from banks (December 31, 2021: AZN 578 thousand).

Amounts due from other banks are not collateralized.

Restricted cash represents balances on correspondent accounts with banks placed by the Group on behalf of its customers. The Group does not have the right to use these funds for the purposes of funding its own activities.

Included in due from banks is accrued interest receivable in the amount of AZN 253 thousand and AZN 73 thousand as at December 31, 2022 and 2021, respectively.

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks and other financial institutions during the year ended December 31, 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2022	**4,896**	**-**	**578**	**5,474**
New assets originated or purchased	12,856	-	-	12,856
Other movements	(3,855)	-	(7)	(3,862)
As at December 31, 2022	**13,897**	**-**	**571**	**14,468**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2022	**-**	**-**	**(578)**	**(578)**
Net change in ECL value	-	-	7	7
As at December 31, 2022	**-**	**-**	**(571)**	**(571)**

(in thousands of Azerbaijani Manats)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks and other financial institutions during the year ended December 31, 2021 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2021	**1,382**	**-**	**586**	**1,968**
New assets originated or purchased	5,114	-	-	5,114
Other movements	(1,600)	-	(8)	(1,608)
As at December 31, 2021	**4,896**	**-**	**578**	**5,474**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2021	**-**	**-**	**(586)**	**(586)**
Net change in ECL value	-	-	8	8
As at December 31, 2021	**-**	**-**	**(578)**	**(578)**

There were no transfers between stages in gross carrying values and ECL allowance on due from banks during the years ended December 31, 2022 and 2021.

9 INVESTMENT SECURITIES

	December 31, 2022	December 31, 2021
Investment securities measured at amortized cost	38,163	1,459
Investment securities designated at FVTOCI	21,450	-
Total investment securities	**59,613**	**1,459**

	December 31, 2022	December 31, 2021
Notes issued by the Central Bank of the Republic of Azerbaijan	38,163	-
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	18,300	1,459
Notes issued by "Pasha Bank" OJSC	3,150	-
Total investment securities	**59,613**	**1,459**

Included in investment securities is accrued interest receivable in the amount of AZN 656 thousand and nil as at December 31, 2022 and 2021, respectively.

For the purpose of ECL measurement investment securities are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognize any credit loss allowance for investment securities.

There were no transfers between stages in gross carrying values and ECL allowance on investment securities during the years ended December 31, 2022 and 2021.

(in thousands of Azerbaijani Manats)

An analysis of changes in gross carrying value on investment securities during the year ended December 31, 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2022	**1,459**	**-**	**-**	**1,459**
New assets originated or purchased	114,935	-	-	114,935
Assets repaid or derecognized	(57,133)	-	-	(57,133)
Net change in accrued interest	656	-	-	656
Net amortized discount	352	-	-	352
Fair value decrease	(656)	-	-	(656)
As at December 31, 2022	**59,613**	**-**	**-**	**59,613**

An analysis of changes in gross carrying value on investment securities during the year ended December 31, 2021 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2021	**2,500**	**-**	**-**	**2,500**
Assets repaid or derecognized	(1,041)	-	-	(1,041)
As at December 31, 2021	**1,459**	**-**	**-**	**1,459**

10 LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2022	December 31, 2021
Corporate – Manufacturing	51,833	36,919
Corporate – Trade and Services	15,945	18,914
Corporate – Construction	3,027	3,145
Corporate – Agriculture	162	673
	70,967	**59,651**
Individuals – Consumer loans	67,979	52,520
Individuals – Mortgage loans	16,082	13,230
Individuals – Agriculture	10,906	9,870
Individuals – Business loans	8,904	6,458
Individuals – Car loans	-	44
	103,871	**82,122**
Less: allowance for expected credit loss	(7,105)	(6,265)
Total loans and advances to customers	**167,733**	**135,508**

Included in loans and advances to customers is accrued interest receivable in the amount of AZN 1,618 thousand and AZN 1,279 thousand as at December 31, 2022 and 2021, respectively.

(in thousands of Azerbaijani Manats)

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers as at December 31, 2022.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying value				
As at January 1, 2022	**131,013**	**4,034**	**6,726**	**141,773**
New assets originated or purchased	82,070	-	-	82,070
Other movements (asset repayment, modification of assets, etc.)	(48,817)	(384)	322	(48,879)
Transfer to Stage 1	598	(478)	(120)	-
Transfer to Stage 2	(3,102)	3,299	(197)	-
Transfer to Stage 3	(1,949)	(1,405)	3,354	-
Write-offs	-	-	(126)	(126)
At December 31, 2022	**159,813**	**5,066**	**9,959**	**174,838**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL of loans to customers				
At January 1, 2022	**(1,506)**	**(988)**	**(3,771)**	**(6,265)**
New assets originated or purchased	(1,402)	-	-	(1,402)
Net remeasurement	399	(162)	333	570
Transfer to Stage 1	(40)	3	37	-
Transfer to Stage 2	577	(649)	72	-
Transfer to Stage 3	822	713	(1,535)	-
Write-offs	-	-	126	126
Unwinding of discount on present value of ECLs	-	-	(134)	(134)
At December 31, 2022	**(1,150)**	**(1,083)**	**(4,872)**	**(7,105)**

(in thousands of Azerbaijani Manats)

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers as at December 31, 2021.

