

OJSC PASHA Bank

Interim condensed consolidated financial statements

30 June 2023

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Report on review of interim financial information

Interim condensed consolidated financial statements

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Report on Review of Interim Financial Information

To the Shareholders and Supervisory Board of
OJSC PASHA Bank

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC PASHA Bank and its subsidiaries (the Group), which comprise the interim consolidated statement of financial position as at 30 June 2023 and the related interim consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

6 September 2023

Baku, Azerbaijan

Interim consolidated statement of financial position**As at 30 June 2023***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	30 June 2023 (unaudited)	31 December 2022
Assets			
Cash and cash equivalents	3	2,208,285	3,302,130
Amounts due from credit institutions	4	895,596	584,060
Investment securities	5	2,338,053	1,840,316
Derivative financial assets	11	9,395	10,214
Loans to customers	6	2,952,822	3,273,589
Investment properties		–	31,229
Property and equipment		12,839	32,560
Intangible assets		26,522	31,400
Right-of-use assets		15,154	17,471
Deferred income tax assets	12	14,441	17,171
Assets of a disposal group held for sale	15	549,274	–
Other assets	7	135,851	77,807
Total assets		9,158,232	9,217,947
Liabilities			
Amounts due to banks and government funds	8	619,940	932,152
Amounts due to customers	9	7,065,767	7,252,655
Lease liabilities		15,070	17,662
Debt securities issued		–	86,703
Other borrowed funds		–	20,117
Derivative financial liabilities	11	8,871	10,302
Current income tax liabilities	12	14,785	22,788
Deferred income tax liabilities	12	–	5,327
Provision for guarantees and other commitments	14	10,003	10,610
Subordinated debts	10	113,541	155,589
Liabilities of a disposal group held for sale	15	465,464	–
Other liabilities	7	117,810	55,758
Total liabilities		8,431,251	8,569,663
Equity			
Share capital	13	354,512	354,512
Additional paid-in capital	13	343	343
Retained earnings		373,127	286,489
Other reserves	13	3,589	2,799
Net unrealised (loss) on investment securities	13	(4,836)	(5,386)
Foreign currency translation reserve	13	(40,520)	(36,277)
Total equity attributable to shareholders of the Bank		686,215	602,480
Non-controlling interests		40,766	45,804
Total equity		726,981	648,284
Total liabilities and equity		9,158,232	9,217,947

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

Javid Gouliyev



Chairman of the Executive Board

Murad Suleymanov

Chief Financial Officer

6 September 2023

The accompanying notes on pages 6 to 30 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of profit or loss**For the six months ended 30 June 2023***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

		For the six months ended 30 June (unaudited)	
Notes	2023	2022	
Interest income			
Loans to customers	150,583	133,092	
Investment securities	59,155	36,608	
Cash and cash equivalents	29,341	1,320	
Amounts due from credit institutions	8,605	4,059	
	247,684	175,079	
Interest revenue calculated using effective interest rate			
Interest expense			
Amounts due to customers	(21,433)	(19,941)	
Amounts due to banks and government funds	(15,968)	(15,441)	
Debt securities issued	(1,937)	(3,390)	
Subordinated debts	(4,178)	(1,980)	
Lease liabilities	(674)	(700)	
Other borrowed funds	(2,727)	(276)	
	(46,917)	(41,728)	
	200,767	133,351	
Net interest income			
Credit loss reversal/(expense) on financial assets	16	8,599	(46,838)
		209,366	86,513
Net interest income after credit loss expense			
Net fee and commission income	17	20,285	26,369
- fee and commission income		69,511	54,862
- fee and commission expense		(49,226)	(28,493)
Net losses from investment securities		(3,177)	(15,230)
Net gains from foreign currencies		19,922	26,840
Other income		2,615	1,311
		39,645	39,290
Non-interest income			
Personnel expenses	18	(58,036)	(32,401)
General and administrative expenses	18	(24,616)	(27,053)
Depreciation and amortisation		(11,464)	(11,516)
Net gain on modification of financial assets measured at amortised cost	6	5,534	648
Net losses on derecognition of loans to customers		-	(111)
Net losses on initial recognition of financial instruments		(800)	-
(Impairment)/reversal of impairment and (write-down)/reversal of write-down		(687)	667
Other operating expenses		-	(53)
Provision for credit related commitments and other financial assets	16	(785)	(2,439)
		(90,854)	(72,258)
Non-interest expense			
Loss on net monetary position	2	(6,465)	(14,802)
		151,692	38,743
Profit before income tax expense			
Income tax expense	12	(34,683)	(19,566)
		117,009	19,177
Net profit for the period			
Attributable to:			
- shareholders of the Bank		117,428	24,821
- non-controlling interests		(419)	(5,644)
		117,009	19,177

The accompanying notes on pages 6 to 30 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of comprehensive income**For the six months ended 30 June 2023***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	<i>For the six months ended 30 June (unaudited)</i>	
		2023	2022
Net profit for the period		117,009	19,177
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of investment securities at fair value through other comprehensive income		17,832	(71,959)
Reclassification of cumulative loss on disposal of debt instruments at fair value through other comprehensive income to the income statement		4,064	14,668
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income	16	(21,071)	39,377
Net unrealised gains/(losses) on investment securities at fair value through other comprehensive income		825	(17,914)
Income tax relating to components of other comprehensive income	12	(165)	3,584
Foreign currency translation differences	13	(8,972)	20,227
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(8,312)	5,897
Total comprehensive income for the year		108,697	25,074
Attributable to:			
- shareholders of the Bank		113,735	22,457
- non-controlling interests		(5,038)	2,617
		108,697	25,074

The accompanying notes on pages 6 to 30 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of changes in equity**For the six months ended 30 June 2023***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

	<i>Share capital</i>	<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Net unrealised gains/ (losses) on investment securities</i>	<i>Other reserves</i>	<i>Foreign currency translation reserve</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
As at 1 January 2022	354,512	343	222,392	12,721	2,448	(56,362)	536,054	41,384	577,438
Net profit for the period	-	-	24,821	-	-	-	24,821	(5,644)	19,177
Other comprehensive income/(loss) for the period	-	-	-	(14,330)	-	11,966	(2,364)	8,261	5,897
Total comprehensive income/(loss) for the period	-	-	24,821	(14,330)	-	11,966	22,457	2,617	25,074
Transfer to reserves (Note 13)	-	-	(342)	-	342	-	-	-	-
Dividends to shareholders of the Bank (Note 13)	-	-	(22,157)	-	-	-	(22,157)	-	(22,157)
As at 30 June 2022 (unaudited)	354,512	343	224,714	(1,609)	2,790	(44,396)	536,354	44,001	580,355
As at 1 January 2023	354,512	343	286,489	(5,386)	2,799	(36,277)	602,480	45,804	648,284
Net profit for the period	-	-	117,428	-	-	-	117,428	(419)	117,009
Other comprehensive income/(loss) for the period	-	-	-	550	-	(4,243)	(3,693)	(4,619)	(8,312)
Total comprehensive income/(loss) for the period	-	-	117,428	550	-	(4,243)	113,735	(5,038)	108,697
Transfer to reserves (Note 13)	-	-	(790)	-	790	-	-	-	-
Dividends to shareholders of the Bank (Note 13)	-	-	(30,000)	-	-	-	(30,000)	-	(30,000)
As at 30 June 2023 (unaudited)	354,512	343	373,127	(4,836)	3,589	(40,520)	686,215	40,766	726,981

The accompanying notes on pages 6 to 30 are an integral part of these interim condensed consolidated financial statements.

