“TURANBANK” OPEN JOINT STOCK COMPANY

The International Financial Reporting Standards Financial Statements and Independent Auditors’ Report

For the Year Ended December 31, 2023

"TURANBANK" OJSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

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

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2023, the results of its operations, changes in equity and cash flows for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the 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 Bank's financial position and financial performance; and
- Making an assessment of the Bank'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 Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Bank for the year ended December 31, 2023 were approved by the Management on May 30, 2024.

On behalf of the Management Board:

Azərbaycan Respublikası «Turanbank» ASC
«Turanbank» OJSC Azerbaijan Republic

Mr. Fazail Musayev
Chairman of the Management Board
Department

May 30, 2024
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2024
Baku, the Republic of Azerbaijan

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of "TuranBank" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2023 and the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023, 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 Financial Statements section of our report. We are independent of the Bank 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 Bank for the year ended December 31, 2022 were audited by other auditors who expressed unqualified opinion on those statements on May 30, 2023.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

May 30, 2024
Baku, the Republic of Azerbaijan

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"TURANBANK" OJSC

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Cash and cash equivalents	7	99,769	131,176
Loans and deposits to banks	8	30,902	50,240
Loans to customers	9, 29	602,630	529,997
Investment securities	10	41,602	51,703
Property, equipment and intangible assets	11	30,334	29,326
Deferred income tax asset	24	70	95
Other assets	12	6,742	4,329
TOTAL ASSETS		**812,049**	**796,866**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits and balances from banks and other financial institutions	13, 29	83,105	123,681
Current accounts and deposits from customers	14, 29	463,649	432,777
Other borrowed funds	15	177,874	157,993
Subordinated borrowings	15, 29	11,936	12,374
Lease liability	16	3,171	2,269
Other liabilities	17	7,266	3,679
TOTAL LIABILITIES		**747,001**	**732,773**
EQUITY:			
Share capital	18	80,005	80,005
Share premium	18	724	724
Revaluation surplus for buildings		1,644	1,644
Net unrealized loss on investment securities		(309)	(453)
Accumulated deficit		(17,016)	(17,827)
TOTAL EQUITY		**65,048**	**64,093**
TOTAL LIABILITIES AND EQUITY		**812,049**	**796,866**

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board
Department

May 30, 2024
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2024
Baku, the Republic of Azerbaijan

The notes on pages 9-82 form an integral part of these financial statements.

"TURANBANK" OJSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Interest income	20, 29	79,443	60,413
Interest expense	20, 29	(47,153)	(35,499)
Net interest income before expected credit recovery		**32,290**	**24,914**
Recovery of expected credit losses on financial assets and credit related commitments	8, 9,10,17, 29	(9,432)	216
Net interest income		**22,858**	**25,130**
Fee and commission income	21, 29	6,699	6,648
Fee and commission expense	21, 29	(4,615)	(4,449)
Net gain on trading in foreign currencies		5,295	7,655
Net foreign exchange translation loss		(245)	(56)
Change in fair value of repossessed collaterals		(40)	(1,208)
Other income, net		(110)	36
Net non-interest income		**6,984**	**8,626**
Operating income		**29,842**	**33,756**
Personnel expenses	22, 29	(17,711)	(14,576)
General and administrative expenses	23	(10,983)	(11,277)
Profit before income tax		**1,148**	**7,903**
Income tax expense	24	(337)	(1,085)
Net profit for the year		**811**	**6,818**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2023 (Continued)

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Other comprehensive income/(loss):			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods			
Net change in fair value of investment securities		180	(753)
Charge in expected credit losses on investment securities at OCI		-	187
İncome tax recorded directly in OCI		(36)	113
Net other comprehensive loss		**144**	**(453)**
Total comprehensive income for the year		**955**	**6,365**
Basic and diluted earnings per share (expressed in AZN)	19	11.0	92.2

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board Department

May 30, 2024
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2024
Baku, the Republic of Azerbaijan

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"TURANBANK" OJSC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Share capital	Share premium	Revaluation surplus for buildings	Net unrealized loss on investment securities	Accumulated deficit	Total equity
January 1, 2022	**80,005**	**724**	**1,644**	**-**	**(24,645)**	**57,728**
Issue of ordinary shares	-	-	-	-	6,818	6,818
Net profit for the year	-	-	-	(453)	-	(453)
Balance as at December 31, 2022	**80,005**	**724**	**1,644**	**(453)**	**(17,827)**	**64,093**
Net profit for the year	-	-	-	-	811	811
Other comprehensive income for the year	-	-	-	144	-	144
Balance as at December 31, 2023	**80,005**	**724**	**1,644**	**(309)**	**(17,016)**	**65,048**

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board Department

May 30, 2024
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management

May 30, 2024
Baku, the Republic of Azerbaijan

The notes on pages 9-82 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		80,400	62,208
Interest paid		(48,773)	(33,194)
Fees and commission received		6,699	6,648
Fees and commission paid		(4,615)	(4,449)
Staff costs paid		(17,553)	(14,508)
General and administrative expenses paid		(8,143)	(8,569)
Income received from trading in foreign currencies		5,295	7,655
Income tax paid		(1,295)	(1,181)
Cash inflows from operating activities before changes in operating assets and liabilities		**12,015**	**14,610**
Net (increase)/decrease in:			
Loans and deposits to banks		19,380	(4,469)
Loans to customers		(82,029)	(118,468)
Other assets		(1,516)	3,068
Net increase/(decrease) in:			
Deposits and balances from banks and other financial institutions		(40,612)	60,201
Current accounts and deposits from customers		32,529	13,002
Other liabilities		3,098	(136)
Net cash (used)/generated from operating activities		**(57,135)**	**(32,192)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities, net of proceeds from sale		10,212	(24,450)
Purchases of property and equipment and intangible assets		(2,256)	(12,758)
Proceeds from disposal of property and equipment and intangible assets		7	8
Cash flows used in investing activities		**7,963**	**(37,200)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of other borrowed funds	15	122,675	62,585
Repayment of other borrowed funds	15	(102,747)	(33,980)
Receipt of subordinated borrowings	15	1,088	3,774
Repayment of subordinated borrowings	15	(1,513)	(4,280)
Repayment of principal portion of lease liabilities	16	(921)	(464)
Cash flows generated from financing activities		**18,582**	**27,635**
Net (decrease)/increase in cash and cash equivalents		**(30,590)**	**(41,757)**
Effect of exchange rate changes on cash and cash equivalents		(817)	(565)
Cash and cash equivalents at the beginning of the year	7	131,176	173,498
Cash and cash equivalents at the end of the year	7	**99,769**	**131,176**

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board

May 30, 2024
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management Department

May 30, 2024
Baku, the Republic of Azerbaijan

The notes on pages 9-82 form an integral part of these financial statements.

1. INTRODUCTION

“TuranBank” Open Joint-Stock Company (the “Bank”) was established in the Republic of Azerbaijan as an Open Joint Stock Company on June 12, 1992. The principal activities are deposit taking and customer account maintenance, lending, issuing guarantees, cash and settlement operations and transactions with securities and foreign exchange, also in accordance with its banking license the Bank has a right to perform operations with precious metals. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan. The Bank has a general banking license, a license on precious metals, and is a member of the state deposit insurance system in the Republic of Azerbaijan.

The Bank participates in the state deposit insurance scheme, which was introduced by the “Law on Deposit Insurance” dated December 29, 2006. The Azerbaijan Deposit Insurance Fund guarantees repayment of 100% of individual deposits meeting the following criteria:

According to the Law of the Republic of Azerbaijan on “Deposit Insurance”, insured deposit is the part of a protected deposit that will be compensated by the Deposit Insurance Fund in case of an insurance incident that occurred in the participant bank where a depositor is serviced. Starting from June 1, 2020, the maximum annual interest rate on protected deposits in the national currency is set at 12%, and in foreign currency - 2.5%. According to another law on “Full Deposit Insurance” dated January 19, 2016 and last amended on December 18, 2020, all protected deposits within the annual interest rate set by the Board of Trustees of the Deposit Insurance Fund are fully insured until April 5, 2021 regardless of their amounts. Starting from April 5, 2021 in case of an insurance incident, each depositor is entitled to receive compensation from the Deposit Insurance Fund for the full amount of deposit agreement, but not exceeding AZN 100 thousand.

The Bank has 18 branches and 2 sub-branches (December 31, 2022: 17 branches and 1 sub-branch) within the Republic of Azerbaijan.

As at December 31, 2023 the Bank has 28 shareholders each having not more than 10% ownership. (December 31, 2022: 28 shareholders each having not more than 10% ownership). The Bank has no ultimate controlling party who has the power to direct the transactions of the Bank at his own discretion and for his own benefit. The Bank’s registered address is: 85 Ismail Bey Gutgashinly Street, AZ1073, Baku, the Republic of Azerbaijan.

2. BASIS OF PREPARATION

Statement of Compliance

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Going Concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

Management views the Bank as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Bank will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Bank’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management's assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

3. SIGNIFICANT ACCOUNTING POLICIES

Functional currency

Items included in the financial statements of each of the Bank are measured using the currency of the primary economic environment in which the entity operates ("Azerbaijani Manat"). The functional currency of the Bank and its subsidiary is the Azerbaijani Manat ("AZN"). The presentational currency of the financial statements of the Bank is the AZN. All values are rounded to the nearest thousand AZN's, except when otherwise indicated.

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 Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank 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.

Recognition of fee and commission income

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 Bank 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 Bank 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 Bank 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 Bank 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.

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 analyzed 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.

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 transaction 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 Bank 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 Bank 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 Bank 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 Bank 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 and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, 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 realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank'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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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 Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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.

Reclassification of financial assets

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

Financial assets impairment – credit loss allowance for ECL

The Bank 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 Bank 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 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 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 Bank applies a three stages 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 Bank 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 26 for a description of how the Bank determines when a SICR has occurred. If the Bank 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 Bank’s definition of credit impaired assets and definition of default is explained in Note 26. 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 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised 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 Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank 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 recognised 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 Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets

The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all 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 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 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 original maturity of less or equal to 90 days and are free from contractual encumbrances. Funds restricted for a period of more than 1 business day on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the 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.

Mandatory cash balances with the Central Bank of the Republic of Azerbaijan

Mandatory cash balances 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 statement of cash flows.

Loans and deposits to banks

Loans and deposits to banks are recorded when the Bank advances money to counterparty banks. Loans to 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.