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying value				
As at January 1, 2021	**108,836**	**4,192**	**4,482**	**117,510**
New assets originated or purchased	64,742	-	-	64,742
Other movements (asset repayment, modification of assets, etc.)	(37,798)	(1,423)	(1,258)	(40,479)
Transfer to Stage 1	735	(678)	(57)	-
Transfer to Stage 2	(3,574)	3,676	(102)	-
Transfer to Stage 3	(1,928)	(1,733)	3,661	-
At December 31, 2021	**131,013**	**4,034**	**6,726**	**141,773**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL of loans to customers				
At January 1, 2021	**(1,283)**	**(1,830)**	**(1,597)**	**(4,710)**
New assets originated or purchased	(1,218)	-	-	(1,218)
Net remeasurement	(697)	368	128	(201)
Transfer to Stage 1	(9)	9	-	-
Transfer to Stage 2	804	(823)	19	-
Transfer to Stage 3	897	1,288	(2,185)	-
Unwinding of discount on present value of ECLs	-	-	(136)	(136)
At December 31, 2021	**(1,506)**	**(988)**	**(3,771)**	**(6,265)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Manufacturing				
Gross carrying value as at January 1, 2022	**36,586**	**300**	**33**	**36,919**
New assets originated or purchased	11,368	-	-	11,368
Other movements (asset repayment, modification of assets, etc.)	1,568	(46)	2,024	3,546
Transfer to Stage 2	-	8	(8)	-
Transfer to Stage 3	(153)	(254)	407	-
At December 31, 2022	**49,369**	**8**	**2,456**	**51,833**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Manufacturing				
Allowance for ECL as at January 1, 2022	**(597)**	**(89)**	**(16)**	**(702)**
New assets originated or purchased	(360)	-	-	(360)
Net remeasurement	477	63	(301)	239
Transfer to Stage 2	-	(1)	1	-
Transfer to Stage 3	14	26	(40)	-
Unwinding of discount on present value of ECLs	-	-	(8)	(8)
At December 31, 2022	**(466)**	**(1)**	**(364)**	**(831)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Manufacturing				
Gross carrying value as at January 1, 2021	**35,464**	**-**	**6**	**35,470**
New assets originated or purchased	7,228	-	-	7,228
Other movements (asset repayment, modification of assets, etc.)	(5,780)	-	1	(5,779)
Transfer to Stage 2	(300)	300	-	-
Transfer to Stage 3	(26)	-	26	-
At December 31, 2021	**36,586**	**300**	**33**	**36,919**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Manufacturing				
Allowance for ECL as at January 1, 2021	**(654)**	**-**	**-**	**(654)**
New assets originated or purchased	(86)	-	-	(86)
Net remeasurement	131	(89)	(3)	39
Transfer to Stage 3	12	-	(12)	-
Unwinding of discount on present value of ECLs	-	-	(1)	(1)
At December 31, 2021	**(597)**	**(89)**	**(16)**	**(702)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Trade and Services				
Gross carrying value as at January 1, 2022	**17,867**	**153**	**894**	**18,914**
New assets originated or purchased	6,863	-	-	6,863
Other movements (asset repayment, modification of assets, etc.)	(9,200)	(153)	(479)	(9,832)
Transfer to Stage 3	(164)	-	164	-
At December 31, 2022	**15,366**	**-**	**579**	**15,945**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Trade and Services				
ECL as at January 1, 2022	**(339)**	**(33)**	**(893)**	**(1,265)**
New assets originated or purchased	(88)	-	-	(88)
Net remeasurement	203	33	559	795
Transfer to Stage 3	38	-	(38)	-
Unwinding of discount on present value of ECLs	-	-	2	2
At December 31, 2022	**(186)**	**-**	**(370)**	**(556)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Trade and Services				
Gross carrying value as at January 1, 2021	**12,240**	**1,674**	**6**	**13,920**
New assets originated or purchased	8,494	-	-	8,494
Other movements (asset repayment, modification of assets, etc.)	(3,141)	(355)	(4)	(3,500)
Transfer to Stage 1	427	(427)	-	-
Transfer to Stage 2	(153)	153	-	-
Transfer to Stage 3	-	(892)	892	-
At December 31, 2021	**17,867**	**153**	**894**	**18,914**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Trade and Services				
ECL as at January 1, 2021	**(316)**	**(1,292)**	**-**	**(1,608)**
New assets originated or purchased	(165)	-	-	(165)
Net remeasurement	118	391	9	518
Transfer to Stage 1	(9)	9	-	-
Transfer to Stage 2	33	(33)	-	-
Transfer to Stage 3	-	892	(892)	-
Unwinding of discount on present value of ECLs	-	-	(10)	(10)
At December 31, 2021	**(339)**	**(33)**	**(893)**	**(1,265)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Construction				
Gross carrying value as at January 1, 2022	**3,032**	**101**	**12**	**3,145**
New assets originated or purchased	25	-	-	25
Other movements (asset repayment, modification of assets, etc.)	(55)	(76)	(12)	(143)
At December 31, 2022	**3,002**	**25**	**-**	**3,027**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Construction				
ECL as at January 1, 2022	**(53)**	**(21)**	**(6)**	**(80)**
New assets originated or purchased	(5)	-	-	(5)
Net remeasurement	32	16	6	54
At December 31, 2022	**(26)**	**(5)**	**-**	**(31)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Construction				
Gross carrying value as at January 1, 2021	**3,164**	**40**	**-**	**3,204**
New assets originated or purchased	31	-	-	31
Other movements (asset repayment, modification of assets, etc.)	(62)	(28)	-	(90)
Transfer to Stage 2	(101)	101	-	-
Transfer to Stage 3	-	(12)	12	-
At December 31, 2021	**3,032**	**101**	**12**	**3,145**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Construction				
ECL as at January 1, 2021	**(64)**	**-**	**-**	**(64)**
Net remeasurement	(10)	(6)	-	(16)
Transfer to Stage 2	21	(21)	-	-
Transfer to Stage 3	-	6	(6)	-
At December 31, 2021	**(53)**	**(21)**	**(6)**	**(80)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Agriculture				
Gross carrying value as at January 1, 2022	**342**	**-**	**331**	**673**
Other movements (asset repayment, modification of assets, etc.)	(180)	-	(263)	(443)
Write-offs	-	-	(68)	(68)
At December 31, 2022	**162**	**-**	**-**	**162**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Agriculture				
ECL as at January 1, 2022	**(3)**	**-**	**(163)**	**(166)**
Net remeasurement	2	-	95	97
Write-offs	-	-	68	68
At December 31, 2022	**(1)**	**-**	**-**	**(1)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Agriculture				
Gross carrying value as at January 1, 2021	**401**	**46**	**306**	**753**
Other movements (asset repayment, modification of assets, etc.)	(75)	(30)	25	(80)
Transfer to Stage 1	16	(16)	-	-
At December 31, 2021	**342**	**-**	**331**	**673**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate loans – Agriculture				
ECL as at January 1, 2021	**(5)**	**-**	**(137)**	**(142)**
Net remeasurement	2	-	(24)	(22)
Unwinding of discount on present value of ECLs	-	-	(2)	(2)
At December 31, 2021	**(3)**	**-**	**(163)**	**(166)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – consumer loans				
Gross carrying value as at January 1, 2022	**47,050**	**2,422**	**3,048**	**52,520**
New assets originated or purchased	49,291	-	-	49,291
Other movements (asset repayment, modification of assets, etc.)	(33,275)	(105)	(394)	(33,774)
Transfer to Stage 1	295	(212)	(83)	-
Transfer to Stage 2	(1,002)	1,125	(123)	-
Transfer to Stage 3	(974)	(826)	1,800	-
Write-offs	-	-	(58)	(58)
At December 31, 2022	**61,385**	**2,404**	**4,190**	**67,979**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – consumer loans				
ECL as at January 1, 2022	**(165)**	**(496)**	**(1,396)**	**(2,057)**
New assets originated or purchased	(839)	-	-	(839)
Net remeasurement	(203)	(420)	(341)	(964)
Transfer to Stage 1	(22)	-	22	-
Transfer to Stage 2	240	(298)	58	-
Transfer to Stage 3	614	543	(1,157)	-
Write-offs	-	-	58	58
Unwinding of discount on present value of ECLs	-	-	(110)	(110)
At December 31, 2022	**(375)**	**(671)**	**(2,866)**	**(3,912)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – consumer loans				
Gross carrying value as at January 1, 2021	**36,217**	**1,602**	**2,251**	**40,070**
New assets originated or purchased	36,839	-	-	36,839
Other movements (asset repayment, modification of assets, etc.)	(22,628)	(686)	(1,075)	(24,389)
Transfer to Stage 1	120	(110)	(10)	-
Transfer to Stage 2	(2,142)	2,200	(58)	-
Transfer to Stage 3	(1,356)	(584)	1,940	-
At December 31, 2021	**47,050**	**2,422**	**3,048**	**52,520**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – consumer loans				
ECL as at January 1, 2021	**(153)**	**(352)**	**(770)**	**(1,275)**
New assets originated or purchased	(559)	-	-	(559)
Net remeasurement	(456)	36	286	(134)
Transfer to Stage 2	444	(455)	11	-
Transfer to Stage 3	559	275	(834)	-
Unwinding of discount on present value of ECLs	-	-	(89)	(89)
At December 31, 2021	**(165)**	**(496)**	**(1,396)**	**(2,057)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – mortgage loans				
Gross carrying value as at January 1, 2022	**12,644**	**344**	**242**	**13,230**
New assets originated or purchased	4,026	-	-	4,026
Other movements (asset repayment, modification of assets, etc.)	(996)	(84)	(94)	(1,174)
Transfer to Stage 1	218	(190)	(28)	-
Transfer to Stage 2	(351)	371	(20)	-
Transfer to Stage 3	(83)	(50)	133	-
At December 31, 2022	**15,458**	**391**	**233**	**16,082**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – mortgage loans				
ECL as at January 1, 2022	**(55)**	**(166)**	**(117)**	**(338)**
New assets originated or purchased	(10)	-	-	(10)
Net remeasurement	(53)	152	19	118
Transfer to Stage 1	(16)	1	15	-
Transfer to Stage 2	65	(67)	2	-
Transfer to Stage 3	15	11	(26)	-
Unwinding of discount on present value of ECLs	-	-	1	1
At December 31, 2022	**(54)**	**(69)**	**(106)**	**(229)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – mortgage loans				
Gross carrying value as at January 1, 2021	**11,815**	**251**	**140**	**12,206**
New assets originated or purchased	2,266	-	-	2,266
Other movements (asset repayment, modification of assets, etc.)	(1,161)	(17)	(64)	(1,242)
Transfer to Stage 1	65	(65)	-	-
Transfer to Stage 2	(318)	318	-	-
Transfer to Stage 3	(23)	(143)	166	-
At December 31, 2021	**12,644**	**344**	**242**	**13,230**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – mortgage loans				
ECL as at January 1, 2021	**(65)**	**(77)**	**(66)**	**(208)**
New assets originated or purchased	(10)	-	-	(10)
Net remeasurement	(147)	(4)	34	(117)
Transfer to Stage 2	159	(159)	-	-
Transfer to Stage 3	8	74	(82)	-
Unwinding of discount on present value of ECLs	-	-	(3)	(3)
At December 31, 2021	**(55)**	**(166)**	**(117)**	**(338)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – agriculture loans				
Gross carrying value as at January 1, 2022	**8,473**	**465**	**932**	**9,870**
New assets originated or purchased	5,428	-	-	5,428
Other movements (asset repayment, modification of assets, etc.)	(4,384)	115	(123)	(4,392)
Transfer to Stage 1	41	(41)	-	-
Transfer to Stage 2	(725)	751	(26)	-
Transfer to Stage 3	(377)	(212)	589	-
At December 31, 2022	**8,456**	**1,078**	**1,372**	**10,906**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – agriculture loans				
ECL as at January 1, 2022	**(26)**	**(112)**	**(336)**	**(474)**
New assets originated or purchased	(66)	-	-	(66)
Net remeasurement	(76)	(24)	(23)	(123)
Transfer to Stage 1	(2)	2	-	-
Transfer to Stage 2	73	(76)	3	-
Transfer to Stage 3	69	96	(165)	-
Unwinding of discount on present value of ECLs	-	-	(14)	(14)
At December 31, 2022	**(28)**	**(114)**	**(535)**	**(677)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – agriculture loans				
Gross carrying value as at January 1, 2021	**6,161**	**348**	**392**	**6,901**
New assets originated or purchased	6,020	-	-	6,020
Other movements (asset repayment, modification of assets, etc.)	(3,190)	(200)	339	(3,051)
Transfer to Stage 1	55	(47)	(8)	-
Transfer to Stage 2	(404)	415	(11)	-
Transfer to Stage 3	(169)	(51)	220	-
At December 31, 2021	**8,473**	**465**	**932**	**9,870**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – agriculture loans				
ECL as at January 1, 2021	**(17)**	**(56)**	**(115)**	**(188)**
New assets originated or purchased	(75)	-	-	(75)
Net remeasurement	(95)	23	(128)	(200)
Transfer to Stage 2	99	(101)	2	-
Transfer to Stage 3	62	22	(84)	-
Unwinding of discount on present value of ECLs	-	-	(11)	(11)
At December 31, 2021	**(26)**	**(112)**	**(336)**	**(474)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – business loans				
Gross carrying value as at January 1, 2022	**4,975**	**249**	**1,234**	**6,458**
New assets originated or purchased	5,069	-	-	5,069
Other movements (asset repayment, modification of assets, etc.)	(2,251)	(35)	(337)	(2,623)
Transfer to Stage 1	44	(35)	(9)	-
Transfer to Stage 2	(1,024)	1,044	(20)	-
Transfer to Stage 3	(198)	(63)	261	-
At December 31, 2022	**6,615**	**1,160**	**1,129**	**8,904**