Interim consolidated statement of cash flows**For the six months ended 30 June 2023***(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)*

	Notes	For the six months ended 30 June (unaudited)	
		2023	2022
Cash flows from operating activities			
Interest received		239,539	177,526
Interest paid		(41,035)	(42,852)
Fees and commissions received		68,419	53,200
Fees and commissions paid		(43,573)	(27,333)
Realised gains less losses from dealing in foreign currencies and foreign currency derivatives		16,345	26,778
Personnel expenses paid		(54,144)	(44,432)
General and administrative expenses paid		(33,953)	(28,217)
Other operating income received		1,110	3,939
Cash flows from operating activities before changes in operating assets and liabilities		152,708	118,609
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(345,830)	47,229
Loans to customers		(36,219)	(51,946)
Other assets		(56,232)	(5,760)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to banks and government funds		(44,434)	16,782
Amounts due to customers		(182,680)	1,118,834
Other borrowed funds		5	6,447
Other liabilities		29,762	7,536
Net cash flows (used in)/ from operating activities before income tax		(482,920)	1,257,731
Income tax paid		(36,401)	(22,966)
Net cash flows (used in)/ from operating activities		(519,321)	1,234,765
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		2,970,970	1,014,112
Purchase of investment securities		(3,504,724)	(1,022,675)
Proceeds from sale of property and equipment		3,810	1,452
Purchase and prepayments for property and equipment		(2,603)	(1,402)
Advances received for shares in subsidiary	7	46,000	-
Acquisition of intangible assets		(1,179)	(1,521)
Net cash flows used in investing activities		(487,726)	(10,034)
Cash flows from financing activities			
Proceeds from bonds issued		27,164	77,099
Redemption of bonds issued		(25,848)	(147,682)
Principal repayments of lease liability		(4,498)	(3,771)
Advances received for sale of shares in subsidiary	7	6,000	-
Proceeds from subordinated debts		-	68,778
Dividends paid	13	(30,000)	(22,157)
Net cash flows used in financing activities		(27,182)	(27,733)
Effect of exchange rates changes on cash and cash equivalents		(8,847)	(11,958)
Hyperinflation effect on cash and cash equivalents		(17,525)	9,822
Effect of expected credit losses on cash and cash equivalents	17	(70)	(37)
Effect of cash and cash equivalents classified as held for sale	15	(33,331)	-
Effect of restricted balances and accruals		157	8
Net (decrease)/increase in cash and cash equivalents		(1,093,845)	1,194,833
Cash and cash equivalents, beginning of the year		3,302,130	1,325,411
Cash and cash equivalents, ending of the period	3	2,208,285	2,520,244

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

1. Principal activities

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

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

As at 30 June 2023 and 31 December 2022, the Bank has six service points, three branches in Azerbaijan and two subsidiaries, JSC PASHA Bank Georgia located in the Republic of Georgia and PASHA Yatirim Bankasi A.Ş. (the “Subsidiaries”) located in the Republic of Turkey. The Bank’s registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

As at 30 June 2023 and 31 December 2022, the following shareholders owned the outstanding shares of the Bank:

Shareholders	Ownership percentage (%)
PASHA Holding LLC	57
Bless LLC	28
Mr. Arif Pashayev	10
Mr. Mir Jamal Pashayev	5
Total	100

As at 30 June 2023 and 31 December 2022, the Group is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Group.

PASHA Bank Georgia JSC, a wholly – owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as at 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 thousand. In March 2022 share capital of subsidiary was increased by GEL 26,000 thousand and amounted to GEL 129,000 thousand as at 30 June 2023. PASHA Bank Georgia JSC operates under a banking licence issued by the National Bank of Georgia (the “NBG”) on 17 January 2013. Legal address of the PASHA Bank Georgia JSC is 37M, Iliya Chavchavadze Avenue, 0179, Tbilisi, Georgia.

TAIB Yatirim Bank A.Ş. was incorporated in 1987 as an investment bank in the Republic of Turkey with the permission of the Council of Ministers decision no. 6224 which allows the transfer of the banks’ net profit after statutory liabilities and in case of liquidation the transfer of capital to foreign shareholders. On 27 January 2015, the Bank acquired 79.47% of the voting common shares of TAIB Yatirim Bank A.Ş. and it was renamed to PASHA Yatirim Bankasi A.Ş. at the registration of the Bank as shareholder. In March 2015, investment in share capital of the subsidiary was increased by TRY 175,000 thousand to TRY 255,000 thousand increasing ownership in subsidiary to 99.92%. On 6 June 2018, share capital of subsidiary was increased by TRY 245,000 thousand to TRY 500,000 thousand. The increase was made based on decision of Supervisory Board of the Bank, according to which newly issued shares were acquired by PASHA Holding LLC. As a result, the Bank’s shares in the subsidiary decreased from 99.92% to 50.96% and PASHA Holding LLC became a new non-controlling shareholder with ownership of 49% since 6 June 2018. Head office of PASHA Yatirim Bankasi A.Ş. is located in Istanbul. The activities of the bank are regulated by the Central Bank of the Republic of Turkey (the “CBRT”).

As at 30 June 2023, the Group and its main shareholder PASHA Holding LLC have reached the agreements about sale and purchase of certain portion of shares in each of the Subsidiaries. According to the agreement, shares of PASHA Bank Georgia SC and PASHA Yatirim Bankasi A.Ş will be sold to PASHA Holding LLC in respective share percentage of 9.7981% and 22.7498%. However, the transfer of shares has not been finalized as of reporting date (Note 7, 15).

OJSC PASHA Bank and its Subsidiaries (together – “the Group”) were consolidated in these financial statements.

2. Basis of preparation

General

These interim condensed consolidated financial statements for the six months ended 30 June 2023 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2022.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

2. Basis of preparation (continued)

Financial reporting in hyperinflationary economy

IAS 29 Financial Reporting in Hyperinflation Economies has been applied in the interim condensed consolidated financial statements of the Group because the functional currency of PASHA Yatirim Bankasi A.Ş. (Turkish Lira) is the currency of a hyperinflationary economy as per IAS 29.

On the application of IAS 29, the Group used the conversion coefficient derived from the CPI in the Turkey published by Turkey Statistical Institute.

To perform the required restatement of financial statements under IAS 29, assets and liabilities are separated into those that are monetary and non-monetary, with non-monetary items further divided into those measured on either a current or historical basis. Monetary items (other than index-linked monetary items) are not restated because they are already expressed in terms of measuring unit as of 30 June 2023. Non-monetary items (items which are not expressed in terms of measuring unit as of 30 June 2023) are restated by applying the relevant index. The restated amount of a non-monetary item is reduced, in accordance with appropriate IFRSs, when it exceeds its recoverable amount. Items in the statement of profit or loss and other comprehensive income also are restated by applying the relevant index.

Non-monetary items measured at historical cost that were acquired or assumed and components of shareholders' equity that were contributed or arose before the time when the Turkey previously ceased to be considered hyperinflationary, i.e. before 1 January 2005, are restated by applying the change in the relevant index from 1 January 2005 to 30 June 2023.

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Turkish Lira recognized in the interim consolidated statement of profit or loss. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position is derived as the difference resulting from the restatement of non-monetary assets, owners' equity (on a subsidiary level) and items in interim consolidated the statement of comprehensive income and the adjustment of index linked assets and liabilities. Loss on net monetary position for the six months ended 30 June 2023 was AZN 6,465 thousand (30 June 2022: AZN 14,802 thousand)

IAS 29 and IAS 21 require the closing exchange rate to be applied when translating both the income statement and the balance sheet from the hyperinflationary currency (Turkish Lira), into the presentation currency of the Group, Azerbaijani manat.