Loans to customers

Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans to customers into one of the following measurement categories:

(i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
(ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 26 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

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 Bank are measured as the amount of the loss allowance. The Bank 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 Bank 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.

Investments in debt securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt 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 recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognized, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Equity instruments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. Such classification is determined on an instrument-by-instrument basis.

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

Property, equipment and intangible assets

Owned assets

Items of property, equipment and intangible assets are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property, equipment and intangible assets comprises major components having different useful lives, they are accounted for as separate items property, equipment and intangible assets.

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss.
A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized in other comprehensive income.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives are as follows:

Buildings	30 to 35 years
Leasehold improvement	14 years
Equipment	4 years
Fixtures and fittings	5 years
Vehicles	5 years
Other fixed assets	5 years
Right-of-use assets	over the term of the underlying lease

Derecognition of property and equipment items

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 7 to 10 years.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

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

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term.

If the ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Financial liabilities and equity instruments issued

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Deposits and balances from banks and other financial institutions

Amounts due to banks, government and other financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Customer accounts

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

Subordinated debt

Subordinated debt represents long-term funds attracted by the Bank in domestic market from legal and individuals. The holders of subordinated debt would be subordinate to all other creditors to receive repayment on debt in case of the respective Bank company liquidation. Subordinated debt is carried at amortized cost.

Other borrowed funds

Other borrowed funds represent loans attracted by the Bank on financial markets and trade finance deals. Other borrowed funds are carried at amortized cost.

Other financial liabilities

Other financial liabilities are derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing other financial liabilities are replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the 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 realize 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.

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Taxation

Income taxes have been provided for in the 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

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 financial statements are authorized prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Deferred tax

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.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 "Events after the Reporting Date" ("IAS 10") and disclosed accordingly.

Earnings per share

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

Foreign currencies

The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional and the presentation currency of the Bank, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN"). Monetary assets and liabilities are translated into the Bank'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 the Bank'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. 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.

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

	December 31, 2023	**December 31, 2022**
AZN/1 US Dollar	1.7000	1.7000
AZN/1 Euro	1.8766	1.8114

Repossessed collateral

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities. In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Bank's statement of financial position include revaluation surplus for buildings and net unrealized loss on investment securities.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Staff costs and related contributions

Wages, salaries, contributions to the Republic of Azerbaijan 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 Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognized in the 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:

Measurement of ECL allowance

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 26. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refer to Note 26.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts)

For certain loan facilities, the Bank 's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank 's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (eg the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

Significant increase in credit risk ("SICR")

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 26.

Business model assessment

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

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

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

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. The time value of money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument's underlying base interest rate, for example a loan pays three months' interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing relevant instrument's cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situation that can occur in financial markets. In case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument's cash flows are not SPPI and the instrument is then carried at FVTPL.

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

The Bank's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

Initial recognition of related party transactions

In the normal course of business, the Bank 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. Terms and conditions of related party balances are disclosed in Note 30.

Property and equipment carried at revalued amounts

Certain property items (buildings) are measured at revalued amounts. The date of the latest appraisal was December 31, 2017. The management believes that the carrying value of buildings does not materially differ from their fair value as at December 31, 2023.

Deferred income tax asset recognition

Management of the Bank created valuation allowance against deferred income tax asset in the amount of AZN 1,912 thousand as at December 31, 2023 (December 31, 2022: 4,198 thousand). The carrying value of deferred income tax asset and liability amounted to AZN 70 thousand and 95 thousand as at December 31, 2023 and 2022, respectively.

Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires to make judgements of right-of-use assets and lease liabilities. In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

5. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Bank 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 the year ended December 31, 2023.

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.

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.

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.

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.

Applying the new standards did not have a material effect on the financial statements of the Bank.

6. STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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.

On October 2022, IASB 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.

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

(in thousands of Azerbaijani Manats, unless otherwise indicated)

7. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
Cash on hand	37,633	57,662
Nostro accounts with the CBAR	5,545	25,484
Short term deposits in the CBAR with the original maturities up to 90 days	40,000	25,000
Overnight placements with other banks	5,830	17,867
Nostro accounts with other banks	10,761	5,163
Total cash and cash equivalents	**99,769**	**131,176**

As of December 31, 2023, no bank (excluding CBAR) had more than 10% of capital.

As at December 31, 2022, the Bank had one bank, where balance exceeded 10% of its equity excluding balances with the CBAR. The gross value of these balances as at December 31, 2022 was AZN 18,219 thousand

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 Bank did not recognize any credit loss allowance for cash and cash equivalents.

8. LOANS AND DEPOSITS TO BANKS

	December 31, 2023	December 31, 2022
Mandatory reserves with the CBAR	16,152	21,372
Blocked correspondent accounts in other banks	792	12,375
Loans and deposits		
-rated below B+	3,500	6,063
-not rated	11,242	11,275
Gross loans and deposits to banks	**31,686**	**51,085**
Less: allowance for expected credit losses	(784)	(845)
Net loans and deposits to banks	**30,902**	**50,240**

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, 2023 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1,2023	**50,361**	**-**	**724**	**51,085**
New assets originated or purchased	1,166	-	(22)	1,166
Assets repaid	(20,543)	-	-	(20,565)
Transfers to Stage 1		-	-	-
Transfers to Stage 2		-	-	-
Transfers to Stage 3		-	-	-
As at December 31, 2023	**30,984**	**-**	**702**	**31,686**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2023	**(121)**	**-**	**(724)**	**(845)**
Net change in ECL value	39	-	22	61
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2023	**(82)**	**-**	**(702)**	**(784)**

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	**41,486**	**-**	**5,135**	**46,621**
New assets originated or purchased	19,735	-	-	19,735
Assets repaid	(15,271)	-	-	(15,271)
Transfers to Stage 1	4,411	-	(4,411)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2022	**50,361**	**-**	**724**	**51,085**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2022	**(301)**	**-**	**(724)**	**(1,025)**
Net change in ECL value	180	-	-	180
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2022	**(121)**	**-**	**(724)**	**(845)**

As at December 31, 2023, accrued interest income included in loans and deposits to banks amounted to AZN 13 thousand (December 31, 2022: AZN 32 thousand).

As at December 31, 2023, placements with two foreign and two local banks (December 31, 2022: two foreign and two local banks) in the amount of AZN 792 thousand (December 31, 2022: AZN 12,375 thousand) are blocked accounts.

Concentration of loans and deposits to banks

As at December 31, 2023, the Bank has one bank excluding CBAR, where balances exceeded 10% of its equity (December 31, 2022: one bank). Total amount of these balances is AZN 10,822 thousand (December 31, 2022: AZN 10,498 thousand).

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Mandatory reserves with the CBAR

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBAR and where availability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and equal to 4% and 5% (December 31, 2022: 4% and 5%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

9. LOANS TO CUSTOMERS

	December 31, 2023	December 31, 2022
Loans to corporate customers		
Business Loans – Large Corporations	207,476	204,837
Business Loans – Small and Medium-Sized Enterprises (hereinafter SME)	141,169	102,336
Business Loans – Micro	54,974	39,470
Total loans to corporate customers	**403,619**	**346,643**
Loans to retail customers		
Loans to entrepreneurs	119,752	108,843
Mortgage loans	108,657	96,810
Car loans	480	466
Others	3,705	2,254
Total loans to retail customers	**232,594**	**208,373**
Gross loans to customers	**636,213**	**555,016**
Less: Allowance for expected credit loss	(33,583)	(25,019)
Total loans to customers	**602,630**	**529,997**

During the year ended December 31, 2019, the Bank received compensation from the government in the amount of AZN 2,401 thousand for the problematic loans under the Decree. Additionally, the Bank restructured loans in amount of AZN 2,209 thousand under the Decree with 1% of interest and 5 years of maturity. Before restructuring these loans were either written off or presented in Stage 3. The restructured loans were also granted with 1 year of grace period for payment of principal amount as stipulated in the Decree. As the modification of terms of these loans were substantially different from their original conditions, the Bank applied derecognition approach regarding these loans. These loans were recognized as new loans at initial recognition with fair value of AZN 1,402 thousand taking into account prevailing market rates of 18% and classified as POCI. The carrying amount of these loans amounted to AZN 72 thousand and AZN 985 thousand as at December 31, 2023 and 2022, respectively.

As at December 31, 2023 the Bank did not have loan which individually exceeded 10% of the Bank 's equity (December 31, 2022: no loan).

As at December 31, 2023 and 2022 all loans were granted to companies operating in the Republic of Azerbaijan.

During the years ended December 31, 2023 and 2022 the Bank received non-financial assets by taking possession of collateral it held as security. As at December 31, 2023 and 2022 such assets in the amount of AZN 1,217 thousand and AZN 1,502 thousand, respectively, are included in other assets.

Included in loans to customers accrued interest receivable was in the amount of AZN 6,926 thousand and AZN 8,198 thousand as at December 31, 2023 and 2022, respectively.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The following table shows reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers as at December 31, 2023:

	2023				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2023	**526,165**	**2,012**	**25,647**	**1,192**	**555,016**
New assets originated or purchased	271,872	21,746	627	-	**294,245**
Other movements (asset repayment, modification of assets, etc.)	(205,137)	(372)	(6,637)	(557)	**(212,703)**
Transfer to Stage 1	607	(449)	(158)	-	**-**
Transfer to Stage 2	(91,018)	91,093	(75)	-	**-**
Transfer to Stage 3	(21,007)	(408)	21,415	-	**-**
Amounts written-off	-	-	(345)	-	**(345)**
At December 31, 2023	**481,482**	**113,622**	**40,474**	**635**	**636,213**

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2023	**11,095**	**222**	**13,495**	**207**	**25,019**
New assets originated or purchased	1,112	1,081	212		**2,405**
Net remeasurement	4,388	2	2,009	(72)	**6,327**
Transfer to Stage 1	4	(3)	(1)	-	**-**
Transfer to Stage 2	(1,940)	1,950	(10)	-	**-**
Transfer to Stage 3	(10,791)	(123)	10,914	-	**-**
Unwinding of discount on present value of ECLs	-	-	177	-	**177**
Amounts written-off	-	-	(345)	-	**(345)**
At December 31, 2023	**3,868**	**3,129**	**26,451**	**135**	**33,583**

