“TURANBANK” OPEN JOINT STOCK COMPANY

The International Financial Reporting Standards Consolidated Financial Statements and Independent Auditors’ Report
For the Year Ended December 31, 2021

"TURANBANK" OJSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

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 consolidated financial statements of "TuranBank" Open Joint Stock Company (the "Bank") and its subsidiary (together referred to as the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at December 31, 2021, the consolidated 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 consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2021 were approved by the Management on May 17, 2022.

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board

May 17, 2022
Baku, the Republic of Azerbaijan

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

Mr. Alizaman Ibrahimov
Head of Financial Management Department

May 17, 2022
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 consolidated financial statements of "TuranBank" Open Joint Stock Company (the "Bank") and its subsidiary (together refer to the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected Credit Loss allowance for loans to customers and banks

Please refer to the Note 8 and Note 9 in the consolidated financial statements.

The key audit matter

We focused on this matter due to the significance of loans to customers and banks balances and significance of judgements and estimates required for calculation of the related allowance.

The allowance represents management's estimate of expected credit losses ("ECL") from loans to customers and banks.

Collective assessment of ECL is based on models, which use internally developed risk metrics assigned to the balances. Individual assessment of ECL is based on models which use expected future cash flows related to individual balances under different scenarios. The design of and inputs to the models are subject to management judgement.

Note 2 “Basis of Preparation” and Note 3 “Significant Accounting Policies”, Note 4 “Critical Accounting Estimates and Judgements in Applying Accounting Policies”, Note 8 “Loans and Deposits to Banks”, Note 9 “Loans to Customers”, Note 26 “Financial and Insurance Risk Management” to the consolidated financial statements provide detailed information on the allowance.

How the matter was addressed in our audit?

In relation to the Bank:

We assessed the key methodologies for calculation of the ECL allowance for consistency with the requirements of IFRS.

We tested (on a sample basis) significant loans, which had not been identified by management as requiring individual assessment of ECL and formed our own judgement as to whether that was appropriate.

We tested (on a sample basis) the basis and operation of models and calculations used for collective and individual assessment of ECL and the data and assumptions used. Our work included comparison of the main assumptions and estimates made with available external evidence, our own knowledge of other practices and actual experience, testing of the models through re-performance, and various analytical and other procedures.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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 consolidated 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.

Baker Tilly Azerbaijan

May 17, 2022
Baku, the Republic of Azerbaijan

“TURANBANK” OJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	7	173,498	118,046
Loans and deposits to banks	8	45,596	39,614
Loans to customers	9, 30	414,385	326,656
Investment securities	10	27,794	11,382
Property, equipment and intangible assets	11	17,550	15,986
Deferred income tax asset	24	-	759
Other assets	12	7,727	5,749
TOTAL ASSETS		**686,550**	**518,192**
LIABILITIES AND EQUITY			
LIABILITIES:			
Deposits and balances from banks and other financial institutions	13, 30	62,399	68,842
Current accounts and deposits from customers	14, 30	419,384	280,697
Other borrowed funds	15	129,227	106,160
Subordinated borrowings	15, 30	12,865	11,798
Lease liability	16	1,453	885
Deferred income tax liability	24	120	-
Other liabilities	17	3,374	1,959
TOTAL LIABILITIES		**628,822**	**470,341**
EQUITY:			
Share capital	18	80,005	75,005
Share premium	18	724	724
Revaluation surplus for buildings		1,644	1,644
Accumulated deficit		(24,645)	(29,522)
TOTAL EQUITY		**57,728**	**47,851**
TOTAL LIABILITIES AND EQUITY		**686,550**	**518,192**

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board

May 17, 2022
Baku, the Republic of Azerbaijan

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

Mr. Alizaman Ibrahimov
Head of Financial Management Department

May 17, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-84 form an integral part of these consolidated financial statements.

"TURANBANK" OJSC

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2021

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020 (Reclassified)
Continuing operations:			
Interest income	20, 30	41,001	35,267
Interest expense	20, 30	(27,547)	(22,832)
Net interest income before expected credit recovery		**13,454**	**12,435**
Recovery of expected credit losses on financial assets and credit related commitments	8, 9,17, 30	4,335	2,690
Net interest income		**17,789**	**15,125**
Fee and commission income	21, 30	5,730	3,142
Fee and commission expense	21, 30	(2,332)	(1,464)
Net gain on trading in foreign currencies		2,578	283
Net foreign exchange translation (loss)/gain, net		(462)	690
Change in fair value of repossessed collaterals		(155)	(309)
Net fair value gain on financial instruments at initial recognition	9, 15	-	158
Other income, net		11	-
Net non-interest income		**5,370**	**2,500**
Operating income		**23,159**	**17,625**
Personnel expenses	22, 30	(9,242)	(7,582)
General and administrative expenses	23	(8,057)	(7,316)
Profit before income tax		**5,860**	**2,727**
Income tax expense	24	(1,185)	(287)
Income from continuing operations		**4,675**	**2,440**
Discontinued operations:			
Loss from operations of discontinued subsidiary	25	(19)	(36)
Gain from sale of subsidiary	25	271	-
Income tax expense	24	(50)	(7)
Income from discontinued operations		**202**	**(43)**
Net profit for the year		**4,877**	**2,397**
Other comprehensive income:			
Total comprehensive income for the year		**4,877**	**2,397**
Basic and diluted earnings per share (expressed in AZN)	19	67.8	37.0

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board

May 17, 2022
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management Department

May 17, 2022
Baku, the Republic of Azerbaijan

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Share capital	Share premium	Revaluation surplus for buildings	Accumulated deficit	Total equity
January 1, 2020	**70,004**	**724**	**1,644**	**(31,919)**	**40,453**
Issue of ordinary shares	5,001	-	-	-	5,001
Net profit for the year	-	-	-	2,397	2,397
Balance as at December 31, 2020	**75,005**	**724**	**1,644**	**(29,522)**	**47,851**
Issue of ordinary shares	5,000	-	-	-	5,000
Net profit for the year	-	-	-	4,877	4,877
Balance as at December 31, 2021	**80,005**	**724**	**1,644**	**(24,645)**	**57,728**

On behalf of the Management Board:

Mr. Fazail Musayev
Chairman of the Management Board

May 17, 2022
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management Department

May 17, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-84 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		40,253	33,727
Interest paid		(25,767)	(22,507)
Fees and commission received		5,730	3,142
Fees and commission paid		(2,332)	(1,464)
Staff costs paid		(9,124)	(7,667)
General and administrative expenses paid		(6,586)	(5,656)
Income received from trading in foreign currencies		2,578	283
Income tax paid		(436)	(69)
Cash inflows/(outflows) from operating activities before changes in operating assets and liabilities		**4,316**	**(211)**
Net (increase)/decrease in:			
Loans and deposits to banks		(3,201)	(283)
Loans to customers		(86,926)	(4,516)
Other assets		11	52
Net increase/(decrease) in:			
Deposits and balances from banks and other financial institutions		(6,147)	7,320
Current accounts and deposits from customers		137,577	37,686
Other liabilities		1,024	373
Net cash generated from operating activities		**46,654**	**40,421**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investment securities, net of proceeds from sale		(16,442)	(439)
Purchases of property and equipment and intangible assets		(2,289)	(842)
Proceeds from disposal of property and equipment and intangible assets		-	44
Cash flows used in investing activities		**(18,731)**	**(1,237)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Receipt of other borrowed funds	15	68,383	43,771
Repayment of other borrowed funds	15	(45,445)	(35,439)
Receipt of subordinated borrowings	15	5,253	-
Repayment of subordinated borrowings	15	(4,250)	-
Repayment of principal portion of lease liabilities	16	(398)	(355)
Proceeds from issue of share capital	18	5,000	5,001
Cash flows generated from financing activities		**28,543**	**12,978**
Net increase in cash and cash equivalents		**56,466**	**52,162**
Effect of exchange rate changes on cash and cash equivalents		(1,014)	2,228
Cash and cash equivalents at the beginning of the year	7	118,046	63,656
Cash and cash equivalents at the end of the year	7	**173,498**	**118,046**

On behalf of the Management Board:

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

Mr. Fazail Musayev
Chairman of the Management Board

May 17, 2022
Baku, the Republic of Azerbaijan

Mr. Alizaman Ibrahimov
Head of Financial Management Department

May 17, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-84 form an integral part of these consolidated financial statements.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

1. ORGANIZATION

These consolidated financial statements include the financial statements of "TuranBank" Open Joint-Stock Company (the "Bank") and its subsidiary "Turanleasing" LLC (together referred to as the Group) until the date of sale of the subsidiary which is May 26, 2021.

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 fifteen branches and two sub-branches (2020: fourteen branches and two sub-branches) within the Republic of Azerbaijan.

As at December 31, 2021 the Bank has 28 shareholders each having not more than 10% ownership. (2020: 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 Group 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.

As at December 31, 2021 and 2020 the Group structure was as follows:

Name	Country of operation	Proportion of ownership interest/voting rights (%) December 31, 2021	Proportion of ownership interest/voting rights (%) December 31, 2020	Type of operations
"TuranBank" OJSC	The Republic of Azerbaijan	Parent		Banking
Subsidiary				
"TuranLeasing" LLC	The Republic of Azerbaijan	-	100%	Leasing

On August 21, 2006, the Bank registered "TuranLeasing" LLC with the Ministry of Justice of the Republic of Azerbaijan. The Company commenced its operations in September 2006, and was owned 100% by the Bank untill its disposal in 2021.

On May 26, 2021, the Group fully disposed of its 100% ownership in "TuranLeasing" LLC through a sale of 5 ordinary shares with nominal value of AZN 20 per share for AZN 100 to a third party resident individual.