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – business loans				
ECL as at January 1, 2022	**(268)**	**(71)**	**(844)**	**(1,183)**
New assets originated or purchased	(34)	-	-	(34)
Net remeasurement	17	18	319	354
Transfer to Stage 2	199	(207)	8	-
Transfer to Stage 3	72	37	(109)	-
Unwinding of discount on present value of ECLs	-	-	(5)	(5)
At December 31, 2022	**(14)**	**(223)**	**(631)**	**(868)**

(in thousands of Azerbaijani Manats)

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

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – business loans				
Gross carrying value as at January 1, 2021	**3,110**	**185**	**1,321**	**4,616**
New assets originated or purchased	3,864	-	-	3,864
Other movements (asset repayment, modification of assets, etc.)	(1,541)	(61)	(420)	(2,022)
Transfer to Stage 1	52	(13)	(39)	-
Transfer to Stage 2	(156)	189	(33)	-
Transfer to Stage 3	(354)	(51)	405	-
At December 31, 2021	**4,975**	**249**	**1,234**	**6,458**

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – business loans				
ECL as at January 1, 2021	**(8)**	**(42)**	**(489)**	**(539)**
New assets originated or purchased	(323)	-	-	(323)
Net remeasurement	(241)	6	(66)	(301)
Transfer to Stage 2	48	(54)	6	-
Transfer to Stage 3	256	19	(275)	-
Unwinding of discount on present value of ECLs	-	-	(20)	(20)
At December 31, 2021	**(268)**	**(71)**	**(844)**	**(1,183)**

(in thousands of Azerbaijani Manats)

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

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to individuals – car loans				
Gross carrying value as at January 1, 2022	**44**	**-**	**-**	**44**
Other movements (asset repayment, modification of assets, etc.)	(44)	-	-	(44)
At December 31, 2022	**-**	**-**	**-**	**-**

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

	2021			
Loans to individuals – car loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2021	**264**	**46**	**60**	**370**
Other movements (asset repayment, modification of assets, etc.)	(220)	(46)	(60)	(326)
At December 31, 2021	**44**	**-**	**-**	**44**

	2021			
Loans to individuals – car loans	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**(1)**	**(11)**	**(20)**	**(32)**
Net remeasurement	1	11	20	32
At December 31, 2021	**-**	**-**	**-**	**-**

(in thousands of Azerbaijani Manats)

Economic sector risk concentrations within the customer loan portfolio are as follows:

	December 31, 2022		December 31, 2021	
	Amount	**%**	**Amount**	**%**
Consumers	67,979	38.87	52,520	37.04
Manufacturing	51,833	29.65	36,919	26.03
Mortgage	16,082	9.20	13,230	9.33
Trade	15,530	8.88	15,716	11.09
Agriculture	11,068	6.33	10,543	7.44
Individuals (consumer and business)	8,904	5.09	6,502	4.59
Construction	3,027	1.73	3,145	2.22
Hospitality	415	0.24	892	0.63
Information and telecommunication	-	-	2,306	1.63
Total loans and advances to customers (before expected credit losses)	**174,838**	**100.00**	**141,773**	**100.00**

At December 31, 2022, the Group had 56 borrowers (December 31, 2021: 36 borrowers) with aggregated loan amounts above AZN 100 thousand. The total aggregate amount of these loans was AZN 73,805 thousand (December 31, 2021: AZN 61,572 thousand) or 42% (December 31, 2021: 43%) of the gross loan portfolio.

(in thousands of Azerbaijani Manats)

Information about collateral at December 31, 2022 is as follows:

	Corporate-Manufacturing	Corporate-Trade and Services	Corporate-Construction	Corporate-Agriculture	Individuals-Consumer loans	Individuals-Mortgage loans	Individuals-Business loans	Individuals-Agriculture	Total
Loans collateralised by:									
Real estate	31,067	6,834	1,847	162	37	9,442	5,730	6,241	**61,360**
Motor vehicles	-	250	-	-	16	-	-	-	**266**
Cash and deposits	-	-	-	-	5	-	-	-	**5**
Total loans and advances to customers	**31,067**	**7,084**	**1,847**	**162**	**58**	**9,442**	**5,730**	**6,241**	**61,631**

Information about collateral at December 31, 2021 is as follows:

	Corporate-Manufacturing	Corporate-Trade and Services	Corporate-Construction	Corporate-Agriculture	Individuals-Consumer loans	Individuals-Mortgage loans	Individuals-Business loans	Individuals-Agriculture	Total
Loans collateralised by:									
Real estate	18,657	6,826	1,960	521	698	7,634	3,958	4,829	**45,083**
Total loans and advances to customers	**18,657**	**6,826**	**1,960**	**521**	**698**	**7,634**	**3,958**	**4,829**	**45,083**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

Management monitors the market value of collateral, requests additional 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.