During the year ended December 31, 2023 the Bank recovered loans in the amount of AZN 72 thousand from POCI category included in other movements line in the table above.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The following table shows 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				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**404,116**	**969**	**42,548**	**1,296**	**448,929**
New assets originated or purchased	233,759	904	759	-	235,422
Other movements (asset repayment, modification of assets, etc.)	(113,660)	(618)	(5,421)	(104)	(119,803)
Transfer to Stage 1	5,245	(187)	(5,058)	-	-
Transfer to Stage 2	(1,005)	1,083	(78)	-	-
Transfer to Stage 3	(2,290)	(139)	2,429	-	-
Amounts written-off	-	-	(9,532)	-	(9,532)
At December 31, 2022	**526,165**	**2,012**	**25,647**	**1,192**	**555,016**

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2022	**8,437**	**124**	**25,502**	**481**	**34,544**
New assets originated or purchased	1,159	85	237	-	1,481
Net remeasurement	2,133	(77)	(3,433)	(274)	(1,651)
Transfer to Stage 1	70	(1)	(69)	-	-
Transfer to Stage 2	(123)	133	(10)	-	-
Transfer to Stage 3	(581)	(42)	623	-	-
Unwinding of discount on present value of ECLs	-	-	177	-	177
Amounts written-off	-	-	(9,532)	-	(9,532)
At December 31, 2022	**11,095**	**222**	**13,495**	**207**	**25,019**

During the year ended December 31, 2022 the Bank recovered loans in the amount of AZN 450 thousand from POCI category included in other movements line in the table above.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Business Loans - Large Corporations during the year ended December 31, 2023 is as follows:

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2023	**195,023**	**-**	**9,814**	**204,837**
New assets originated or purchased	24,233	19,085	-	**43,318**
Other movements (asset repayment, modification of assets, etc.)	(37,798)	(1)	(2,880)	**(40,679)**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(79,208)	79,208	-	**-**
Transfer to Stage 3	(15,966)	-	15,966	**-**
Written-off	-	-	-	**-**
At December 31, 2023	**86,284**	**98,292**	**22,900**	**207,476**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**8,860**	**-**	**4,153**	**13,013**
New assets originated or purchased	262	908	-	**1,170**
Net remeasurement	3,116	(1)	1,951	**5,066**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	(1,609)	1,609	-	**-**
Transfer to Stage 3	(9,054)	-	9,054	**-**
Unwinding of discount on present value of ECLs	-	-	-	**-**
Amounts written off	-	-	-	**-**
At December 31, 2023	**1,575**	**2,516**	**15,158**	**19,249**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Business Loans - Large Corporations during the year ended December 31, 2022 is as follows:

	2022			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2022	**184,086**	**23**	**16,074**	**200,183**
New assets originated or purchased	16,137	-	-	16,137
Other movements (asset repayment, modification of assets, etc.)	(9,866)	(23)	812	(9,077)
Transfer to Stage 1	5,001	-	(5,001)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(335)	-	335	-
Amount written-off	-	-	(2,406)	(2,406)
At December 31, 2022	**195,023**	**-**	**9,814**	**204,837**

	2022			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2022	**6,921**	**-**	**7,676**	**14,597**
New assets originated or purchased	544	-	1	545
Net remeasurement	1,399	-	(1,127)	272
Transfer to Stage 1	69	-	(69)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(73)	-	73	-
Adjustments to the discounted present value of EOKZ	-	-	5	5
Amounts written-off			(2,406)	(2,406)
At December 31, 2022	**8,860**	**-**	**4,153**	**13,013**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Business Loans - SME during the year ended December 31, 2023 is as follows:

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2023	**91,176**	**212**	**10,948**	**102,336**
New assets originated or purchased	91,712	1,658	115	93,485
Other movements (asset repayment, modification of assets, etc.)	(51,658)	(149)	(2,558)	(54,365)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1,553)	1,553	-	-
Transfer to Stage 3	(3,445)	(27)	3,472	-
Amounts written-off			(287)	(287)
At December 31, 2023	**126,232**	**3,247**	**11,690**	**141,169**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**1,429**	**17**	**6,627**	**8,073**
New assets originated or purchased	306	76	44	426
Net remeasurement	773	(3)	735	1,505
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(82)	82	-	-
Transfer to Stage 3	(1,241)	(12)	1,253	-
Unwinding of discount on present value of ECLs	-	-	-	-
Amounts written-off	-	-	(287)	(287)
At December 31, 2023	**1,185**	**160**	**8,372**	**9,717**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

		2022		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2022	**48,045**	**87**	**20,832**	**68,964**
New assets originated or purchased	66,509	110	119	66,738
Other movements (asset repayment, modification of assets, etc.)	(22,432)	(88)	(4,306)	(26,826)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(103)	103	-	-
Transfer to Stage 3	(843)	-	843	-
Amounts written-off	-	-	(6,540)	(6,540)
At December 31, 2022	**91,176**	**212**	**10,948**	**102,336**

		2022		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2022	**604**	**7**	**14,293**	**14,904**
New assets originated or purchased	207	11	33	251
Net remeasurement	815	(7)	(1,414)	(606)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(6)	6	-	-
Transfer to Stage 3	(191)	-	191	-
Unwinding of discount on present value of ECLs	-	-	64	64
Amounts written-off	-	-	(6,540)	(6,540)
At December 31, 2022	**1,429**	**17**	**6,627**	**8,073**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	2023				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2023	**38,088**	**73**	**1,180**	**129**	**39,470**
New assets originated or purchased	44,976	100	71	-	45,147
Other movements (asset repayment, modification of assets, etc.)	(29,255)	(22)	(294)	(70)	(29,641)
Transfer to Stage 1	12	(12)	-	-	-
Transfer to Stage 2	(89)	89	-	-	-
Transfer to Stage 3	(380)	(41)	421	-	-
Amounts written-off			(2)	-	(2)
At December 31, 2023	**53,352**	**187**	**1,376**	**59**	**54,974**

	2023				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2023	**92**	**5**	**862**	**18**	**977**
New assets originated or purchased	116	11	17	-	144
Net remeasurement	24	5	(175)	(8)	(154)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(5)	5	-	-	-
Transfer to Stage 3	(89)	(10)	99	-	-
Unwinding of discount on present value of ECLs	-	-	-	-	-
Amounts written-off	-	-	(2)	-	(2)
At December 31, 2023	**138**	**16**	**801**	**10**	**965**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	2022				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**15,993**	**67**	**1,612**	**140**	**17,812**
New assets originated or purchased	34,816	31	65	-	34,912
Other movements (asset repayment, modification of assets, etc.)	(12,586)	(49)	(536)	(11)	(13,182)
Transfer to Stage 1	13	(7)	(6)	-	-
Transfer to Stage 2	(43)	43	-	-	-
Transfer to Stage 3	(105)	(12)	117	-	-
Amounts written-off	-	-	(72)	-	(72)
At December 31, 2022	**38,088**	**73**	**1,180**	**129**	**39,470**

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2022	84	7	1,218	48	1,357
New assets originated or purchased	85	2	15	-	102
Net remeasurement	(49)	(4)	(340)	(30)	(423)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(2)	2	-	-	-
Transfer to Stage 3	(26)	(2)	28	-	-
Unwinding of discount on present value of ECLs	-	-	13	-	13
Amounts written-off	-	-	(72)	-	(72)
At December 31, 2022	**92**	**5**	**862**	**18**	**977**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	2023				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2023	**104,486**	**970**	**2,324**	**1,063**	**108,843**
New assets originated or purchased	85,048	492	442		85,982
Other movements (asset repayment, modification of assets, etc.)	(84,369)	(619)	(658)	(487)	(86,133)
Transfer to Stage 1	105	(77)	(28)	-	-
Transfer to Stage 2	(389)	408	(19)	-	-
Transfer to Stage 3	(1,023)	(256)	1,279	-	-
Amounts written-off	-	-	(35)	-	(35)
At December 31, 2022	**103,858**	**918**	**3,305**	**576**	**108,657**

	2023				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2023	**254**	**88**	**1,183**	**189**	**1,714**
New assets originated or purchased	290	51	151		**492**
Net remeasurement	247	1	(230)	(65)	**(47)**
Transfer to Stage 1	1	(1)	-	-	**-**
Transfer to Stage 2	(46)	48	(2)	-	**-**
Transfer to Stage 3	(365)	(84)	449	-	**-**
Unwinding of discount on present value of ECLs	-	-	-	-	-
Amounts written-off	-	-	(35)	-	**(35)**
At December 31, 2023	**381**	**103**	**1,516**	**124**	**2,124**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	2022				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	69,028	332	2,074	1,156	72,590
New assets originated or purchased	94,910	671	554		96,135
Other movements (asset repayment, modification of assets, etc.)	(58,600)	(229)	(576)	(93)	(59,498)
Transfer to Stage 1	35	(25)	(10)	-	-
Transfer to Stage 2	(290)	299	(9)	-	-
Transfer to Stage 3	(597)	(78)	675	-	-
Amounts written-off	-	-	(384)	-	(384)
At December 31, 2022	**104,486**	**970**	**2,324**	**1,063**	**108,843**

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2022	**191**	**22**	**1,310**	**433**	**1,956**
New assets originated or purchased	230	63	183	-	476
Net remeasurement	50	7	(217)	(244)	(404)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(25)	25	-	-	-
Transfer to Stage 3	(192)	(29)	221	-	-
Unwinding of discount on present value of ECLs	-	-	70	-	70
Amounts written-off	-	-	(384)	-	(384)
At December 31, 2022	**254**	**88**	**1,183**	**189**	**1,714**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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, 2023 is as follows:

		2023		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2023	**95,227**	**701**	**882**	**96,810**
New assets originated or purchased	23,621	249	-	23,870
Other movements (asset repayment, modification of assets, etc.)	(1,132)	470	(245)	(907)
Transfer to Stage 1	492	(362)	(130)	-
Transfer to Stage 2	(9,786)	9,842	(56)	-
Transfer to Stage 3	(204)	(85)	289	-
Amounts written-off	-	-	(21)	(21)
At December 31, 2023	**108,218**	**10,815**	**719**	**119,752**