2. BASIS OF PREPARATION

Statement of Compliance

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

Management views the Group 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 Group 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 Group'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 consolidated financial statements of each of the Group's entities 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 consolidated financial statements of the Group is the AZN. All values are rounded to the nearest thousand AZN's, except when otherwise indicated.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities) controlled by the Bank and its subsidiary. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRS).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions and balances are eliminated in full on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred (including the fair value of any previously-held equity interest in the acquiree if the business combination is achieved in stages) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

The Group elects on transaction-by-transaction basis whether to measure non-controlling interests at fair value, or at their proportionate share of the recognized amount of the identifiable net assets of the acquiree, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Income and expense recognition

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

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

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

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

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

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 Group performs, usually on a straight-line basis.

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

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 Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio 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 Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse
- asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification of financial assets

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

Financial assets impairment – credit loss allowance for ECL

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

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

The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL"). If the 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 Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 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 Group incorporates forward-looking information in the ECL models.

Presentation of allowance for ECL in the consolidated statement of financial position

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

- financial assets measured at 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 Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value.

However, the loss allowance is recognized as part of fair value reserve.

Financial assets – write-off

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

Derecognition of financial assets

The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group 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 consolidated statement of financial position and for the purposes of the consolidated statement of cash flows. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVPL.

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 consolidated statement of cash flows.

Loans and deposits to banks

Loans and deposits to banks are recorded when the Group 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 Group advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Group 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 2 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Credit related commitments

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

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

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

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

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

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 Group 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 Group 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 Group 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 Group 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 Group 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 Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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 Group 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.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group 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 Group 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 Group 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 Group 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 Group and payments of penalties for terminating the lease, if the lease term reflects the Group 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 Group 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 Group by counterparty banks. The non-derivative liability is carried at amortized cost. If the Group purchases its own debt, it is removed from the consolidated 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 Group 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 Group company liquidation. Subordinated debt is carried at amortized cost.

Other borrowed funds

Other borrowed funds represent loans attracted by the Group 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 Group derecognizes financial liabilities when, and only when, the Group'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 Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group'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 Group'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 consolidated financial statements are authorized prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

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 Group by the weighted average number of participating shares outstanding during the reporting year.

Foreign currencies

The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The functional and the presentation currency of the Group, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats (“AZN”). Monetary assets and liabilities are translated into the Group’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 Group’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 Group in the preparation of the consolidated financial statements as at year-end are as follows:

	December 31, 2021	December 31, 2020
AZN/1 US Dollar	1.7000	1.7000
AZN/1 Euro	1.9265	2.0890

Repossessed collateral

The Group 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 Group 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 Group's consolidated statement of financial position include revaluation surplus for buildings.

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 Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

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

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated 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 Group 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 Group'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 Group'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 Group measures ECLs over the period that the Group 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 Group 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 Group 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 Group applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Group considered historical information and experience about: (a) the period over which the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group's control, is not recurring and could not have been anticipated by the Group, 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 Group 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 Group'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 Group 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 Group 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 Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. 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, 2021.

Deferred income tax asset recognition

Management of the Group created valuation allowance against deferred income tax asset in the amount of AZN 4,699 thousand as at December 31, 2021 (December 31, 2020: 4,699 thousand). The carrying value of deferred income tax liability and deferred income tax asset amounted to AZN 120 thousand and 759 thousand as at December 31, 2021 and 2020, 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 Group 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 Group has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2021.

IASB has published **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Group as it does not have any interest rate hedge relationships.

IFRS 3 Business Combinations. Amendment of the definition of "Business" – The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business.

According to the amendment new definition a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

New definition of "Material" – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The updated definition amends IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

On May 15, 2020 IASB has published **"COVID-19-Related Rent Concessions (Amendment to IFRS 16)"** amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in COVID-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of adoption of this standard had no effect on the financial statements.

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

6. STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

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

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

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. The adoption of this standard is expected to have an effect on the consolidated financial statements.

Amendments to IAS 1 to clarify the classification of liabilities – In January 2020 the IASB has issued **"Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)"** providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

Reference to the Conceptual Framework – Amendments to IFRS 3 – In May 2020, the IASB issued Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 – In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16 (a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

IFRS 9 Financial Instruments – Fees in the "10 percent" test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

"IAS 41 Agriculture" – Taxation in fair value measurements – As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the re-measurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

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

7. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	43,849	33,652
Nostro accounts with the CBAR	60,330	47,039
Nostro accounts with other banks	57,889	27,856
CBAR notes	11,430	-
Short term deposits in the CBAR with the original maturities up to 90 days	-	9,499
Total cash and cash equivalents	**173,498**	**118,046**

As at December 31, 2021, the Group had two banks (December 31, 2020: two banks), where balance exceeded 10% of its equity excluding balances with the CBAR. The gross value of these balances as at December 31, 2021 was AZN 53,929 thousand (December 31, 2020: AZN 26,686 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 Group did not recognize any credit loss allowance for cash and cash equivalents.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

8. LOANS AND DEPOSITS TO BANKS

	December 31, 2021	December 31, 2020
Blocked correspondent accounts in other banks	12,328	12,203
Mandatory reserves with the CBAR	2,340	1,816
Loans and deposits		
-rated below B+	16,275	13,703
-not rated	15,678	15,675
Gross loans and deposits to banks	**46,621**	**43,397**
Less: allowance for expected credit losses	(1,025)	(3,783)
Net loans and deposits to banks	**45,596**	**39,614**

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2021	**38,262**	**-**	**5,135**	**43,397**
New assets originated or purchased	3,847	-	-	3,847
Assets repaid	(623)	-	-	(623)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2021	**41,486**	**-**	**5,135**	**46,621**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2021	**(148)**	**-**	**(3,635)**	**(3,783)**
Net change in ECL value	(153)	-	2,911	2,758
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
As at December 31, 2021	**(301)**	**-**	**(724)**	**(1,025)**

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, 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2020	**38,067**	**5,100**	**27**	**43,194**
New assets originated or purchased	849	8	-	857
Assets repaid	(654)	-	-	(654)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	(5,108)	5,108	-
As at December 31, 2020	**38,262**	**-**	**5,135**	**43,397**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2020	**(124)**	**(527)**	**(27)**	**(678)**
Net change in ECL value	(24)	-	(3,081)	(3,105)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	527	(527)	-
As at December 31, 2020	**(148)**	**-**	**(3,635)**	**(3,783)**

As at December 31, 2021, accrued interest income included in loans and deposits to banks amounted to AZN 37 thousand (December 31, 2020: AZN 13 thousand).

As at December 31, 2021, placements with one foreign and two local banks (December 31, 2020: one foreign and two local banks) in the amount of AZN 12,328 thousand (December 31, 2020: AZN 12,203 thousand) are blocked accounts.

Concentration of loans and deposits to banks

As at December 31, 2021, the Group has three banks excluding CBAR, where balances exceed 10% of its equity (December 31, 2020: three banks). Total amount of these balances is AZN 35,621 thousand (December 31, 2020: AZN 37,318 thousand).

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 0.5% and 1% (December 31, 2020: 0.5% and 1%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

9. LOANS TO CUSTOMERS

	December 31, 2021	December 31, 2020
Loans to corporate customers		
Business Loans – Large Corporations	200,183	189,025
Business Loans – Small and Medium-Sized Enterprises (hereinafter SME)	68,964	60,284
Business Loans – Micro	17,812	8,478
Total loans to corporate customers	**286,959**	**257,787**
Loans to retail customers		
Mortgage loans	86,859	69,348
Loans to entrepreneurs	72,590	33,194
Car loans	655	856
Others	1,866	1,467
Total loans to retail customers	**161,970**	**104,865**
Gross loans to customers	**448,929**	**362,652**
Less: Allowance for expected credit loss	(34,544)	(35,996)
Total loans to customers	**414,385**	**326,656**

During the year ended December 31, 2021 and 2020 the Group restructured loans in the amount of AZN 507 thousand and AZN 5,309 thousand under the COVID-19 restructuring program.

During the year ended December 31, 2019, the Group received compensation from the government in the amount of AZN 2,401 thousand for the problematic loans under the Decree. Additionally, the Group 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 Group 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 Group recognized loss in the amount of AZN 807 thousand from modification at initial recognition of these loans for the year ended December 31, 2019. The carrying amount of these loans amounted to AZN 815 thousand and AZN 1,146 thousand as at December 31, 2021 and 2020, respectively.

As at December 31, 2021 and 2020 the Group had 2 and 9 loans which individually exceeded 10% of the Group's equity, respectively.

As at December 31, 2021 and 2020 all loans were granted to companies operating in the Republic of Azerbaijan.

During the years ended December 31, 2021 and 2020 the Group received non-financial assets by taking possession of collateral it held as security. As at December 31, 2021 and 2020 such assets in the amount of AZN 4,044 thousand and AZN 3,650 thousand, respectively, are included in other assets.