(in thousands of Azerbaijani Manats)

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at December 31, 2022:

	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate - Manufacturing	8,680	29,468	43,153	22,387
Corporate - Trade and Services	407	540	15,538	6,677
Corporate - Construction	-	-	3,027	1,847
Corporate - Agriculture	162	292	-	-
Individuals - Consumer loans	10	151	67,969	48
Individuals - Mortgage loans	974	1,501	15,108	8,469
Individuals - Agriculture	2,073	3,578	8,833	4,169
Individuals - Business loans	1,717	2,672	7,187	4,013

The effect of collateral at December 31, 2021:

	Over-collateralised assets		Under-collateralised assets	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate - Manufacturing	365	933	36,554	18,292
Corporate - Trade and Services	36	86	18,878	6,790
Corporate - Construction	113	154	3,032	1,847
Corporate - Agriculture	253	519	420	268
Individuals - Consumer loans	396	849	52,124	302
Individuals - Mortgage loans	712	1,075	12,518	6,922
Individuals - Agriculture	1,470	2,427	8,400	3,359
Individuals - Business loans	829	1,513	5,629	3,129

The fair value of real estate and other assets was determined by the Group's credit department by considering the condition and location of the assets accepted as collateral. The Group uses independent valuators in valuation of collaterals.

Refer to Note 27 for the estimated fair value of each class of loans and advances to customers. Interest rate, currency, maturity and geographical analysis of loans and advances to customers is disclosed in Note 24. Information on related party balances is disclosed in Note 28.

(in thousands of Azerbaijani Manats)

11 PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Note	Building	Furniture and fixtures	Computers and other equipment	Vehicles	Other fixed assets	Total premises and equipment	Computer software and licenses	Total
Cost at January 1, 2022		3,565	2,517	1,668	596	42	8,388	582	8,970
Accumulated depreciation and amortization		(7)	(1,851)	(1,013)	(193)	(35)	(3,099)	(275)	(3,374)
Carrying amount at January 1, 2022		**3,558**	**666**	**655**	**403**	**7**	**5,289**	**307**	**5,596**
Effect of revaluation		246	-	-	-	-	246	-	246
Cost eliminated on revaluation		(12)	-	-	-	-	(12)	-	(12)
Additions		35	1,012	568	-	2	1,617	351	1,968
Disposals		-	-	(9)	(63)	-	(72)	-	(72)
Accumulated depreciation eliminated on revaluation		12	-	-	-	-	12	-	12
Depreciation charge	21	(165)	(393)	(261)	(102)	(2)	(923)	(61)	(984)
Accumulated depreciation of disposed assets		-	-	4	63	-	67	-	67
Carrying amount at December 31, 2022		**3,674**	**1,285**	**957**	**301**	**7**	**6,224**	**597**	**6,821**
Cost at December 31, 2022		3,834	3,529	2,227	533	44	10,167	933	11,100
Accumulated depreciation and amortization		(160)	(2,244)	(1,270)	(232)	(37)	(3,943)	(336)	(4,279)
Carrying amount at December 31, 2022		**3,674**	**1,285**	**957**	**301**	**7**	**6,224**	**597**	**6,821**

(in thousands of Azerbaijani Manats)

	Note	Building	Furniture and fixtures	Computers and other equipment	Vehicles	Other fixed assets	Total premises and equipment	Computer software and licenses	Total
Cost at January 1, 2021		916	2,364	1,337	229	33	4,879	506	5,385
Accumulated depreciation and amortization		(433)	(1,565)	(814)	(137)	(33)	(2,982)	(227)	(3,209)
Carrying amount at January 1, 2021		**483**	**799**	**523**	**92**	**-**	**1,897**	**279**	**2,176**
Effect of revaluation		3,030	-	-	-	-	3,030	-	3,030
Cost eliminated on revaluation		(473)	-	-	-	-	(473)	-	(473)
Additions		92	154	331	367	9	953	76	1,029
Disposals		-	(1)	-	-	-	(1)	-	(1)
Accumulated depreciation eliminated on revaluation		473	-	-	-	-	473	-	473
Depreciation charge	21	(47)	(287)	(199)	(56)	(2)	(591)	(48)	(639)
Accumulated depreciation of disposed assets		-	1	-	-	-	1	-	1
Carrying amount at December 31, 2021		**3,558**	**666**	**655**	**403**	**7**	**5,289**	**307**	**5,596**
Cost at December 31, 2021		3,565	2,517	1,668	596	42	8,388	582	8,970
Accumulated depreciation and amortization		(7)	(1,851)	(1,013)	(193)	(35)	(3,099)	(275)	(3,374)
Carrying amount at December 31 , 2021		**3,558**	**666**	**655**	**403**	**7**	**5,289**	**307**	**5,596**

(in thousands of Azerbaijani Manats)

As at December 31, 2022 included in premises, equipment and intangible assets were fully depreciated assets in the amount of 2,357 thousand (December 31, 2021: AZN 1,968 thousand), which are still in use.

As at December 31, 2022 and 2021, included in premises, equipment and intangible assets insured in the amount of AZN 298 thousand and AZN 403 thousand, respectively.

Buildings were independently valued as at April 8, 2022. The valuation was performed by an independent firm of valuers "Real Prays" LLC. The basis used for the appraisal was market value where available or cost method supported by income adequacy test. Fair values were estimated using appropriate valuation techniques under the assumption that observable prices in an active market for the buildings of characteristics and locations similar to those of the Group's buildings and cost estimates.

12 OTHER ASSETS

	December 31, 2022	December 31, 2021
Other financial assets		
Amounts in the course of settlements	685	228
Security Deposit with Compulsory Insurance Bureau	150	150
Reinsurers' share of insurance loss reserves	17	34
Others	100	45
Total other financial assets	**952**	**457**
Other non-financial assets		
Advance paid for intangible assets	278	100
Advance paid for fixed assets	97	61
Others	16	22
Total other non-financial assets	**391**	**183**
Total other assets	**1,343**	**640**

Included in other financial assets is accrued interest receivable on guarantees issued in the amount of AZN 14 thousand and AZN 23 thousand as at December 31, 2022 and 2021, respectively.

For the purpose of ECL measurement other financial assets are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not recognize any credit loss allowance for other financial assets.

The primary factors that the Group considers in determining whether a receivable is impaired are its overdue status and realisability of related collateral, if any.

13 TERM BORROWINGS

	December 31, 2022	December 31, 2021
Term borrowings from government agencies	67,949	63,998
Total term borrowings	**67,949**	**63,998**

(in thousands of Azerbaijani Manats)

As at December 31, 2022 term borrowings included loans borrowed from Entrepreneurship Development Fund of the Nakhchivan Autonomous Republic and Mortgage and Credit Guarantee Fund of the Nakhchivan Autonomous Republic.

Term borrowings from Entrepreneurship Development Fund of the Nakhchivan Autonomous Republic were obtained to provide purpose loans and were in the amount of AZN 54,214 thousand as at December 31, 2022 (December 31, 2021: AZN 52,495 thousand). These loans to the Group have an interest rate of 1%. The loans are provided to entrepreneurs whose investment projects are assessed as favourable by the fund. Customers of the Group receive this amount as loans maturing between February 2023 and March 2030, and bearing an annual interest rate of 2% to 6% per annum for interest bearing loans.

Term borrowings from Mortgage and Credit Guarantee Fund of the Nakhchivan Autonomous Republic were in the amount of AZN 13,735 thousand as at December 31, 2022 (December 31, 2021: AZN 11,503 thousand) bearing interest rate between 2.8% and 8%. Term borrowings were obtained to issue long-term mortgage loans maturing between June 2025 and April 2052. Annual interest rate charged for long-term mortgage loans is between 4% and 8%. Loans are provided to borrowers assessed as credible by the Fund.

Included in term borrowings is accrued interest payable in the amount of AZN 151 thousand and AZN 97 thousand as at December 31, 2022 and 2021, respectively.

Management assesses that the interest rates for these loans are equivalent to the interest rates at which the equivalent government organization, Entrepreneurship Development Fund and Mortgage and Credit Guarantee Fund lend to local banks in the Republic of Azerbaijan.

