“AccessBank” Closed Joint Stock Company

Financial Statements and
Independent Auditor’s Report

31 December 2023

Contents

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Independent Auditor's Report

To the Shareholders and Board of Directors of AccessBank CJSC:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AccessBank CJSC (the "Bank") as at 31 December 2023, and the Bank's financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview

Materiality	• Overall Bank materiality: AZN 2,489 thousand, which represents 5% of profit before tax.
Key audit matters	• Assessment of expected credit loss (ECL) allowance for loans to customers in accordance with IFRS 9.

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Bank materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Bank materiality	AZN 2,489 thousand
How we determined it?	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Bank is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above AZN 249 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit loss (ECL) allowance for loans to customers in accordance with IFRS 9 Measurement of the ECL allowance is a significant estimate that involves determination of methodology, use of models, and material data inputs. As at 31 December 2023, the Bank reports loans to customers and finance lease receivables in the carrying amount of AZN 990,282 thousand, out of which AZN 976,159 thousand is represented by loans to customers that are subject to the key audit matter due to their significance to the statement of financial position and due to the significant judgement required to determine the ECL allowance. The gross carrying amount of loans to customers, excluding the ECL allowance, is AZN 1,026,453 thousand, out of which AZN 38,855 thousand is assessed on an individual basis for the purposes of determining the ECL allowance, and AZN 987,598 thousand is assessed on a collective basis. Key areas of judgement include: • Classification of loans to customers into stages in accordance with IFRS 9; • Key estimates and modelling assumptions used to estimate key risk parameters – probability of default (PD) and loss given default (LGD). Note 3 “Material Accounting Policy Information”, Note 4 “Critical Accounting Estimates, and Judgements in Applying Accounting Policies”, Note 11 “Loans to Customers and Finance Lease Receivables” and Note 31 “Risk Management” to the financial statements provide detailed information on the methodology and significant judgments behind the determination of the ECL allowance.	We obtained an understanding of the Bank’s process for estimating ECL, the judgments that are significant to the ECL estimate, the sufficiency of the information to support those judgments and the degree of estimation uncertainty inherent in those judgments. We assessed the appropriateness of the methodology and models used for calculating the ECL allowance developed by the Bank to evaluate their compliance with the requirements of IFRS 9. With regard to the controls relating to the ECL allowance calculation process, we assessed and tested on a sample basis the design and operating effectiveness of the key controls over credit loss data and calculations. These key controls included those over loan authorization and accuracy of input of customer data into loan system, including authorization of loan standing data amendments, allocation of cash received from customers to respective customers’ loan accounts, overdue days count on delinquent loans and automated calculation of risk parameters and ECL allowance. We assessed the systems and tested on a sample basis the underlying data, which is used by the Bank in determining the ECL allowance.

Key audit matter	How our audit addressed the key audit matter
	The following procedures were also carried out for the ECL allowance on loans assessed on a collective basis: • evaluated and tested the appropriateness of the Bank's approach to the segmentation of the loan portfolio; • evaluated the appropriateness of the statistical methodology; • tested, on a sample basis, the accuracy of allocation of loans to the different "stages" and the completeness of identified restructured credit-impaired loans; • validated model risk parameters (PD and LGD), forward-looking information, associated weighting and the ECL calculation; • evaluated and tested back-testing of PD and LGD risk parameters; The following procedures were also carried out in respect of the ECL allowance on loans assessed on an individual basis: • on a sample basis, we assessed the Bank's estimated future cash flows from various scenarios and key assumptions, including the timing of collateral collection. We assessed the relevance of the scenarios used and their probability, and calculated the present value of the estimated future cash flows; • on a sample basis, we tested the market value of collateral by reviewing independent appraisers' reports, the Bank's internal reports, and market data. In our work we were supported by our audit experts as follows: • Credit risk experts to review the ECL methodology of the Bank; • IT risk experts in validation of the outputs from the calculation engine implemented by the Bank for ECL calculations. We also assessed the adequacy and appropriateness of disclosures made in the financial statements regarding the ECL allowance for loans to customers in accordance with IFRS 7.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.

The engagement partner on the audit resulting in this independent auditor's report is Aigule Akhmetova.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

27 May 2024

Statement of financial position

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	7	164,526	118,958
Amounts due from credit institutions	8	65,911	33,260
Investment in debt securities	10	93,812	94,247
Loans to customers and finance lease receivables	11	990,282	790,773
Other financial assets	18	14,781	8,733
Other assets	18	5,547	3,738
Deferred income tax assets	17	3,360	10,127
Repossessed collateral	16	9,589	16,915
Property and equipment	13	31,565	31,413
Intangible assets	14	15,733	16,072
Right of use assets	15	3,528	3,368
TOTAL ASSETS		**1,398,634**	**1,127,604**
LIABILITIES			
Amounts due to credit institutions	19	23,541	49,910
Derivative financial liabilities	9	1,080	3,804
Amounts due to customers	20	1,078,873	883,617
Borrowed funds	21	84,489	29,879
Lease liabilities	15	3,661	3,264
Debt securities issued	23	8,543	8,543
Other financial liabilities	18	9,604	5,007
Other liabilities	18	6,794	7,527
Deferred income	24	156	417
Subordinated loans	22	34,376	31,103
TOTAL LIABILITIES		**1,251,117**	**1,023,071**
EQUITY			
Share capital	25	258,718	258,718
Capital reserve	22	2,626	4,401
Accumulated deficit		(113,824)	(158,616)
Revaluation reserve of investment securities		(3)	30
TOTAL EQUITY		**147,517**	**104,533**
TOTAL LIABILITIES AND EQUITY		**1,398,634**	**1,127,604**

Signed and authorized for release on behalf of the Management Board of the Bank on 27 May 2024.

Mr. Davit Tsiklauri — Chairman of the Executive Board

Mr. Orkhan Ismayilov — Chief Financial Officer

The accompanying notes on pages 5 to 73 are an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2023	2022
Loans to customers		177,942	135,449
Investment in debt securities		5,021	2,207
Amounts due from credit institutions		2,870	621
Cash and cash equivalents		3,562	504
Interest income calculated using effective interest method		**189,395**	**138,781**
Interest income on finance leases		1,453	698
Other similar income		**1,453**	**698**
Amounts due to customers		(64,129)	(51,178)
Amounts due to credit institutions		(4,292)	(1,609)
Borrowed funds		(2,741)	(1,430)
Subordinated loans		(3,273)	(2,464)
Debt securities in issue		(468)	-
Interest expense for lease liability		(406)	(346)
Interest expense		**(75,309)**	**(57,027)**
Net margin on interest and similar income		**115,539**	**82,452**
Credit loss recovery	12	3,688	9,547
Net margin on interest and similar income after credit loss allowance		**119,227**	**91,999**
Fee and commission income	27	16,241	15,092
Fee and commission expense	27	(13,421)	(11,570)
Net gain / (loss) from modification of financial assets measured at amortised cost, that did not lead to de-recognition	11	110	(1,942)
Gains less losses from trading in foreign currencies		3,925	5,024
Foreign exchange translation gains less losses		(95)	(141)
Gains less losses from sale of investment securities		-	(81)
Gains less losses from financial derivatives		(2,494)	(5,868)
Government grant income		261	387
Other income		806	590
Personnel expenses	28	(41,985)	(36,105)
General and administrative expenses	28	(22,368)	(22,379)
Depreciation and amortization	13,14,15	(8,171)	(7,604)
Cost of debt recovery	3	(2,252)	(3,070)
Profit before income tax expense		**49,784**	**24,332**
Income tax charge	17	(6,767)	(3,837)
Profit for the year		**43,017**	**20,495**
Other comprehensive loss for the year		(33)	-
Total comprehensive income for the year		**42,984**	**20,495**

The accompanying notes on pages 5 to 73 are an integral part of these financial statements.

Statement of changes in equity

(Figures in tables are in thousands of Azerbaijani manats)

	Note	Share capital	Capital reserve	Accumulated deficit	Revaluation reserve of investment securities	Total equity
As at 1 January 2022		**258,718**	**-**	**(179,479)**	**30**	**79,269**
The result of shareholders’ waiver of interest on subordinated debt and the conversion of senior loan into preferred shares	22	-	4,769	-	-	4,769
Unwinding of the result on shareholders’ waiver of interest on subordinated debt and the conversion of senior loan into preferred shares	22	-	(368)	368	-	-
Profit for the year		-	-	20,495	-	20,495
Total comprehensive income for the year		**-**	**-**	**20,495**	**-**	**20,495**
31 December 2022		**258,718**	**4,401**	**(158,616)**	**30**	**104,533**
Unwinding of capital reserve	22	-	(1,775)	1,775	-	-
Profit for the year		-	-	43,017	-	43,017
Other Comprehensive income for the year		-	-	-	(33)	(33)
Total comprehensive income for the year		**-**	**-**	**43,017**	**(33)**	**42,984**
31 December 2023		**258,718**	**2,626**	**(113,824)**	**(3)**	**147,517**

Statement of cash flows

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2023	2022
Cash flows from operating activities			
Interest received		179,892	134,576
Interest paid		(68,911)	(47,090)
Fees and commissions received		16,241	13,124
Fees and commissions paid		(13,421)	(11,570)
Realized losses from transactions with foreign currency derivatives		(5,219)	(7,471)
Realized gains less losses from exchange transactions in foreign currencies		3,925	5,024
Other income received		806	590
Personnel expenses paid		(41,609)	(36,743)
Other operating expenses paid		(21,031)	(22,793)
Cash flows from operating activities before changes in operating assets and liabilities		**50,673**	**27,647**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(32,678)	(23,586)
Loans to customers and finance lease receivables		(182,427)	(158,982)
Other financial assets		(6,059)	(5,433)
Other assets		(453)	125
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		(23,038)	35,765
Amounts due to customers		191,566	171,480
Other financial liabilities		4,551	2,467
Other liabilities		(3,941)	3,048
Net cash (used in)/from operating activities		**(1,806)**	**52,531**
Cash flows from investing activities			
Purchase of investment securities		(151,792)	(160,583)
Interest income received on investment in debt securities		4,493	2,207
Proceeds from redemption of investment in debt securities		152,965	99,147
Purchase of property and equipment		(3,968)	(1,830)
Acquisition of intangible assets		(3,771)	(5,372)
Net cash used in investing activities		**(2,073)**	**(66,431)**
Cash flows from financing activities			
Proceeds from borrowed funds	21,29	69,170	13,807
Repayment of borrowed funds	21,29	(16,447)	(21,014)
Repayment of interest on borrowed funds	21,29	(1,062)	(1,037)
Repayment of interest on subordinated loans	22,29	-	(827)
Proceeds from bond issue	23,29	-	8,543
Repayment of interest on bonds issued	23,29	(468)	-
Repayment of lease liabilities	15,29	(1,670)	(1,687)
Net cash from/(used in) financing activities		**49,523**	**(2,215)**
Effect of exchange rates changes on cash and cash equivalents		(76)	(241)
Net increase / (decrease) in cash and cash equivalents		**45,568**	**(16,356)**
Cash and cash equivalents, at the beginning of the year	7	118,958	135,314
Cash and cash equivalents, at the end of the year	7	**164,526**	**118,958**

Refer to Note 7 for investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the statement of cash flows.