Included in loans to customers is accrued interest receivable in the amount of AZN 11,956 thousand and AZN 11,604 thousand as at December 31, 2021 and 2020, 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, 2021:

	2021				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**289,295**	**11,293**	**60,629**	**1,435**	**362,652**
New assets originated or purchased	173,213	401	643	236	174,493
Other movements (asset repayment, modification of assets, etc.)	(68,967)	(2,257)	(16,255)	(375)	(87,854)
Transfer to Stage 1	16,842	(7,963)	(8,879)	-	-
Transfer to Stage 2	(392)	494	(102)	-	-
Transfer to Stage 3	(5,875)	(999)	6,874	-	-
Amounts written-off	-	-	(362)	-	(362)
At December 31, 2021	**404,116**	**969**	**42,548**	**1,296**	**448,929**

	2021				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2021	**7,659**	**946**	**27,102**	**289**	**35,996**
New assets originated or purchased	1,979	46	132		2,157
Net remeasurement	(2,510)	(596)	(462)	(44)	(3,612)
Transfer to Stage 1	1,581	(67)	(1,514)		-
Transfer to Stage 2	(56)	70	(14)		-
Transfer to Stage 3	(216)	(275)	491		-
Unwinding of discount on present value of ECLs			129	236	365
Amounts written-off			(362)		(362)
At December 31, 2021	**8,437**	**124**	**25,502**	**481**	**34,544**

During the year ended December 31, 2021 the Group recovered loans in the amount of AZN 199 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, 2020:

	2020				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2020	**294,423**	**4,313**	**53,517**	**1,402**	**353,655**
New assets originated or purchased	74,990	6,123	-	253	81,366
Other movements (asset repayment, modification of assets, etc.)	(60,645)	(1,154)	(12,742)	(220)	(74,761)
Transfer to Stage 1	3,234	(1,803)	(1,431)	-	-
Transfer to Stage 2	(4,907)	4,949	(42)	-	-
Transfer to Stage 3	(17,800)	(1,135)	18,935	-	-
Recoveries of amounts previously written-off	-	-	2,575	-	2,575
Amounts written-off	-	-	(183)	-	(183)
At December 31, 2020	**289,295**	**11,293**	**60,629**	**1,435**	**362,652**

	2020				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2020	**9,861**	**406**	**28,084**	**-**	**38,351**
New assets originated or purchased	1,360	192	-	-	1,552
Net remeasurement	701	(223)	(8,006)	289	(7,239)
Transfer to Stage 1	91	(68)	(23)	-	-
Transfer to Stage 2	(710)	714	(4)	-	-
Transfer to Stage 3	(3,644)	(75)	3,719	-	-
Unwinding of discount on present value of ECLs	-	-	940	-	940
Recoveries of amounts previously written-off	-	-	2,575	-	2,575
Amounts written-off	-	-	(183)	-	(183)
At December 31, 2020	**7,659**	**946**	**27,102**	**289**	**35,996**

(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, 2021 is as follows:

	2021			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2021	**157,129**	**6,304**	**25,592**	**189,025**
New assets originated or purchased	40,307	-	85	40,392
Other movements (asset repayment, modification of assets, etc.)	(20,690)	(296)	(8,248)	(29,234)
Transfer to Stage 1	12,407	(6,008)	(6,399)	-
Transfer to Stage 2	-	23	(23)	-
Transfer to Stage 3	(5,067)	-	5,067	-
At December 31, 2021	**184,086**	**23**	**16,074**	**200,183**

	2021			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**6,511**	**301**	**8,433**	**15,245**
New assets originated or purchased	1,208	-	23	1,231
Net remeasurement	(2,334)	(257)	712	(1,879)
Transfer to Stage 1	1,536	(44)	(1,492)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2021	**6,921**	**-**	**7,676**	**14,597**

(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, 2020 is as follows:

	2020			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2020	**162,456**	**1,145**	**19,261**	**182,862**
New assets originated or purchased	21,162	4,688	-	25,850
Other movements (asset repayment, modification of assets, etc.)	(13,559)	251	(8,884)	(22,192)
Transfer to Stage 1	1,365	(1,365)	-	-
Transfer to Stage 2	(1,616)	1,616	-	-
Transfer to Stage 3	(12,679)	(31)	12,710	-
Recoveries of amounts previously written-off	-	-	2,505	2,505
At December 31, 2020	**157,129**	**6,304**	**25,592**	**189,025**

Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2020	**6,988**	**-**	**7,584**	**14,572**
New assets originated or purchased	881	-	-	881
Net remeasurement	1,110	50	(4,470)	(3,310)
Transfer to Stage 1	50	(50)	-	-
Transfer to Stage 2	(301)	301	-	-
Transfer to Stage 3	(2,217)	-	2,217	-
Unwinding of discount on present value of ECLs	-	-	597	597
Recoveries of amounts previously written-off	-	-	2,505	2,505
At December 31, 2020	**6,511**	**301**	**8,433**	**15,245**

(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, 2021 is as follows:

	2021			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2021	**28,394**	**2,857**	**29,033**	**60,284**
New assets originated or purchased	26,434	-	244	26,678
Other movements (asset repayment, modification of assets, etc.)	(9,873)	(997)	(6,820)	(17,690)
Transfer to Stage 1	3,399	(1,563)	(1,836)	-
Transfer to Stage 2	(87)	87	-	-
Transfer to Stage 3	(222)	(297)	519	-
Amounts written-off	-	-	(308)	(308)
At December 31, 2021	**48,045**	**87**	**20,832**	**68,964**

	2021			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**607**	**355**	**14,522**	**15,484**
New assets originated or purchased	333	-	58	391
Net remeasurement	(306)	(249)	(220)	(775)
Transfer to Stage 1	37	(20)	(17)	-
Transfer to Stage 2	(7)	7	-	-
Transfer to Stage 3	(60)	(86)	146	-
Unwinding of discount on present value of ECLs	-	-	112	112
Amounts written-off	-	-	(308)	(308)
At December 31, 2021	**604**	**7**	**14,293**	**14,904**

(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, 2020 is as follows:

	2020			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2020	**34,356**	**1,900**	**28,190**	**64,446**
New assets originated or purchased	9,509	587	-	10,096
Other movements (asset repayment, modification of assets, etc.)	(10,571)	(841)	(2,768)	(14,180)
Transfer to Stage 1	1,385	(43)	(1,342)	-
Transfer to Stage 2	(2,237)	2,270	(33)	-
Transfer to Stage 3	(4,048)	(1,016)	5,064	-
Amounts written-off	-	-	(78)	(78)
At December 31, 2020	**28,394**	**2,857**	**29,033**	**60,284**

	2020			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2020	**2,603**	**142**	**16,327**	**19,072**
New assets originated or purchased	216	88	-	304
Net remeasurement	(861)	(95)	(3,078)	(4,034)
Transfer to Stage 1	23	(2)	(21)	-
Transfer to Stage 2	(263)	267	(4)	-
Transfer to Stage 3	(1,111)	(45)	1,156	-
Unwinding of discount on present value of ECLs	-	-	220	220
Amounts written-off	-	-	(78)	(78)
At December 31, 2020	**607**	**355**	**14,522**	**15,484**

(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, 2021 is as follows:

			2021		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**6,124**	**373**	**1,830**	**151**	**8,478**
New assets originated or purchased	15,001	28	48	27	15,104
Other movements (asset repayment, modification of assets, etc.)	(5,008)	(249)	(460)	(38)	(5,755)
Transfer to Stage 1	32	(32)	-	-	-
Transfer to Stage 2	(34)	34	-	-	-
Transfer to Stage 3	(122)	(87)	209	-	-
Amounts written-off	-	-	(15)	-	(15)
At December 31, 2021	**15,993**	**67**	**1,612**	**140**	**17,812**

			2021		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2021	**54**	**55**	**1,420**	**30**	**1,559**
New assets originated or purchased	79	3	12	-	94
Net remeasurement	(11)	(32)	(263)	(9)	(315)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(4)	4	-	-	-
Transfer to Stage 3	(34)	(23)	57	-	-
Unwinding of discount on present value of ECLs	-	-	7	27	34
Amounts written-off	-	-	(15)	-	(15)
At December 31, 2021	**84**	**7**	**1,218**	**48**	**1,357**

(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, 2020 is as follows:

	2020				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2020	**7,042**	**19**	**1,985**	**93**	**9,139**
New assets originated or purchased	4,173	192	-	17	4,382
Other movements (asset repayment, modification of assets, etc.)	(4,661)	(16)	(400)	41	(5,036)
Transfer to Stage 1	2	(1)	(1)	-	-
Transfer to Stage 2	(181)	181	-	-	-
Transfer to Stage 3	(251)	(2)	253	-	-
Amounts written-off	-	-	(7)	-	(7)
At December 31, 2020	**6,124**	**373**	**1,830**	**151**	**8,478**

	2020				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2020	**33**	**2**	**1,378**	-	**1,413**
New assets originated or purchased	81	37	-	-	118
Net remeasurement	37	(1)	(72)	30	(6)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(18)	18	-	-	-
Transfer to Stage 3	(79)	(1)	80	-	-
Unwinding of discount on present value of ECLs	-	-	41	-	41
Amounts written-off	-	-	(7)	-	(7)
At December 31, 2020	**54**	**55**	**1,420**	**30**	**1,559**

(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, 2021 is as follows:

		2021		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2021	**67,091**	**1,052**	**1,205**	**69,348**
New assets originated or purchased	23,624	101	-	23,725
Other movements (asset repayment, modification of assets, etc.)	(5,900)	(212)	(101)	(6,213)
Transfer to Stage 1	972	(328)	(644)	-
Transfer to Stage 2	(200)	261	(61)	-
Transfer to Stage 3	(257)	(444)	701	-
Amounts written-off	-	-	(1)	(1)
At December 31, 2021	**85,330**	**430**	**1,099**	**86,859**

		2021		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**418**	**156**	**263**	**837**
New assets originated or purchased	173	25	-	198
Net remeasurement	146	(25)	(103)	18
Transfer to Stage 1	8	(3)	(5)	-
Transfer to Stage 2	(40)	54	(14)	-
Transfer to Stage 3	(69)	(119)	188	-
Unwinding of discount on present value of ECLs	-	-	2	2
Amounts written-off	-	-	(1)	(1)
At December 31, 2021	**636**	**88**	**330**	**1,054**

(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, 2020 is as follows:

	2020			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2020	**54,842**	**943**	**857**	**56,642**
New assets originated or purchased	14,364	240	-	14,604
Other movements (asset repayment, modification of assets, etc.)	(1,323)	(374)	(201)	(1,898)
Transfer to Stage 1	390	(319)	(71)	-
Transfer to Stage 2	(591)	591	-	-
Transfer to Stage 3	(591)	(29)	620	-
Recoveries of amounts previously written-off	-	-	65	65
Amounts written-off	-	-	(65)	(65)
At December 31, 2020	**67,091**	**1,052**	**1,205**	**69,348**