Refer to Note 27 for disclosure of the fair value of each class of term borrowings. Interest rate, maturity, currency and geographical analysis of term borrowings are disclosed in Note 24.

A reconciliation of the opening and closing amounts of term borrowings with relevant cash and non-cash changes from financing activities during 2022 is stated below:

	January 1, 2022		**Cash flows**		**Non-cash changes**	**December 31, 2022**
		Proceeds	*Repayment*	*Interest paid*	*Interest expense*	
Term borrowings	63,998	11,079	(7,182)	(921)	975	67,949
	63,998	**11,079**	**(7,182)**	**(921)**	**975**	**67,949**

A reconciliation of the opening and closing amounts of term borrowings with relevant cash and non-cash changes from financing activities during 2021 is stated below:

	January 1, 2021		**Cash flows**		**Non-cash changes**	**December 31, 2021**
		Proceeds	*Repayment*	*Interest paid*	*Interest expense*	
Term borrowings	62,284	9,631	(7,933)	(802)	818	63,998
	62,284	**9,631**	**(7,933)**	**(802)**	**818**	**63,998**

(in thousands of Azerbaijani Manats)

14 CUSTOMER ACCOUNTS

	December 31, 2022	December 31, 2021
State and public organizations		
- Current/settlement accounts	104,950	108,711
Other legal entities		
- Current/settlement accounts	38,912	53,988
Individuals		
- Current/demand accounts	11,354	23,327
Total customer accounts	**155,216**	**186,026**

Economic sector concentrations within customer accounts are as follows:

	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
State and public organizations	104,950	68%	112,574	60%
Construction	17,310	11%	12,911	7%
Transportation and communication	12,607	8%	9,896	5%
Individuals	11,354	7%	23,327	13%
Others	4,159	3%	3,412	2%
Trade and other services	3,649	2%	22,418	12%
Manufacturing	1,187	1%	1,488	1%
Total customer accounts	**155,216**	**100%**	**186,026**	**100%**

At December 31, 2022, the Group had 52 customers (December 31, 2021: 50 customers) with balances above AZN 100 thousand. The aggregate balance of these customers was AZN 143,326 thousand (December 31, 2021: AZN 173,597 thousand) or 92% (December 31, 2021: 93%) of total customer accounts. Refer to Note 27 for the disclosure of the fair value of each class of customer accounts. Interest rate, maturity, currency and geographical analysis of customer accounts is disclosed in Note 24. Information on related party balances is disclosed in Note 28.

As at December 31, 2022 and 2021, accrued interest payable included in customer accounts, amounted to nil in both years.

15 DEFERRED INCOME

The Group obtained building to operate one of its branches from government and recognized in deferred income as follows:

	December 31, 2022	December 31, 2021
Deferred income at January 1	207	214
Amortization of deferred income to match related depreciation	(7)	(7)
Deferred income at December 31	**200**	**207**

(in thousands of Azerbaijani Manats)

The Group benefits from government assistance for its support in reducing the cash transactions and supporting small businesses in the Nakhchivan Autonomous Republic. The building was granted by the government unconditionally in order to stimulate banking in the region of the Autonomous Republic where no banks operated previously.

16 OTHER LIABILITIES

	December 31, 2022	December 31, 2021
Other financial liabilities		
Amounts in the course of settlements	936	555
Accrued expenses	75	57
Others	102	30
Total other financial liabilities	**1,113**	**642**
Other non-financial liabilities		
Tax payables other than income tax	71	108
Provision for financial guarantees	55	143
Total other non-financial liabilities	**126**	**251**
Total other liabilities	**1,239**	**893**

17 SHARE CAPITAL

	Number of outstanding shares	Ordinary shares	Total
At January 1, 2021	**1,000,000**	**82,430**	**82,430**
Capitalized retained earnings	-	7,320	7,320
At December 31, 2021	**1,000,000**	**89,750**	**89,750**
Capitalized retained earnings	-	4,250	4,250
At December 31, 2022	**1,000,000**	**94,000**	**94,000**

All ordinary shares have a nominal value of AZN 94 per share (December 31, 2021: AZN 89.75) and rank equally. Each share carries one vote.

(in thousands of Azerbaijani Manats)

18 INTEREST INCOME AND EXPENSE

	Year ended December 31, 2022	Year ended December 31, 2021
Interest income calculated using the effective interest method		
Loans and advances to customers		
-individuals	13,393	10,538
-corporate	4,104	2,587
Investment securities	2,348	-
Cash and cash equivalents	1,242	694
Due from banks	542	330
Guarantees	96	57
Total interest income	**21,725**	**14,206**

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense calculated using the effective interest method		
Term borrowings	(975)	(818)
Total interest expense	**(975)**	**(818)**
Net interest income	**20,750**	**13,388**

19 CHARGE OF EXPECTED CREDIT LOSSES

The following table provides a reconciliation between loss allowance roll-forward and the expected credit losses in the statement of profit or loss and other comprehensive income per class of financial instrument for 2022.

	2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	(1,003)	(162)	333	(832)
Due from banks	-	-	7	7
Expected credit losses on financial assets	**(1,003)**	**(162)**	**340**	**(825)**
Credit-related commitments	-	88	-	88
At December 31, 2022	**(1,003)**	**(74)**	**340**	**(737)**

(in thousands of Azerbaijani Manats)

The following table provides a reconciliation between loss allowance roll-forward and the expected credit losses in the statement of profit or loss and other comprehensive income per class of financial instrument for 2021.

		2021		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	(223)	842	(2,038)	(1,419)
Due from banks	-	-	8	8
Expected credit losses on financial assets	**(223)**	**842**	**(2,030)**	**(1,411)**
Credit-related commitments	-	55	-	55
At December 31, 2021	**(223)**	**897**	**(2,030)**	**(1,356)**

20 FEE AND COMMISSION INCOME AND EXPENSE

	Year ended December 31, 2022	**Year ended December 31, 2021**
Fee and commission income		
- Plastic card operations	3,950	2,648
- Settlement transactions	754	606
- Cash transactions	320	316
- Others	272	227
Total fee and commission income	**5,296**	**3,797**
Fee and commission expense		
- Plastic card operations	(1,959)	(1,289)
- Settlement transactions	(453)	(392)
- Cash transactions	(82)	(181)
- Others	(64)	(85)
Total fee and commission expense	**(2,558)**	**(1,947)**
Net fee and commission income	**2,738**	**1,850**

(in thousands of Azerbaijani Manats)

21 ADMINISTRATIVE AND OPERATING EXPENSES

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Staff costs		(3,774)	(2,459)
Depreciation and amortization	11	(984)	(639)
Communication expenses		(533)	(268)
Membership fees		(432)	(213)
Printing and office supplies		(363)	(156)
Software cost		(237)	(111)
Repair and maintenance		(115)	(38)
Professional fees		(112)	(107)
Charity expenses		(100)	(5)
Taxes, other than income tax		(78)	(66)
Utilities		(64)	(44)
Transportation costs		(54)	(31)
Business trip expenses		(40)	(13)
Others		(252)	(220)
Total administrative and operating expenses		**(7,138)**	**(4,370)**

Included in staff costs are statutory pension contributions of AZN 555 thousand (2021: AZN 346 thousand).

22 INCOME TAXES

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Current income tax expense	(3,690)	(1,968)
Deferred income tax expense	(65)	(445)
Income tax expense for the year	**(3,755)**	**(2,413)**

(in thousands of Azerbaijani Manats)

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the Group’s 2022 income is 20% (December 31, 2021: 20%). Reconciliation between the expected and the actual taxation charge is provided below.

	Year ended December 31, 2022	Year ended December 31, 2021
Profit before income tax	**18,075**	**11,416**
Theoretical tax charge at statutory rate (20%)	(3,615)	(2,283)
Tax effect of permanent differences	(140)	(130)
Income tax expense for the year	**(3,755)**	**(2,413)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in the Republic of Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the tax rate of 20% (2021: 20%).