Since the Group's presentation currency is non-hyperinflationary, comparatives are not adjusted for the effects of inflation in the current period. The net impact from inflation adjustment of PASHA Yatirim Bankasi A.Ş. net assets is included in other comprehensive income for the period within foreign currency translation differences.

On the application of IAS 29, conversion coefficients derived from the CPI published by Turkey Statistical Institute were used. The following table presents the CPI for current and previous year periods and corresponding conversion factors covering the recent decade.

<i>Year end</i>	<i>Index numbers</i>	<i>Index, %</i>	<i>Conversion factor</i>
2014	247.72	8.17%	5.46
2015	269.54	8.81%	5.01
2016	292.54	8.53%	4.62
2017	327.41	11.92%	4.13
2018	393.88	20.30%	3.43
2019	440.50	11.84%	3.07
2020	504.81	14.60%	2.68
2021	686.95	36.08%	1.97
June 2022	977.90	42.35%	1.38
2022	1,128.45	64.27%	1.20
June 2023	1,351.59	19.77%	1.00

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

2. Basis of preparation (continued)

Estimation uncertainty

To the extent that information is available as at 30 June 2023, the Group has reflected revised estimates of expected future cash flows in its expected credit loss (hereafter, "ECL") assessment (Note 6) and estimation of fair values of financial instruments (Note 20).

Impairment losses and fair value assessment of Russian investment securities.

Russia-Ukraine conflict that started on 24 February 2022 and triggered a series of sanctions against Russian government and companies, restricting their ability to settle their obligations to foreign creditors. This required the Group to reassess its views used in estimation of impairment losses and fair value estimation of Russian investment securities held at FVOCI. The Group exercised judgement in determining the key assumptions used in ECL and fair value estimation. As at 30 June 2023, the fair value and related ECL of Russian investment securities were AZN 10,534 thousand (31 December 2022: AZN 34,174 thousand) and AZN 7,974 thousand (31 December 2022: AZN 27,735 thousand), respectively.

Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022. The following amendments to standards were applied for the first time in the 2023 interim financial period, resulting in consequential changes to the accounting policies and other note disclosures:

- ▶ IFRS 17 Insurance Contracts;
- ▶ Definition of Accounting Estimates - Amendments to IAS 8
- ▶ Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
- ▶ Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. The Group evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available. All other amendments effective since 1 January 2023 do not have an impact on the interim condensed consolidated financial statements of the Group either. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2023 (unaudited)	31 December 2022
Cash on hand	137,494	91,566
Current accounts with the CBAR, the NBG and the CBRT	461,478	1,838,446
Time deposits with credit institutions up to 3 months	1,343,909	542,822
Current accounts with other credit institutions	214,132	826,341
Reverse repurchase agreements with credit institutions up to 3 months	51,275	3,002
Less: allowance for impairment	(3)	(47)
Cash and cash equivalents	2,208,285	3,302,130

Current accounts with other credit institutions consist of non-interest-bearing correspondent account balances with resident and non-resident banks in the amount of AZN 1,715 thousand (31 December 2022: AZN 7,722 thousand) and AZN 212,413 thousand (31 December 2022: AZN 818,619 thousand), respectively.

As at 30 June 2023, the Group placed AZN 1,343,649 thousand in time deposits with fifteen non-resident and four resident banks maturing through July 2023 (31 December 2022: AZN 542,822 thousand five resident and eight non-resident banks maturing through January 2023).

All balances of cash equivalents are allocated to Stage 1.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

4. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	30 June 2023 (unaudited)	31 December 2022
Time deposits with credit institutions for more than 3 months	55,938	70,879
Loans to banks	87,575	28,988
Obligatory reserve with the CBAR, the NBG and the CBRT	608,129	330,913
Restricted deposits	144,624	156,633
	896,266	587,413
Less: allowance for impairment	(670)	(3,353)
Amounts due from credit institutions	895,596	584,060

As at 30 June 2023, time deposits with credit institutions mature between August 2023 and December 2024 (31 December 2022: between April 2023 and December 2024).

As at 30 June 2023, the Group had outstanding amount of AZN 32,216 thousand (31 December 2022: AZN 15,007 thousand) of secured loans issued to two resident commercial banks (31 December 2022: one resident commercial bank) with contractual maturity through March 2024 (31 December 2022: September 2023) and AZN 55,359 thousand (31 December 2022: AZN 13,981 thousand) of unsecured loans issued to two resident commercial banks with contractual maturity through December 2027.

As at 31 December 2022, credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at 4% of the previous month average balances of certain liabilities in AZN and 5% of the previous month average balances of certain liabilities in foreign currencies respectively, attracted from customers by the credit institutions.

As at 30 June 2023 according to CBAR decision made on 9 January 2023 credit institutions are required to maintain obligatory reserve with the CBAR as following:

- ▶ 5% of the previous month average balances of certain liabilities of legal entities in national currency up to one billion AZN and 10% on the part over AZN 1,000,000 thousand;
- ▶ 6% of the previous month average balances of certain liabilities of legal entities in foreign currency up to AZN 750,000 thousand equivalent and 12% on the part over AZN 750,000 thousand equivalent;
- ▶ 5% of the previous month average balances of certain liabilities of individuals and private entrepreneurs attracted in the national currency and 6% of the previous month average balances of certain liabilities in the foreign currency.

The change is effective from February 15, 2023. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

Credit institutions in the Republic of Georgia are required to maintain a mandatory interest earning cash deposit with the NBG at the level, the amount of which depends on the level of funds attracted by the credit institution of 5.0% (31 December 2022: 5.0%) and 25.0% (31 December 2022: 25.0%) of the average of funds attracted from customers and non-resident financial institutions by a credit institution for the appropriate two-week period in GEL and foreign currencies, respectively.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

4. Amounts due from credit institutions (continued)

An analysis of changes in the ECLs allowances during the six months ended is as follows:

	Stage 1	Stage 3	Total
ECL allowance as at 1 January 2023	(541)	(2,812)	(3,353)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>			
New assets originated or purchased	(490)	-	(490)
Assets repaid	202	2,812	3,014
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>			
Foreign exchange adjustments	41	-	41
ECL allowance attributable to assets held for sale	118	-	118
At 30 June 2023 (unaudited)	(670)	-	(670)
			Stage 1
ECL allowance as at 1 January 2022			(861)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>			
New assets originated or purchased			(502)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>			
Foreign exchange adjustments			9
At 30 June 2022 (unaudited)			(1,354)

5. Investment securities

Investment securities comprise:

	30 June 2023 (unaudited)	31 December 2022
Debt securities at FVOCI		
Azerbaijan Mortgage Fund bonds	546,061	567,829
Notes issued by the Central Bank of Azerbaijan Republic	360,349	182,446
Bonds of the Ministry of Finance of the Republic of Azerbaijan	259,284	423,416
Other foreign government bonds	156,339	6,809
Bonds of financial institutions	139,588	32,403
US treasury bonds	84,892	1,735
Corporate bonds	76,962	86,572
Certificate of deposits	-	16,920
Debt securities at FVOCI	1,623,475	1,318,130
	30 June 2023 (unaudited)	31 December 2022
Equity securities at FVOCI		
Corporate shares	2,003	2,699
Equity securities at FVOCI	2,003	2,699
	30 June 2023 (unaudited)	31 December 2022
Equity securities at FVTPL		
Mutual funds participation certificate	-	3,742
Equity securities at FVTPL	-	3,742