	2020			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2020	**177**	**207**	**257**	**641**
New assets originated or purchased	100	29	-	129
Net remeasurement	350	(155)	(155)	40
Transfer to Stage 1	6	(5)	(1)	-
Transfer to Stage 2	(86)	86	-	-
Transfer to Stage 3	(129)	(6)	135	-
Unwinding of discount on present value of ECLs	-	-	27	27
Recoveries of amounts previously written-off	-	-	65	65
Amounts written-off	-	-	(65)	(65)
At December 31, 2020	**418**	**156**	**263**	**837**

(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, 2021 is as follows:

	2021				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**29,145**	**677**	**2,088**	**1,284**	**33,194**
New assets originated or purchased	66,481	242	168	209	67,100
Other movements (asset repayment, modification of assets, etc.)	(26,352)	(473)	(504)	(337)	(27,666)
Transfer to Stage 1	32	(32)	-	-	-
Transfer to Stage 2	(71)	89	(18)	-	-
Transfer to Stage 3	(207)	(171)	378	-	-
Amounts written-off	-	-	(38)	-	(38)
At December 31, 2021	**69,028**	**332**	**2,074**	**1,156**	**72,590**

	2021				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2021	**57**	**79**	**1,691**	**259**	**2,086**
New assets originated or purchased	186	18	32	-	236
Net remeasurement	6	(33)	(481)	(35)	(543)
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(5)	5	-	-	-
Transfer to Stage 3	(53)	(47)	100	-	-
Unwinding of discount on present value of ECLs	-	-	6	209	215
Amounts written-off	-	-	(38)	-	(38)
At December 31, 2021	**191**	**22**	**1,310**	**433**	**1,956**

(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, 2020 is as follows:

	2020				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2020	**34,498**	**200**	**2,263**	**1,309**	**38,270**
New assets originated or purchased	24,818	386	-	236	25,440
Other movements (asset repayment, modification of assets, etc.)	(29,679)	(133)	(415)	(261)	(30,488)
Transfer to Stage 1	17	(10)	(7)	-	-
Transfer to Stage 2	(282)	291	(9)	-	-
Transfer to Stage 3	(227)	(57)	284	-	-
Recoveries of amounts previously written-off	-	-	5	-	5
Amounts written-off	-	-	(33)	-	(33)
At December 31, 2020	**29,145**	**677**	**2,088**	**1,284**	**33,194**

	2020				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at January 1, 2020	**46**	**47**	**1,743**	-	**1,836**
New assets originated or purchased	71	38	-	-	109
Net remeasurement	88	(25)	(197)	259	125
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(42)	42	-	-	-
Transfer to Stage 3	(106)	(23)	129	-	-
Unwinding of discount on present value of ECLs	-	-	44	-	44
Recoveries of amounts previously written-off	-	-	5	-	5
Amounts written-off	-	-	(33)	-	(33)
At December 31, 2020	**57**	**79**	**1,691**	**259**	**2,086**

(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, 2021 is as follows:

	2021			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2021	**106**	**-**	**750**	**856**
New assets originated or purchased	-	-	-	-
Other movements (asset repayment, modification of assets, etc.)	(91)	-	(110)	(201)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2021	**15**	**-**	**640**	**655**

	2021			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**1**	**-**	**731**	**732**
New assets originated or purchased	-	-	-	-
Net remeasurement	(1)	-	(91)	(92)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2021	**-**	**-**	**640**	**640**

(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, 2020 is as follows:

	2020			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2020	**38**	**17**	**833**	**888**
New assets originated or purchased	90	-	-	90
Other movements (asset repayment, modification of assets, etc.)	(22)	(17)	(83)	(122)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2020	**106**	**-**	**750**	**856**

	2020			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2020	**-**	**2**	**746**	**748**
New assets originated or purchased	1	-	-	1
Net remeasurement	-	(2)	(18)	(20)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	3	3
At December 31, 2020	**1**	**-**	**731**	**732**

(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, 2021 is as follows:

	2021			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2021	**1,306**	**30**	**131**	**1,467**
New assets originated or purchased	1,366	30	98	1,494
Other movements (asset repayment, modification of assets, etc.)	(1,053)	(30)	(12)	(1,095)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2021	**1,619**	**30**	**217**	**1,866**

	2021			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2021	**11**	**-**	**42**	**53**
New assets originated or purchased	-	-	7	7
Net remeasurement	(10)	-	(16)	(26)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	2	2
At December 31, 2021	**1**	**-**	**35**	**36**

(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, 2020 is as follows:

	2020			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2020	**1,191**	**89**	**128**	**1,408**
New assets originated or purchased	874	30	-	904
Other movements (asset repayment, modification of assets, etc.)	(830)	(24)	9	(845)
Transfer to Stage 1	75	(65)	(10)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(4)	-	4	-
At December 31, 2020	**1,306**	**30**	**131**	**1,467**

	2020			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2020	**14**	**6**	**49**	**69**
New assets originated or purchased	10	-	-	10
Net remeasurement	(23)	5	(16)	(34)
Transfer to Stage 1	12	(11)	(1)	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(2)	-	2	-
Unwinding of discount on present value of ECLs	-	-	8	8
At December 31, 2020	**11**	**-**	**42**	**53**

(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 Group:

	December 31, 2021	December 31, 2020
Loans collateralized by real estate	265,850	239,341
Loans collateralized by guarantees of individuals	49,189	25,874
Loans collateralized by precious metals	34,583	21,539
Loans collateralized by cash	13,747	12,820
Loans collateralized by vehicles	2,194	2,500
Loans collateralized by others	12,997	9,404
Unsecured loans	70,369	51,174
Gross loans to customers	**448,929**	**362,652**
Less: Allowance for expected credit loss	(34,544)	(35,996)
Total loans to customers	**414,385**	**326,656**

10. INVESTMENT SECURITIES

	Average interest rates	December 31, 2021	December 31, 2020
Debt securities at FVOCI			
Debt Security of the Ministry of Finance	6.30%	17,514	10,762
Debt securities of the Azerbaijan Mortgage and Credit Guarantee Fund	3.00%	8,692	-
Debt securities of the SOCAR	4.50%	1,065	-
Equity securities at FVOCI		**27,271**	**10,762**
Corporate shares		523	620
Total investment securities		**27,794**	**11,382**

As at December 31, 2021, accrued interest income included in investment securities amounted to AZN 293 thousand (December 31, 2020: AZN 323 thousand).

Expected Credit Losses

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

There were no transfers between stages in gross carrying values and ECL allowance on investment securities during the years ended December 31, 2021 and 2020.

(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, 2020	**14,934**	**2,548**	**2,115**	**2,719**	**618**	**150**	**814**	**23,898**
Additions	181	351	129	206	-	7	31	905
Disposals	-	-	(15)	(18)	(68)	(11)	(32)	(144)
December 31, 2020	**15,115**	**2,899**	**2,229**	**2,907**	**550**	**146**	**813**	**24,659**
Additions	1,704	411	299	553	-	-	144	3,111
Disposals	-	-	(9)	(33)	-	(8)	(19)	(69)
Disposal of subsidairy	-	-	(5)	-	(18)	(3)	(12)	(38)
December 31, 2021	**16,819**	**3,310**	**2,514**	**3,427**	**532**	**135**	**926**	**27,663**
Accumulated depreciation and amortization								
January 1, 2020	**(1,120)**	**(1,251)**	**(1,697)**	**(2,351)**	**(354)**	**(99)**	**(418)**	**(7,290)**
Depreciation charge	(808)	(205)	(160)	(159)	(65)	(15)	(72)	(1,484)
Disposals	-	-	15	17	27	10	32	101
December 31, 2020	**(1,928)**	**(1,456)**	**(1,842)**	**(2,493)**	**(392)**	**(104)**	**(458)**	**(8,673)**
Depreciation charge	(827)	(229)	(178)	(164)	(54)	(15)	(78)	(1,545)
Disposals	-	-	9	33	-	8	19	69
Disposal of subsidairy	-	-	5	-	18	3	10	36
December 31, 2021	**(2,755)**	**(1,685)**	**(2,006)**	**(2,624)**	**(428)**	**(108)**	**(507)**	**(10,113)**
Net book value								
As at December 31, 2021	**14,064**	**1,625**	**508**	**803**	**104**	**27**	**419**	**17,550**
As at December 31, 2020	**13,187**	**1,443**	**387**	**414**	**158**	**42**	**355**	**15,986**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2021 included in the closing balance of property, plant and equipment were fully depreciated assets still in use with the total initial cost of AZN 4,407 thousand (December 31, 2020: AZN 4,285 thousand).

As at December 31, 2021, the cost of property, equipment and intangible assets pledged as collateral for borrowings were AZN 9,724 thousand. These assets were pledged as collateral for AZN 11,000 thousand borrowing with 6.25% interest rate from CBAR.

As at December 31, 2021 and 2020, included in property, equipment and intangible assets insured in the amount of AZN 13,122 thousand and AZN 13,396 thousand, respectively.

Included in the carrying amount of the land and buildings category of property, equipment and intangible assets the amount of AZN 1,355 thousand is the carrying value of right-of-use assets for 10 branches office area as at December 31, 2021 (December 31, 2020: 8 branches; AZN 792 thousand).

Revalued assets

The fair values of the Group's buildings are categorized into Level 3 of the fair value hierarchy. (December 31, 2020: Level 3)

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, 2021, if the buildings would not have been revalued, would be AZN 13,579 thousand (December 31, 2020: AZN 12,653 thousand).

Intangible assets include software and licenses.