	December 31, 2022	December 31, 2021
Deferred income tax assets in relation to:		
Investment securities	54	-
Deferred income	4	-
Other financial liabilities	13	-
Total deferred income tax assets	**71**	**-**
Deferred income tax liabilities in relation to:		
Loans and advances to customers	(274)	(350)
Premises and equipment	(697)	(624)
Cash and cash equivalents	(57)	-
Total deferred income tax liabilities	**(1,028)**	**(974)**
Net deferred income tax liability	**(957)**	**(974)**

	December 31, 2022	December 31, 2021
Deferred income tax (liability)/asset		
As at January 1 – deferred income tax (liability)/asset brought forward	**(974)**	**77**
Change in deferred income tax balances recognized in consolidated profit or loss	(65)	(445)
Change in the deferred income tax recognized in consolidated OCI	82	(606)
As at December 31- deferred income tax liability carried forward	**(957)**	**(974)**

(in thousands of Azerbaijani Manats)

23 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Group by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal the basic earnings per share.

Earnings per share are calculated as follows:

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Net profit for the year attributable to ordinary shareholders (thousands)		14,320	9,003
Weighted average number of ordinary shares in issue (thousands)	17	1,000	1,000
Earnings per ordinary share (expressed in AZN per share)		**14.32**	**9.00**

24 FINANCIAL RISK MANAGEMENT

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and another price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Risk Management Framework. The Management Board is the primary body responsible for the risk management function in the Group. The risk management function is carried out in respect of financial risks (credit, market, and liquidity risks) and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and another price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The Management Board is also responsible for ensuring an appropriate balance is established between risk and return, whilst minimizing any potential adverse effects on the Group’s financial performance. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimize operational and legal risks.

The Group’s risk management methodology, policies and assessment procedures are designed to identify, analyze, mitigate and manage the risks faced by the Group. This is accomplished through setting of appropriate risk limits and controls, whilst ensuring suitable monitoring of risk levels and compliance with the limits and procedures on an ongoing basis. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions, and new products and services offered. This is to ensure that “best practices” are implemented in the Group.

Risk Management Bodies and Governance. Risk management policies and processes around the assessment, approval, monitoring and control of risks are performed by a number of specialized bodies within the Bank, including committees and departments which comply with the requirement of the respective Azerbaijani regulatory framework, the FMSC regulations and industry best practices.

The Supervisory Board has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management policies and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management Board and the Credit Committee. The risk management framework are shown below:

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the consolidated statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

***Credit risk management*.** Credit risk is the single largest risk for the Group's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and credit conversion factors.

***Limits*.** The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Group established a number of credit committees that are responsible for approving credit limits for individual borrowers. Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or the Small Credit Committee. These committees convene weekly. In certain circumstances (for example, based on tenor or size) loans are approved by the Executive Board or the Board of Directors.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness is reported to and reviewed by the Executive Board or the Board of Directors.

Expected credit loss (ECL) measurement – definitions

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and determined by evaluating a range of possible outcomes.

Discount Rate – a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Forward-looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amounts to exposure on balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Group considers that 12-month and lifetime CCFs are the same.

Purchased or originated credit-impaired (POCI) financial assets – financial assets that are credit-impaired upon initial recognition.

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by the Republic of Azerbaijan and nominated in AZN, loans to companies owned by the Republic of Azerbaijan and nominated in AZN. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaningfully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the loan is restructured less than 6 months ago and is 31-90 days past due on its contractual payments;
- the Group consider to sell the borrower's debt with significant losses (more than 5% of the principal debt balance and accrued interest);
- the borrower has the external rating below Caa2;
- the Group has classified the borrower in the default rating class according to the master scale;

The Main Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikeliness-to-pay criteria listed below:

- the borrower is insolvent;
- it is becoming likely that the borrower will enter bankruptcy;
- other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

An instrument is considered to no longer be in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Group's Risk Management Department.

The Group considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:

- 31-90 days past due;
- Restructured and 6-30 days past due;
- Monitoring suggests borrower has financial difficulties.

For loans to individuals:

- 31-90 days past due;
- Restructured and 6-30 days past due;
- Refinanced loan – a special type of loan when all loans of the borrower are refinanced into one;
- Inclusion of loan into a watch list zone by NPL department;

If there is evidence that the SICR criteria are no longer met and this has lasted at least 6 months, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 Based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarized in a three-stage model for ECL measurement:

Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition; loss allowance is based on 12-month ECLs.
Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired; loss allowance is based on lifetime ECLs.
Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Group only recognizes the cumulative changes in lifetime expected credit losses.

The Group can carry out three separate approaches for ECL measurement:

- assessment on an individual basis;
- assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g., PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio;
- assessment based on external ratings.

The Group performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Group performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialized lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to SMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Group performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks, legal entities and sovereigns, loans issued to sovereigns.

Principles of assessment on an individual basis – ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Group defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of the Problem Loans Collection Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on a portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Group combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include: type of customer (such as income-producing real estate or leasing companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below. It could be applied for products assessed on a portfolio basis and for products for which the bank has credit risk ratings assessment based on borrower-specific information.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for the next 12 months or instrument lifetime. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier period).

The brief principles of calculating the credit risk parameters are as following.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortizing products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a credit conversion factor that accounts for the expected drawdown of the remaining limit by the time of default.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historical default data and adjusted for forward-looking information when appropriate.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 exposures. An assessment of a Lifetime PD is based on the latest available historical default data and adjusted for forward-looking information when appropriate.

To calculate Lifetime PD, the Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Group uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, stage and the availability of collateral or other credit support.
The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics;
- individually defined LGD depending on different factors and scenarios.

For loans secured by real estate the Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds LGD is calculated on a collective basis based on the latest available recovery statistics.

ECL measurement for off-balance sheet financial instruments

CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees are defined based on statistical analysis of exposure at default

CCF for credit lines is defined as 50% since the limits can be used by the clients at any time.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (PD) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information incorporated in the ECL models. The assessment of the SICR and the calculation of ECLs both incorporate forward-looking information. The Group has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

These economic variables and their associated impact on the PD vary by financial instrument. These economic variables, such as consumer price index changes, nominal and real GDP growth, nominal and real effective exchange rates, USD exchange rate changes, changes in the budget expenditures have been tested by performing statistical regression analysis to understand the impact of changes in these variables has historically had on default rates.

Based on them the Group's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Group to define the next coming stage of economic cycle using not only statistical approach but also expert judgement of the management.

The assessment of SICR is performed using the Lifetime PD for retail borrowers and 12-month PD for other financial assets, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Group measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running the relevant ECL model.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the nonlinearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation. The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation the ECL measurement methodology are communicated to the Group management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

(in thousands of Azerbaijani Manats)

Assessment of loss allowance for credit-related commitments. Assessment of loss allowance for credit-related commitments is performed on a similar basis with balance sheet exposures by application of credit conversion factor (CCF) if the counterparty has current balance sheet exposure. Statistical information and Basel Committee values are used for calculation of CCF. If the counterparty does not have balance sheet exposure the assessment of expected credit loss allowance is performed on an individual or collective basis depending on the amount of exposure by applying CCF.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limits on the level of exposure by currency and in total for positions which are monitored daily.