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal Activities

AccessBank Closed Joint Stock Company (the "Bank") was incorporated in the Republic of Azerbaijan on 5 September 2002. The Bank operates under the license number 245 issued by the Central Bank of the Republic of Azerbaijan (the "CBAR").

The Bank's principal business activity is commercial banking operations within the Republic of Azerbaijan, with a focus on serving micro and small business customers.

The Bank has 33 branches within the Republic of Azerbaijan as at 31 December 2023 (31 December 2022: 31). The Bank's registered address is 3 Tbilisi Avenue, Baku, AZ1065, Azerbaijan

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

Shareholders	*Ordinary shares*		*Preference shares*	
	2023 %	*2022 %*	*2023 %*	*2022 %*
Asian Development Bank (ADB)	19,90	19,90	30,12	30,12
European Investment Bank (EIB)	17,39	17,39	26,31	26,31
IFC (International Finance Corporation)	16,56	16,56		
FMO	9,41	9,41	14,24	14,24
Austrian Development Bank (OeEB)	9,17	9,17	13,87	13,87
Swiss Investment Fund for Emerging Markets AG, c/o Obviam DFI AG	8,89	8,89	-	-
ResponsAbility Management Company S. A	7,11	7,11	-	-
ResponsAbility SICAV (Lux)	5,18	5,18	5,14	5,14
European Fund for Southeast Europe	2,78	2,78	6,30	6,30
Green for Growth Fund, Southeast Europe S. A	1,77	1,77	4,02	4,02
Other shareholders with individually less than 3% ownership	1,84	1,84	-	-
Total	**100.00**	**100.00**	**100.00**	**100.00**

For further details on the preference shares refer to Note 25.

2. Operating Environment of the Bank

In 2023, the world economy faced many challenges such as continuing geopolitical tensions (Russia-Ukraine war and Israel-Palestine conflict), weaker global economic activity, energy price volatility, and high inflationary pressures. On the other hand, the world economy has demonstrated a remarkable resilience to idiosyncratic economic shocks, with most central banks pushing monetary tightening to drive down inflation.

Similar to many countries across the globe, Azerbaijan has also experienced a negative shock, although the shock was mainly limited to inflationary pressures. However, monetary tightening and forward guidance driven by the CBAR have contributed to falling inflation and a further downward trend is expected to follow.

During the year growth rate of Azerbaijan economy continued. Real GDP growth was 1.1%, driven mainly by the non-oil GDP growth. Non-oil GDP growth in real terms was 3.7% in 2023, with notable boosts observed in agriculture and the services industry.

Long-term growth of foreign exchange reserves continued. In total, foreign exchange reserves of the country increased by 7.9% which is the highest indicator of recent years. Although uncertainties related to the global geopolitical and geoeconomic situation, and a high global inflation rate remain a risk, foreign trade surplus and the rise in strategic foreign exchange reserves allow to safeguard macroeconomic stability. So, the adequate monetary and fiscal policy reduces macroeconomic stability risks.

During 2023 global rating agencies have reaffirmed their previous positive foreign and local currency sovereign credit ratings on Azerbaijan.

2 Operating Environment of the Bank (Continued)

The ongoing effects of the political and economic situation are difficult to predict, but they may have further effects on the economy of Azerbaijan. The Bank's Management is monitoring the developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Bank's business in the foreseeable future. However, the future effects of the current economic situation are difficult to predict and the management's current expectations and estimates could differ from the actual results. The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by the government as well as crude oil and gas prices and sustainability of Azerbaijani manats.

During 2023, the Central Bank of the Republic of Azerbaijan decided to increase the refinancing rate to 9% from 8.25%, the floor of the interest rate corridor to 7.5% from 6.25% and the ceiling to 10% from 9.25%.

The Bank managed to keep its strong position in micro lending and expanded its retail business during 2023 substantially. Aghjabadi and Tovuz branches were opened during 2023. The Bank following its strategic direction for digitalization, has implemented measures to provide clients with a full service range via its remote channels. Among measures for expanding usage of remote channels were additional features to mobile banking application and increase of online sales.

***Climate change*.** The Bank is committed to upholding environmental and social responsibility across all facets of the operations, as clearly articulated on our website. The Bank is dedicated to minimizing adverse environmental and social impacts both internally and externally, exemplified by its proactive approach towards:

a) Managing internal environmental and social (E&S) risks;

b) Managing E&S risks within the loan portfolio.

In 2019, the Bank formulated and received approval from the Supervisory Board for its Environmental and Social Management System (ESMS) policy. This policy serves to delineate Bank's environmental and social policy framework and risk management strategy concerning not only its own activities but also those of the businesses it finance. The ESMS comprises the following key components:

1) Organization and responsibilities in environmental and social risk management: The Chief Risk Officer, a senior management member, assumes accountability for E&S performance oversight, ESMS implementation, and goal attainment monitoring. Additionally, an Environmental and Social (E&S) Officer, presently the Head of the Underwriting department, is entrusted with ESMS execution, report preparation, and staff assistance. The roles of various stakeholders, including the Supervisory and Management Boards, loan officers, legal department, and credit committee, are clearly defined within this framework.

2) Management of internal environmental and social risks, to reduce the impact of its internal activities and improve internal E&S performance. Herein the Bank defines the following main principles:

a) responsible consumption;
b) non-discrimination;
c) gender equality;
d) quality education.

The Bank has completed several projects in line with the outlined principles:

3) Management of environmental and social risk in lending: Bank's objective is to mitigate any actual or potential external impact arising from the lending activities. This encompasses thorough assessment and monitoring of a client's business's environmental, health, and social risks and impacts. E&S assessment is integrated into the business loan decision-making process, with projects deemed to pose irreversible harm to the environment or communities being declined. Bank's measures for managing E&S risks and impacts in lending include:

a. Screening against rejection criteria: All credit applications are evaluated against specific criteria such as proximity to cultural heritage sites, protected areas, wetlands, and critical wildlife habitats. Projects with the potential to adversely affect these areas or involve significant involuntary displacement or loss of productive assets are subject to rejection. In February 2024, an amendment to the Exclusion List was enacted, incorporating a new section concerning hazardous chemicals. Consequently, the Bank has restricted its loan portfolio exposure to hazardous chemical-related activities to 2% of the total credit portfolio.

2 Opearing Environment of the Bank (Continued)

b. E&S due diligence – Screening against compliance with local laws and regulations is conducted, This includes environmental and social regulations, labour laws and regulations, health protection regulations, and applicable safety regulations.

c. Categorization – The client's financed business activity is assigned to the respective environmental and social risk category.

d. Environmental and social assessment – assessment and monitoring of potential environmental and social risks and impacts of the financed business are conducted.

Loan portfolio results are provided as follows:

Exposure by E&S risk category* as of end 2023	in % of total gross carrying amount
Low risk category	65%
Medium risk category	9%
High risk category	2%
** E&S risk categorization is carried for business portfolio*	

The remaining portfolio are consumer loans primarily in government and private sector.

4) Grievance Redress: Client protection is of paramount importance to the Bank. It developed and made accessible the "Rules for processing customers' appeals in AccessBank" (RPCA). The RPCA serves the primary purpose of analyzing and rectifying violations that have prompted such appeals and their subsequent repercussions.

5) Reporting: Bank upholds transparency and accountability by presenting annual reports on both Environmental and Social (E&S) performance and Client Protection performance to both the Management and Supervisory Board. Since 2024, report highlights have been readily available on the Bank's official website. These reports comprehensively cover Scope 1 and Scope 2 emission results, along with the results pertaining to E&S risks within the loan portfolio.

Projects ongoing in this direction include the following:

- In 2023, the Bank together with external consultants started "Portfolio and market screening services for a Partner Financial Institution". Project is funded by the reliable International Partner. The first of two technical assistance projects supported by the International Partner aims to explore green lending potential for Bank's target group and reporting requirements. Above that, the Bank will be provided with information on new sector lending beyond the existing target group and options to form strategic partnerships.

- Second Technical Assistance project to emphasize enhancing E&S and HR policies was approved by the same International Partner. The scope of Work & Deliverables are under discussion for the tender.

In the medium term, the Bank plans to undertake the following steps:

1) ESG self-assessment at first stage and assessment by independent third party as a next step;

2) Join Client Protection Pathway;

3) Compile first sustainability report of the Bank in reference to the GRI Standards;

4) Review and enhance current ESMS with consideration of requirements from shareholders, new partners and local authorities.

3. Material Accounting Policy Information

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") under the historical cost convention, as modified by the initial recognition of financial instruments at fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The material accounting policy information applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

3 Material Accounting Policy Information (Continued)

These financial statements are directed to primary users, being investors who lend or provide equity capital to the reporting entity. These financial statements assume that the primary users have a reasonable knowledge of business and economic activities and review and analyse the information diligently.

These financial statements aim disclosing only information that management considers is material for the primary users. Management seeks to enhance understand-ability of these financial statements by provision of material information. Hence, only material accounting policy information is disclosed, where relevant, in the related disclosure notes.

***Financial instruments – Initial recognition*.** Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. The Bank uses trade date, which is the date on which the Bank commits to deliver a financial instrument.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at FVOCI, resulting in an immediate accounting loss.

***Financial assets – classification and subsequent measurement – measurement categories*.** The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

***Financial assets – classification and subsequent measurement – business model*.** The business model reflects how the Bank manages the assets in order to generate cash flows – whether the Bank's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

***Financial assets – classification and subsequent measurement – cash flow characteristics*.** Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI").

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts (see Note 31 "Risk Management"). The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition (refer to Note 31 for definition of default and SICR). 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").