		2023		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**460**	**112**	**194**	**766**
New assets originated or purchased	138	35	-	173
Net remeasurement	228	1	(76)	153
Transfer to Stage 1	3	(2)	(1)	-
Transfer to Stage 2	(197)	205	(8)	-
Transfer to Stage 3	(42)	(17)	59	-
Unwinding of discount on present value of ECLs	-	-	-	-
Amounts written-off	-	-	(20)	(20)
At December 31, 2023	**590**	**334**	**146**	**1,070**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2022	**85,330**	**430**	**1,099**	**86,859**
New assets originated or purchased	19,734	40	21	19,795
Other movements (asset repayment, modification of assets, etc.)	(9,101)	(199)	(495)	(9,795)
Transfer to Stage 1	196	(155)	(41)	-
Transfer to Stage 2	(565)	634	(69)	-
Transfer to Stage 3	(367)	(49)	416	-
Amounts written-off	-	-	(49)	(49)
At December 31, 2022	**95,227**	**701**	**882**	**96,810**

	2022			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2022	**636**	**88**	**330**	**1,054**
New assets originated or purchased	93	9	5	107
Net remeasurement	(100)	(73)	(195)	(368)
Transfer to Stage 1	1	(1)	-	-
Transfer to Stage 2	(90)	100	(10)	-
Transfer to Stage 3	(80)	(11)	91	-
Unwinding of discount on present value of ECLs	-	-	22	22
Amounts written-off	-	-	(49)	(49)
At December 31, 2022	**460**	**112**	**194**	**766**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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, 2023 is as follows:

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2023	**10**	**-**	**456**	**466**
New assets originated or purchased	42	-	-	42
Other movements (asset repayment, modification of assets, etc.)	(5)	-	(23)	(28)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2023	**47**	**-**	**433**	**480**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**-**	**-**	**456**	**456**
New assets originated or purchased	2	-	-	2
Net remeasurement	-	-	(23)	(23)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2023	**2**	**-**	**433**	**435**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2022	**15**	**-**	**640**	**655**
New assets originated or purchased	10	-	-	10
Other movements (asset repayment, modification of assets, etc.)	(15)	-	(114)	(129)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	(70)	(70)
At December 31, 2022	**10**	**-**	**456**	**466**

	2022			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2022	**-**	**-**	**640**	**640**
New assets originated or purchased	-	-	-	-
Net remeasurement	-	-	(114)	(114)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off			(70)	(70)
At December 31, 2022	**-**	**-**	**456**	**456**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2023	**2,155**	**56**	**43**	**2,254**
New assets originated or purchased	2,239	162	-	2,401
Other movements (asset repayment, modification of assets, etc.)	(902)	(56)	8	(950)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2022	**3,492**	**162**	**51**	**3,705**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**-**	**-**	**20**	**20**
New assets originated or purchased	-	-	-	-
Net remeasurement	-	-	3	3
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	-	-
Amounts written off	-	-	-	-
At December 31, 2023	**-**	**-**	**23**	**23**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	2022			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2022	**1,619**	**30**	**217**	**1,866**
New assets originated or purchased	1,643	52	-	1,695
Other movements (asset repayment, modification of assets, etc.)	(1,060)	(30)	(206)	(1,296)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(4)	4	-	-
Transfer to Stage 3	(43)	-	43	-
Amounts written-off	-	-	(11)	(11)
At December 31, 2022	**2,155**	**56**	**43**	**2,254**

	2022			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2022	**1**	**-**	**35**	**36**
New assets originated or purchased	-	-	-	-
Net remeasurement	18	-	(26)	(8)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(19)	-	19	-
Unwinding of discount on present value of ECLs	-	-	3	3
Amounts written-off	-	-	(11)	(11)
At December 31, 2022	**-**	**-**	**20**	**20**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below summarizes carrying value of loans to customers analyzed by type of collateral obtained by the Bank:

	December 31, 2023	December 31, 2022
Loans collateralized by real estate	329,063	303,536
Loans collateralized by guarantees of individuals	91,083	81,627
Loans collateralized by precious metals	49,151	40,621
Loans collateralized by cash	14,818	11,445
Loans collateralized by vehicles	1,658	1,795
Loans collateralized by others	17,088	16,881
Unsecured loans	133,352	99,111
Gross loans to customers	**636,213**	**555,016**
Less: Allowance for expected credit loss	(33,583)	(25,019)
Total loans to customers	**602,630**	**529,997**

10. INVESTMENT SECURITIES

	Average coupon interest rates	December 31, 2023	December 31, 2022
Debt securities at FVOCI			
Debt Security of the Ministry of Finance	5.73%	37,727	46,981
Debt Security of Bank Respublika OJSC	8.50%	1,289	1,284
Debt securities of the SOCAR	4.50%	1,073	1,067
Debt Security of International Bank of Azerbaijan	6.00%	990	1,000
US Treausery Bill	3.00%	-	848
Equity securities at FVOCI		**41,079**	**51,180**
Corporate shares		523	523
Total investment securities		**41,602**	**51,703**

As at December 31, 2023, accrued interest income included in investment securities amounted to AZN 343 thousand (December 31, 2022: AZN 506 thousand).

As at December 31, 2023, the Bank recognized fair value loss on investment securities in the amount of AZN 417 thousand (December 31, 2022: AZN 753 thousand).

As of December 31, 2023, investment securities were not pledged under repo agreements (Note No. 13).

An analysis of changes in gross carrying value on investment securities during the year ended December 31, 2023 is as follows:

	Stage 1	Total
Gross carrying value as at January 1, 2023	**51,703**	**51,703**
Net change in carrying value	(10,101)	(10,101)
As at December 31, 2023	**41,602**	**41,602**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

	Stage 1	Total
Gross carrying value as at January 1, 2022	**27,794**	**27,794**
Net change in carrying value	23,909	23,909
As at December 31, 2022	**51,703**	**51,703**

Expected Credit Losses

An analysis of changes in ECL allowance on investment securities during the year ended December 31, 2023 is as follows:

	Stage 1	Total
ECL allowance value as at January 1, 2023	**(187)**	**(187)**
Net change in ECL value	68	68
As at December 31, 2023	**(119)**	**(119)**

There were no transfers between stages in gross carrying values and ECL allowance on investment securities during the years ended December 31, 2023 and 2022.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings	Leasehold improvement	Equipment	Fixtures and fittings	Vehicles	Other fixed assets	Computer software	Total
At cost								
January 1, 2022	**16,819**	**3,310**	**2,514**	**3,427**	**532**	**135**	**926**	**27,663**
Additions	10,245	1,338	540	999	172	7	571	13,872
Disposals	(26)	(99)	-	-	(33)	-	-	(158)
December 31, 2022	**27,038**	**4,549**	**3,054**	**4,426**	**671**	**142**	**1,497**	**41,377**
Additions	1,875	73	911	551	94	21	325	3,850
Disposals	-	-	(156)	(102)	(13)	(31)	(9)	(311)
December 31, 2023	**28,913**	**4,622**	**3,809**	**4,875**	**752**	**132**	**1,813**	**44,916**
Accumulated depreciation and amortization								
January 1, 2022	**(2,755)**	**(1,685)**	**(2,006)**	**(2,624)**	**(428)**	**(108)**	**(507)**	**(10,113)**
Depreciation charge	(975)	(309)	(273)	(312)	(71)	(16)	(108)	(2,064)
Disposals	26	67	-	-	33	-	-	126
Disposal of subsidiary								
December 31, 2022	**(3,704)**	**(1,927)**	**(2,279)**	**(2,936)**	**(466)**	**(124)**	**(615)**	**(12,051)**
Depreciation charge	(1,275)	(363)	(411)	(461)	(79)	(18)	(233)	(2,840)
Disposals	-	-	156	102	13	29	9	309
December 31, 2023	**(4,979)**	**(2,290)**	**(2,534)**	**(3,295)**	**(532)**	**(113)**	**(839)**	**(14,582)**
Net book value								
As at December 31, 2023	**23,934**	**2,332**	**1,275**	**1,580**	**220**	**19**	**974**	**30,334**
As at December 31, 2022	**23,334**	**2,622**	**775**	**1,490**	**205**	**18**	**882**	**29,326**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2023 included in the closing balance of property, plant and equipment were fully depreciated assets still in use with the total initial cost of AZN 5,115 thousand (December 31, 2022: AZN 4,687 thousand).

As at December 31, 2022 the cost of property and equipment pledged as collateral for borrowings were AZN 10,504 thousand. These assets were pledged as collateral for AZN 11,000 thousand borrowing with 7.75% interest rate from CBAR.

As at December 31, 2023 and 2022, included in property, equipment and intangible assets insured in the amount of AZN 23,621 thousand and AZN 24,236 thousand, respectively.

Included in the carrying amount of the land and buildings category of property, equipment and intangible assets the amount of AZN 2,930 thousand is the carrying value of right-of-use assets for eighteen branches office area as at December 31, 2023 (December 31, 2022: 15 branches; AZN 2,101 thousand).

Revalued assets

The fair values of the Bank 's buildings are categorized into Level 3 of the fair value hierarchy.

The last revaluation of buildings was held based on the results of an independent appraisal performed by "FM Consulting" LLC at December 31, 2017. The basis used for the appraisal was the market approach. The market approach was based upon an analysis of the results of comparable sales of similar buildings. The values assigned to the key assumptions represent management's assessment of future business trends and are based on both external sources and internal sources of information.

The carrying value of buildings as at December 31, 2023, if the buildings would not have been revalued, would be AZN 20,659 thousand (December 31, 2022: AZN 22,645 thousand).

Intangible assets include software and licenses.

12. OTHER ASSETS

	December 31, 2023	December 31, 2022
Receivables from intermediary	1,266	849
Items in course of settlement	1,389	332
Receivables for plastic cards	351	330
Compensation receivables	32	25
Accrued interest receivables on guarantees	44	16
Total other financial assets	**3,082**	**1,552**
Repossessed collateral	1,217	1,545
Prepayment for the purchase of fixed assets	372	545
Prepayment for services	431	350
Numerative coins	623	178
Prepayment for the purchase of intangible assets	111	123
Current income tax liability	868	-
Others	38	36
Total other non-financial assets	**3,660**	**2,777**
Total other assets	**6,742**	**4,329**

Receivables for plastic cards represent net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

13. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2023	December 31, 2022
Loro accounts	60,420	72,089
Borrowings under repurchase agreements	-	29,005
Term placement	21,663	21,565
Restricted deposits	1,022	1,022
Total deposits and balances from banks and other financial institutions	**83,105**	**123,681**

As of December 31, 2023, the Bank does not have a deposit in another bank with a balance of more than 10% of its capital. In 2022, the total value of this balance was 18,173 thousand AZN.