12. OTHER ASSETS

	December 31, 2021	**December 31, 2020**
Receivables from intermediary	1,788	475
Items in course of settlement	344	100
Receivables for plastic cards	237	594
Compensation receivables	54	54
Accrued interest receivables on guarantees	11	12
Total other financial assets	**2,434**	**1,235**
Repossessed collateral	4,044	3,650
Prepayment for services	576	343
Prepayment for the purchase of fixed assets	303	271
Prepayment for the purchase of intangible assets	207	91
Numerative coins	142	133
Others	21	26
Total other non-financial assets	**5,293**	**4,514**
Total other assets	**7,727**	**5,749**

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, 2021	December 31, 2020
Loro accounts	52,205	48,403
Term placement	9,172	19,417
Restricted deposits of local banks	1,022	1,022
Total deposits and balances from banks and other financial institutions	**62,399**	**68,842**

As at December 31, 2021 and 2020 the Group has no deposit from other bank with balance exceeding 10% of its equity. Total amount of this balance is AZN 1,022 thousand (2020: AZN 1,022 thousand).

As at December 31, 2021 The Group has one deposit from non-bank credit organization (December 31, 2020: one non-bank credit organization), with balance exceeding 10% of its equity. Total amount of these balances in term placement is AZN 9,172 thousand (December 31, 2020: AZN 19,417 thousand) with the interest rate of 2% and 7% (December 31, 2020: 2% and 7%) with the maturity within 1 year (December 31, 2020: within 2 year). Total amount of balances in loro accounts is AZN 51,685 (December 31, 2020: 48,403).

Included in deposits and balances from banks and other financial institutions in the amount of AZN 12 thousand and AZN 13 thousand as at December 31, 2021 and 2020, respectively, represent accrued interest payable.

14. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2021	December 31, 2020
Current accounts and demand deposits		
- Retail	45,926	42,874
- Corporate	145,832	55,743
	191,758	**98,617**
Term deposits		
- Retail	216,306	172,795
- Corporate	11,320	9,285
	227,626	**182,080**
Total current accounts and deposits from customers	**419,384**	**280,697**

Economic sector concentrations within customer accounts are as follows:

	December 31, 2021	December 31, 2020
Analysis by economic sector/customer type:		
Individuals	262,232	215,669
Construction and real estate	123,385	34,356
Trade and services	23,940	20,632
State organization	9,190	9,193
Financial institutions	146	631
Others	491	216
Total customer accounts	**419,384**	**280,697**

Included in customer accounts in the amount of AZN 163,265 thousand and AZN 188,242 thousand as at December 31, 2021 and 2020, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

As at December 31, 2021, the Group maintained customer deposit balances of AZN 21,095 thousand (December 31, 2020: AZN 23,696 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Group.

As at December 31, 2021, the Group had two customers (December 31, 2020: four customers), with balances exceeding 10% of its equity. Total amount of these balances was AZN 152,351 thousand (December 31, 2020: AZN 70,995 thousand).

Included in current accounts and deposits from customers in the amount of AZN 3,384 thousand and AZN 1,932 thousand as at December 31, 2021 and 2020, respectively is accrued interest payable.

As at December 31, 2021 and 2020 the Group had interest bearing current accounts at the amount of AZN 178,353 thousand and AZN 87,301 thousand, respectively.

15. SUBORDINATED BORROWINGS AND OTHER BORROWED FUNDS

As at December 31, 2021 and 2020, the balance of subordinated borrowings was as follows:

	Currency	Maturity date	Interest rate	December 31, 2021	December 31, 2020
Subordinated borrowings from individuals	USD	2022-2027	5.00-10.00%	12,525	11,458
Subordinated borrowings from legal entities	USD	2022	10.00%	340	340
Total subordinated borrowings				**12,865**	**11,798**

Included in subordinated borrowings in the amount of AZN 87 thousand and AZN 23 thousand as at December 31, 2021 and 2020, respectively was accrued interest payable.

As at December 31, 2021, the balance of other borrowed funds was as follows:

	Currency	Maturity date	Interest rate	December 31, 2021	December 31, 2020
The Azerbaijan Mortgage and Credit Guarantee Fund	AZN	2051	1.00% - 8.00%	61,853	44,252
The Central Bank of the Republic of Azerbaijan (CBAR)	AZN	2022-2024	0.10% - 6.25%	23,389	26,137
The National Fund for Support of Entrepreneurship of the Republic of Azerbaijan	AZN	2028	1.00%	17,730	17,080
The Black See Trade and Development Bank	AZN	2023	8.00%	10,153	10,144
EMF MICROFINANCE FUND AGMVK	USD	2024	6.00%	8,524	-
Agro Credit and Development Agency	AZN	2020-2026	2.00%-7.00%	4,124	8,051
*ECO Trade and Development Bank	USD	2022	3.50%	3,454	-
The World Business Capital Inc (WBC)	-	-	-	-	496
Total other borrowed funds				**129,227**	**106,160**

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

* As at December 31, 2021, the Group was in breach of certain covenants with financing arrangements with outstanding balances amounting to AZN 3,454 thousand, all of which were included under "on demand" category in liquidity analysis disclosed in Note 26. The Management believes that although there is a breach in covenants, the lenders will not exercise their right to withdraw the funds earlier.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

During the year ended December 31, 2020, the Group received borrowings from the CBAR in the amount of AZN 744 thousand with annual interest rate of 0.1% per annum for 5 years under the Decree. The interest rate of borrowings received from the CBAR for the purpose of financing the restructured loans were below market rate as at the date of origination, therefore the Group recognized gain in the amount of AZN 158 thousand during the year ended December 31, 2020 at initial recognition of these borrowings.

Included in other borrowed funds in the amount of AZN 496 thousand and AZN 459 thousand as at December 31, 2021 and 2020, 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, 2020	**97,700**	**11,871**	**109,571**
Changes from financing cash flows			
Receipt of other borrowed funds and subordinated borrowings	43,771	-	43,771
Repayment of other borrowed funds and subordinated borrowings	(35,439)	-	(35,439)
Total changes from financing cash flows	**8,332**	**-**	**8,332**
Fair value gain on other borrowed funds at initial recognition	(158)	-	(158)
Other changes			
Interest expense	5,189	1,086	6,275
Interest paid	(4,903)	(1,159)	(6,062)
Balance at December 31, 2020	**106,160**	**11,798**	**117,958**
Changes from financing cash flows			
Receipt of other borrowed funds and subordinated borrowings	68,383	5,253	73,636
Repayment of other borrowed funds and subordinated borrowings	(45,445)	(4,250)	(49,695)
Total changes from financing cash flows	**22,938**	**1,003**	**23,941**
Other changes			
Interest expense	5,189	1,111	6,300
Interest paid	(5,060)	(1,047)	(6,107)
Balance at December 31, 2021	**129,227**	**12,865**	**142,092**

16. LEASE LIABILITY

	December 31, 2021	December 31, 2020
Lease liabilities (current)	429	349
Lease liabilities (non-current)	1,024	536
Total lease liabilities	**1,453**	**885**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

Future minimum lease payments as at December 31, 2021 were as follows:

	Minimum lease payments due		
	Within one year	**One to ten years**	**Total**
Lease payments	555	1,219	1,774
Finance charges	(126)	(195)	(321)
Net present value as at December 31, 2021	**429**	**1,024**	**1,453**

Future minimum lease payments as at December 31, 2020 were as follows:

	Minimum lease payments due		
	Within one year	**One to ten years**	**Total**
Lease payments	421	632	1,053
Finance charges	(72)	(96)	(168)
Net present value as at December 31, 2020	**349**	**536**	**885**

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, 2021 is stated below:

	As at January 1, 2021	**Cash flow**	**Cash flow**	**Non-cash changes**	**Non-cash changes**	**As at December 31, 2021**
		Principal paid	*Interest paid*	*Interest expense*	*New leases*	
Lease liability	**885**	(398)	(100)	100	966	**1,453**

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, 2020 is stated below:

	As at January 1, 2020	**Cash flow**	**Cash flow**	**Non-cash changes**	**Non-cash changes**	**As at December 31, 2020**
		Principal paid	*Interest paid*	*Interest expense*	*New leases*	
Lease liability	**1,059**	(355)	(106)	106	181	**885**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

17. OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Financial liabilities		
Amounts in the course of settlement	1,385	704
Payables to creditors	433	332
Payables to the Deposit Insurance Fund	368	234
Salaries payable	226	108
Compensation payable	99	27
Others	46	71
Total financial liabilities	**2,557**	**1,476**
Payable to state and local funds	254	-
Current income tax liability	189	248
ECL on guarantees and other commitments*	188	111
Other taxes payable	182	124
Others	4	-
Total other liabilities	**3,374**	**1,959**

*An analysis of changes in the ECL allowance on commitments and contingencies during the year ended December 31, 2021 and 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2021	**(111)**	**-**	**-**	**(111)**
Change in ECL	(77)	-	-	(77)
As at December 31, 2021	**(188)**	**-**	**-**	**(188)**

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2020	**(219)**	**-**	**-**	**(219)**
Change in ECL	108	-	-	108
As at December 31, 2020	**(111)**	**-**	**-**	**(111)**

There were no transfers between stages on commitments and contingencies during the years ended December 31, 2021 and 2020.

18. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at January 1, 2020	**64,699**	**70,004**	**724**	**70,728**
Shares issued	4,622	5,001	-	5,001
As at December 31, 2020	**69,321**	**75,005**	**724**	**75,729**
Shares issued	4,621	5,000	-	5,000
As at December 31, 2021	**73,942**	**80,005**	**724**	**80,729**

As at December 31, 2021, the authorized, issued and outstanding share capital comprises 73,942 ordinary shares (December 31, 2020: 69,321). All shares have a nominal value of AZN 1,082 per share. During the year ended December 31, 2021, 4,621 ordinary shares were issued for cash (December 31, 2020: 4,622 ordinary shares).

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 Group. In 2021, the Group did not declare dividends on ordinary shares (December 31, 2020: nil).