The table below summarises the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	December 31, 2022			**December 31, 2021**		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
Azerbaijani Manats	299,577	(192,771)	106,806	309,093	(214,069)	95,024
US Dollars	19,085	(15,176)	3,909	37,573	(32,682)	4,891
Euros	17,011	(16,330)	681	4,267	(3,915)	352
Other	38	(1)	37	2	-	2
Total	**335,711**	**(224,278)**	**111,433**	**350,935**	**(250,666)**	**100,269**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Group, with all other variables held constant:

	December 31, 2022	**December 31, 2021**
	Impact on profit or loss before income tax	**Impact on profit or loss before income tax**
US Dollar strengthening by 30% (2021: strengthening by 30%)	1,173	1,467
US Dollar weakening by 30% (2021: weakening by 30%)	(1,173)	(1,467)
Euro strengthening by 30% (2021: strengthening by 30%)	204	106
Euro weakening by 30% (2021: weakening by 30%)	(204)	(106)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

(in thousands of Azerbaijani Manats)

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

	Demand and less than 1 month (included maturity undefined)	From 1 to 6 months	From 6 to 12 months	1 year to 5 years	Over 5 years	Total
December 31, 2022						
Total financial assets	111,880	52,097	32,884	106,123	32,727	335,711
Total financial liabilities	(156,805)	(1,665)	(2,062)	(22,298)	(41,448)	(224,278)
Net interest sensitivity gap at December 31, 2022	**(44,925)**	**50,432**	**30,822**	**83,825**	**(8,721)**	**111,433**
December 31, 2021						
Total financial assets	211,521	16,372	16,477	51,283	55,282	350,935
Total financial liabilities	(188,864)	(7,667)	(8,027)	(31,511)	(14,597)	(250,666)
Net interest sensitivity gap at December 31, 2021	**22,657**	**8,705**	**8,450**	**19,772**	**40,685**	**100,269**

At December 31, 2022, the Group did not have financial instruments at variable interest rates.

The table below displays average effective interest rates for interest bearing assets and liabilities as at December 31, 2022 and 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2022			2021		
	AZN	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Assets						
Cash and cash equivalents	5.09%	-	-	-	-	-
Due from banks	6.75%	0.80%	-	5.00%	-	-
Loans and advances to customers	10.52%	-	-	10.28%	-	-
Investment securities	5.02%	6.00%	-	5.45%	-	-
Liabilities						
Term borrowings	1.49%	-	-	1.37%	-	-

The sign "-" in the table above means that the Group does not have the respective assets or liabilities in the corresponding currency.

(in thousands of Azerbaijani Manats)

Geographical risk concentrations. The geographical concentration of the Group's financial assets and liabilities at December 31, 2022 is set out below:

	Azerbaijan	OECD	Total
Financial assets			
Cash and cash equivalents	86,199	61	86,260
Mandatory cash balances with the CBAR	7,256	-	7,256
Due from banks	13,897	-	13,897
Loans and advances to customers	167,733	-	167,733
Investment securities	59,613	-	59,613
Other financial assets	952	-	952
Total financial assets	**335,650**	**61**	**335,711**
Financial liabilities			
Customer accounts	(155,216)	-	(155,216)
Term borrowings	(67,949)	-	(67,949)
Other financial liabilities	(1,113)	-	(1,113)
Total financial liabilities	**(224,278)**	**-**	**(224,278)**
Net position in on-balance sheet financial instruments	**111,372**	**61**	**111,433**
Credit-related commitments	**1,680**	-	**1,680**

The geographical concentration of the Group's financial assets and liabilities at December 31, 2021 is set out below:

	Azerbaijan	OECD	Total
Financial assets			
Cash and cash equivalents	207,615	8	207,623
Mandatory cash balances with the CBAR	992	-	992
Due from banks	4,886	10	4,896
Loans and advances to customers	135,508	-	135,508
Investment securities	1,459	-	1,459
Other financial assets	457	-	457
Total financial assets	**350,917**	**18**	**350,935**
Financial liabilities			
Customer accounts	(186,026)	-	(186,026)
Term borrowings	(63,998)	-	(63,998)
Other financial liabilities	(642)	-	(642)
Total financial liabilities	**(250,666)**	-	**(250,666)**
Net position in on-balance sheet financial instruments	**100,251**	**18**	**100,269**
Credit-related commitments	**4,734**	-	**4,734**

(in thousands of Azerbaijani Manats)

Liquidity risk. Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which forms part of the asset and liability management process. The Group also has to comply with minimum levels of liquidity required by the CBAR. This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 89% at December 31, 2022 (2021: 116%), whereas the minimum percentage required by the CBAR is 30%.

The Group seeks to maintain a stable funding base primarily consisting of the bank's funds in CBAR. The liquidity management of the Group requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the CBAR.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities.

The table below shows liabilities at December 31, 2022 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including contractual amounts to be exchanged under gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The undiscounted maturity analysis of financial instruments at December 31, 2022 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and cash equivalents	86,260	-	-	-	-	-	86,260
Mandatory cash balances with the CBAR	-	-	-	-	-	7,256	7,256
Due from banks	2,028	10,875	-	-	-	1,041	13,944
Loans and advances to customers	4,803	20,575	36,402	129,323	45,528	-	236,631
Investment securities	461	34,259	5,672	21,130	3,340	-	64,862
Other financial assets	952	-	-	-	-	-	952
Total financial assets	**94,504**	**65,709**	**42,074**	**150,453**	**48,868**	**8,297**	**409,905**
Liabilities (included contingent liabilities)							
Customer accounts	(155,216)	-	-	-	-	-	(155,216)
Term borrowings	(560)	(2,083)	(2,560)	(25,959)	(51,723)	-	(82,885)
Other financial liabilities	(1,113)	-	-	-	-	-	(1,113)
Loan commitments	(298)	-	-	-	-	-	(298)
Financial guarantees	(40)	(1,342)	-	-	-	-	(1,382)
Total potential future payments for financial obligations	**(157,227)**	**(3,425)**	**(2,560)**	**(25,959)**	**(51,723)**	**-**	**(240,894)**
Liquidity gap arising from financial instruments	**(62,723)**	**62,284**	**39,514**	**124,494**	**(2,855)**	**8,297**	**169,011**

(in thousands of Azerbaijani Manats)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

The undiscounted maturity analysis of financial instruments at December 31, 2021 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and cash equivalents	207,623	-	-	-	-	-	207,623
Mandatory cash balances with the CBAR	-	-	-	-	-	992	992
Due from banks	88	1,643	2,898	-	-	373	5,002
Loans and advances to customers	2,020	13,883	14,327	72,372	89,383	-	191,985
Investment securities	23	1,477	-	-	-	-	1,500
Other financial assets	457	-	-	-	-	-	457
Total	**210,211**	**17,003**	**17,225**	**72,372**	**89,383**	**1,365**	**407,559**
Liabilities (included contingent liabilities)							
Customer accounts	(186,026)	-	-	-	-	-	(186,026)
Term borrowings	(2,268)	(8,030)	(8,458)	(34,636)	(23,162)	-	(76,554)
Other financial liabilities	(642)	-	-	-	-	-	(642)
Loan commitments	(4,027)	-	-	-	-	-	(4,027)
Financial guarantees	-	-	(850)	-	-	-	(850)
Total potential future payments for financial obligations	**(192,963)**	**(8,030)**	**(9,308)**	**(34,636)**	**(23,162)**	**-**	**(268,099)**
Liquidity gap arising from financial instruments	**17,248**	**8,973**	**7,917**	**37,736**	**66,221**	**1,365**	**139,460**

(in thousands of Azerbaijani Manats)

The Group does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Group monitors expected maturities and the resulting expected liquidity gap as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	1 year to 5 years	Over 5 years	Maturity undefined	Total
December 31, 2022							
Total financial assets	92,727	62,953	32,884	106,123	32,727	8,297	335,711
Total financial liabilities	(156,805)	(1,665)	(2,062)	(22,298)	(41,448)	-	(224,278)
Net liquidity gap at December 31, 2022	**(64,078)**	**61,288**	**30,822**	**83,825**	**(8,721)**	**8,297**	**111,433**
Cumulative liquidity gap at December 31, 2022	**(64,078)**	**(2,790)**	**28,032**	**111,857**	**103,136**	**111,433**	
December 31, 2021							
Total financial assets	210,156	16,372	16,477	51,283	55,282	1,365	350,935
Total financial liabilities	(188,864)	(7,667)	(8,027)	(31,511)	(14,597)	-	(250,666)
Net liquidity gap at December 31, 2021	**21,292**	**8,705**	**8,450**	**19,772**	**40,685**	**1,365**	**100,269**
Cumulative liquidity gap at December 31, 2021	**21,292**	**29,997**	**38,447**	**58,219**	**98,904**	**100,269**	

Management believes that despite a substantial portion of customer accounts being on-demand, diversification of these accounts by number and type of customers and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

25 MANAGEMENT OF CAPITAL

According to the Order of the President of the Republic of Azerbaijan "On improving management of the regulation and supervision of financial services market" issued on November 28, 2019 the Financial Market Supervisory Authority was liquidated. The authorities of the financial market supervisor stipulated by the applicable law, including rights and responsibilities in the areas of licensing of financial market services, regulation and supervision, protection of rights of investors and consumers of financial services, as well as FIMSA's property were handed over to the Central Bank of the Republic of Azerbaijan.