As at December 31, 2023 the Bank has one deposit from non-bank credit organization (December 31, 2022: one non-bank credit organization), with balance exceeding 10% of its equity. Total amount of these balances in term placement is AZN 21,662 thousand (December 31, 2022: AZN 21,565 thousand) with the interest rate of 1.5%, 2% and 7% (December 31, 2022: 1.5%, 2% and 7%) with the maturity within 2 years (December 31, 2022: within 2 years). Total amount of balances in loro accounts is AZN 59,438 thousand (December 31, 2022: 53,873 thousand).

Included in deposits and balances from banks and other financial institutions in the amount of AZN 37 thousand and AZN 29 thousand as at December 31, 2023 and 2022, respectively, represent accrued interest payable.

14. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2023	December 31, 2022
Current accounts and demand deposits		
- Retail	52,430	64,880
- Corporate	45,614	87,731
	98,044	**152,611**
Term deposits		
- Retail	352,870	270,900
- Corporate	12,735	9,266
	365,605	**280,166**
Total current accounts and deposits from customers	**463,649**	**432,777**

Economic sector concentrations within customer accounts are as follows:

	December 31, 2023	December 31, 2022
Analysis by economic sector/customer type:		
Individuals	405,300	335,780
Construction and real estate	13,383	55,056
Trade and services	34,585	31,645
State organization	9,176	9,177
Financial institutions	90	314
Others	1,115	805
Total customer accounts	**463,649**	**432,777**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Included in customer accounts in the amount of AZN 268,624 thousand and AZN 208,140 thousand as at December 31, 2023 and 2022, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

As at December 31, 2023, the Bank maintained customer deposit balances of AZN 33,610 thousand (December 31, 2022: AZN 27,502 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Bank.

As at December 31, 2023, the Bank had 3 customers (December 31, 2022: 4 customers), with balances exceeding 10% of its equity. Total amount of these balances was AZN 41,617 thousand (December 31, 2022: AZN 109,648 thousand).

Included in current accounts and deposits from customers in the amount of AZN 6,505 thousand and AZN 4,848 thousand as at December 31, 2023 and 2022, respectively is accrued interest payable.

As at December 31, 2023 and 2022 the Bank had interest bearing current accounts at the amount of AZN 13,401 thousand and AZN 20,374 thousand, respectively.

15. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

As at December 31, 2023 and 2022, the balance of subordinated borrowings was as follows:

	Currency	Maturity date	Interest rate	December 31, 2023	December 31, 2022
Subordinated borrowings from individuals	USD	2023-2028	6.00-10.00%	11,506	12,030
Subordinated borrowings from legal entities	USD	2028	7.00%	430	344
Total subordinated borrowings				**11,936**	**12,374**

Included in subordinated borrowings in the amount of AZN 88 thousand and AZN 101 thousand as at December 31, 2023 and 2022, respectively was accrued interest payable.

As at December 31, 2023 and 2022, the balance of other borrowed funds was as follows:

	Currency	Maturity date	Interest rate	December 31, 2023	December 31, 2022
The Azerbaijan Mortgage and Credit Guarantee Fund	AZN	2052	1.00% - 8.00%	101,139	74,832
Entrepreneurship Development Fund	AZN	2029	1.00%	25,131	22,080
*The Black See Trade and Development Bank	AZN-USD	2023	7.21% - 8.00%	8,784	18,985
EMF MICROFINANCE FUND AGMVK	USD	2024-2025	6.00%	7,220	13,175
The Central Bank of the Republic of Azerbaijan (CBAR)	AZN	2023-2024	0.10% - 7.50%	516	12,017
*INCOFIN CVSO	USD	2025	7.40%	9,018	8,418
Agro Credit and Development Agency	AZN	2022-2027	2.00%-7.00%	6,831	4,932
*ECO Trade and Development Bank	USD	2023	4.80%	3,640	3,554
Islamic Development Corporation	USD	2025	7.6%-8.1%	15,371	-
Other	USD	-	-	224	-
Total other borrowed funds				**177,874**	**157,993**

Compliance with covenants – the Bank has agreed to comply with certain financial and business covenants in various financing and similar agreements.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

* As at December 31, 2023, the Bank was in breach of certain covenants with financing arrangements with outstanding balances amounting to AZN 44,033 thousand, all of which were included under "on demand" category in liquidity analysis disclosed in Note 25. The Management believes that although there is a breach in covenants, the lenders will not exercise their right to withdraw the funds earlier.

Included in other borrowed funds in the amount of AZN 1,023 thousand and AZN 1,138 thousand as at December 31, 2023 and 2022, respectively is accrued interest payable.

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

	Other borrowed funds	Subordinated borrowings	Total
Balance at January 1, 2022	**129,227**	**12,865**	**142,092**
Changes from financing cash flows			
Receipt of other borrowed funds and subordinated borrowings	62,585	3,774	66,359
Repayment of other borrowed funds and subordinated borrowings	(33,980)	(4,280)	(38,260)
Total changes from financing cash flows	**28,605**	**(506)**	**28,099**
Other changes			
Interest expense	6,153	1,122	7,275
Interest paid	(5,472)	(1,107)	(6,579)
Foreign exchange	(520)	-	(520)
Balance at December 31, 2022	**157,993**	**12,374**	**170,367**
Changes from financing cash flows			
Receipt of other borrowed funds and subordinated borrowings	122,675	1,088	123,763
Repayment of other borrowed funds and subordinated borrowings	(102,747)	(1,513)	(104,260)
Total changes from financing cash flows	**19,928**	**(425)**	**19,503**
Other changes			
Interest expense	7,730	1,012	8,742
Interest paid	(7,777)	(1,025)	(8,802)
Foreign exchange			
Balance at December 31, 2023	**177,874**	**11,936**	**189,810**

16. LEASE LIABILITY

	December 31, 2023	December 31, 2022
Lease liabilities (current)	750	724
Lease liabilities (non-current)	2,421	1,545
Total lease liabilities	**3,171**	**2,269**

Future minimum lease payments as at December 31, 2023 were as follows:

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Minimum lease payments due		
	Within one year	**One to ten years**	**Total**
Lease payments	1,032	2,990	4,022
Finance charges	(282)	(569)	(851)
Net present value as at December 31, 2023	**750**	**2,421**	**3,171**

Future minimum lease payments as at December 31, 2022 were as follows:

	Minimum lease payments due		
	Within one year	**One to ten years**	**Total**
Lease payments	756	2,179	2,935
Finance charges	(32)	(634)	(666)
Net present value as at December 31, 2022	**724**	**1,545**	**2,269**

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities for the year ended December 31, 2023 is stated below:

	As at January 1, 2023	**Cash flow**	**Non-cash changes**	**Non-cash changes**	**Non-cash changes**	**As at December 31, 2023**
		Principal and interest paid	*Interest expense*	*New leases*	*Disposal*	
Lease liability	2,269	(921)	265	1,695	(137)	3,171

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities for the year ended December 31, 2022 is stated below:

	As at January 1, 2022	**Cash flow**	**Cash flow**	**Non-cash changes**	**Non-cash changes**	**As at December 31, 2022**
		Principal paid	*Interest paid*	*Interest expense*	*New leases*	
Lease liability	1,453	(464)	(204)	204	1,280	2,269

(in thousands of Azerbaijani Manats, unless otherwise indicated)

17. OTHER LIABILITIES

	December 31, 2023	December 31, 2022
Financial liabilities		
Amounts in the course of settlement	2,601	978
Payables to creditors	1,022	722
Payables to the Deposit Insurance Fund	667	498
Salaries payable	547	294
Compensation payable	26	27
Others	89	32
Total financial liabilities	**4,952**	**2,551**
Payable to state and local funds	378	433
Taxes payable	1,298	555
ECL on guarantees and other commitments*	625	135
Others	13	5
Total other liabilities	**7,266**	**3,679**

*An analysis of changes in the ECL allowance on commitments and contingencies during the year ended December 31, 2023 and 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2023	**(135)**	**-**	**-**	**(135)**
Change in ECL	(490)	-	-	(490)
As at December 31, 2023	**(625)**	**-**	**-**	**(625)**

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2022	**(188)**	**-**	**-**	**(188)**
Change in ECL	53	-	-	53
As at December 31, 2022	**(135)**	**-**	**-**	**(135)**

There were no transfers between stages on commitments and contingencies during the years ended December 31, 2023 and 2022.

18. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at January 1, 2022	**73,942**	**80,005**	**724**	**80,729**
Shares issued	-	-	-	-
As at December 31, 2022	**73,942**	**80,005**	**724**	**80,729**
Shares issued	-	-	-	-
As at December 31, 2023	**73,942**	**80,005**	**724**	**80,729**

As at December 31, 2023, the authorized, issued and outstanding share capital comprises 73,942 ordinary shares (December 31, 2022: 73,942). All shares have a nominal value of AZN 1,082 per share. During the year ended December 31, 2023, no ordinary shares were issued for cash (December 31, 2022: nil).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank. In 2023, the Bank did not declare dividends on ordinary shares (December 31, 2022: nil).