3 Material Accounting Policy Information (Continued)

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

Financial assets – write-off. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a de-recognition event. The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. Cases with a final court decision are moved to the off-balance sheet in the amount determined by the court decision on the basis of the minutes of the Supervisory Board upon the recommendation of the Board of Directors. Management considered the following indicators that there is no reasonable expectation of recovery:

- Liquidation, bankruptcy or death of the borrower. Write-offs are considered when there are no guarantors, collateral or assets owned by the borrower/ guarantors that will allow full or partial recovery of the exposure;
- Credit exposures that are classified as a loss, are fully (100%) provisioned based on regulatory Loan Loss Provision and meet one of the following conditions:
    - The volume of the exposure is less than AZN 50,000 and from the moment the exposure was recognized as a loss or for the last 12 months:
        - No recoveries have been made; or
        - Recoveries are lower than 5% of the outstanding exposure.
    - The volume of the exposure is more than AZN 50,000, the exposure is not collateralized and from the moment the exposure was recognized as a loss or for the last 24 months:
        - No recoveries have been made;
        - For the last 12 months recoveries are lower than 5% of the outstanding exposure; or
        - No realistic prospect for recovery

Therefore, the gross carrying amounts of defaulted loans, meeting the criteria stated above, are written-off. Any subsequent recoveries are credited to credit loss expense line in the statement of profit or loss and other comprehensive income.

***Financial assets – modification*.** The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (eg. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in de-recognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognises a modification gain or loss in profit or loss.

3 Material Accounting Policy Information (Continued)

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

Payment holidays granted by the Bank in response to COVID-19 pandemic are treated as contractual modifications of the respective loans and advances. Their impact on the gross carrying amount (modification loss) is presented in profit or loss within Gains less losses from modification of financial assets measured at amortised cost, that did not lead to de-recognition (refer to Note 11).

***Financial liabilities – measurement categories*.** Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL and (ii) financial guarantee contracts and loan commitments.

Cash and cash equivalents. Cash and cash equivalents are short-term items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the CBAR, excluding obligatory reserves, and unrestricted balances on correspondent accounts including overnight deposits and deposits with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC.

Amounts due from credit institutions. Amounts due from credit institutions are mandatory reserves with CBAR and placements with other banks and credit institutions with original maturities of more than three months. Mandatory cash balances with the CBAR represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Amounts due from credit institutions are carried at AC.

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 and FVOCI . 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.

***Financial guarantees*.** Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees receivable. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

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 recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity. The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

3 Material Accounting Policy Information (Continued)

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 assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Temporary differences that arise upon initial recognition of a new lease where the Bank is a lessee, are recognised on a gross basis.

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

In addition, there are various operating taxes in Azerbaijan such as VAT, property tax, withholding tax and others which become relevant as a result of the Banks's operations. These taxes are included as a component of general and administrative expenses.

Property and equipment*.* Property and equipment is carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

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

Depreciation. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	50
Furniture, fixtures and equipment	5-10
Computer equipment	5
Motor vehicles	5
Leasehold improvements	shorter of useful life and the term of the underlying lease

The assets' residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Repossessed collateral. In certain circumstances, collateral, which is represented by non-financial assets, is repossessed following the foreclosure on loans that are in default. The Bank's intention is to sell the repossessed collateral, hence it is accounted for by analogy with inventory.

Repossessed collateral is initially recognized at fair value when acquired and subsequently measured at the lower of carrying amount and net realisable value.

Intangible assets. Intangible assets include computer software and licenses. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite. Most of the intangible assets with finite lives are amortized over the useful economic lives in the range between 5 or 12 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3 Material Accounting Policy Information (Continued)

Accounting for leases by the Bank as a lessee. The Bank leases office premises and land. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. The right-of-use asset is recognised at cost and depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

As an exception to the above, the Bank accounts for short-term leases and leases of low value assets by recognising the lease payments as an operating expense on a straight-line basis.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Accounting for operating leases by the Bank as a lessor. When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Finance lease receivables. Where the Bank is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease by applying the rate implicit in the lease to (i) the gross carrying amount of lease receivables in stage 1 and 2 and (ii) net carrying amount of lease receivables in stage 3 of the ECL model. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded in profit or loss.

Credit loss allowance is recognised in accordance with the general ECL model. The ECL is determined in the same way as for loans and advances measured at AC and recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

3 Material Accounting Policy Information (Continued)

Amounts due to customers and credit institutions. Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include customer accounts and term deposits placed by individuals, state and corporate customers, as well as credit institutions. All amounts represent non-derivative liabilities and are carried at AC.

***Debt securities in issue**.* Debt securities in issue include bonds issued by the Bank. Debt securities are stated at AC. If the Bank purchases its own debt securities in issue, they are removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognized in profit or loss.

Borrowed funds. Borrowed funds include borrowings from international lenders and the government agencies, namely the Central Bank of the Republic of Azerbaijan, National Fund for Entrepreneurship Support, and Agency for Agro Credit and Development under the Ministry of Agriculture. These financial instruments are initially measured at fair value, net of transaction costs, and subsequently measured at AC using the effective interest method.

Subordinated loans. Subordinated loans are carried at AC.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency and interest rate swaps are carried at their fair value.

The Bank also enters into offsetting loans with its counterparty banks to exchange currencies. Such loans, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the loans are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

"Gains less Losses from Financial Derivatives" line in the statement of profit or loss and other comprehensive income includes interest expense on offsetting loans (currency swap deposits).

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year under "Gains less losses from financial derivatives" line. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Preference shares which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented in subordinated loans. The dividends on these preference shares are recognised as interest expense on an AC basis, using the effective interest method.

Dividends on ordinary shares. Dividends on ordinary shares are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations.

Capital reserve. During 2022 lenders of subordinated debt granted waiver on interest payment to the Bank. Lenders act in the capacity of shareholder, therefore effect of the waiver is included by the Bank within equity with subsequent reclassification to retained earnings over the life of the debt instrument.

Contingencies**.** Contingent liabilities are not recognised in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Recognition of income and expenses. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

3 Material Accounting Policy Information (Continued)

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

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

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 income is calculated by applying the effective interest rate to their AC, net of the ECL provision.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 (subject to quarantine rules) and the interest income is calculated by applying the effective interest rate to the gross carrying amount.

The additional interest income, which was previously not recognised in P&L due to the asset being in stage 3, but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

Fees and commissions. The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such include fee and commission income on plastic cards services, settlement fees, and cash operations (see Note 27). If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period, otherwise recognised as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The financial statements are presented in Azerbaijani Manat, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss and other comprehensive income as foreign exchange translation gains less losses. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(Figures in tables are in thousands of Azerbaijani manats)

3 Material Accounting Policy Information (Continued)

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains less losses from trading in foreign currencies.

The Bank used the following official exchange rates at 31 December in the preparation of these financial statements:

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

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. Accrued bonuses include long-term incentive plan of the management team. Bank have designed annual long-term equity linked incentive policy to reward executives of the Bank for their performance. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 31 for analysis of financial instruments by their maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 31.

	31 December 2023			**31 December 2022**		
	Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
	Within 12 months after the reporting period	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS						
Property and equipment	-	31,565	**31,565**	-	31,413	**31,413**
Intangible assets	-	15,733	**15,733**	-	16,072	**16,072**
Deferred income tax asset	-	3,360	**3,360**	-	10,127	**10,127**
Other non-financial assets	5,547	-	**5,547**	3,738	-	**3,738**
Repossessed collateral	9,589	-	**9,589**	16,915		**16,915**
Right of use assets	-	3,528	**3,528**	-	3,368	**3,368**
LIABILITIES						
Other non-financial liabilities	6,794	-	**6,794**	7,527	-	**7,527**

Cost of debt recovery. These costs represent payments to collector agency in exchange of debt recovery support for resolving of some SME court cases and internal debt recovery costs

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(Figures in tables are in thousands of Azerbaijani manats)

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

ECL measurement. 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 31. The following components have a major impact on credit loss allowance: definition of default, SICR and its assessment criteria, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios, segmentation of financial assets for the ECL assessment purposes, determination of a level of ECL assessment on an individual instrument basis or on a collective basis. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Macro variables. The Bank used supportable forward looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward looking assumptions that correlate with ECL level and their assigned weights were as follows at 31 December 2023:

Variable	Scenario	Assigned weight	2024	2025	2026
Non-Oil GDP growth rate	Base	50%	3.6%	3.5%	3.5%
	Upside	25%	4.8%	5%	5.1%
	Downside	25%	0%	0%	0%
Oil price (Brent in USD)	Base	50%	70-85	60-80	75-110
	Upside	25%	95-105	110-130	120-140
	Downside	25%	65-75	45-55	30-40
Consumer Price Index	Base	50%	4.7%	5%	4.5%
	Upside	25%	4.5%	3.7%	3.6%
	Downside	25%	5.5%	5.6%	5.6%

The assumptions and assigned weights were as follows at 31 December 2022:

Variable	Scenario	Assigned weight	2023	2024	2025
Non-Oil GDP growth rate	Base	50%	4.5%	4.8%	5.0%
	Upside	25%	5-10%	5-10%	5-10%
	Downside	25%	0-1%	0-1%%	0-1%
Oil price (Brent in USD)	Base	50%	90-95	85-90	85-90
	Upside	25%	105-110	105-110	105-110
	Downside	25%	65-70	55-65	55-65
GDP growth rate	Base	50%	2.7%	4.1%	3.7%
	Upside	25%	6.0%	7.0%	8.0%
	Downside	25%	0.0%	0.0%	0.0%

An increase in the weight of downside scenario by 10% by decreasing the weights of baseline and upside scenarios by 5% results in an increase in ECL by AZN 863 thousand (31 December 2022: increase in ECL by AZN 542 thousand) for collectively assessed exposures.

A 10% increase or decrease in LGD estimates would result in an increase or decrease in total expected credit loss allowances of AZN 2,752 thousand at 31 December 2023 (31 December 2022: increase or decrease of AZN 3,251 thousand).

A 10% increase or decrease in LGD estimates for the Micro segment would result in an increase or decrease in total expected credit loss allowances of AZN 1,570 thousand at 31 December 2023 (31 December 2022: increase or decrease of AZN 1,758 thousand).

A 10% increase or decrease in LGD estimates for the SME segment would result in an increase or decrease in total expected credit loss allowances of AZN 641 thousand at 31 December 2023 (31 December 2022: increase or decrease of AZN 1,045 thousand).

A 10% increase or decrease in LGD estimates for the Retail & Staff segments would result in an increase or decrease in total expected credit loss allowances of AZN 541 thousand at 31 December 2023 (31 December 2022: increase or decrease of AZN 448 thousand).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period (for further details see Note 31). The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 31.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by AZN 4,756 thousand as of 31 December 2023 (31 December 2022: AZN 4,249 thousand).