The Group's objectives when managing capital is to comply with the capital requirements set by the Central Bank of the Republic of Azerbaijan, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10%. Compliance with capital adequacy ratios set by the Central Bank of the Republic of Azerbaijan is monitored monthly with reports outlining their calculation reviewed and signed by the Group's Financial Director, and the Head of Management Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBAR in January 1, 2015, existing banks have to hold the minimum level of aggregate capital of AZN 50,000 thousand. However, paid-in capital for newly established banks and local branches of foreign banks shall be AZN 50,000,000. Furthermore, the banks have to maintain a ratio of regulatory capital to risk-weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (December 31, 2021: 10%) and maintain a ratio of tier-1 capital to the risk-weighted assets (the "Tier-1 capital ratio") at or above the prescribed minimum of 5% (December 31, 2021: 5%).

(in thousands of Azerbaijani Manats)

Regulatory capital is based on the Bank’s reports prepared under prudential rules standards and comprises:

	2022	2021
Tier 1 Capital		
Share capital	94,000	89,750
Less intangible assets	(590)	(299)
Total tier 1 capital	**93,410**	**89,451**
Current year profit	13,054	6,301
Plus: general provision for impairment	2,001	1,901
Total regulatory capital	**108,465**	**97,653**
Less investment in subsidiaries	(5,900)	(5,900)
Total regulatory capital after deductions	**102,565**	**91,753**
Risk weighted assets	**220,934**	**152,537**
Capital adequacy ratio	*46%*	*59%*
Tier 1 Capital to risk weighted assets ratio	*42%*	*60%*

26 CONTINGENCIES AND COMMITMENTS

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these consolidated financial statements.

Tax legislation. Azerbaijani tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Group’s management believes that its interpretation of the relevant legislation is appropriate and the Group’s tax, currency and customs positions will be sustained. Accordingly, at December 31, 2022 no provision for potential tax liabilities was recorded.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Compliance with covenants. The Group is required to maintain its assets, liabilities and exposures in line with normative ratios stipulated by the CBAR. Management believes that the Group was in compliance with normative ratios at December 31, 2022.

Credit-related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and, therefore, carry less risk than a direct borrowing.

(in thousands of Azerbaijani Manats)

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit-related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments. Outstanding credit-related commitments are as follows:

	December 31, 2022	December 31, 2021
Undrawn credit lines	298	4,027
Guarantees issued	1,382	850
Less: Expected credit losses for credit-related commitments	(55)	(143)
Total credit-related commitments	**1,625**	**4,734**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

		2022		
ECL for credit-related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2022	**-**	**(143)**	**-**	**(143)**
New guarantees originated	(19)	-	-	(19)
Net remeasurement	19	88	-	107
At December 31, 2022	**-**	**(55)**	**-**	**(55)**

		2021		
ECL for credit-related commitments	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**-**	**(198)**	**-**	**(198)**
Net remeasurement	-	55	-	55
At December 31, 2021	**-**	**(143)**	**-**	**(143)**

There were no transfers between stages in ECL allowance on for credit-related commitments during the years ended December 31, 2022 and 2021.

Credit-related commitments are denominated in currencies as follows:

	December 31, 2022	December 31, 2021
Azerbaijani Manats	812	3,893
US Dollars	813	841
Total	**1,625**	**4,734**

(in thousands of Azerbaijani Manats)

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair values of financial instruments carried at amortized cost.

At December 31, 2022, fair values of financial assets and financial liabilities carried at amortized cost approximated their carrying values.

(b) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices were not available, the Group used valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	December 31, 2022	December 31, 2021
	Level 2	**Level 2**
Loans and advances to customers		
- Corporate – Manufacturing	51,833	36,919
- Corporate – Trade and Services	15,945	18,914
- Corporate – Construction	3,027	3,145
- Corporate – Agriculture	162	673
- Individuals – Consumer loans	67,979	52,520
- Individuals – Mortgage loans	16,082	13,230
- Individuals – Agriculture	10,906	9,870
- Individuals – Business loans	8,904	6,458
- Individuals – Car loans	-	44
Investment securities		
- Notes issued by the CBAR	37,424	-
Total	**212,262**	**141,773**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

	December 31, 2022	December 31, 2021
	Level 2	**Level 2**
Customer accounts		
- State and public organizations	104,950	108,711
- Other legal entities	38,912	53,988
- Individuals	11,354	23,327
Term borrowings		
- Term borrowings from government agencies	67,949	63,998
Total	**223,165**	**250,024**

As at December 31, 2022, the Group had financial instruments measured at fair value through other comprehensive income in the amount of AZN 21,450 thousand (December 31, 2021: nil). These financial instruments included debt securities issued by the Ministry of Finance of the Republic of Azerbaijan and "Pasha Bank" OJSC. The fair value of these financial instruments were determined by level 2.

(in thousands of Azerbaijani Manats)

28 RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can 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.

At December 31, 2022, the outstanding balances with related parties were as follows:

	Entities under common control	Other significant shareholders	Other related Parties	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 5%-18% p.a)	18,872	-	660	150
Allowance for expected credit loss	(144)	-	-	-
Customer accounts				
Current/settlement accounts	33,584	149	21	8

The income and expense items with related parties for 2022 were as follows:

	Entities under common control	Other significant shareholders	Other related parties	Key management personnel
Interest income	1,284	-	37	10
Interest expense	88	-	4	-
Fee and commission income	407	-	-	-
(Charge)/recovery of credit loss allowance at December 31, 2022	-	-	-	-

At December 31, 2022, other rights and obligations with related parties were as follows:

	Entities under common control	Other significant shareholders	Key management personnel	Other related parties
Unused credit lines	110	-	65	45

At December 31, 2021, the outstanding balances with related parties were as follows:

	Entities under common control	Other significant shareholders	Other related parties	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 5%-6% p.a)	6,711	-	-	89
Allowance for expected credit loss	(77)	-	-	(2)
Customer accounts				
Current/settlement accounts	11,489	13,792	-	-

(in thousands of Azerbaijani Manats)

The income and expense items with related parties for 2021 were as follows:

	Entities under common control	Other significant shareholders	Other related parties
Interest income	530	-	10
Fee and commission income	94	1	1
(Charge)/recovery of credit loss allowance at December 31, 2021	(50)	-	(2)
Gains less losses from trading in foreign currencies	122	1	-
Foreign exchange translation gains less losses	26	27	-

At December 31, 2021, other rights and obligations with related parties were as follows:

	Entities under common control	Other significant shareholders	Key management personnel	Other related parties
Unused credit lines	3,000	50	-	1

Key management compensation is presented below:

	Year ended December 31, 2022 Expense	Year ended December 31, 2021 Expense
Short-term benefits:		
- Salaries	256	175
Total	**256**	**175**

29 EVENTS AFTER THE REPORTING DATE

On January 31, 2023, the Group declared and paid dividends in the amount of AZN 14,059 thousand.

On February 1,2023, all shares of the Group were sold, and current structure of shareholders is as follows:

Shareholders	Ownership interest, %
Mr. Huseyn Mammadov Yashar	63.66
Mr. Rufat Mammadov Ahadagha	26.52
Mr. Binnat Novruzov Yasin	9.82
Total	**100.00**

On February 2, 2023 and March 30, 2023, the Central Bank of the Republic of Azerbaijan increased the refinancing rate to 8.5% and 8.75%, respectively.

During 2023, customer accounts of individuals and legal entities decreased by 35% and 28%, respectively.

During 2023, investment securities decreased by 28%.