19. EARNINGS PER SHARE

Basic and diluted earnings per share

	December 31, 2023	December 31, 2022
Earnings per share		
Basic and diluted earnings per share (AZN per share)	11.0	92.2

The calculation of basic and diluted earnings per share as at December 31, 2023 is based on the earnings attributable to ordinary shareholders in the amount of AZN 811 thousand (December 31, 2022: AZN 6,818 thousand), and weighted average number of ordinary shares outstanding of 73,942 (December 31, 2022: 73,942) calculated as follows:

	December 31, 2023	December 31, 2022
Net profit attributable to ordinary shares (in thousands)	**811**	**6,818**
Weighted average number of ordinary shares for the year ended December 31	73,942	73,942
Earnings per share (AZN)	**11.0**	**92.2**

20. NET INTEREST INCOME

	Year ended December 31, 2023	Year ended December 31, 2022
Interest income calculated using the effective interest method:		
Loans to customers	70,932	55,756
Investment securities	2,784	2,140
Cash and cash equivalents	4,803	1,777
Loans and deposits to banks	629	628
Guarantees	295	112
Total interest income calculated using the effective interest method	**79,443**	**60,413**
Interest expense calculated using the effective interest method:		
Current accounts and deposits from customers	(35,892)	(26,807)
Other borrowed funds	(7,730)	(6,153)
Subordinated borrowings	(1,012)	(1,122)
Deposits and balances from banks and other financial institutions	(1,770)	(1,053)
Lease liability	(265)	(204)
Borrowings under repurchase agreements	(422)	(160)
Investment securities	(62)	-
Total interest expense calculated using the effective interest method	**(47,153)**	**(35,499)**
Net interest income before expected credit losses	**32,290**	**24,914**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

21. NET FEE AND COMMISSION INCOME

	Year ended December 31, 2023	Year ended December 31, 2022
Fee and commission income:		
Cash withdrawal	1,602	2,767
Settlements	3,221	2,053
Plastic cards	1,291	1,435
Foreign exchange	216	157
Servicing customers' accounts	95	81
Guarantee and letter of credit issuance	223	51
Others	51	104
Total fee and commission income	**6,699**	**6,648**
Fee and commission expense:		
Plastic cards	(1,875)	(1,654)
Cash collection	(460)	(1,113)
Payment systems	(1,446)	(953)
Settlements	(714)	(524)
Brokerage operations	(92)	(172)
Guarantee and letter of credit issuance	(28)	(33)
Total fee and commission expense	**(4,615)**	**(4,449)**
Net fee and commission income	**2,084**	**2,199**

22. PERSONNEL EXPENSES

	Year ended December 31, 2023	Year ended December 31, 2022
Employee compensation	(15,429)	(12,660)
Payments to State Social Security Fund	(2,282)	(1,916)
Total personnel expenses	**(17,711)**	**(14,576)**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2023	Year ended December 31, 2022
Advertising and marketing	(4,234)	(5,139)
Depreciation and amortization	(2,840)	(2,064)
Professional fees	(579)	(904)
Communication expenses	(754)	(580)
Security expenses	(573)	(541)
Printing and office supplies	(443)	(434)
Sponsorship expenses	(206)	(335)
Repair and maintenance	(315)	(312)
Taxes, other than income tax	(283)	(215)
Vehicle running costs	(189)	(177)
Utilities	(111)	(160)
Business trip expenses	(101)	(117)
Operating lease expenses	(31)	(50)
Insurance expenses	(48)	(44)
Charity expenses	(49)	(43)
Membership expenses	(103)	(11)
Others	(124)	(151)
Total general and administrative expenses	**(10,983)**	**(11,277)**

24. INCOME TAXES

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Bank operates, which may differ from IFRS. The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2023 and 2022 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax – book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Deferred income tax assets/(liabilities) as at December 31, 2023 comprise:

	Recognized in profit or loss	Recognized in OCİ	Balance at December 31, 2023
Deferred income tax assets in relation to:			
Loans to customers	1,626	-	1,626
Lease liability	635	-	635
Other liability	198	-	198
Provision for possible guarantees and other commitments	94	-	94
Investment securities	(13)	77	64
Cash and cash equivalents	-	-	-
Total deferred income tax assets	**2,540**	**77**	**2,617**
Deferred income tax liabilities in relation to:			
Other assets	(8)	-	(8)
Right-of-use assets	(13)	-	(13)
Loans and deposits to banks	(586)	-	(586)
Property, equipment and intangible assets	(21)	-	(21)
Other borrowed funds	(7)	-	(7)
Total deferred income tax liabilities	**(635)**	**-**	**(635)**
Deferred income tax asset	**1,905**	**77**	**1,982**
Deferred income tax asset not recognized	(1,912)	-	(1,912)
Net deferred income tax asset/(liabilities)	**(7)**	**77**	**70**

Deferred income tax assets/(liabilities) as at December 31, 2022 comprise:

	December 31, 2022
Deferred income tax assets in relation to:	
Loans to customers	3,567
Loans and deposits to banks	454
Property, equipment and intangible assets	213
Other liability	166
Lease liability	164
Other assets	27
Investment securities	19
Cash and cash equivalents	117
Provision for possible guarantees and other commitments	4
Total deferred income tax assets	**4,731**
Deferred income tax liabilities in relation to:	
Right-of-use assets	(420)
Other borrowed funds	(18)
Total deferred income tax liabilities	**(438)**
Deferred income tax asset	**4,293**
Deferred income tax asset not recognized	(4,198)
Net deferred income tax liabilities	**95**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The effective tax rate reconciliation is as follows for the years ended December 31, 2023 and 2022:

	Year ended December 31, 2023	Year ended December 31, 2022
Profit before income tax	**1,148**	**7,903**
Tax at the statutory tax rate (20%)	(229)	(1,581)
Tax effect of permanent differences	(108)	(75)
Revision of prior year tax estimation	-	(284)
Change in valuation allowance	-	855
Income tax expense	**(337)**	**(1,085)**
Current income tax expense	(348)	(1,187)
Deferred income tax expense recognized in the current year	11	102
Income tax expense	**(337)**	**(1,085)**

Deferred income tax (liability)/asset	Year ended December 31, 2023	Year ended December 31, 2022
As at January 1 – deferred income tax (liability)/ asset	**95**	**(120)**
Change in deferred income tax balances recognized in profit or loss	11	102
Change in deferred income tax balances recognized in OCI	(36)	113
As at December 31- deferred income tax asset	**70**	**95**

25. RISK MANAGEMENT

Management of risk is fundamental to the business of banking and is an essential element of the Bank ’s operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures according to the set limits.

The Management Board is responsible for monitoring and implementation of risk mitigation measures and making sure that the Bank operates within the established risk parameters. The Head of the Risk Management Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the CEO.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of credit committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Management Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.
Overall authority for market risk is vested in the ALCO, which is chaired by the Deputy of CEO. Market risk limits are approved by ALCO based on recommendations of the Risk Management Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Supervisory Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed 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 also reduce or create losses in the event that unexpected movements occur.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2023							
ASSETS							
Cash and cash equivalents	57,211	-	-	-	-	42,558	99,769
Loans and deposits to banks	-	2,793	4,395	6,770	-	16,944	30,902
Loans to customers	114,898	62,733	100,751	230,582	87,104	6,562	602,630
Investment securities	8,615	6,615	7,321	18,528	-	523	41,602
Other financial assets	-	-	-	-	-	3,082	3,082
	180,724	**72,141**	**112,467**	**255,880**	**87,104**	**69,669**	**777,985**
LIABILITIES							
Deposits and balances from banks and other financial institutions	72,420	-	-	9,615	-	1,070	83,105
Current accounts and deposits from customers	87,118	55,427	141,548	111,500	372	67,684	463,649
Other borrowed funds	47,759	18,298	2,451	36,856	72,510	-	177,874
Subordinated borrowings	88	-	-	10,233	1,615	-	11,936
Lease liability	198	192	359	2,071	351	-	3,171
Other financial liabilities	-	-	-	-	-	4,952	4,952
	207,583	**73,917**	**144,358**	**170,275**	**74,848**	**73,706**	**744,687**
	(26,859)	**(1,776)**	**(31,891)**	**85,605**	**12,256**	**(4,037)**	**33,298**

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2022							
ASSETS							
Cash and cash equivalents	42,868	-	-	-	-	88,308	131,176
Loans and deposits to banks	6,783	2,543	11,877	7,172	-	21,865	50,240
Loans to customers	118,789	59,642	99,910	174,401	69,842	7,413	529,997
Investment securities	2,896	3,053	1,044	44,116	-	594	51,703
Other financial assets	-	-	-	-	-	1,552	1,552
	171,336	**65,238**	**112,831**	**225,689**	**69,842**	**119,732**	**764,668**
LIABILITIES							
Deposits and balances from banks and other financial institutions	111,051	-	9,517	2,000	-	1,113	123,681
Current accounts and deposits from customers	57,724	47,597	126,070	68,834	318	132,234	432,777
Other borrowed funds	24,978	3,704	33,770	38,249	57,292	-	157,993
Subordinated borrowings	101	-	510	7,989	3,774	-	12,374
Lease liability	190	187	347	1,310	235		2,269
Other financial liabilities	-	-	-	-	-	2,551	2,551
	194,044	**51,488**	**170,214**	**118,382**	**61,619**	**135,898**	**731,645**
	(22,708)	**13,750**	**(57,383)**	**107,307**	**8,223**	**(16,166)**	**33,023**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Average effective interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at December 31, 2023 and 2022. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2023 Average effective interest rate, %			2022 Average effective interest rate, %		
	AZN	**USD**	**Other currencies**	**AZN**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	6.50	5.30	3.80	6.25	4.50	5.15
Loans and deposits to banks	7.00	4.00	-	7.00	1.55	-
Loans to customers	13.53	6.16	6.68	13.39	6.15	5.18
Investment securities	6.10	4.71	-	5.76	4.61	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	2.83	2.00	1.50	1.99	2.76	1.09
Current accounts and deposits from customers						
- Current accounts and demand deposits	4.13	3.78	2.17	7.05	3.62	2.81
- Term deposits	10.86	2.53	0.75	10.81	2.53	0.75
Other borrowed funds	2.34	7.47	-	3.53	6.54	-
Subordinated borrowings	-	7.73	-	-	8.33	-
Lease liability	-	10.00	-	-	10.00	-

Interest rate sensitivity analysis

The Bank is exposed to interest rate risk because entity borrows at both floating and fixed interest rates. The Bank manages the risk by maintaining a mix between fixed and floating rate borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The ALMC controls currency risk managing the open currency position on the estimated basis of USD devaluation and other macroeconomic indicators, which gives the Bank possibility to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank 's open currency position with the aim to match the requirements of the CBAR.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2023:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	57,243	26,196	13,412	2,918	99,769
Loans and deposits to banks	14,941	15,961	-	-	30,902
Loans to customers	523,383	77,846	1,401	-	602,630
Investment securities	33,202	8,400	-	-	41,602
Other financial assets	1,947	387	4	744	3,082
Total assets	**630,716**	**128,790**	**14,817**	**3,662**	**777,985**
FINANCIAL LIABILITIES					
Deposits and balances from banks and other financial institutions	67,144	13,063	2,887	11	83,105
Current accounts and deposits from customers	387,897	67,741	6,826	1,185	463,649
Other borrowed funds	136,985	40,889	-	-	177,874
Subordinated borrowings	-	11,936	-	-	11,936
Lease liability	3,171	-	-	-	3,171
Other financial liabilities	4,050	392	2	508	4,952
Total liabilities	**599,247**	**134,021**	**9,715**	**1,704**	**744,687**
Net position	**31,469**	**(5,231)**	**5,102**	**1,958**	**33,298**

The following table shows the currency structure of financial assets and liabilities as at December 31, 2022:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	50,177	40,033	27,801	13,165	131,176
Loans and deposits to banks	13,860	36,380	-	-	50,240
Loans to customers	447,872	80,514	1,611	-	529,997
Investment securities	39,673	12,030	-	-	51,703
Other financial assets	1,384	131	1	36	1,552
Total assets	**552,966**	**169,088**	**29,413**	**13,201**	**764,668**
FINANCIAL LIABILITIES					
Deposits and balances from banks and other financial institutions	93,490	15,376	14,365	450	123,681
Current accounts and deposits from customers	298,866	107,820	14,025	12,066	432,777
Other borrowed funds	124,114	33,879	-	-	157,993
Subordinated borrowings	-	12,374	-	-	12,374
Lease liability	2,269	-	-	-	2,269
Other financial liabilities	2,041	391	119	-	2,551
Total liabilities	**520,780**	**169,840**	**28,509**	**12,516**	**731,645**
Net position	**32,186**	**(752)**	**904**	**685**	**33,023**

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Supervisory Board.