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty. Refer to Note 11.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 33.

Determining lease term. The Bank leases office premises and land from third parties under contracts which do not have fixed contractual maturity dates and are automatically renewed unless either party submits a termination notice of 2 months. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office premises has been determined as a period of 3-5 years, and for the land lease as a period of 40 years. Refer to Note 15.

5. Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2023:

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following areas were amended in IFRS 17:

- *Effective date.*
- *Expected recovery of insurance acquisition cash flows*.
- *Contractual service margin attributable to investment services.*
- *Reinsurance contracts held – recovery of losses.*
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

5 Adoption of New or Revised Standards and Interpretations (Continued)

Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and result in the one-time classification differences in the comparative information presented on initial application of IFRS 17.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments resulted in changes in presentation of these financial statements, primarily by removing significant accounting policies that do not represent material accounting policy information.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD). Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The application of the amendments had no significant impact on Bank's financial statements.

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Bank has not early adopted.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

(Figures in tables are in thousands of Azerbaijani manats)

6 New Accounting Pronouncements (Continued)

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). Amendments to IAS 7 and IFRS 7 require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023 and effective for annual periods beginning on or after 1 January 2025). An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose.

IFRS 18 Presentation and Disclosure in Financial Statements (Issued on 9 April 2024 and effective for annual periods beginning on or after 1 January 2027). In April 2024, the IASB has issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

- the structure of the statement of profit or loss;
- required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and
- enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'. IFRS 18 will apply for reporting periods beginning on or after 1 January 2027 and also applies to comparative information. The Bank considers it is too early to determine the impact of the amendment on its financial statements as the release date is recent. Relevant assessment is to be carried out at a later date.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2023	2022
Cash on hand	44,684	43,622
Current accounts with the CBAR	5,908	38,563
Current accounts with other banks	17,760	11,764
Term deposits with the credit institutions up to 90 days	96,174	25,009
Cash and cash equivalents	**164,526**	**118,958**

As at 31 December 2023, current accounts with other banks consist of correspondent account balances with resident and non-resident banks in the amount of AZN 1,904 thousand (2022: AZN 359 thousand) and AZN 15,856 thousand (2022: AZN 11,405 thousand), respectively.

As at 31 December 2023, term deposits with the credit institutions up to 90 days consist of short-term deposits placed in CBAR in the amount of AZN 9,014 thousand (2022: AZN 25,009 thousand), in local bank in the amount of AZN 28,000 thousand maturing in January 2024 with interest rate of 7% and to foreign bank in amount of USD 34,800 thousand (AZN 59,160 thousand) maturing in January 2024 with interest rate of 3% (2022: term deposits with the credit institutions with original maturities of less than three months consist of short-term deposits placed in both local and foreign bank had a zero balance).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2023.

(Figures in tables are in thousands of Azerbaijani manats)

7 Cash and Cash Equivalents (Continued)

	Cash balances with the CBAR, excluding mandatory reserves	Correspondent accounts and overnight placements	Term deposits with the credit institutions up to 90 days	Total
- Excellent	-	13,954	59,160	73,114
- Good	5,908	3,456	37,014	46,378
- Satisfactory	-	350	-	350
Total cash and cash equivalents, excluding cash on hand	**5,908**	**17,760**	**96,174**	**119,842**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022.

	Cash balances with the CBAR, excluding mandatory reserves	Correspondent accounts and overnight placements	Term deposits with the credit institutions up to 90 days	Total
- Excellent	-	10,845	-	10,845
- Good	38,563	884	25,009	64,456
- Satisfactory	-	35	-	35
Total cash and cash equivalents, excluding cash on hand	**38,563**	**11,764**	**25,009**	**75,336**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 31 for the ECL measurement approach.

Financing transactions that did not require the use of cash and cash equivalents, and were excluded from the statement of cash flows are as follows:

	2023	2022
Non-cash financing activities		
Issue of preference shares in exchange for other borrowed funds	-	11,782
Capital contributions from the shareholders' waiver of interest on subordinated debt and the conversion of senior loan into preferred shares (capital reserve)	-	4,769
Non-cash financing activities	**-**	**16,551**

Further details of non-cash transactions are presented in Notes 21, 22 and 25.

8. Amounts due from Credit Institutions

Amounts due from credit institutions comprise:

	2023	2022
Mandatory reserve with the CBAR	49,221	32,628
Reverse repurchase agreements with original maturities of more than three months	13,000	-
Blocked current accounts with credit institutions	3,670	586
Short-term loans	20	46
Amounts due from credit institutions	**65,911**	**33,260**

(Figures in tables are in thousands of Azerbaijani manats)

8 Amounts due from Credit Institutions (Continued)

The Bank are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBAR at 5% and 6% (2022: 4% and 5%) of the previous month average of funds attracted from customers by the credit institution in local and foreign currency, respectively..

As at 31 December 2023, blocked current accounts with credit institutions represent collaterals on the back of the derivatives contracts held by the Bank

The following tables below contain an analysis of balances due from credit institutions by credit quality at 31 December 2023 and 31 December 2022 based on credit risk grades. Refer to Note 31 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to due from other banks balances. The carrying amount of due from credit institutions balances at 31 December 2023 below also represents the Bank's maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)	**Total**
Placements with other banks		
- Excellent	3,670	3,670
- Good	49,241	49,241
Carrying amount	**52,911**	**52,911**

	Stage 1 (12-months ECL)	**Total**
Reverse repurchase agreements		
- Good	13,000	13,000
Carrying amount	**13,000**	**13,000**

The carrying amount of due from credit institutions balances at 31 December 2022 below also represents the Bank's maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)	**Total**
Placements with other banks		
- Excellent	586	586
- Good	32,674	32,674
Carrying amount	**33,260**	**33,260**

9. Derivative Financial Assets and Liabilities

The Bank enters into derivative financial instruments for hedging purposes (currency risk hedging), however it does not apply hedge accounting. The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	2023			***2022***		
	Notional amount	***Fair value***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Foreign exchange contracts						
Forwards and swaps – foreign counterparty	46,232	-	(1,080)	-	-	-
Forwards and swaps – domestic counterparty	-	-	-	51,234	-	(3,804)
Total derivative liabilities	**46,232**	**-**	**(1,080)**	**51,234**	**-**	**(3,804)**

(Figures in tables are in thousands of Azerbaijani manats)

9. Derivative Financial Assets and Liabilities (Continued)

Foreign exchange derivative financial instruments entered into by the Bank are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

Forwards contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

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

10. Investment in Debt Securities

Debts securities consist of short term CBAR notes, governmental bonds issued by the Ministry of Finance of the Republic of Azerbaijan, government Eurobonds, US treasury bonds and corporate bonds.

	2023	**2022**
Debt securities at FVOCI	676	709
Debt securities at AC	93,136	93,538
Total investments in debt securities	**93,812**	**94,247**

The table below discloses investments in debt securities at 31 December 2023 by measurement categories and classes:

	Debt securities at FVOCI	**Debt securities at AC**	**Total**
Azerbaijani government bonds and notes	-	88,899	88,899
US Treasury bonds	-	4,237	4,237
Corporate bonds	636	-	636
Other	40	-	40
Total investments in debt securities at 31 December 2023 (carrying amount)	**676**	**93,136**	**93,812**

The table below discloses investments in debt securities at 31 December 2022 by measurement categories and classes:

	Debt securities at FVOCI	**Debt securities at AC**	**Total**
Azerbaijani government bonds and notes	-	80,139	80,139
US Treasury bonds	-	13,399	13,399
Corporate bonds	669	-	669
Other	40	-	40
Total investments in debt securities at 31 December 2022 (carrying amount)	**709**	**93,538**	**94,247**

(a) Investments in debt securities at FVOCI

The debt securities at FVOCI as at 31 December 2023 are not collateralised. (2022: not collateralised)

(b) Investments in debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality based on credit risk grades and discloses the balances by three stages for the purpose of ECL measurement. Refer to Note 31 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC.

(Figures in tables are in thousands of Azerbaijani manats)

10 Investment in Debt Securities (Continued)

The ECL for the debt securities at AC and FVOCI as at 31 December 2023 represented an insignificant amount, therefore the Bank did not recognise any credit loss allowance. (2022: ECL insignificant, not recognised).

The carrying amount of debt securities at AC at 31 December 2023 below also represents the Bank's maximum exposure to credit risk on these assets:

	Stage 1	Total
Azerbaijani government bonds		
- Good	88,899	88,899
US Treasury bonds		
- Excellent	4,237	4,237
Carrying amount	**93,136**	**93,136**

The carrying amount of debt securities at AC at 31 December 2022 below also represents the Bank's maximum exposure to credit risk on these assets:

	Stage 1	Total
Azerbaijani government bonds		
- Good	80,139	80,139
US Treasury bonds		
- Excellent	13,399	13,399
Carrying amount	**93,538**	**93,538**

Transition matrix is used and forward looking information is already incorporated in external assigned PD ratings. Please refer to Note 31 for external ratings and corresponding PDs table.

The debt securities at AC as at 31 December 2023 and 31 December 2022 are not collateralised.

Azerbaijani Government bonds are issued in local currency, Azerbaijani Manats, and repayment is guaranteed by Government of Azerbaijan. As of 31 December 2023 and 31 December 2022, ECL is not material.

(Figures in tables are in thousands of Azerbaijani manats)

11. Loans to Customers and Finance Lease Receivables

Loans to customers and finance lease receivables comprise:

	31 December 2023	31 December 2022
Micro loans	647,589	546,217
Retail loans	226,425	145,607
SME loans	152,439	136,973
Gross loans to customers	**1,026,453**	**828,797**
Less: allowance for impairment	(50,294)	(56,804)
Loans to customers	**976,159**	**771,993**
Gross finance lease receivables	**15,895**	**19,194**
Less: credit loss allowance	(1,772)	(414)
Finance lease receivables	**14,123**	**18,780**
Total loans to customers and finance lease receivables	**990,282**	**790,773**

As at 31 December 2023, out of the total amount of loans 5% (2022: 7%) are denominated in foreign currencies.

Included in the retail loans are mortgage and staff loans (loans to employees) gross amount of which comprises 3% and 1% respectively of the total gross loans to customers respectively (2022: 3% and 1%).

Gross carrying amount and credit loss allowance amount for loans to customers at AC by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	31 December 2023			31 December 2022		
	Gross carrying amount	Credit loss allowance	Carrying amount	Gross carrying amount	Credit loss allowance	Carrying amount
Micro loans	647,589	(17,635)	629,954	546,217	(17,362)	528,855
Retail loans	226,425	(6,465)	219,960	145,607	(4,320)	141,287
SME loans	152,439	(26,194)	126,245	136,973	(35,122)	101,851
Total loans to customers at AC	**1,026,453**	**(50,294)**	**976,159**	**828,797**	**(56,804)**	**771,993**

For more detailed information on related party balances refer to Note 33.