19. EARNINGS PER SHARE

Basic and diluted earnings per share

	December 31, 2021	December 31, 2020
Earnings per share		
Basic and diluted earnings per share (AZN per share)	67.8	37.0

The calculation of basic and diluted earnings per share as at December 31, 2021 is based on the earnings attributable to ordinary shareholders in the amount of AZN 4,697 thousand (2020: AZN 2,397 thousand), and weighted average number of ordinary shares outstanding of 71,980 (2019: 64,737) calculated as follows:

	December 31, 2021	December 31, 2020
Net income attributable to ordinary shares (in thousands)	**4,877**	**2,397**
Weighted average number of ordinary shares for the year ended December 31	71,980	64,737
Earnings per share (AZN)	**67.8**	**37.0**

20. NET INTEREST INCOME

	Year ended December 31, 2021	Year ended December 31, 2020 (Reclassified)
Interest income calculated using the effective interest method:		
Loans to customers	37,876	32,637
Investment securities	1,429	740
Cash and cash equivalents	1,015	1,049
Loans and deposits to banks	652	799
Guarantees	29	42
Total interest income calculated using the effective interest method	**41,001**	**35,267**
Interest expense calculated using the effective interest method:		
Current accounts and deposits from customers	(20,086)	(15,481)
Other borrowed funds	(5,189)	(5,189)
Subordinated borrowings	(1,111)	(1,086)
Deposits and balances from banks and other financial institutions	(1,061)	(970)
Lease liability	(100)	(106)
Total interest expense calculated using the effective interest method	**(27,547)**	**(22,832)**
Net interest income before expected credit losses	**13,454**	**12,435**

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21. NET FEE AND COMMISSION INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Fee and commission income:		
Settlements	2,320	1,463
Cash withdrawal	1,940	785
Plastic cards	1,176	694
Foreign exchange	135	75
Servicing customers' accounts	77	62
Guarantee and letter of credit issuance	50	17
Others	32	46
Total fee and commission income	**5,730**	**3,142**
Fee and commission expense:		
Plastic cards	(1,163)	(805)
Payment systems	(487)	(279)
Settlements	(382)	(177)
Brokerage operations	(163)	(78)
Cash collection	(111)	(91)
Guarantee and letter of credit issuance	(26)	(34)
Total fee and commission expense	**(2,332)**	**(1,464)**
Net fee and commission income	**3,398**	**1,678**

22. PERSONNEL EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020 (Reclassified)
Employee compensation	(8,010)	(6,471)
Payments to State Social Security Fund	(1,232)	(1,111)
Total personnel expenses	**(9,242)**	**(7,582)**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

23. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Advertising and marketing	(3,538)	(3,028)
Depreciation and amortization	(1,545)	(1,484)
Professional fees	(497)	(235)
Communication expenses	(493)	(392)
Security expenses	(485)	(473)
Printing and office supplies	(330)	(408)
Taxes, other than income tax	(188)	(170)
Repair and maintenance	(184)	(101)
Vehicle running costs	(154)	(137)
Charity expenses	(142)	(300)
Utilities	(124)	(109)
Sponsorship expenses	(120)	(101)
Operating lease expenses	(46)	(37)
Business trip expenses	(58)	(34)
Membership fees	(39)	(78)
Insurance expenses	(37)	(59)
Payments to the Financial Markets Supervisory Authority	-	(75)
Others	(77)	(95)
Total general and administrative expenses	**(8,057)**	**(7,316)**

24. INCOME TAXES

The Group 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 Group operates, which may differ from IFRS. The Group 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, 2021 and 2020 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, 2021 and 2020 comprise:

	December 31, 2021	December 31, 2020
Deferred income tax assets in relation to:		
Loans to customers	4,708	4,679
Loans and deposits to banks	200	751
Property, equipment and intangible assets	64	63
Other liability	104	77
Lease liability	291	177
Provision for possible guarantees and other commitments	38	22
Total deferred income tax assets	**5,405**	**5,769**
Deferred income tax liabilities in relation to:		
Right-of-use assets	(271)	(158)
Other assets	(158)	(82)
Other borrowed funds	(43)	(71)
Total deferred income tax liabilities	**(472)**	**(311)**
Deferred income tax asset	**4,933**	**5,458**
Deferred income tax asset not recognized	(5,053)	(4,699)
Net deferred income tax (liabilities)/assets	**(120)**	**759**

The effective tax rate reconciliation is as follows for the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021	Year ended December 31, 2020
Profit before income tax	**6,112**	**2,691**
Tax at the statutory tax rate (20%)	(1,222)	(538)
Tax effect of permanent differences	(50)	(82)
Change in valuation allowance	(354)	326
Revision of prior year deferred tax balances	391	-
Income tax expense	**(1,235)**	**(294)**
Current income tax expense	(356)	(248)
Deferred income tax expense recognized in the current year	(879)	(46)
Income tax expense	**(1,235)**	**(294)**

Deferred income tax (liability)/asset	Year ended December 31, 2021	Year ended December 31, 2020
As at January 1 – deferred income tax asset	**759**	**805**
Change in deferred income tax balances recognized in consolidated profit or loss	(879)	(46)
As at December 31- deferred income tax (liability)/asset	**(120)**	**759**

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	Year ended December 31, 2021	Year ended December 31, 2020
Income tax expense from continued operations	(1,185)	(287)
Income tax expense from discontinued operations	(50)	(7)
Total income tax expense	**(1,235)**	**(294)**

25. DISPOSAL OF SUBSIDIARY- DISCONTINUED OPERATIONS

On May 26, 2021, the Group fully disposed of its 100% ownership in "Turanleasing" LLC through a sale of 5 ordinary shares with nominal value of AZN 20 per share for AZN 100 to a third party resident individual. As the Company disposed of its subsidiary, it should be disclosed under discontinued operations.

	December 31, 2021	December 31, 2020
Interest expense	-	(22)
Net interest expense	**-**	**(22)**
Personnel expenses	(6)	(14)
General and administrative expenses	(13)	-
Loss from discontinued operations	**(19)**	**(36)**

Effect of disposal on the financial position of the Group

Cash and cash equivalents	(1)
Loans to customers	(316)
Property, equipment and intangible assets	(2)
Other borrowed funds	587
Other liabilities	3
Net liabilities disposed	**271**
Consideration received (100 AZN, rounded to nil)	-
Gain on sale of subsidiary	**271**

26. RISK MANAGEMENT

Management of risk is fundamental to the business of banking and is an essential element of the Group's operations. The major risks faced by the Group 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 Group, 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 Group 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 Group 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 Group 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 Group 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, 2021							
ASSETS							
Cash and cash equivalents	11,430	-	-	-	-	162,068	173,498
Loans and deposits to banks	4,437	2,793	4,391	31,208	-	2,767	45,596
Loans to customers	74,428	66,387	70,922	131,904	59,710	11,034	414,385
Investment securities	-	2,303	-	16,008	8,667	816	27,794
Other financial assets	-	-	-	-	-	2,434	2,434
	90,295	**71,483**	**75,313**	**179,120**	**68,377**	**179,119**	**663,707**
LIABILITIES							
Deposits and balances from banks and other financial institutions	54,734	-	7,140	-	-	525	62,399
Current accounts and deposits from customers	49,965	30,443	106,443	53,889	291	178,353	419,384
Other borrowed funds	5,193	17,911	14,930	40,328	50,865	-	129,227
Subordinated borrowings	86	-	4,280	2,566	5,933	-	12,865
Lease liability	103	106	220	982	42		1,453
Other financial liabilities	-	-	-	-	-	2,557	2,557
	110,081	**48,460**	**133,013**	**97,765**	**57,131**	**181,435**	**627,885**
	(19,786)	**23,023**	**(57,700)**	**81,355**	**11,246**	**(2,316)**	**35,822**

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
December 31, 2020							
ASSETS							
Cash and cash equivalents	9,499	-	-	-	-	108,547	118,046
Loans and deposits to banks	20,195	-	-	17,304	-	2,115	39,614
Loans to customers	72,112	54,445	53,549	89,061	47,098	10,391	326,656
Investment securities	198	-	9,939	300	-	945	11,382
Other financial assets	-	-	-	-	-	1,235	1,235
	102,004	**54,445**	**63,488**	**106,665**	**47,098**	**123,233**	**496,933**
LIABILITIES							
Deposits and balances from banks and other financial institutions	49,284	-	17,384	2,000	-	174	68,842
Current accounts and deposits from customers	53,053	22,078	81,174	36,845	247	87,300	280,697
Other borrowed funds	13,469	14,968	17,219	19,601	40,903	-	106,160
Subordinated borrowings	22	-	-	9,040	2,736	-	11,798
Lease liability	86	89	174	476	60	-	885
Other financial liabilities	-	-	-	-	-	1,476	1,476
	115,914	**37,135**	**115,951**	**67,962**	**43,946**	**88,950**	**469,858**
	(25,809)	**17,310**	**(52,463)**	**38,703**	**3,152**	**34,283**	**27,075**

(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, 2021 and 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2021 Average effective interest rate, %			2020 Average effective interest rate, %		
	AZN	**USD**	**Other currencies**	**AZN**	**USD**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	6.00	-	-	5.76	-	-
Loans and deposits to banks	7.00	1.23	-	6.96	1.12	-
Loans to customers	12.62	7.16	5.56	11.63	7.59	5.33
Investment securities	5.26	4.50	-	7.30	-	-
Interest bearing liabilities						
Deposits and balances from banks and other financial institutions						
- Term deposits	1.23	1.77	1.49	2.83	2.00	2.00
Current accounts and deposits from customers						
- Current accounts and demand deposits	7.53	2.83	2.56	7.52	3.01	2.75
- Term deposits	10.95	2.54	0.75	10.97	2.56	1.02
Other borrowed funds	3.80	5.28	-	4.68	5.00	-
Subordinated borrowings	-	9.21	-	-	9.22	-
Lease liability	10.00	-	-	10.00	-	-