Credit risk management

Credit risk is the single largest risk for the Bank '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 Bank 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 Bank 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 Director 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 are 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 the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Bank 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 Azerbaijan Republic and nominated in AZN, loans to companies owned by Azerbaijan Republic 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, meaning fully 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 borrower has the external rating below Caa2;
- the Bank considers to sell the borrower's debt with significant losses (more than 5% of the debt principal balance and accrued interest);
- other information available on borrower bankruptcy or default.

The 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 Bank's Risk Management Committee.

The Bank 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:

- 31-60 days past due;
- Restructured and 6-30 days past due.

If there is evidence that the SICR criteria are no longer met and this has lasted at least 3 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 Bank 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 Bank only recognizes the cumulative changes in lifetime expected credit losses.

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

- assessment on an individual basis;
- assessment on a portfolio basis;
- assessment based on external ratings.

The Bank 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 Bank 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 Bank 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 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 Bank 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 portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Bank 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 Committee.

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 historic 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 historic default data and adjusted for forward looking information when appropriate.

To calculate Lifetime PD, the Bank 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 Bank uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, overdue days 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 Bank 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 is defined based on statistical analysis of exposure at default.

CCF for credit lines is defined as 20% for short-term limits and as 50% for long-term limits.

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 Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

The Bank used a base economic scenario that normally in line with budgeting, strategic and capital plans and for other aspects of managing and reporting. As there was no significant relationship between bank’s NPL rates and macro variable, Bank sector’s non-performing loans were used when building a macroeconomic model. Real GDP growth was used as an explanatory variable.

Based on them the Bank's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Bank 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 Bank 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 Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the nonlinearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation. The Bank 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 Bank management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

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.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The maximum exposure to credit risk from financial assets as at December 31, 2023:

	December 31, 2023	Offset (cash and gold collateral)	Net exposure after offset	Collateral pledged	Net exposure
FINANCIAL ASSETS					
Cash and cash equivalents (excluding cash on hand)	99,769	-	99,769	-	99,769
Loans and deposits to banks	30,902	-	30,902	-	30,902
Loans to customers	602,630	14,818	587,812	454,460	133,352
Investment securities	41,602	-	41,602	-	41,602
Other financial assets	3,082	-	3,082	-	3,082
Total maximum exposure	**777,985**	**14,818**	**763,167**	**454,460**	**308,707**

The maximum exposure to credit risk from financial assets as at December 31, 2022:

	December 31, 2022	Offset (cash and gold collateral)	Net exposure after offset	Collateral pledged	Net exposure
FINANCIAL ASSETS					
Cash and cash equivalents (excluding cash on hand)	73,514	-	73,514	-	73,514
Loans and deposits to banks	50,240	-	50,240	-	50,240
Loans to customers	529,997	11,445	518,552	419,441	99,111
Investment securities	51,703	-	51,703	-	51,703
Other financial assets	1,552	-	1,552	-	1,552
Total maximum exposure	**707,006**	**11,445**	**695,561**	**419,441**	**276,120**

Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration

The Assets and Liabilities Management Committee ("ALMC") exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The geographical concentration of assets and liabilities is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2023 Total
FINANCIAL ASSETS				
Cash and cash equivalents	85,560	8,066	6,143	99,769
Loans and deposits to banks	30,902	-	-	30,902
Loans to customers	602,630	-	-	602,630
Investment securities	41,602	-	-	41,602
Other financial assets	3,082	-	-	3,082
Total financial assets	**763,776**	**8,066**	**6,143**	**777,985**
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	83,105	-	-	83,105
Current accounts and deposits from customers	463,649	-	-	463,649
Other borrowed funds	133,617	20,067	24,190	177,874
Subordinated borrowings	11,936	-	-	11,936
Lease liability	3,171	-	-	3,171
Other financial liabilities	4,952	-	-	4,952
Total financial liabilities	**700,430**	**20,067**	**24,190**	**744,687**
NET POSITION ON FINANCIAL INSTRUMENTS	**63,346**	**(12,001)**	**(18,047)**	**33,298**

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2022 Total
FINANCIAL ASSETS				
Cash and cash equivalents	108,954	18,598	3,624	131,176
Loans and deposits to banks	38,316	11,877	47	50,240
Loans to customers	529,997	-	-	529,997
Investment securities	50,855	848		51,703
Other financial assets	1,270	9	273	1,552
Total financial assets	**729,392**	**31,332**	**3,944**	**764,668**
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	123,681	-	-	123,681
Current accounts and deposits from customers	426,040	143	6,594	432,777
Other borrowed funds	113,861	30,957	13,175	157,993
Subordinated borrowings	12,374	-	-	12,374
Lease liability	2,269	-	-	2,269
Other financial liabilities	2,551	-	-	2,551
Total financial liabilities	**680,776**	**31,100**	**19,769**	**731,645**
NET POSITION ON FINANCIAL INSTRUMENTS	**48,616**	**232**	**(15,825)**	**33,023**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Collateral

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

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

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

Renegotiated loans and advances

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case, renegotiation can result in an extension of the due date of payment or repayment plans under which the Bank offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be individually impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

Credit quality by class of financial asset

The following table details credit ratings of financial asets held by the Bank:

	A	A-	BBB	<BBB	Not rated	Total
December 31, 2023						
Cash and cash equivalents (excluding cash on hand)	-	-	-	62,136	-	62,136
Loans and deposits to banks	-	-	-	20,125	10,777	30,902
Loans to customers	-	-	-	-	602,630	602,630
Investment securities	-	-	-	41,079	523	41,602
Other financial assets	-	-	-	-	3,082	3,082
December 31, 2022						
Cash and cash equivalents (excluding cash on hand)	-	-	-	72,925	589	73,514
Loans and deposits to banks	-	-	11,877	27,877	10,486	50,240
Loans to customers	-	-	-	-	529,997	529,997
Investment securities	848	-	-	50,332	523	51,703
Other financial assets	-	-	-	-	1,552	1,552

Financial assets other than loans to customers are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch, Standard & Poor's and Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

As at December 31, 2023 and 2022, the balances with the CBAR amounted to AZN 61,697 thousand and AZN 71,856 thousand, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2022 corresponded to BB+ (December 31, 2023: BB+).

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising debt securities in issue, long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, Loans and deposits to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Treasury Department. Under the normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables detail the Bank's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Bank can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Bank may be required to pay.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	December 31, 2023 Total
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	70,618	2,031	44	640	10,118	83,451
Current accounts and deposits from customers	120,914	38,088	65,180	146,268	129,023	499,473
Other borrowed funds	46,619	2,886	4,526	10,272	145,342	209,645
Subordinated borrowings	169	162	243	486	14,535	15,595
Lease liability	92	184	265	490	2,899	3,930
Other financial liabilities	4,952	-	-	-	-	4,952
Total financial liabilities	**243,364**	**43,351**	**70,258**	**158,156**	**301,917**	**817,046**
Credit related commitments and guarantees	**60,170**	**-**	**-**	**-**	**-**	**60,170**

	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	December 31, 2022 Total
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	109,788	2,496	79	9,650	2,016	124,029
Current accounts and deposits from customers	171,337	24,859	52,846	132,702	76,404	458,148
Other borrowed funds	13,200	12,826	5,050	35,456	135,954	202,486
Subordinated borrowings	187	171	255	1,007	15,460	17,080
Lease liability	64	128	192	372	2,179	2,935
Other financial liabilities	2,551	-	-	-	-	2,551
Total financial liabilities	**297,127**	**40,480**	**58,422**	**179,187**	**232,013**	**807,229**
Credit related commitments and guarantees	**25,899**	**-**	**-**	**-**	**-**	**25,899**

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates.

Management expects that the cash flows from certain financial assets and liabilities will be different from their contractual terms either because management has the discretionary ability to manage the cash flows or because past experience indicates that cash flows will differ from contractual terms.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at December 31, 2023:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Maturity undefined	Total
ASSETS							
Cash and cash equivalents	99,769	-	-	-	-	-	99,769
Loans and deposits to banks	-	-	7,188	6,770	-	16,944	30,902
Loans to customers	61,635	59,823	163,484	230,582	87,106	-	602,630
Investment securities	52	8,576	13,931	18,520	-	523	41,602
Other financial assets	3,082	-	-	-	-	-	3,082
Total assets	**164,538**	**68,399**	**184,603**	**255,872**	**87,106**	**17,467**	**777,985**
LIABILITIES							
Deposits and balances from banks and other financial institutions	70,589	2,000	552	9,964	-	-	83,105
Current accounts and deposits from customers	121,628	31,161	189,217	107,870	372	13,401	463,649
Other borrowed funds	45,066	1,766	21,676	36,856	72,510	-	177,874
Subordinated borrowings	88	-	-	10,233	1,615	-	11,936
Lease liability	66	133	552	2,069	351	-	3,171
Other financial liabilities	4,952	-	-	-	-	-	4,952
Total liabilities	**242,389**	**35,060**	**211,997**	**166,992**	**74,848**	**13,401**	**744,687**
Net position	**(77,851)**	**33,339**	**(27,394)**	**88,880**	**12,258**	**4,066**	**33,298**
Cumulative net position up to 5 years	**(77,851)**	**(44,512)**	**(71,906)**	**16,974**	**29,232**	**33,298**	

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below shows an analysis, by expected maturities, of the amounts recognized in the statement of financial position as at December 31, 2022:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Cash and cash equivalents	131,176	-	-	-	-	-	131,176
Loans and deposits to banks	19	6,783	14,420	7,172	-	21,846	50,240
Loans to customers	64,421	61,781	159,552	174,401	69,842	-	529,997
Investment securities	72	2,895	4,097	44,116	-	523	51,703
Other financial assets	1,552	-	-	-	-	-	1,552
Total financial assets	**197,240**	**71,459**	**178,069**	**225,689**	**69,842**	**22,369**	**764,668**
FINANCIAL LIABILITIES							
Deposits and balances from banks and other financial institutions	109,734	2,429	9,517	2,001	-	-	123,681
Current accounts and deposits from customers	167,117	18,711	157,746	61,386	317	27,500	432,777
Other borrowed funds	12,970	12,008	37,474	38,249	57,292	-	157,993
Subordinated borrowings	101	-	510	7,989	3,774	-	12,374
Lease liability	64	127	533	1,310	235	-	2,269
Other financial liabilities	2,551	-	-	-	-		2,551
Total financial liabilities	**292,537**	**33,275**	**205,780**	**110,935**	**61,618**	**27,500**	**731,645**
Net position	**(95,297)**	**38,184**	**(27,711)**	**114,754**	**8,224**	**(5,131)**	**33,023**
Cumulative net position up to 5 years	**(95,297)**	**(57,113)**	**(84,824)**	**29,930**	**38,154**	**33,023**	

The key measure used by the Bank for managing liquidity risk is the liquidity ratio stipulated by the CBAR.