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

The following tables disclose the changes in the gross carrying amount for loans to customers carried at amortised cost and the credit loss allowance between the beginning and the end of the reporting and comparative periods:

Loans to customers – Micro	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2023	**535,240**	**5,098**	**5,879**	**546,217**
New assets originated or purchased	623,460	-	-	623,460
Derecognised during the period	(513,825)	(2,587)	(4,489)	(520,901)
Modifications on contractual cash flows of financial assets	-	26	(33)	(7)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(6,028)	6,028	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(14,781)	(3,417)	18,198	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	659	(486)	(173)	-
- from Stage 3 to Stage 2	-	205	(205)	-
Write-offs	-	-	(1,919)	(1,919)
Unwinding discount (for Stage 3)	-	-	739	739
At 31 December 2023	**624,725**	**4,867**	**17,997**	**647,589**

Loans to customers – Micro	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2023	**(11,344)**	**(531)**	**(5,487)**	**(17,362)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(5,081)	-	-	(5,081)
Derecognised during the period	8,511	320	2,034	10,865
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	(18)	23	5
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	506	(1,096)	-	(590)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	775	642	(9,754)	(8,337)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(44)	81	145	182
- from Stage 3 to Stage 2	-	(45)	217	172
Changes in PDs, LGDs (other than stage change)*	864	(461)	928	1,331
Total movements with impact on credit loss allowance charge for the period	**5,531**	**(577)**	**(6,407)**	**(1,453)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	1,919	1,919
Unwinding discount (for Stage 3)	-	-	(739)	(739)
At 31 December 2023	**(5,813)**	**(1,108)**	**(10,714)**	**(17,635)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Loans to customers – Micro	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2022	**370,543**	**8,444**	**14,264**	**393,251**
New assets originated or purchased	591,399	-	-	591,399
Derecognised during the period	(417,880)	(6,399)	(9,651)	(433,930)
Modifications on contractual cash flows of financial assets	-	39	(93)	(54)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(4,462)	4,462	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,767)	(1,007)	6,774	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,407	(703)	(704)	-
- from Stage 3 to Stage 2	-	262	(262)	-
Write-offs	-	-	(4,449)	(4,449)
At 31 December 2022	**535,240**	**5,098**	**5,879**	**546,217**

Loans to customers – Micro	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2022	**(8,614)**	**(663)**	**(12,301)**	**(21,578)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(5,130)	-	-	(5,130)
Derecognised during the period	2,345	462	5,100	7,907
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	(17)	41	24
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	76	(607)	-	(531)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	104	277	(2,496)	(2,115)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(126)	105	597	576
- from Stage 3 to Stage 2	-	(88)	244	156
Changes in PDs, LGDs (other than stage change)*	1	-	(1,121)	(1,120)
Total movements with impact on credit loss allowance charge for the period	**(2,730)**	**132**	**2,365**	**(233)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	4,449	4,449
At 31 December 2022	**(11,344)**	**(531)**	**(5,487)**	**(17,362)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Loans to customers – Retail	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**142,067**	**1,709**	**1,831**	**145,607**
New assets originated or purchased	244,224	-	-	244,224
Derecognised during the period	(162,324)	(707)	(516)	(163,547)
Modifications on contractual cash flows of financial assets	-	18	2	20
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(3,096)	3,096	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(6,745)	(855)	7,600	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	157	(79)	(78)	-
- from Stage 3 to Stage 2	-	1	(1)	-
Write-offs	-	-	(190)	(190)
Unwinding discount (for Stage 3)	-	-	311	311
At 31 December 2023	**214,283**	**3,183**	**8,959**	**226,425**

Loans to customers – Retail	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	**(2,970)**	**(202)**	**(1,148)**	**(4,320)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(1,738)	-	-	(1,738)
Derecognised during the period	1,446	49	185	1,680
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	(12)	(1)	(13)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	249	(509)	-	(260)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	426	342	(3,000)	(2,232)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(6)	11	29	34
- From Stage 3 to Stage 2	-	-	-	-
Changes in PDs, LGDs (other than stage change)*	441	(228)	292	505
Total movements with impact on credit loss allowance charge for the period	**818**	**(347)**	**(2,495)**	**(2,024)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	190	190
Unwinding discount (for Stage 3)	-	-	(311)	(311)
At 31 December 2023	**(2,152)**	**(549)**	**(3,764)**	**(6,465)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Loans to customers – Retail	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2022	**89,519**	**749**	**2,342**	**92,610**
New assets originated or purchased	165,776	-	-	165,776
Derecognised during the period	(109,814)	(763)	(1,007)	(111,584)
Modifications on contractual cash flows of financial assets	-	9	(8)	1
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(2,232)	2,232	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,600)	(243)	1,843	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	418	(349)	(69)	-
- from Stage 3 to Stage 2	-	74	(74)	-
Write-offs	-	-	(1,196)	(1,196)
At 31 December 2022	**142,067**	**1,709**	**1,831**	**145,607**

Loans to customers – Retail	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at 1 January 2022	**(1,255)**	**(149)**	**(1,947)**	**(3,351)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(2,396)	-	-	(2,396)
Derecognised during the period	654	(3)	317	968
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	(4)	4	-
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	22	(111)	-	(89)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	23	59	(487)	(405)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(14)	20	39	45
- From Stage 3 to Stage 2	-	(14)	41	27
Changes in PDs, LGDs (other than stage change)*	(4)	-	(311)	(315)
Total movements with impact on credit loss allowance charge for the period	**(1,715)**	**(53)**	**(397)**	**(2,165)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	1,196	1,196
At 31 December 2022	**(2,970)**	**(202)**	**(1,148)**	**(4,320)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Loans to customers – SME	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**81,094**	**7,036**	**48,843**	**136,973**
New assets originated or purchased	109,470	-	-	109,470
Derecognised during the period	(74,510)	(857)	(12,825)	(88,192)
Modifications on contractual cash flows of financial assets	-	(4)	101	97
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(1,544)	1,544	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,613)	(7,033)	8,646	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
- from Stage 3 to Stage 2	-	78	(78)	-
Write-offs	-	-	(8,663)	(8,663)
Unwinding discount (for Stage 3)	-	-	2,754	2,754
At 31 December 2023	**112,897**	**764**	**38,778**	**152,439**

Loans to customers – SME	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	**(4,083)**	**(1,116)**	**(29,923)**	**(35,122)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(1,101)	-	-	(1,101)
Derecognised during the period	2,897	918	954	4,769
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	3	(69)	(66)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	55	(80)	-	(25)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	339	169	(880)	(372)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
- from Stage 3 to Stage 2	-	(25)	150	125
Changes in PDs, LGDs (other than stage change)*	360	17	(688)	(311)
Total movements with impact on credit loss allowance charge for the period	**2,550**	**1,002**	**(533)**	**3,019**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	8,663	8,663
Unwinding discount (for Stage 3)	-	-	(2,754)	(2,754)
At 31 December 2023	**(1,533)**	**(114)**	**(24,547)**	**(26,194)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Loans to customers – SME	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**92,112**	**8,448**	**74,941**	**175,501**
New assets originated or purchased	59,876	-	-	59,876
Derecognised during the period	(69,477)	(1,644)	(15,031)	(86,152)
Modifications on contractual cash flows of financial assets	-	(1)	(1,888)	(1,889)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(754)	754	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(1,937)	(363)	2,300	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,274	(405)	(869)	-
- from Stage 3 to Stage 2	-	247	(247)	-
Unwinding discount	-	-	954	954
Write-offs	-	-	(11,317)	(11,317)
At 31 December 2022	**81,094**	**7,036**	**48,843**	**136,973**

Loans to customers – SME	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**(4,012)**	**(1,212)**	**(39,819)**	**(45,043)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(1,208)	-	-	(1,208)
Derecognised during the period	1,276	103	2,176	3,555
Changes to contractual cash flows due to modifications not resulting in de-recognition	-	-	837	837
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	12	(129)	-	(117)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	20	103	(384)	(261)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(159)	110	802	753
- from Stage 3 to Stage 2	-	(91)	333	242
Changes in PDs, LGDs (other than stage change)*	(12)	-	(4,231)	(4,243)
Total movements with impact on credit loss allowance charge for the period	**(71)**	**96**	**(467)**	**(442)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	11,317	11,317
Unwinding discount	-	-	(954)	(954)
At 31 December 2022	**(4,083)**	**(1,116)**	**(29,923)**	**(35,122)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

The following tables disclose the changes in the gross carrying amount for finance lease receivables within loans to customers carried at amortised cost and the credit loss allowance between the beginning and the end of the reporting and comparative periods:

Finance lease receivables	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2023	**11,930**	**7,127**	**137**	**19,194**
New assets originated or purchased	5,467	-	-	5,467
Derecognised during the period	(7,292)	(1,455)	(19)	(8,766)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(3,714)	3,714	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(158)	(5,271)	5,429	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	401	(368)	(33)	-
At 31 December 2023	**6,634**	**3,747**	**5,514**	**15,895**

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	**(105)**	**(308)**	**(1)**	**(414)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(443)	-	-	(443)
Derecognised during the period	3	57	-	60
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	53	(371)	-	(318)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	251	(700)	(449)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
Changes in PDs, LGDs (other than stage change)	(208)	-	-	(208)
At 31 December 2023	**(700)**	**(371)**	**(701)**	**(1,772)**

Finance lease receivables	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2022	**2,280**	**-**	**4,338**	**6,618**
New assets originated or purchased	17,534	-	-	17,534
Derecognised during the period	(4,893)	-	(65)	(4,958)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(7,127)	7,127	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(59)	-	59	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,195	-	(4,195)	-
At 31 December 2022	**11,930**	**7,127**	**137**	**19,194**

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	**(48)**	**-**	**(63)**	**(111)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(280)	-	-	(280)
Derecognised during the period	(11)	-	-	(11)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	291	(308)		(17)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1		(1)	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(58)	-	63	5
At 31 December 2022	**(105)**	**(308)**	**(1)**	**(414)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

The following tables discloses the changes in the credit loss allowance amount for loans to customers carried at amortised cost between the beginning and the end of the reporting by classes:

	SME	Micro	Retail	Total
ECL as at 1 January 2023	**(35,122)**	**(17,362)**	**(4,320)**	**(56,804)**
Movements with impact on credit loss allowance charge for the period:				
ECL of exposures transferred between stages during the period	(272)	(8,573)	(2,458)	(11,303)
New assets originated or purchased	(1,101)	(5,081)	(1,738)	(7,920)
Assets derecognized during the period	4,769	10,865	1,680	17,314
Changes in PDs, LGDs (other than stage change)*	(311)	1,331	505	1,525
Changes to contractual cash flows due to modifications not resulting in derecognition	(66)	5	(13)	(74)
Total movements with impact on credit loss allowance charge for the period	**3,019**	**(1,453)**	**(2,024)**	**(458)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	8,663	1,919	190	10,722
Unwinding of discount (for Stage 3)	(2,754)	(739)	(311)	(3,804)
Total movements without impact on credit loss allowance charge for the period	**5,909**	**1,180**	**(121)**	**6,968**
Total ECL movement	**8,928**	**(273)**	**(2,145)**	**6,510**
ECL as at 31 December 2023	**(26,194)**	**(17,635)**	**(6,465)**	**(50,294)**

Finance lease receivables

	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	**(105)**	**(308)**	**(1)**	**(414)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(443)	-	-	(443)
Derecognised during the period	3	57	-	60
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	53	(371)	-	(318)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	251	(700)	(449)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	-	-	-
Changes in PDs, LGDs (other than stage change)	(208)	-	-	(208)
Total movements with impact on credit loss allowance charge for the period	**(595)**	**(63)**	**(700)**	**(1,358)**
ECL as at 31 December 2023	**(700)**	**(371)**	**(701)**	**(1,772)**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

	SME	Micro	Retail	Total
ECL as at 1 January 2022	**(45,043)**	**(21,578)**	**(3,351)**	**(69,972)**
Movements with impact on credit loss allowance charge for the period:				
ECL of exposures transferred between stages during the period	617	(1,914)	(422)	(1,719)
New assets originated or purchased	(1,208)	(5,130)	(2,396)	(8,734)
Assets derecognized during the period	3,555	7,907	968	12,430
Changes in PDs, LGDs (other than stage change)*	(4,243)	(1,120)	(315)	(5,678)
Changes to contractual cash flows due to modifications not resulting in derecognition	837	24	-	861
Total movements with impact on credit loss allowance charge for the period	**(442)**	**(233)**	**(2,165)**	**(2,840)**
Movements without impact on credit loss allowance charge for the period:				
Write-offs	11,317	4,449	1,196	16,962
Unwinding discount	(954)	-	-	(954)
Total movements without impact on credit loss allowance charge for the period	**10,363**	**4,449**	**1,196**	**16,008**
Total ECL movement	**9,921**	**4,216**	**(969)**	**13,168**
ECL as at 31 December 2022	**(35,122)**	**(17,362)**	**(4,320)**	**(56,804)**

Finance lease receivables

	Total
ECL as at 1 January 2022	**(111)**
Movements with impact on credit loss allowance charge for the period:	
ECL of exposures transferred between stages during the period	(12)
New assets originated or purchased	(280)
Derecognised during the period	(11)
Total movements with impact on credit loss allowance charge for the period	**(303)**
ECL as at 31 December 2022	**(414)**

Note: *Line *"Changes in PDs, LGDs (other than stage change)"* mostly contributes to the LGD model update (detailed in Note 31).

The credit loss allowance for loans to customers recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 31. Below main movements in the table are described:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Impact on the measurement of ECL due to changes to model assumptions, including changes in PDs, EADs and LGDs in the period, arising from update of inputs to ECL models;
- Unwinding of discount on Stage 3 loans due to the passage of time because ECL is measured on a present value basis;
- Foreign exchange translations of assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

The following tables contain analyses of the credit risk exposure of loans to customers measured at AC and for which an ECL allowance is recognised. The carrying amount of loans and advances to customers below also represents the Bank's maximum exposure to credit risk on these loans.

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2023:

	Stage 1 (12 months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit impaired)**	**Total**
Micro loans				
Less than 30 days overdue	624,725	2,603	1,886	629,214
31 to 90 days overdue	-	2,264	284	2,548
91 to 180 days overdue	-	-	2,954	2,954
181 to 360 days overdue	-	-	4,085	4,085
Over 360 days overdue	-	-	8,788	8,788
Gross carrying amount	**624,725**	**4,867**	**17,997**	**647,589**
Credit loss allowance	(5,813)	(1,108)	(10,714)	(17,635)
Carrying amount	**618,912**	**3,759**	**7,283**	**629,954**
Retail loans				
Less than 30 days overdue	214,283	1,276	408	215,967
31 to 90 days overdue	-	1,907	77	1,984
91 to 180 days overdue	-	-	2,026	2,026
181 to 360 days overdue	-	-	2,912	2,912
Over 360 days overdue	-	-	3,536	3,536
Gross carrying amount	**214,283**	**3,183**	**8,959**	**226,425**
Credit loss allowance	(2,152)	(549)	(3,764)	(6,465)
Carrying amount	**212,131**	**2,634**	**5,195**	**219,960**
SME loans				
Less than 30 days overdue	112,897	530	8,102	121,529
31 to 90 days overdue	-	234	455	689
91 to 180 days overdue	-	-	1,537	1,537
181 to 360 days overdue	-	-	5,540	5,540
Over 360 days overdue	-	-	23,144	23,144
Gross carrying amount	**112,897**	**764**	**38,778**	**152,439**
Credit loss allowance	(1,533)	(114)	(24,547)	(26,194)
Carrying amount	**111,364**	**650**	**14,231**	**126,245**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

The credit quality of loans to customers carried at amortised cost is as follows at 31 December 2022:

	Stage 1 (12 months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit impaired)	Total
Micro loans				
Less than 30 days overdue	535,240	3,673	708	539,621
31 to 90 days overdue	-	1,425	102	1,527
91 to 180 days overdue	-	-	404	404
181 to 360 days overdue	-	-	1,819	1,819
Over 360 days overdue	-	-	2,846	2,846
Gross carrying amount	**535,240**	**5,098**	**5,879**	**546,217**
Credit loss allowance	(11,344)	(531)	(5,487)	(17,362)
Carrying amount	**523,896**	**4,567**	**392**	**528,855**
Retail loans				
Less than 30 days overdue	142,067	725	191	142,983
31 to 90 days overdue	-	984	19	1,003
91 to 180 days overdue	-	-	540	540
181 to 360 days overdue	-	-	372	372
Over 360 days overdue	-	-	709	709
Gross carrying amount	**142,067**	**1,709**	**1,831**	**145,607**
Credit loss allowance	(2,970)	(202)	(1,148)	(4,320)
Carrying amount	**139,097**	**1,507**	**683**	**141,287**
SME loans				
Less than 30 days overdue	81,094	4,600	17,551	103,245
31 to 90 days overdue	-	2,436	1,521	3,957
91 to 180 days overdue	-	-	1,748	1,748
181 to 360 days overdue	-	-	4,187	4,187
Over 360 days overdue	-	-	23,836	23,836
Gross carrying amount	**81,094**	**7,036**	**48,843**	**136,973**
Credit loss allowance	(4,083)	(1,116)	(29,923)	(35,122)
Carrying amount	**77,011**	**5,920**	**18,920**	**101,851**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Modified and restructured loans

Information about modifications of loans that have not resulted in de-recognition is as follows:

	2023	2022
Loans modified during the period		
Amortised cost of loans with lifetime ECL immediately before contractual modification that was not a de-recognition event	5,231	25,855
Gains less losses recognised in profit or loss on modifications of loans with lifetime ECL that did not lead to de-recognition	110	(1,942)

In the majority of cases, the gross modification gains less loss had been anticipated and reflected within the ECL allowance. The impact of modification on the ECL allowance associated with these assets was a charge of ECL allowance of 76 thousand (2022: release of AZN 862 thousand). The net impact on the statement of profit or loss for the period was therefore AZN 34 thousand (2022: AZN 1,080 thousand release).

Collateral and other credit enhancements

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

- For micro loans, cash, charges over real estate properties, inventory, vehicles and third party guarantees;
- For SME loans, cash, charges over real estate properties, inventory and vehicles;
- For retail loans, cash, charges over credited consumer appliances, vehicles, mortgages over residential properties and third party guarantees;
- For mortgage loans, mortgages over residential properties;
- For staff loans, cash, vehicles and mortgages over residential properties.

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

The Bank obtains collateral valuation at the time of granting loans and generally updates it every two years, depending on the significance of the loan exposure. The values of collateral considered in the tables below within this disclosure note are after a valuation haircut of 15%-50% applied to consider liquidity and quality of the pledged assets.

ECL for individually assessed loans is derived based on probability weighted scenarios. As at 31 December 2023 maximum exposure of such loans amounted to thousand AZN 38,855 thousand (31 December 2022: AZN 57,373 thousand) for which ECL of AZN 14,295 thousand (31 December 2022: AZN 19,723 thousand) was created. If these loans were not collateralised, then ECL amount for these loans would be AZN 23,334 thousand (31 December 2022: AZN 30,375 thousand) based on the collective assessment.