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

5. Investment securities (continued)

	30 June 2023 (unaudited)	31 December 2022
Debt securities at amortized cost		
Bonds of the Ministry of Finance of the Republic of Azerbaijan	499,431	285,378
Notes of the Central Bank of Azerbaijan Republic	140,938	164,287
Corporate bonds	32,468	14,734
Other foreign governments' bonds	20,955	32,901
Bonds of financial institutions	19,569	19,992
	713,361	517,292
Less: allowance for impairment	(786)	(1,547)
Debt securities at amortized cost	712,575	515,745

An analysis of changes in the ECLs allowances during the six months ended is as follows:

Debt securities at FVOCI	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	(2,474)	(9,740)	(17,995)	(30,209)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(374)	-	-	(374)
Assets repaid or sold	736	4,443	13,992	19,171
Changes to models and inputs used for ECL calculations	1,113	1,628	(467)	2,274
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Foreign exchange adjustment	98	-	-	98
ECL allowance attributable to assets held for sale	(56)	-	-	(56)
At 30 June 2023 (unaudited)	(957)	(3,669)	(4,470)	(9,096)
Debt securities at FVOCI				
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2022	(3,693)	-	-	(3,693)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(1,752)	-	-	(1,752)
Assets repaid or sold	1,533	-	-	1,533
Transfer to Stage 2	31	(31)	-	-
Transfer to Stage 3	23	-	(23)	-
Changes to models and inputs used for ECL calculations	(227)	-	-	(227)
Impact on period end ECL of exposures transferred between stages during the period	-	(11,028)	(27,903)	(38,931)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Foreign exchange adjustment	(2)	-	-	(2)
At 30 June 2022 (unaudited)	(4,087)	(11,059)	(27,926)	(43,072)

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

5. Investment securities (continued)

<i>Debt securities at amortized cost</i>	30 June (unaudited)	
	2023	2022
	Stage 1	Stage 1
ECL as at 1 January	(1,547)	(749)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>		
New assets originated or purchased	(218)	(173)
Assets repaid	14	66
Changes to models and inputs used for ECL calculations	163	(23)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>		
Foreign exchange adjustments	(7)	123
ECL allowance attributable to assets held for sale	809	-
At 30 June (unaudited)	(786)	(756)

6. Loans to customers

Loans to customers comprise:

	30 June 2023 (unaudited)	31 December 2022
Legal entities	2,598,222	2,885,227
Individuals	471,653	502,832
Loans to customers (gross)	3,069,875	3,388,059
Less: allowance for impairment	(117,053)	(114,470)
Loans to customers (net)	2,952,822	3,273,589

Loans are made in the following industry sectors:

	30 June 2023 (unaudited)	31 December 2022
Trade and services	1,435,842	1,423,440
Individuals	471,653	502,832
Transport and telecommunication	261,794	240,921
Manufacturing	258,807	375,705
Construction	161,523	243,702
Agriculture and food processing	155,370	159,658
Non-banking credit organizations	144,892	192,212
Energy	110,451	136,381
Mining	35,040	34,009
Real estate management	32,993	31,058
Tourism	-	24,511
Rental services	-	15,961
Other	1,510	7,669
Total loans (gross)	3,069,875	3,388,059

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

6. Loans to customers (continued)

As at 30 June 2023, loans granted to top 8 customers (31 December 2022: 13 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 789,849 thousand (31 December 2022: AZN 957,244 thousand).

An analysis of changes in the ECL allowances during the six months ended 30 June 2023 is, as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2023	(22,448)	(17,987)	(74,035)	-	(114,470)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>					
New assets originated or purchased	(5,991)	-	-	-	(5,991)
Assets repaid	6,608	3,183	18,920	-	28,711
Transfers to Stage 1	(3,934)	3,825	109	-	-
Transfers to Stage 2	5,483	(5,564)	81	-	-
Transfers to Stage 3	39	659	(698)	-	-
Impact on period end ECL of exposures transferred between stages during the period	2,350	(19,954)	(18,798)	-	(36,402)
Changes to models and inputs used for ECL calculations	2,088	3,881	(7,215)	-	(1,246)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>					
Unwinding of discount (recognised in interest revenue)	-	-	(4,949)	-	(4,949)
Derecognition of loans at substantial modification	-	-	7,561	-	7,561
Amounts written off	-	-	3,323	-	3,323
Recoveries	-	-	(558)	-	(558)
Foreign exchange adjustments	704	361	122	-	1,187
ECL allowance attributable to assets held for sale	2,936	1,914	931	-	5,781
At 30 June 2023 (unaudited)	(12,165)	(29,682)	(75,206)	-	(117,053)

An analysis of changes in the ECL allowances during the six months ended 30 June 2022 is, as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(19,957)	(23,498)	(52,709)	(96,164)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(26,505)	-	-	(26,505)
Assets repaid	3,909	2,931	13,450	20,290
Transfers to Stage 1	(3,657)	3,652	5	-
Transfers to Stage 2	4,855	(5,049)	194	-
Transfers to Stage 3	16,053	1,506	(17,559)	-
Impact on period end ECL of exposures transferred between stages during the period	2,316	(1,677)	(7,736)	(7,097)
Changes due to modifications not resulting in derecognition	3,615	2,321	590	6,526
Changes to models and inputs used for ECL calculations	-	-	1,683	1,683
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognised in interest revenue)	-	-	(5,327)	(5,327)
Amounts written off	-	-	(1,143)	(1,143)
Recoveries	716	1,286	1,075	3,077
Foreign exchange adjustments	(333)	(461)	(648)	(1,442)
At 30 June 2022 (unaudited)	(18,988)	(18,989)	(68,125)	(106,102)

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

6. Loans to customers (continued)

Modified and restructured loans

The Group derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired asset.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 1, Stage 2 and Stage 3 assets that were modified during the period, with the related modification gain earned by the Group.

	30 June 2023 <i>(unaudited)</i>	30 June 2022 <i>(unaudited)</i>
Loans modified during the period		
Amortised cost before modification	185,376	81,986
Net modification gain	5,534	648

7. Other assets and liabilities

Other assets comprise:

	30 June 2023 <i>(unaudited)</i>	31 December 2022
Other financial assets		
Settlements on money transfers	114,273	53,363
Clearance cheque accounts	–	1,217
Accrued commission receivable on guarantees and letters of credit	1,944	1,716
Other	680	350
	116,897	56,646
Less: allowance for impairment of other financial assets	(616)	(945)
Total other financial assets	116,281	55,701
Other non-financial assets		
Repossessed collateral	6,379	6,934
Deferred expenses	6,117	5,714
Other prepayments	4,730	5,226
Prepayments for acquisition of property, equipment and intangible assets	1,649	1,166
Purchased miles under loyalty programme	156	2,998
Taxes, other than income tax	539	68
	19,570	22,106
Total other non-financial assets	19,570	22,106
Other assets	135,851	77,807

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

7. Other assets and liabilities (continued)

Other liabilities comprise:

	30 June 2023 (unaudited)	31 December 2022
Other financial liabilities		
Advances received for sale of shares in subsidiaries	52,000	–
Accrued expenses	12,375	8,433
Settlements on money transfer	11,287	5,696
Clearance cheque accounts	553	1,217
Other	3,451	1,282
	79,666	16,628
Other non-financial liabilities		
Payable to employees	35,672	33,250
Deferred income	1,904	3,339
Taxes, other than income tax	568	2,523
Other	–	18
Total other non-financial liabilities	38,144	39,130
Other liabilities	117,810	55,758

As of 30 June 2023, the Bank received advances for the sale of 22.75% shares in PASHA Yatirim Bankası A.Ş. and 9.80% shares in PASHA Bank Georgia JSC in the amount of AZN 46,000 and AZN 6,000 respectively (Note 1, 15).

8. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	30 June 2023 (unaudited)	31 December 2022
Long-term deposits from banks	211,640	296,337
Entrepreneurship Development Fund of the Republic of Azerbaijan	200,200	208,738
Azerbaijan Mortgage and Credit Guarantee Fund	121,522	103,654
Correspondent accounts with other banks	42,170	46,014
Long-term loans from banks	11,490	56,415
Agro Credit and Development Agency	10,573	12,128
Short-term deposits from banks	8,538	180,707
Deposit from the Ministry of Finance of Georgia	3,549	7,246
Amount due to IT Development Fund	165	538
Repurchase agreements	–	910
Loan from the National Bank of Georgia	–	10,105
Other	10,093	9,360
Amounts due to banks and government funds	619,940	932,152

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

8. Amounts due to banks and government funds (continued)

As at 30 June 2023, the Group attracted long-term deposits from resident commercial banks comprising AZN 211,640 thousand (31 December 2022: AZN 296,337 thousand) maturing through November 2025 with interest rate ranging between 1.5% and 4.3% (31 December 2022: November 2025 with interest rate ranging between 1.5% and 4.3%).

As at 30 June 2023, Entrepreneurship Development Fund of the Republic of Azerbaijan had current account amounting to AZN 11,885 thousand (31 December 2022: AZN 2,629 thousand) and time deposits amounting to AZN 22 thousand (31 December 2022: AZN 0 thousand) as of 30 June 2023. The Group had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 188,291 thousand (31 December 2022: AZN 206,109 thousand), maturing through September 2032 (31 December 2022: through September 2032), and bearing interest rate of 1.0% (31 December 2022: 1.0%). The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at interest rate not higher than 6.0% (31 December 2022: not higher than 6.0%).

As at 30 June 2023, the Group attracted short-term deposits from resident and non-resident commercial banks (31 December 2022: six resident and nineteen non-resident) comprising AZN 8,538 thousand (31 December 2022: AZN 180,707 thousand) maturing through February 2024 (31 December 2022: February 2023) and with interest rates ranging between 3% and 11.75% (31 December 2022: ranging between 3% and 26%).

As at 30 June 2023, the Group had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 116,020 thousand (31 December 2022: AZN 92,596 thousand), maturing through October 2052 (31 December 2022: through October 2052) and bearing interest rate of 1.0% and 4.0% (31 December 2022: 1.0% and 4.0%). The loans have been granted to borrowers at interest rate not higher than 8.0% (31 December 2022: not higher than 8.0%). Also the Group had short-term deposit from the Azerbaijan Mortgage and Credit Guarantee Fund amounting AZN 5,502 thousand (31 December 2022: AZN 11,058), with interest rate 5.0% (31 December 2022: ranging between 5% and 9%).

As at 30 June 2023, the Group received long-term loan from resident commercial banks (31 December 2022: one resident and one non-resident commercial bank) comprising AZN 11,490 thousand (31 December 2022: AZN 56,415 thousand) maturing through January 2025 with interest rate ranging between 3.0% and 10.5% (31 December 2022: August 2026 with interest rate ranging between 3.0% and 10.50%).

As at 30 June 2023, the Group had loans received from the Agro Credit and Development Agency amounting to AZN 10,573 thousand (31 December 2022: AZN 12,128 thousand), maturing through April 2028 (31 December 2022: September 2027) and bearing interest rate 2.0% (31 December 2022: ranging between 2.0% and 4.0%). The loans have been granted to local entrepreneurs at interest rate of 7.0% (31 December 2022: 7.0%).

As at 30 June 2023, the Group had loans from National Bank of Georgia amounting AZN nil thousand (31 December 2022: AZN 10,105 thousand).

As at 30 June 2023, the Group had deposit from Ministry of Finance of Georgia amounting AZN 3,549 thousand (31 December 2022: AZN 7,246 thousand) maturing through January 2028 (31 December 2022: January 2028) and with interest rate of 9.9% (31 December 2022: 9.9% and 12.10%).

As at 30 June 2023, the Group had loans refinanced from the IT Development Fund amounting to AZN 272 thousand (31 December 2022: AZN 538 thousand), maturing through June 2024 (31 December 2022: through June 2024) and bearing interest rate of 1.0% (31 December 2022: 1.0%). The loans have been granted to local entrepreneurs at interest rate of 5.0%.

9. Amounts due to customers

The amounts due to customers include the following:

	30 June 2023 (unaudited)	31 December 2022
Demand deposits	5,102,470	5,481,292
Time deposits	1,963,297	1,771,363
Amounts due to customers	7,065,767	7,252,655
Held as security against guarantees issued (Note 14)	52,991	63,643

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

9. Amounts due to customers (continued)

An analysis of customer accounts by economic sector follows:

	30 June 2023 (unaudited)	31 December 2022
Trade and services	1,520,804	1,932,414
Individuals	1,725,235	1,595,734
Mining	1,182,678	1,009,907
Transport and communication	833,390	846,590
Investment holding companies	502,954	506,153
Manufacturing	472,187	473,844
Energy	199,372	186,858
Construction	98,807	166,066
Insurance	246,916	220,354
Public organizations	52,611	85,528
Non-banking credit organizations	42,826	34,637
Agriculture	28,461	45,733
Hotel business	34,707	37,621
Other	124,819	111,216
Amounts due to customers	7,065,767	7,252,655

As at 30 June 2023, customer deposits included balances with fourteen (31 December 2022: fourteen) largest customers with balances above AZN 100,000 thousand comprised AZN 4,315,862 thousand or 61% of the total customer deposits portfolio (31 December 2022: AZN 4,352,437 thousand or 62% of the total customer deposits portfolio).

10. Subordinated debts

As of 30 June 2023, the amount of subordinated debts represents USD denominated subordinated loans of AZN 113,541 thousand (31 December 2022: AZN 155,589 thousand) maturing through April 2029 (31 December 2022: through August 2027 and September 2032) with interest rate ranging between 3% and 6%.

11. Derivative financial instruments

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

	30 June 2023 (unaudited)			31 December 2022		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Interest rate contracts						
Forwards and swaps – foreign	87,750	416	(531)	103,251	246	(590)
Foreign exchange contracts						
Forwards and swaps – foreign	302,977	1,241	(6,073)	356,230	1,657	(6,893)
Forwards and swaps – domestic	318,687	7,198	(1,871)	313,641	7,040	(1,628)
Options – domestic	60,168	138	–	40,726	53	–
Futures – foreign	10,718	29	(368)	45,126	1,218	–
Futures – domestic	10,722	373	(28)	45,154	–	(1,191)
Total derivative assets/ (liabilities)		9,395	(8,871)		10,214	(10,302)

Foreign and domestic in the table above stand for counterparties where foreign means non-Azerbaijani entities and domestic means Azerbaijani entities. As at 30 June 2023 and 31 December 2022, the Group has positions in the following types of derivatives:

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

11. Derivative financial instruments (continued)

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument or commodity at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps

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

Options

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

12. Taxation

The corporate income tax expense comprises:

	<i>For six months ended (unaudited)</i>	
	<u>30 June 2023</u>	<u>30 June 2022</u>
Current tax charge	(31,276)	(24,687)
Deferred tax credit / (charge) – origination and reversal of temporary differences	(3,542)	8,705
Less: deferred tax recognised in other comprehensive income	135	(3,584)
Income tax expense	<u>(34,683)</u>	<u>(19,566)</u>

As at 30 June 2023, current income tax liabilities and deferred income tax assets of the Group were AZN 14,785 thousand and AZN 14,441 thousand, respectively (31 December 2022: current income tax liabilities of AZN 22,788 thousand, deferred income tax liabilities AZN 5,327 thousand and deferred income tax assets AZN 17,171 thousand).