The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand. For other borrowed funds being classified as on demand refer to Note 15.

26. CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Bank.

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, 2022: 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, 2022: 5%).

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations. The Bank provides the CBAR with information on mandatory ratios in accordance with set form. Risk department controls on a daily basis compliance with capital adequacy ratios. In case values of capital adequacy ratios become close to set limits set by the CBAR and Bank's internal policy this information is communicated to the Supervisory Board. The Bank's aggregate capital reported to the CBAR as at December 31, 2023 was AZN 85,116 thousand (December 31, 2022 was AZN 96,025 thousand) (Statutory capital ratio 11.72% and Tier-1 capital ratio 9.65%). The financial Information used in calculation of capital ratios set by the CBAR may differ from IFRS figures.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at December 31:

	December 31, 2023	**December 31, 2022**
Tier 1 capital		
Share capital	80,005	80,005
Share premium	724	724
Accumulated deficit	(17,827)	(24,645)
Less: Intangible assets	(974)	(882)
Total tier 1 capital	**61,928**	**55,202**
Tier 2 capital		
Current year profit	811	6,818
Reserves (1.25% of Risk-weighted assets)	8,946	7,505
Property revaluation reserve	1,644	1,644
Subordinated borrowings (unamortized portion)	7,887	9,753
Total tier 2 capital	**19,288**	**25,720**
Less: Investments	(523)	(523)
Total capital	**80,693**	**80,399**
Risk-weighted assets		
On-balance sheet	715,683	600,439
Off-balance sheet	10,434	3,846
Total risk weighted assets	**726,118**	**604,285**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio), (minimum 10%)	**11%**	**13%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio), (minimum 5%)	**9%**	**9%**

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Bank. The Bank has complied with all externally imposed capital requirements as at December 31, 2023 and 2022.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

27. CREDIT RELATED COMMITMENTS

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years. The Bank also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	December 31, 2023	December 31, 2022
Contracted amount		
Loan and credit line commitments	12,985	6,670
Guarantees and letters of credit	47,810	19,364
Less: provisions for ECL for related commitments	(625)	(135)
Total exposure	**60,170**	**25,899**

The total outstanding contractual credit related commitments above do not necessarily represent future cash requirements, as these credits related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit related commitment by the Bank.

Credit related commitments are denominated in currencies as follows:

	December 31, 2023	December 31, 2022
Contracted amount		
Azerbaijani Manats	56,616	23,214
US Dollars	3,456	2,067
Euro	98	618
Total exposure	**60,170**	**25,899**

28. COMMITMENTS AND CONTINGENCIES

Compliance with covenants

The Bank has agreed to comply with certain financial and business covenants in various financing and similar agreements.

As at December 31, 2023 the Bank was in breach of certain covenants with several financing arrangements with outstanding balances amounting to AZN 44,033 thousand, all of which were included under on demand category in liquidity analysis disclosed in Note 25.

Capital commitment

During the year ended December 31, 2022 the Bank purchased a new building for administrative purposes. The new building requires capital repair works in order to be available for use. The management could not estimate the cost of repair works as at December 31, 2023.

Litigation

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

Taxation contingencies

The taxation system in the Republic of Azerbaijan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks that are more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Operating environment

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

Azerbaijan's 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 Strong oil prices supported the 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 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.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

GDP reached AZN 123.0 billion (USD 72.3 billion) in 2023 with 1.1% growth compared to 2022. During 2023 foreign trade turnover of the Republic of Azerbaijan reached about USD 51.18 billion of which export equaled to USD 33.90 billion and import equaled to USD 17.28 billion according to the statistics of the State Customs 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 during 2023 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 8.0% - 8.25% with a steady increase in rates.

Inflation rate decreased from 13.9% in December 2023 to 8.8% in December 2022.

By the end of December 2023, the number of active plastic cards increased to a historic high of 16,925 thousand compared to 13,257 thousand in 2022.

During 2023 proportion of foreign currency deposits of individuals dropped to 39.2% from 33.2% in 2022.

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.

29. RELATED PARTY TRANSACTIONS

(a) Control Relationships

The Bank does not have an ultimate controlling party.

Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended December 31, 2023 and 2022 is as follows:

	2023	2022
Short term employee benefits	776	775
	776	**775**

These amounts include cash benefits in respect of the members of the Supervisory and Management Board.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The outstanding balances and average effective interest rates as at December 31, 2023 and 2022 for transactions with the members of the Management Board are as follows:

	December 31, 2023	Average effective interest rate, %	December 31, 2022	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	81	22.24	239	6.84
Allowance for ECL of loans to customers	(1)		(2)	
Current accounts and deposits received	1,678	11.63	3,184	-
Subordinated borrowings	-	-	-	-

Amounts included in profit/(loss) in relation to transactions with the members of the Management Board for the year ended December 31 are as follows:

	2023	2022
Profit/(loss)		
Interest income	4	17
Interest expense	(131)	(131)
Net gain from trading in foreign currency	1	5
Recovery/(charge) of expected credit losses	-	1

Transactions with shareholders

The Bank disclosed outstanding balances and the related average interest rates as at December 31, 2023 and 2022 and related profit or loss amounts of transactions for the year ended December 31, 2023 and 2022 with other shareholders (holding 5% or more of shares of the Bank):

	2023		2022	
	Amount	Average interest rate, %	Amount	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers				
- in AZN:				
Principal balance	20,060	7.32	19,313	7.44
Allowance for ECL of loans to customers	(530)		(424)	
LIABILITIES				
Current accounts and deposits from customers	4,670	8.24	6,654	9.64
Subordinated borrowings	2,470	10.00	1,381	7.75
Profit/(loss)				
Interest income	1,412		1,189	
Interest expense	(564)		(387)	
Net gain from trading in foreign currency	-		-	
(Charge)/recovery of expected credit losses	(332)		2,021	

The majority of balances resulting from transactions with related parties mature within one year.

During the year ended December 31, 2022 the Bank purchased building from related party in the amount of AZN 8,806 thousand.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as 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.

Fair value of financial assets and financial liabilities measured at fair value on a recurring basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at December 31, 2023	Fair value as at December 31, 2022	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
Investment securities (debt securities)	41,079	51,180	Level 1	Quoted bid prices in an active market	n/a
Investment securities (corporate shares)	523	523	Level 3	FCFE	CF projection Discount rate

There were no transfers between Level 1 and 2 in the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

	December 31, 2023		December 31, 2022	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Loans and deposits to banks	30,902	30,902	50,240	50,240
Loans to customers	602,630	602,630	529,997	529,997
Deposits and balances from banks	83,105	83,105	123,681	123,681
Current accounts and deposits from customers	463,649	463,649	432,777	432,777
Other borrowed funds	177,874	177,874	157,993	157,993
Subordinated borrowings	11,936	11,936	12,374	12,374
Lease liability	3,171	3,171	2,269	2,269

	December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and cash equivalents	99,769	-	-	99,769
Loans and deposits to banks	-	30,902	-	30,902
Loans to customers	-	-	602,630	602,630
Other financial assets	-	3,082	-	3,082
Financial liabilities:				
Deposits and balances from banks	-	83,105	-	83,105
Current accounts and deposits from customers	-	463,649	-	463,649
Other borrowed funds	-	177,874	-	177,874
Subordinated borrowings	-	-	11,936	11,936
Lease liability	-	-	3,171	3,171
Other financial liabilities	-	-	4,952	4,952

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	131,176	-	-	131,176
Loans and deposits to banks	-	50,240	-	50,240
Loans to customers	-	-	529,997	529,997
Other financial assets	-	1,552	-	1,552
Financial liabilities:				
Deposits and balances from banks	-	123,681	-	123,681
Current accounts and deposits from customers	-	432,777	-	432,777
Other borrowed funds	-	157,993	-	157,993
Subordinated borrowings	-	-	12,374	12,374
Lease liability	-	-	2,269	2,269
Other financial liabilities	-	-	2,551	2,551

The fair values of the financial assets and financial liabilities included in the level 2 and 3 categories above have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. The Bank using available market information, where it exists, and appropriate valuation methodologies has determined the estimated fair values of financial instruments. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

31. EVENTS AFTER THE REPORTING PERIOD

On February 1, 2024 the Central Bank of the Republic of Azerbaijan decided to decrease the refinancing rate from 8.0% to 7.75%, the ceiling of the interest rate corridor from 6.5% to 6.25% and the floor from 6.25% to 6.75%.

On March 19, 2024 the Central Bank of the Republic of Azerbaijan decided to decrease the refinancing rate from 7.75% to 7.5%, the ceiling of the interest rate corridor from 8.75% to 8.5% and to keep the floor unchanged at 6.25%.

On May 2, 2024 the Central Bank of the Republic of Azerbaijan decided to decrease the refinancing rate from 7.5% to 7.25%, the ceiling of the interest rate corridor from 8.5% to 8.25% and to keep the floor unchanged at 6.25%.

The Bank attracted subordinated loan in the amount of AZN 6,800 thousand in February 2024, AZN 10,000 thousand in April and AZN 5,000 thousand in May.

The Bank is planning to issue 18,485 shares in the amount of AZN 20,001 thousand in June 2024.