Interest rate sensitivity analysis

The Group is exposed to interest rate risk because entity borrows at both floating and fixed interest rates. The Group 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 Group 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 Group 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 Group possibility to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group’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, 2021:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	95,367	57,083	13,379	7,669	173,498
Loans and deposits to banks	4,615	40,981	-	-	45,596
Loans to customers	345,505	68,121	759	-	414,385
Investment securities	26,729	1,065	-	-	27,794
Other financial assets	2,134	189	1	110	2,434
Total assets	**474,350**	**167,439**	**14,139**	**7,779**	**663,707**
FINANCIAL LIABILITIES					
Deposits and balances from banks and other financial institutions	52,073	7,357	2,965	4	62,399
Current accounts and deposits from customers	275,462	133,722	3,863	6,337	419,384
Other borrowed funds	117,249	11,978	-	-	129,227
Subordinated borrowings	-	12,865	-	-	12,865
Lease liability	1,453	-	-	-	1,453
Other financial liabilities	2,401	155	1	-	2,557
Total liabilities	**448,638**	**166,077**	**6,829**	**6,341**	**627,885**
Net position	**25,712**	**1,362**	**7,310**	**1,438**	**35,822**

The following table shows the currency structure of financial assets and liabilities as at December 31, 2020:

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	58,357	31,716	13,945	14,028	118,046
Loans and deposits to banks	4,218	35,396	-	-	39,614
Loans to customers	264,631	60,565	1,460	-	326,656
Investment securities	11,382	-	-	-	11,382
Other financial assets	1,219	14	2	-	1,235
Total assets	**339,807**	**127,691**	**15,407**	**14,028**	**496,933**
FINANCIAL LIABILITIES					
Deposits and balances from banks and other financial institutions	52,211	12,710	3,917	4	68,842
Current accounts and deposits from customers	159,297	104,271	3,975	13,154	280,697
Other borrowed funds	105,664	496	-	-	106,160
Subordinated borrowings	-	11,798	-	-	11,798
Lease liability	885	-	-	-	885
Other financial liabilities	1,368	107	1	-	1,476
Total liabilities	**319,425**	**129,382**	**7,893**	**13,158**	**469,858**
Net position	**20,382**	**(1,691)**	**7,514**	**870**	**27,075**

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group 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 Group’s business; management therefore carefully manages its exposure to credit risk.

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

Limits**.** The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Groups of borrowers, and to geographical and industry segments.

Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The 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 Group considers that 12-month and lifetime CCFs are the same.

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

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by 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 Group 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 Group's Risk Management Committee.

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

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

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

For loans to individuals:

- 31-60 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 Group monitors whether that indicator continues to exist or has changed.

ECL measurement – description of estimation techniques

General principle

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

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

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

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

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

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

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

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

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

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

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

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management 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 Group uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Group uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, 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 Group calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

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

ECL measurement for off-balance sheet financial instruments, CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees 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 consolidated 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, 2021:

	December 31, 2021	Offset (cash and gold collateral)	Net exposure after offset	Collateral pledged	Net exposure
FINANCIAL ASSETS					
Cash and cash equivalents (excluding cash on hand)	129,649	-	129,649	-	129,649
Loans and deposits to banks	45,596	-	45,596	-	45,596
Loans to customers	414,385	13,747	400,638	330,269	70,369
Investment securities	27,794	-	27,794	-	27,794
Other financial assets	2,434	-	2,434	-	2,434
Total maximum exposure	**619,858**	**13,747**	**606,111**	**330,269**	**275,842**

The maximum exposure to credit risk from financial assets as at December 31, 2020:

	December 31, 2020	Offset (cash and gold collateral)	Net exposure after offset	Collateral pledged	Net exposure
FINANCIAL ASSETS					
Cash and cash equivalents (excluding cash on hand)	84,394	-	84,394	-	84,394
Loans and deposits to banks	39,614	-	39,614	-	39,614
Loans to customers	326,656	12,820	313,836	262,662	51,174
Investment securities	11,382	-	11,382	-	11,382
Other financial assets	1,235	-	1,235	-	1,235
Total maximum exposure	**463,281**	**12,820**	**450,461**	**262,662**	**187,799**

Off-balance sheet risk

The Group 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 Group's activity. This approach allows the Group 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, 2021 Total
FINANCIAL ASSETS				
Cash and cash equivalents	115,718	54,008	3,772	173,498
Loans and deposits to banks	33,698	11,898	-	45,596
Loans to customers	414,385	-	-	414,385
Investment securities	27,794	-	-	27,794
Other financial assets	2,101	176	157	2,434
Total financial assets	**593,696**	**66,082**	**3,929**	**663,707**
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	61,934	-	465	62,399
Current accounts and deposits from customers	417,970	164	1,250	419,384
Other borrowed funds	107,096	13,607	8,524	129,227
Subordinated borrowings	12,865	-	-	12,865
Lease liability	1,453	-	-	1,453
Other financial liabilities	2,557	-	-	2,557
Total financial liabilities	**603,875**	**13,771**	**10,239**	**627,885**
NET POSITION ON FINANCIAL INSTRUMENTS	**(10,179)**	**52,311**	**(6,310)**	

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2020 Total
FINANCIAL ASSETS				
Cash and cash equivalents	90,538	26,703	805	118,046
Loans and deposits to banks	27,714	11,900	-	39,614
Loans to customers	326,656	-	-	326,656
Investment securities	11,382	-	-	11,382
Other financial assets	1,235	-	-	1,235
Total financial assets	**457,525**	**38,603**	**805**	**496,933**
FINANCIAL LIABILITIES				
Deposits and balances from banks and other financial institutions	68,698	-	144	68,842
Current accounts and deposits from customers	279,834	73	790	280,697
Other borrowed funds	95,520	10,640	-	106,160
Subordinated borrowings	11,798	-	-	11,798
Lease liability	885	-	-	885
Other financial liabilities	1,476	-	-	1,476
Total financial liabilities	**458,211**	**10,713**	**934**	**469,858**
NET POSITION ON FINANCIAL INSTRUMENTS	**(686)**	**27,890**	**(129)**	

(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 Group 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 assets held by the Group:

	A	A-	BBB	<BBB	Not rated	Total
December 31, 2021						
Cash and cash equivalents (excluding cash on hand)	-	43,445	2,865	83,283	56	129,649
Loans and deposits to banks	11,898	-	-	18,541	15,157	45,596
Loans to customers	-	-		-	414,385	414,385
Investment securities	-	-	-	27,271	523	27,794
Other financial assets	-	-	-	-	2,434	2,434
December 31, 2020						
Cash and cash equivalents (excluding cash on hand)	17,044		10,291	56,944	115	84,394
Loans and deposits to banks	11,901	-	-	15,422	12,291	39,614
Loans to customers	-	-	-	-	326,656	326,656
Investment securities	-	-	-	10,762	620	11,382
Other financial assets	-	-	-	-	1,235	1,235

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, 2021 and 2020, the balances with the CBAR amounted to AZN 74,100 thousand and AZN 56,538 thousand, respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2021 corresponded to BB+ (December 31, 2020: BB+).

Liquidity risk

Liquidity risk is the risk that the Group 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 Group 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 Group 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 Group 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 Group’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 Group 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 Group 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, 2021 Total
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	53,282	2,023	32	7,185	-	62,522
Current accounts and deposits from customers	205,243	28,085	34,789	111,858	61,316	441,291
Other borrowed funds	4,643	1,645	19,107	16,595	125,428	167,418
Subordinated borrowings	185	196	294	4,720	11,985	17,380
Lease liability	47	92	139	277	1,219	1,774
Other financial liabilities	2,557	-	-	-	-	2,557
Total financial liabilities	**265,957**	**32,041**	**54,361**	**140,635**	**199,948**	**692,942**
Credit related commitments and guarantees	**23,382**	**-**	**-**	**-**	**-**	**23,382**

	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, 2020 Total
Non-derivative liabilities						
Deposits and balances from banks and other financial institutions	49,499	81	122	17,619	2,015	69,336
Current accounts and deposits from customers	109,339	34,551	25,131	84,915	40,648	294,584
Other borrowed funds	12,723	1,797	15,721	18,067	83,506	131,814
Subordinated borrowings	113	181	272	543	13,592	14,701
Lease liability	37	70	109	205	632	1,053
Other financial liabilities	1,476	-	-	-	-	1,476
Total financial liabilities	**173,187**	**36,680**	**41,355**	**121,349**	**140,393**	**512,964**
Credit related commitments and guarantees	**11,562**	**-**	**-**	**-**	**-**	**11,562**

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 consolidated statement of financial position as at December 31, 2021:

	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	173,498	-	-	-	-	-	173,498
Loans and deposits to banks	4,436	-	7,185	31,208	-	2,767	45,596
Loans to customers	63,506	41,137	118,128	131,904	59,710	-	414,385
Investment securities	293	-	2,303	16,008	8,667	523	27,794
Other financial assets	2,434	-	-	-	-	-	2,434
Total assets	**244,167**	**41,137**	**127,616**	**179,120**	**68,377**	**3,290**	**663,707**
LIABILITIES							
Deposits and balances from banks and other financial institutions	53,259	2,000	7,140	-	-	-	62,399
Current accounts and deposits from customers	201,312	21,854	126,302	48,531	290	21,095	419,384
Other borrowed funds	4,278	915	32,841	40,328	50,865	-	129,227
Subordinated borrowings	87	-	4,280	2,566	5,932	-	12,865
Lease liability	34	69	326	982	42	-	1,453
Other financial liabilities	2,557	-	-	-	-		2,557
Total liabilities	**261,527**	**24,838**	**170,889**	**92,407**	**57,129**	**21,095**	**627,885**
Net position	**(17,360)**	**16,299**	**(43,273)**	**86,713**	**11,248**	**(17,805)**	**35,822**
Cumulative net position up to 5 years	**(17,360)**	**(1,061)**	**(44,334)**	**42,379**	**53,627**	**35,822**	

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The table below shows an analysis, by expected maturities, of the amounts recognized in the consolidated statement of financial position as at December 31, 2020:

	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	118,046	-	-	-	-	-	118,046
Loans and deposits to banks	13,404	6,791	-	17,304	-	2,115	39,614
Loans to customers	64,073	36,656	89,768	89,061	47,098	-	326,656
Investment securities	323	200	9,939	300	-	620	11,382
Other financial assets	1,235	-	-	-	-	-	1,235
Total financial assets	**197,081**	**43,647**	**99,707**	**106,665**	**47,098**	**2,735**	**496,933**
FINANCIAL LIABILITIES							
Deposits and balances from banks and other financial institutions	49,458	-	17,384	2,000	-	-	68,842
Current accounts and deposits from customers	101,613	31,722	91,920	31,500	246	23,696	280,697
Other borrowed funds	12,325	1,144	32,187	19,601	40,903	-	106,160
Subordinated borrowings	22	-	-	9,040	2,736	-	11,798
Lease liability	29	57	263	475	61	-	885
Other financial liabilities	1,476	-	-	-	-	-	1,476
Total financial liabilities	**164,923**	**32,923**	**141,754**	**62,616**	**43,946**	**23,696**	**469,858**
Net position	**32,158**	**10,724**	**(42,047)**	**44,049**	**3,152**	**(20,961)**	**27,075**
Cumulative net position up to 5 years	**32,158**	**42,882**	**835**	**44,884**	**48,036**	**27,075**	

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

The Group 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.