13. Equity

As at 30 June 2023 and 31 December 2022, the Bank's authorized, issued and fully paid capital amounted to AZN 354,512 thousand comprising of 10,646 ordinary shares with a par value of AZN 33,300 per ordinary share. Each ordinary share entitles one vote to the shareholder.

On 20 April 2022, the Bank declared dividends totalling AZN 22,157 thousand on ordinary shares (AZN 2,818 per share) which was paid as at 30 June 2022.

On 8 June 2023 Shareholders of the Bank declared dividends totalling AZN 30,000 thousand on ordinary shares (AZN 2,081 per share) which was paid as at 30 June 2023.

Additional paid-in capital

As at 30 June 2023 and 31 December 2022, additional capital of AZN 343 thousand represents gain from fair value at initial recognition measurement of subordinated debts of AZN 8,531 thousand, borrowed from entities under common control.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

13. Equity (continued)

Foreign currency translation reserve

Foreign currency translation reserve is used to record exchange difference arising from the translation of the financial statements of foreign subsidiaries. Additionally, it includes the net impact from inflation adjustment of PASHA Yatirim Bankasi A.Ş. net assets.

Other reserves

Other reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the general reserve is exhausted.

As of 30 June 2023 the total reserve amounted to AZN 3,589 thousand (31 December 2022: AZN 2,799 thousand).

Unrealised loss on investment securities

This reserve records fair value and ECL changes on investment securities at FVOCI which amounted to AZN 4,836 thousand of loss (31 December 2022: AZN 5,386 thousand of loss).

14. Commitments and contingencies

Operating environment

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine as well as rising consumer demand for goods lead to significant inflationary pressures to the global economy in 2023, including soaring commodity prices. Effect on economies in which the Group operates is presented as follows.

The Republic of Azerbaijan

The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government has initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector.

The conflict between the Russian Federation and Ukraine started during 2022 contributed to a significant slowdown in global growth in 2022 and exacerbated inflation. During 2022 the oil prices have been increasing and had reached its 7-year maximum. While, during the first half of the year 2023 oil prices slightly decreased but remained relatively high. This resulted in considerable increase of US dollars inflow into the economy, which added stability to the local currency leading to much smaller recession than comparable countries and maintaining a stable currency, Azerbaijan met the Russian-Ukrainian crisis with strong economic recovery backed by high hydrocarbon prices. Furthermore, during the first half of the year 2023, gas sales increased significantly due to the commissioning of the fields which is 11.2 % more compared to the same period previous year.

During 2022 and the first half of the year 2023, the CBAR continued to ease monetary conditions while maintaining the stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During the first half of 2023, the CBAR increased refinancing rate due to the increased inflation rates worldwide, and as a result, refinancing rate became 9.00% as at 30 June 2023 (31 December 2022: 8.25%).

In the year 2022 global rating agencies upgraded Azerbaijani Government's credit rating by one notch to "Ba1" and remaining unchanged during the first half of 2023. Upgrade reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future shocks despite the post pandemic, fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices.

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

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

14. Commitments and contingencies (continued)

Operating environment (continued)

The Republic of Georgia

The economic policies of Georgia in the last decade have been mostly consistent and effective in terms of investment and increasing short-term economic growth rates. Nevertheless, these policies failed for the most part in laying the foundations for increasing the competitiveness of the Georgian economy and ensuring long-term economic growth. Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

According to the current macroeconomic forecast, the annual inflation rate is expected to fall below the target in the short term and then to stabilize at around 3% in the medium term. After a prolonged period of high inflation, below the target inflation in the short run will help a further normalization of long-term inflation expectations, which is a prerequisite for price stability. The National Bank of Georgia has begun a gradual exit from its tight monetary policy and has reduced the policy rate to 10.25% as of issuance date.

The management maintains strong liquidity positions supported by the NBG's measures to strengthen banking sector resilience amidst the crisis.

The Republic of Turkey

Inflation in the country started increasing rapidly in 2022 after the CBRT decided to cut interest rates based on the government decree. It then refused to reverse course despite global supply disruptions and an increase in energy prices caused by the Russia-Ukraine conflict. As a result, according to inflation data published by Turkey Statistical Institute on 30 June 2023, the cumulative 12-month inflation rate in Turkey was 48.00%, compared to 38.30% last month and 79.50% last year. This is higher than the long-term average of 26.28%.

The three-year cumulative increase in CPI as of June 2023 has been 160.2% in Turkey. This index substantially exceeds 100%, which is a criterion for defining Turkish economy as hyperinflationary in line with IAS 29.

Based on CBRT projections, the disinflationary process is expected to start with the steps taken to achieve a price stability. Accordingly, inflation is projected to be 25.2% at the end of 2023; fall to 12.2% at the end of 2024; and sustain the downward trend by receding to 6.8% by the end of 2025.

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

Legal

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

Taxation

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

Management believes that its interpretation of the relevant legislation as at 30 June 2023 is appropriate and that the Group's tax, currency and customs positions will be sustained.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

14. Commitments and contingencies (continued)

Compliance with regulatory ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 30 June 2023 and 31 December 2022, the Bank was in compliance with these ratios except for the following:

- a) Ratio of maximum credit exposure of total related party loans of the bank or their representatives should not exceed 20% of the capital. As at 30 June 2023, the Bank's ratio was 31.28% (31 December 2022: 30.13%).
- b) Ratio of maximum credit exposure to one related party legal entity of the bank or their representatives should not exceed 10% of the capital. As at 30 June 2023, the Bank's ratio was 11.74% (31 December 2022: 14.82%).

In prior periods, the Group has been in breach of the ratio of share in one legal entity which should not exceed 10% of total capital. In order to mitigate the breach, as of 30 June 2023, the Group has signed agreements for sale of a portion of the shares in subsidiaries (Notes 1, 7, 15). As a result, the ratio will fall from 18.42% as of 31 December 2022 to 7.99% as of 30 June 2023. The breach has therefore been resolved as of 30 June 2023.

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

Financial commitments and contingencies

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

Financial commitments and contingencies comprise:

	30 June 2023 (unaudited)	31 December 2022
Credit-related commitments		
Guarantees issued	263,397	238,976
Unused credit lines	384,557	364,982
Letters of credit	37,959	20,047
	685,913	624,005
Performance guarantees	355,547	456,240
Commitments and contingencies	1,041,460	1,080,245
Provision for ECL for credit related commitments	(6,153)	(7,235)
Provisions for ECL of performance guarantees	(3,850)	(3,375)
Cash held as security against guarantees issued (Note 9)	(52,991)	(63,643)
Cash held as security against guarantees issued by disposal group held for sale	(5,830)	-

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

14. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

An analysis of changes in the ECLs during the period ended 30 June 2023 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(2,513)	(1,926)	(2,796)	(7,235)
New exposures	(3,019)	-	-	(3,019)
Exposures derecognised or matured (excluding write-offs)	577	433	1,493	2,503
Transfers to Stage 1	(1,203)	1,002	201	-
Transfers to Stage 2	2,209	(2,410)	201	-
Transfers to Stage 3	124	7	(131)	-
Impact on period end ECL of exposures transferred between stages during the period	739	(669)	(517)	(447)
Changes to inputs used for ECL calculations	17	281	26	324
Amounts paid/conversion into loan	-	-	937	937
Foreign exchange adjustments	792	(8)	-	784
At 30 June 2023 (unaudited)	(2,277)	(3,290)	(586)	(6,153)