Description of collateral held for loans carried at amortised cost is as follows at 31 December 2023:

	Micro loans	Retail loans	SME loans	Total
Loans collateralised by:				
- residential real estate	80,284	5,679	56,934	142,897
- other real estate	24,154	726	26,209	51,089
- deposits	1,641	9,974	9,408	21,023
- land	8,187	-	4,589	12,776
- vehicles	10,280	18	430	10,728
- equipment	3,441	1	30	3,472
Total	**127,987**	**16,398**	**97,600**	**241,985**
Government guarantee	168	-	2,951	3,119
Unsecured exposures and soft collateral	501,799	203,562	25,694	731,055
Total carrying amount of loans to customers at AC	**629,954**	**219,960**	**126,245**	**976,159**

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Description of collateral held for loans carried at amortised cost is as follows at 31 December 2022:

	Micro loans	Retail loans	SME loans	Total
Loans collateralised by:				
- residential real estate	63,577	4,287	36,944	104,808
- other real estate	35,274	1,609	38,214	75,097
- deposits	1,837	11,344	1,410	14,591
- land	6,260	13	2,695	8,968
- vehicles	5,529	-	168	5,697
- equipment	4,428	8	15	4,451
Total	**116,905**	**17,261**	**79,446**	**213,612**
Government guarantee	660	-	4,755	5,415
Unsecured exposures and soft collateral	411,290	124,026	17,650	552,966
Total carrying amount of loans to customers at AC	**528,855**	**141,287**	**101,851**	**771,993**

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

The extent to which collateral and other credit enhancements mitigate credit risk for financial assets carried at amortised cost, is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying amount of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying amount of the asset ("under-collateralised assets"). The effect of collateral on all exposures (net of allowance), whether impaired or not, at 31 December 2023 is as follow:

	Over-collateralised Assets		Under-collateralised assets	
	Carrying amount of the assets	Value of collateral	Carrying amount of the assets	Value of collateral
Loans to customers carried at AC				
Micro loans	79,791	224,184	550,163	45,062
Retail loans	18,353	50,756	201,607	290
SME loans	68,830	208,126	57,415	26,727

The effect of collateral on all exposures (net of allowance), whether impaired or not, at 31 December 2022 is as follow:

	Over-collateralised Assets		Under-collateralised assets	
	Carrying amount of the assets	Value of collateral	Carrying amount of the assets	Value of collateral
Loans to customers carried at AC				
Micro loans	78,835	212,614	450,021	39,351
Retail loans	16,812	55,650	124,475	451
SME loans	52,736	143,786	49,114	31,272

(Figures in tables are in thousands of Azerbaijani manats)

11 Loans to Customers and Finance Lease Receivables (Continued)

Concentration of loans to customers

As at 31 December 2023, the Bank had loans in the amount of AZN 56,116 thousand due from the twenty (2022: twenty) largest third party borrowers which represent 5.4% of gross loan portfolio (2022: AZN 55,719 thousand or 6.6% of gross loan portfolio). An allowance of AZN 13,052 thousand (2022: AZN 16,619 thousand) was recognized against these loans.

Loans are made principally within Azerbaijan in the following industry sectors (amounts are presented prior to allowance, excluding finance leases):

	2023	**2022**
Trade	303,962	250,254
Services	255,890	225,379
Agriculture	267,446	199,454
Household	70,794	52,207
Manufacturing	66,313	55,106
Transportation	61,744	46,101
Other	304	296
Total	**1,026,453**	**828,797**

12. Credit Loss Recovery

The table below shows the ECL charges and reversals on financial instruments recorded in the profit or loss and other comprehensive income for the year ended 31 December 2023 and 31 December 2022 respectively:

31 December 2023	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Written-off loans**	**Total**
Loans to customers and finance lease receivables	11	8,304	15	(10,135)	-	(1,816)
Recoveries from written off loans*		-	-	-	5,504	5,504
Credit loss recovery on financial assets		**8,304**	**15**	**(10,135)**	**5,504**	**3,688**

31 December 2022	**Note**	**Stage 1**	**Stage 2**	**Stage 3**	**Written-off loans**	**Total**
Loans to customers and finance lease receivables	11	(4,516)	175	547	-	(3,794)
Recoveries from written off loans*		-	-	-	13,341	13,341
Credit loss recovery on financial assets		**(4,516)**	**175**	**547**	**13,341**	**9,547**

*Domestic currency devaluation in 2015 led to macroeconomic difficulties and significantly impacted business environment for the next couple of years, which resulted in deterioration of loan portfolio. To optimize restructuring and recovery process, the Bank made structural changes and in 2019 created a team that mainly specialized in working with non-performing portfolio. As a result, for the next consecutive years, the Bank was able to provide for some recovery of the portfolio inherited from 2015-2016 crisis. At the same time, to ensure recovery and restructuring, as well as to optimize outstanding loan portfolio the Bank made write-offs for loans with high overdue with no reasonable expectation of recovery. Recoveries from written off loans represent cash recoveries from this crisis portfolio that was written off by the Bank years ago. For further details refer to Note 31.

(Figures in tables are in thousands of Azerbaijani manats)

13. Property and Equipment

The movements in property and equipment were as follows:

	Buildings and leasehold improvements	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Construction in progress	Total
Cost						
31 December 2022	**49,621**	**12,784**	**12,981**	**1,040**	**223**	**76,649**
Additions	920	632	574	341	450	2,917
Disposals	(491)	(1,478)	(477)	(182)	(180)	(2,808)
Reclassification	(3,785)	4,274	(489)	-	-	-
31 December 2023	**46,265**	**16,212**	**12,589**	**1,199**	**493**	**76,758**
Accumulated depreciation						
31 December 2022	**(23,372)**	**(11,169)**	**(9,816)**	**(879)**	**-**	**(45,236)**
Depreciation charge	(782)	(678)	(1,044)	(81)	-	(2,585)
Disposals	491	1,478	477	182	-	2,628
Reclassification	1,316	(1,661)	345	-	-	-
31 December 2023	**(22,347)**	**(12,030)**	**(10,038)**	**(778)**	**-**	**(45,193)**
Net carrying amount						
31 December 2022	**26,249**	**1,615**	**3,165**	**161**	**223**	**31,413**
31 December 2023	**23,918**	**4,182**	**2,551**	**421**	**493**	**31,565**

	Buildings and leasehold improvements	Furniture, fixtures and equipment	Computer equipment	Motor vehicles	Construction in progress	Total
Cost						
31 December 2021	**49,349**	**11,752**	**11,501**	**1,039**	**-**	**73,641**
Additions	1,140	1,059	1,594	1	223	4,017
Disposals	(868)	(27)	(114)	-	-	(1,009)
31 December 2022	**49,621**	**12,784**	**12,981**	**1,040**	**223**	**76,649**
Accumulated depreciation						
31 December 2021	**(22,436)**	**(10,789)**	**(8,494)**	**(812)**	**-**	**(42,531)**
Depreciation charge	(950)	(407)	(1,427)	(67)	-	(2,851)
Disposals	14	27	105	-	-	146
31 December 2022	**(23,372)**	**(11,169)**	**(9,816)**	**(879)**	**-**	**(45,236)**
Net carrying amount						
31 December 2021	**26,913**	**963**	**3,007**	**227**	**-**	**31,110**
31 December 2022	**26,249**	**1,615**	**3,165**	**161**	**223**	**31,413**

As part of annual assessment, the Bank performed revision of useful lives and classifications within Property, Plant and Equipment. As a result, items with net carrying amount of AZN 2.6 mln were transferred from "Computer equipment" and "Buildings and leasehold improvements" classifications to "Furniture, fixtures and equipment" classification. Moreover, the Bank revised useful lives for the following categories as follows:

- items within "Furniture, fixtures and equipment" from 4-5 years to 5-10 years;
- items within "Computer equipment" from 4-5 years to 5 years.

(Figures in tables are in thousands of Azerbaijani manats)

14. Intangible Assets

The movements in intangible assets were as follows:

	Licenses and computer software	Internally developed assets	Total licenses and computer software
Cost			
31 December 2022	**48,495**	**-**	**48,495**
Additions	2,567	-	2,567
Capitalised internal development costs	-	1,179	1,179
31 December 2023	**51,062**	**1,179**	**52,241**
Accumulated amortization			
31 December 2022	**(32,423)**	**-**	**(32,423)**
Amortization charge	(4,061)	(24)	(4,085)
31 December 2023	**(36,484)**	**(24)**	**(36,508)**
Net carrying amount			
31 December 2022	**16,072**	**-**	**16,072**
31 December 2023	**14,578**	**1,155**	**15,733**

	Licenses and computer software	Total licenses and computer software
Cost		
31 December 2021	**43,171**	**43,171**
Additions	5,371	5,371
Disposals	(47)	(47)
31 December 2022	**48,495**	**48,495**
Accumulated amortization		
31 December 2021	**(28,990)**	**(28,990)**
Amortization charge	(3,480)	(3,480)
Disposals	47	47
31 December 2022	**(32,423)**	**(32,423)**
Net carrying amount		
31 December 2021	**14,181**	**14,181**
31 December 2022	**16,072**	**16,072**

(Figures in tables are in thousands of Azerbaijani manats)

15. Right of Use Assets and Lease Liabilities

The Bank leases various offices premises and land. Rental contracts do not have contractual maturity dates and are automatically renewed unless either party submits a termination notice of 2 months. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office premises has been determined as a period of 3-5 years, and for the land lease as a period of 40 years.

All leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

	Land	Buildings	Total
Carrying amount at 1 January 2022	**579**	**3,470**	**4,049**
Additions	-	531	531
Depreciation charge	-	(1,273)	(1,273)
Contractual modifications	-	61	61
Carrying amount at 31 December 2022	**579**	**2,789**	**3,368**
Additions	-	120	120
Depreciation charge	-	(1,501)	(1,501)
Contractual modifications	-	1,541	1,541
Carrying amount at 31 December 2023	**579**	**2,949**	**3,528**

Interest expense on lease liabilities was AZN 406 thousand (2022: AZN 346 thousand).

Expenses relating to short-term leases (included in general and administrative expenses) and to leases of low-value assets that are not shown as short-term leases are included in general and administrative expenses:

	2023	2022
Expense relating to short-term leases	126	54
Expense relating to leases of low-value assets that are not shown above as short-term leases	36	32

For the cash and non-cash movement on lease liabilities refer to Note 29.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as collateral for borrowings.

Extension and termination options are included in a number of office premises leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. Termination options held are exercisable by both parties, the Bank and lessors, whereas the extension options are exercisable only by the Bank

16. Repossessed Collateral

As of 31 December 2023 and 2022, repossessed collateral is represented by AZN 9,589 thousand and AZN 16,915 thousand of real estate (apartments, land and non-living area), respectively, which the Bank took possession of, and is available for sale.

(Figures in tables are in thousands of Azerbaijani manats)

17. Taxation

(a) Components of income tax expense

Income tax expense comprises the following:

	2023	2022
Current tax	-	-
Deferred tax	(6,767)	(3,837)
Income tax expense for the year	**(6,767)**	**(3,837)**

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

The income tax rate applicable to the Bank's 2023 income is 20% (2022: 20%). A reconciliation between the expected and the actual taxation charge is provided below.