27. 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, 2020: 9%) 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, 2020: 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, 2021 was AZN 91,916 thousand (December 31, 2020 was AZN 82,215 thousand) (Statutory capital ratio 18.9% and Tier-1 capital ratio 16.2%). 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, 2021	December 31, 2020
Tier 1 capital		
Share capital	80,005	75,005
Share premium	724	724
Accumulated deficit	(29,522)	(31,919)
Less: Intangible assets	(419)	(355)
Total tier 1 capital	**50,788**	**43,455**
Tier 2 capital		
Current year profit	4,877	2,397
Reserves (1.25% of Risk-weighted assets)	6,047	4,327
Property revaluation reserve	1,644	1,644
Subordinated borrowings (unamortized portion)	7,679	4,646
Total tier 2 capital	**20,247**	**13,014**
Less: Investments	(523)	(620)
Total capital	**70,512**	**55,849**
Risk-weighted assets		
On-balance sheet	483,794	346,158
Off-balance sheet	1,564	129
Total risk weighted assets	**485,358**	**346,287**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio) (minimum 10%)	**15%**	**16%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio) (minimum 5%)	**10%**	**13%**

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 Group is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Group. The Group has complied with all externally imposed capital requirements as at December 31, 2021 and 2020.

28. CREDIT RELATED COMMITMENTS

The Group 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.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The Group 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 Group also provides guarantees by acting as settlement agent in securities borrowing and lending transactions.

The Group 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, 2021	December 31, 2020
Contracted amount		
Loan and credit line commitments	15,884	9,121
Guarantees and letters of credit	7,686	2,552
Less: provisions for ECL for related commitments	(188)	(111)
Total exposure	**23,382**	**11,562**

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 Group.

Credit related commitments are denominated in currencies as follows:

	December 31, 2021	December 31, 2020
Contracted amount		
Azerbaijani Manats	15,254	7,128
US Dollars	7,687	3,692
Euro	441	742
Total exposure	**23,382**	**11,562**

29. COMMITMENTS AND CONTINGENCIES

Compliance with covenants

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

As at December 31, 2021 the Group was in breach of certain covenants with several financing arrangements with outstanding balances amounting to AZN 3,454 thousand, all of which were included under on demand category in liquidity analysis disclosed in Note 26.

Insurance

The insurance industry in the Republic of Azerbaijan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

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.

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 consolidated 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.

During 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most if not all large economically strong countries in which the Republic of Azerbaijan is in a trade relationship. Starting from June 2020 many countries including the Republic of Azerbaijan demonstrated improvement in the signs of pandemic and certain restrictions were lifted subsequently.

As a result, recovery in global financial and commodity markets observed. However, subsequently the number of reported cases significantly increased in the Republic of Azerbaijan, and the government introduced new restrictions from mid-December 2020.

The restrictive lock-down measures to combat COVID-19 in the country significantly reduced economic activity and aggregate spending levels. Certain segments of the economy, such as hotels, transport, travel, entertainment and many other businesses also international trade much affected by these measures.

With the start of vaccination of Azerbaijani population on January 16, 2021 the government of the Republic of Azerbaijan decided to gradually eliminate the special quarantine regime measures introduced in the previous year to combat the COVID-19 outbreak, such as travel restrictions, closure of business and other venues, lockdowns of certain areas throughout the country.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

The Bank's operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector. GDP in Azerbaijan was USD 55.62 billion during the year 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the Azerbaijan GDP is projected to trend around USD 54.73 billion in 2022 and USD 55.98 billion in 2023, according to our econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2021 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 6.25% - 7.25% with a steady increase in rates.

The Bank's management is monitoring changes in the macroeconomic 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.

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 "Ba2" credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank's operations and consequently what effect, if any, they could have on the financial position of the Bank. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

30. RELATED PARTY TRANSACTIONS

(a) Control Relationships

The Group 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, 2021 and 2020 is as follows:

	2021	2020
Short term employee benefits	577	589
	577	**589**

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, 2021 and 2020 for transactions with the members of the Management Board are as follows:

	December 31, 2021	Average effective interest rate, %	December 31, 2020	Average effective interest rate, %
Consolidated statement of financial position				
Loans issued (gross)	346	7.63	436	8.48
Allowance for ECL of loans to customers	(3)	-	(8)	-
Current accounts and deposits received	1,128	5.89	1,459	-
Subordinated borrowings	340	10.00	340	10.00

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:

	2021	2020
Profit/(loss)		
Interest income	25	40
Interest expense	(103)	(38)
Net gain from trading in foreign currency	9	1
Recovery/(charge) of expected credit losses	5	(2)

Transactions with shareholders

The Group disclosed outstanding balances and the related average interest rates as at December 31, 2021 and 2020 and related profit or loss amounts of transactions for the year ended December 31, 2021 and 2020 with other shareholders (holding 5% or more of shares of the Group):

	2021		2020	
	Amount	Average interest rate, %	Amount	Average interest rate, %
Consolidated statement of financial position				
ASSETS				
Loans to customers				
- in AZN:				
Principal balance	17,858	7.46	16,519	7.64
Allowance for ECL of loans to customers	(2,445)		(1,620)	
LIABILITIES				
Current accounts and deposits from customers	7,105	8.30	8,447	9.51
Subordinated borrowings	1,923	9.29	1,921	9.29
Profit/(loss)				
Interest income	1,080		1,053	
Interest expense	(559)		(529)	
Net gain from trading in foreign currency	1		5	
(Charge)/recovery of expected credit losses	(825)		684	

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

31. 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.

(in thousands of Azerbaijani Manats, unless otherwise indicated)

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

Some of the Group'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		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)
	December 31, 2021	December 31, 2020			
Investment securities (debt securities)	27,271	10,762	Level 1	Quoted bid prices in an active market	n/a
Investment securities (corporate shares)	523	620	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 consolidated financial statements approximate their fair values.

	December 31, 2021		December 31, 2020	
	Carrying value	Fair value	Carrying value	Fair value
Loans and deposits to banks	45,596	45,596	39,614	39,614
Loans to customers	414,385	414,385	326,656	326,656
Deposits and balances from banks	62,399	62,399	68,842	68,842
Current accounts and deposits from customers	419,384	419,384	280,697	280,697
Other borrowed funds	129,227	129,227	106,160	106,160
Subordinated borrowings	12,865	12,865	11,798	11,798
Lease liability	1,453	1,453	885	885

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash and cash equivalents	173,498	-	-	173,498
Loans and deposits to banks	-	45,596	-	45,596
Loans to customers	-	-	414,385	414,385
Other financial assets	-	2,434	-	2,434
Financial liabilities:				
Deposits and balances from banks	-	62,399	-	62,399
Current accounts and deposits from customers	-	419,384	-	419,384
Other borrowed funds	-	129,227	-	129,227
Subordinated borrowings	-	-	12,865	12,865
Lease liability	-	-	1,453	1,453
Other financial liabilities	-	-	2,557	2,557

(in thousands of Azerbaijani Manats, unless otherwise indicated)

	December 31, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Cash and cash equivalents	118,046	-	-	118,046
Loans and deposits to banks	-	39,614	-	39,614
Loans to customers	-	-	326,656	326,656
Other financial assets	-	1,235	-	1,235
Financial liabilities:				
Deposits and balances from banks		68,842		68,842
Current accounts and deposits from customers	-	280,697	-	280,697
Other borrowed funds	-	106,160	-	106,160
Subordinated borrowings	-	-	11,798	11,798
Lease liability	-	-	885	885
Other financial liabilities	-	-	1,476	1,476

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 Group 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.

32. EVENTS AFTER THE REPORTING PERIOD

Political tensions between Russia and Ukraine have been observed since February 24, 2022. The conflict received widespread international condemnation, including new sanctions imposed on Russia by European countries, the UK and the United States of America. The sanctions covered Russia's central bank and sovereign wealth funds, effectively freezing their assets and banning dealings with the Russian financial institutions. Certain Russian banks were banned from SWIFT as well.

The Russian stock market fell 39% on the first day, as measured by the RTS Index, the ruble fell to a record low against the US dollar. The National Bank of Ukraine suspended currency markets, announcing that it would fix the official exchange rate. As a result of the escalation, Brent oil prices rose above $100 a barrel for the first time since 2014.

As at the date of this report, the situation has not been stabilized. The Group has corresponding bank accounts in Russian banks but has not been conducting banking operations through these accounts until recently. Currently, the management could not estimate the effects of conflict on consolidated financial statements of the Group, however, refer to the use of an alternative nostro accounts. Also the share of income generated from payments through nostro accounts is not significant and cannot materially affect the Group.