An analysis of changes in the ECLs during the period ended 30 June 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(2,387)	(3,494)	(238)	(6,119)
New exposures	(2,523)	-	-	(2,523)
Exposures derecognised or matured (excluding write-offs)	821	579	222	1,622
Transfers to Stage 1	(895)	895	-	-
Transfers to Stage 2	1,326	(1,326)	-	-
Transfers to Stage 3	3	-	(3)	-
Impact on period end ECL of exposures transferred between stages during the period	780	(76)	(23)	681
Changes to inputs used for ECL calculations	(22)	(46)	-	(68)
Foreign exchange adjustments	174	25	-	199
At 30 June 2022 (unaudited)	(2,723)	(3,443)	(42)	(6,208)

15. Assets held for sale

On 22 May 2023, a decision for sale of 22.75% of shares in PASHA Yatirim Bankasi A.Ş. was made on a Shareholder meeting of the Group. The disposal of PASHA Yatirim Bankasi A.Ş. is expected to result in loss of control over the subsidiary. The disposal is expected to be completed by 31 December 2023 and as at 30 June 2023 final approvals for the transaction were in progress. The advance in the amount of AZN 46,000 was received by 30 June 2023. As at 30 June 2023, PASHA Yatirim Bankasi A.Ş. was classified as a disposal group held for sale.

The Group's management exercised judgment to determine that:

- The subsidiary is 'readily available for sale' as the management does not consider the receipt of regulatory approvals to be a highly uncertain event; and
- The subsidiary does not meet the definition of 'discontinued operation' per IFRS 5 requirements.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

15. Assets held for sale (continued)

The major classes of assets and liabilities of PASHA Yatirim Bankasi classified as held for sale as at 30 June 2023 are as follows:

	30 June 2023 (unaudited)
Assets	
Cash and cash equivalents	33,331
Amounts due from credit institutions	56,832
Investment securities	58,309
Loans to customers	353,773
Investment property	27,372
Property and equipment	17,086
Intangible assets	1,765
Right-of-use assets	72
Other assets	734
	549,274
Assets of a disposal group held for sale	
Liabilities	
Amounts due to banks and government funds	272,461
Amounts due to customers	16,741
Lease liabilities	48
Debt securities issued	89,994
Other borrowed funds	31,292
Current income tax liabilities	1,753
Deferred income tax liabilities	6,292
Provision for guarantees and other commitments	706
Subordinated debts	44,161
Other liabilities	2,016
	465,464
Liabilities of a disposal group held for sale	465,464
Net assets of a disposal group held for sale	83,810

16. Credit loss expense and other impairment and provision

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2023:

	Note	Stage 1	Stage 2	Stage 3	Total
Cash and cash equivalents	3	(27)	–	–	(27)
Amounts due from credit institutions	4	(288)	–	2,812	2,524
Investment securities at FVOCI	5	1,475	6,071	13,525	21,071
Investment securities at amortised cost	5	(41)	–	–	(41)
Loans to customers at amortised cost	6	6,643	(13,970)	(7,601)	(14,928)
Credit loss on financial assets		7,762	(7,899)	8,736	8,599
Commitments and contingencies	14	(556)	(1,356)	1,273	(639)
Total credit loss expense (unaudited)		7,206	(9,255)	10,009	7,960
			Other financial assets (Note 8)	Performance guarantees (Note 16)	Total
1 January 2023			(945)	(3,375)	(4,320)
Charge			329	(475)	(146)
30 June 2023 (unaudited)			(616)	(3,850)	(4,466)

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

16. Credit loss expense and other impairment and provision (continued)

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the six months period ended 30 June 2022:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Cash and cash equivalents	3	(37)	–	–	(37)
Amounts due from credit institutions	4	(508)	–	–	(508)
Investment securities at FVOCI	5	(392)	(11,059)	(27,926)	(39,377)
Investment securities at amortised cost	5	(130)	–	–	(130)
Loans to customers at amortised cost	6	586	3,684	(11,056)	(6,786)
Credit loss on financial assets		(481)	(7,375)	(38,982)	(46,838)
Commitments and contingencies		(510)	26	196	(288)
Total credit loss expense (unaudited)		(991)	(7,349)	(38,786)	(47,126)
		<i>Other financial assets (Note 8)</i>	<i>Performance guarantees (Note 16)</i>		<i>Total</i>
1 January 2022		(358)	(4,905)		(5,263)
Charge		(245)	(1,906)		(2,151)
30 June 2022 (unaudited)		(603)	(6,811)		(7,414)

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets. Provision for ECL for credit related commitments are recorded in liabilities.

17. Net fee and commission income

Net fee and commission income comprises:

	<i>For six months ended (unaudited)</i>	
	<i>30 June 2023</i>	<i>30 June 2022</i>
Servicing plastic card operations	42,181	29,340
Settlements operations	13,234	11,407
Guarantees and letters of credit	9,009	8,858
Cash operations	3,903	5,013
Other	1,184	244
Fee and commission income	69,511	54,862
Servicing plastic card operations	(40,564)	(22,703)
Settlements operations	(4,848)	(4,393)
Guarantees and letters of credit	(1,070)	(614)
Cash operations	(668)	(669)
Securities operations	(89)	(39)
Other	(1,987)	(75)
Fee and commission expense	(49,226)	(28,493)
Net fee and commission income	20,285	26,369

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

18. Personnel, general and administrative expenses

Personnel expenses comprise:

	<i>For six months ended (unaudited)</i>	
	<i>30 June 2023</i>	<i>30 June 2022</i>
Salaries and bonuses	(49,200)	(26,732)
Social security costs	(6,849)	(3,822)
Other employee related expenses	(1,987)	(1,847)
Total personnel expenses	(58,036)	(32,401)

General and administrative expenses comprise:

	<i>For six months ended (unaudited)</i>	
	<i>30 June 2023</i>	<i>30 June 2022</i>
Software cost	(5,955)	(3,962)
Insurance	(4,299)	(4,301)
Professional services	(4,001)	(2,824)
Loyalty miles	(2,383)	(1,781)
Advertising costs	(1,819)	(1,964)
Taxes, other than income tax	(1,036)	(899)
Utilities	(1,028)	(990)
Communications	(869)	(1,065)
Stationery	(569)	(483)
Transportation and business trip expenses	(487)	(328)
Security expenses	(464)	(476)
Repair and maintenance	(372)	(556)
Membership fees	(310)	(254)
Operating leases	(217)	(586)
Charity and sponsorship	(178)	(5,981)
Entertainment	(152)	(425)
Printing expenses	(3)	(22)
Other expenses	(474)	(156)
Total general and administrative expenses	(24,616)	(27,053)

19. Fair values measurement

Fair value hierarchy

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

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

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

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

19. Fair values measurement (continued)

Fair value hierarchy (continued)

The following table shows an analysis of financial instruments recorded at fair value measurement at the end of reporting period by level of the fair value hierarchy:

At 30 June 2023 (unaudited)	Recurring fair value measurement			Total
	(Level 1)	(Level 2)	(Level 3)	
Financial assets				
Investment securities – at FVOCI	411,929	1,211,546	2,003	1,625,478
Derivative financial assets	–	9,395	–	9,395
Financial liabilities				
Derivative financial liabilities	–	8,871	–	8,871
At 31 December 2022	Recurring fair value measurement			Total
	(Level 1)	(Level 2)	(Level 3)	
Financial assets				
Investment securities – at FVOCI	72,736	1,246,090	2,003	1,320,829
Investment securities – at FVTPL	327	3,415	–	3,742
Derivative financial assets	–	10,214	–	10,214
Financial liabilities				
Derivative financial liabilities	–	10,302	–	10,302

Recurring fair value measurements

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include quoted prices from inactive markets or yield curves derived from inactive markets for the same currency.

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

19. Fair values measurement (continued)

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. For the remaining financial instruments, their carrying value approximates their fair value. The table does not include the fair values of non-financial assets and non-financial liabilities.

	30 June 2023 (unaudited)			31 December 2022		
	Carrying value	Fair value	Unrecognized gain/(loss)	Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets						
Investment securities measured at amortised cost	712,575	715,474	2,899	515,745	515,982	237
Loans to customers	2,952,822	2,901,486	(51,336)	3,273,589	3,248,958	(24,631)
Financial liabilities						
Amounts due to banks and government funds	619,940	622,648	(2,708)	932,152	922,504	9,648
Amounts due to customers	7,065,767	7,063,555	2,212	7,252,655	7,241,478	11,177
Subordinated debts	113,541	112,122	1,419	155,589	155,528	61
Debt securities issued	-	-	-	86,703	86,291	412
Total unrecognized change in unrealised fair value			(47,514)			(3,096)

Valuation techniques and assumptions

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

Fixed and variable rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity.

Assets for which fair value approximates carrying value

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

Fixed and variable rate financial instruments

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

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

20. Related party disclosures

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

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

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

	30 June 2023 (unaudited)					31 December 2022				
	Shareholders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total	Shareholders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total
Cash and cash equivalents	-	821	870	-	1,691	-	1,417	-	-	1,417
Loans, gross	-	450,667	3,943	71,002	525,612	-	517,056	3,782	52,283	573,121
Less: allowance for impairment	-	(3,156)	(25)	(7,585)	(10,766)	-	(3,224)	(38)	(3,233)	(6,495)
Loans, net	-	447,511	3,918	63,417	514,840	-	513,832	3,744	49,050	566,626
Amounts due to banks and government funds	-	17,638	-	547	18,185	-	65,221	-	6,217	71,438
Time deposits	341,403	364,109	13,491	472,708	1,191,711	85,973	484,674	3,118	28,915	602,680
Demand deposits	381,722	545,974	9,528	535,447	1,472,671	376,324	568,186	7,615	435,827	1,387,952
Other assets	-	19,383	-	21	19,404	-	8,347	-	-	8,347
Investment securities	-	2,003	-	-	2,003	-	2,003	-	-	2,003
Lease liabilities	-	12,324	-	-	12,324	-	11,725	-	-	11,725
Derivative financial assets	-	8,267	-	-	8,267	-	6,606	-	-	6,606
Derivative financial liabilities	-	-	-	-	-	-	1,657	-	-	1,657
Other liabilities (Note 7,15)	52,083	12,837	-	622	65,542	53	8,282	-	693	9,028
Subordinated debts	1,758	10,119	8,316	47	20,240	78,620	46,971	1,105	1,230	127,926
Debt securities issued	-	-	-	-	-	32,744	22,119	-	-	54,863
Other borrowed funds	-	-	-	-	-	-	-	3,249	-	3,249
Guarantees issued	-	51,054	-	6,714	57,768	-	81,997	-	8,022	90,019
Letters of credit issued	-	1,822	-	5,825	7,647	-	4,967	-	3,002	7,969
Unused credit lines	-	31,038	663	2,145	33,846	-	33,685	429	33,628	67,742

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

20. Related party disclosures (continued)

	For the six months ended (unaudited)									
	30 June 2023					30 June 2022				
	Share- holders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total	Share- holders/ Ultimate owners	Entities under common control	Key manage- ment personnel	Other	Total
Interest income on loans	-	13,122	167	3,180	16,469	-	16,456	125	2,181	18,762
Interest expense	(3,965)	(5,562)	(213)	(1,210)	(10,950)	(2,127)	(12,299)	(96)	(1,058)	(15,580)
Net gains from foreign currencies: dealing	239	1,275	30	920	2,464	418	8,526	33	3,671	12,648
Net losses from foreign currencies: translation differences	(39)	6,521	-	-	6,482	116	(18,355)	-	-	(18,239)
Net gains from foreign currencies: operations with foreign currency derivatives	-	4,398	-	402	4,800	-	3,308	-	50	3,358
General and administrative expenses	(17)	(3,897)	2	(3)	(3,915)	(14)	(2,892)	-	-	(2,906)
Fee and commission income	426	8,393	66	1,585	10,470	158	5,949	45	1,848	8,000
Fee and commission expense	(6)	(11,071)	-	(13)	(11,090)	-	(5,410)	-	(90)	(5,500)
Gain at initial recognition of financial instruments	-	1,265	-	-	1,265	-	-	-	-	-
Net gain on modification of financial assets measured at amortised cost	-	4,916	-	-	4,916	-	-	-	-	-
Other income	-	-	-	-	-	-	134	-	-	134

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

	For six months ended (unaudited)	
	30 June 2023	30 June 2022
Salaries and other benefits	(10,055)	(11,667)
Social security costs	(1,630)	(1,828)
Total key management compensation	(11,685)	(13,495)

21. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the CBAR, NBS and BRSA. During the past period, the Group had complied in full with all its externally imposed capital requirements.

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

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

(Figures in tables are in thousands of Azerbaijani manats, unless otherwise indicated)

21. Capital adequacy (continued)

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6.0% (2022: 6.0%) and 12.0% (2022: 12.0%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

	30 June 2023 <i>(unaudited)</i>	31 December 2022
Tier 1 capital	573,322	456,310
Tier 2 capital	235,015	259,748
Less: deductions from capital	(113,365)	(165,365)
Total regulatory capital	694,972	550,693
Risk-weighted assets	3,899,343	3,214,522
Capital adequacy ratio (Tier 1)	14.7%	14.2%
Capital adequacy ratio (Total Capital)	17.8%	17.1%

NBG capital adequacy ratio

The NBG requires the Bank to maintain a minimum total capital adequacy ratio of 19.67% (31 December 2022: 18.53%) and Tier 1 Capital ratio of 15.65% (31 December 2022: 13.63%) of risk-weighted assets, computed based on Basel III requirements. As at 30 June 2023 the PASHA Bank Georgia's capital adequacy ratio and Tier 1 Capital ratio calculated on this basis were 21.07% (31 December 2022: 18.97%) and 17.67% (31 December 2022: 15.91%) respectively.

BRSA capital adequacy ratio

The Banking Regulation and Supervision Agency (hereafter, "BRSA") requires banks to maintain a minimum total capital adequacy ratio of 8.00% (31 December 2022: 8.00%) of risk-weighted assets for regulatory capital. Capital Adequacy Standard Ratio of PASHA Yatirim Bankasi is calculated in accordance with BRSA. As at 30 June 2023 the bank's capital adequacy ratio was 21.90% (31 December 2022: 23.40%).

22. Events after the reporting period

On 7 July 2023 the transfer of shares of PASHA Bank Georgia JSC to PASHA Holding LLC was settled and the ratio of shares directly belonging to PASHA Holding LLC was increased from 0.00% to 9.80%.

On 14 July 2023, an application was made to the Banking Regulation and Supervision Authority ("BRSA") for obtaining an approval for the sale of PASHA Yatirim Bankasi A.Ş. shares.

On 28 August 2023 Shareholders of the Bank declared dividends totaling AZN 30,000 thousand on ordinary shares (AZN 2,081 per share) which was paid on 30 August 2023.