	2023	2022
Profit before tax	**49,784**	**24,332**
Theoretical tax charge at statutory rate (2023: 20%; 2022: 20%)	(9,957)	(4,867)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-deductible expenses	(261)	(612)
- Utilisation of previously unrecognised tax losses	3,451	2,687
- Effect of tax act adoption on deduction of provision	-	(1,045)
Income tax expense for the year	**(6,767)**	**(3,837)**

(c) Tax loss carry forwards

The Bank has recognised deferred tax asset for recoverable amount of tax loss carry forwards, which is allowed to be carried for five years. For the respective movement for 31 December 2023 and 31 December 2022 refer to the tables below:

31 December 2023

Year	2019 TLCF	Total
2024	14,905	**14,905**
Recoverable	**14,905**	**14,905**
TLCF brought forward	**14,905**	**14,905**

31 December 2022

Year	2018 TLCF	2019 TLCF	Total
2023	23,610	-	**23,610**
2024	-	30,115	**30,115**
Recoverable	**23,610**	**30,115**	**53,725**
TLCF brought forward	**40,865**	**30,115**	**70,980**
Unrecoverable / expired	**(17,255)**	**-**	**(17,255)**

(d) Deferred taxes analysed by type of temporary difference

Differences between IFRS Accounting Standards and statutory taxation regulations in Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

(Figures in tables are in thousands of Azerbaijani manats)

17 Taxation (Continued)

	31 December 2021	Credited/ (charged) to profit or loss	31 December 2022	Credited/ (charged) to profit or loss	31 December 2023
Credit loss allowance for loans to customers	1,763	(137)	1,626	(1,137)	489
Cash and cash equivalents	(325)	306	(19)	19	-
Fair valuation of securities at FVOCI	(7)	53	46	(41)	5
Depreciation expense and capitalisation criteria	-	(758)	(758)	404	(354)
Amortisation expense and capitalisation criteria	-	(996)	(996)	1,116	120
Right of use assets	(810)	136	(674)	(32)	(706)
Lease liability	803	(150)	653	79	732
Other borrowed funds	(81)	2	(79)	374	295
Subordinated debt	82	-	82	106	188
Personnel expenses and other accruals	268	(425)	(157)	595	438
Derivative financial liabilities	310	(136)	174	(810)	(636)
Losses available for offset against future taxable income	11,350	(605)	10,745	(7,764)	2,981
Other	611	(1,127)	(516)	324	(192)
Net deferred tax asset	**13,964**	**(3,837)**	**10,127**	**(6,767)**	**3,360**
Recognised deferred tax asset	15,187	(1,861)	13,106	(7,858)	5,248
Recognised deferred tax liability	(1,223)	(1,976)	(2,979)	1,091	(1,888)
Net deferred tax asset	**13,964**	**(3,837)**	**10,127**	**(6,767)**	**3,360**

18. Other Assets and Liabilities

	2023	2022
Other financial assets		
Settlements through payment terminals	7,798	3,897
Settlements on money transfers and plastic cards	5,540	3,465
Security deposits	1,375	1,325
Other	68	46
Total financial assets	**14,781**	**8,733**
Other non-financial assets		
Deferred expenses	2,887	2,201
Prepayments for acquisition of property, equipment and intangible assets	1,925	667
Other	735	870
Total non-financial assets	**5,547**	**3,738**

	2023	2022
Other financial liabilities		
Settlements on money transfer	6,693	3,396
Payables for professional services	2,911	1,611
Total financial liabilities	**9,604**	**5,007**
Other non-financial liabilities		
Payables to employees	2,602	2,930
Taxes, other than income tax	3,283	1,784
Other	909	2,813
Total non-financial liabilities	**6,794**	**7,527**

Provision for guarantees issued and credit related commitments included in other non-financial liabilities is AZN 68 thousand (2022: AZN 178 thousand).

(Figures in tables are in thousands of Azerbaijani manats)

19. Amounts Due to Credit Institutions

Amounts due to credit institutions comprise:

	2023	2022
Term deposits	23,541	31,872
Repurchase agreements with other banks	-	18,038
Amounts due to credit institutions	**23,541**	**49,910**

Sale and repurchase agreements as at 31 December 2022 are backed up by the Azerbaijani government bonds, pledged under these agreements. These bonds were blocked by the National Depositary Center with titles and rights over the bonds remaining with the Bank and disclosed in Note 10 under "Azerbaijani government bonds and notes" line as at 31 December 2022.

20. Amounts Due to Customers

The amounts due to customers include the following:

	2023	2022
Individuals		
- Current accounts	130,338	124,268
- Term deposits	726,766	606,749
Other legal entities		
- Current accounts	133,428	94,245
- Term deposits	24,669	13,894
Entrepreneurs		
- Current accounts	63,672	44,461
Current accounts	327,438	262,974
Term deposits	751,435	620,643
Total amounts due to customers	**1,078,873**	**883,617**
Held as security against guarantees (Note 26)	1,668	822

As of 31 December 2023, amounts due to customers of AZN 93,139 thousand or 9% (2022: AZN 42,100 thousand or 5%) of total amounts due to customers were due to 10 largest customers. As at 31 December 2023, 19% (2022: 21%) of amounts to due to customers were denominated in foreign currencies.

The Bank participates in the state deposit insurance scheme, which was introduced by the Azerbaijani Law, *Insurance of Individual Deposits in the Republic of Azerbaijan* dated 29 December 2006. Azerbaijan Deposit Insurance Fund fully guarantees deposits up to AZN 100 thousand for a period of three years in local currency with an interest rate up to 12% (2022: 12%), as well as deposits up to AZN 100 thousand equivalent in foreign currency with an interest rate up to 2.5% (2022: 2.5%).

Economic sector concentrations within customer accounts are as follows:

	2023	%	2022	%
Individuals	857,104	79	731,017	83
Individual Entrepreneurs	61,889	6	43,748	5
Trade and services	47,475	4	42,170	5
Insurance	19,341	2	14,723	2
Other	93,064	9	51,959	5
Amounts due to customers	**1,078,873**	**100**	**883,617**	**100**

(Figures in tables are in thousands of Azerbaijani manats)

21. Borrowed Funds

	2023	2022
Borrowed funds at AC		
Borrowings from State Funds	30,670	26,015
Senior loans	51,826	-
Term borrowings from Central Bank of the Republic of Azerbaijan	1,993	3,864
Total borrowed funds at AC	**84,489**	**29,879**
Total borrowed funds	**84,489**	**29,879**

Senior loans

During April 2022 AZN 5,107 thousand was repaid to senior loan lenders. The remaining amount of AZN 11,782 thousand was de-recognised and converted into preferred shares, issued in the form of 11,389 thousand preference shares with the nominal value of 1 AZN per share, in accordance with the shareholders agreement dated November 2018 and amended in April 2022, which was signed by all lenders, acting in their capacity as shareholders. As a result, a new liability in the amount of AZN 11,782 thousand was recognised as a subordinated loan in the statement of financial position. For further details please refer to Note 22.

The Bank obtained new financing from several foreign credit institutions during 2023 with the carrying balance as at 31 December 2023 as disclosed in the table above. The aggregate amount of the financing obtained constitutes the AZN equivalent of USD 30,000 thousand ("USD original principal amount") with interest rate range between 10.95% – 13.29% and a maturity range between April 2026 – December 2028.

The Bank is obligated to comply with financial covenants in relation to loans received from foreign credit institutions. These covenants include capital adequacy ratio, portfolio quality, open currency position, open loan position and other financial performance ratios. The Bank's compliance with these financial covenants is disclosed in Note 26.

Term borrowings from Central Bank of the Republic of Azerbaijan

Term borrowing from CBAR is for 5 years' period with annual contractual interest rate of 0.1% per annum in accordance with the Presidential Decree dated on 28 February 2019. Loans received from a government that have a below-market rate of interest are recognised and measured in accordance with IFRS 9. The benefit of the below-market rate of interest is measured as the difference between the initial carrying amount of the loan, determined in accordance with IFRS 9, and the proceeds received, in accordance IAS 20 (Note 24). The difference in the amount was accounted for as a government grant in accordance with IAS 20. For details refer to Note 24.

Borrowings from State Funds

As of 31 December 2023, the Bank had loans borrowed from National Fund for Support of Entrepreneurship and Agency for Agro Credit and Development under the Ministry of Agriculture amounting to AZN19,137 thousand and AZN 5,750 thousand (2022: AZN 13,916 thousand and AZN 7,908 thousand), maturing through December 2026 and June 2026 (December 2026 and June 2026) and bearing annual interest rates of 1% and 2% (2022: 1% and 2%) respectively.

Currency risk and liquidity risk analysis of borrowed funds is disclosed in Note 31. Refer to Note 32 for the disclosure of the fair value of borrowed funds. Information on related party balances is disclosed in Note 33.

(Figures in tables are in thousands of Azerbaijani manats)

22. Subordinated Loans

	2023	2022
Subordinated loans at AC		
Term loans	24,163	22,222
Preference shares	10,213	8,881
Total subordinated loans at AC	**34,376**	**31,103**
Total subordinated loans	**34,376**	**31,103**

Term loans

Term loans are subordinated loans with maturity on 31 March 2029 from nine financial institutions, which are the Bank's shareholders.

Preferred shares

In April 2022 the shareholders agreement dated November 2018 was amended by providing waiver of interest accrual on subordinated loan till 31 March 2024. The new amendment applies to all subordinated loan lenders, except for the two shareholders with carrying amount comprising 10% of aggregate loan amount. The effect of waiver at the time of modification amounts to AZN 1,709 thousand and is recognised under capital reserve in equity during 2022. The unwinding of capital reserve during 2023 comprises AZN 244 thousand and is reflected accordingly in the statement of changes in equity.

In accordance with the same amended shareholders agreement signed by all lenders, acting in their capacity as shareholders, the borrowing with the carrying amount of AZN 16,889 thousand classified previously as senior loan was partially repaid in the amount of AZN 5,107 thousand. The remaining portion amounting to AZN 11,782 thousand was converted into preferred shares, issued in the form of 11,389 thousand preference shares with the nominal value of 1 AZN per share, and classified under subordinated loans in the statement of financial position based on terms of the shareholders agreement, whereas it is recognised as an equity instrument (Tier I Capital) in prudential reporting. Preference shares are non-bearer, non-cumulative and perpetual. The redemption of preferred shares and the dividends pay-out is conditional on compliance with certain thresholds over minimum capital adequacy ratios. As a result of derecognition of senior loan, "gain on derecognition" in the amount of AZN 3,060 thousand was recognised under capital reserve in equity during 2022. The unwinding of capital reserve during 2023 comprises AZN 1,531 thousand and is reflected accordingly within the statement of changes in equity.

Refer to Note 32 for the disclosure of the fair value of subordinated loans. Currency and liquidity risk analysis of subordinated loans is disclosed in Note 31. Information on related party balances is disclosed in Note 33.

23. Debt Securities in Issue

In November 2022 the Bank issued USD denominated interest-bearing bonds listed on Baku Stock Exchange with maturity of 18 months term. The issuance was conducted through public placement and fully purchased by different investors. Number of bonds are 5,000. Nominal value is USD 1,000. Coupon rate 5.5%, payable on a quarterly basis.

	2023	2022
Bonds issued on domestic market	8,543	8,543
Total debt securities in issue	**8,543**	**8,543**

(Figures in tables are in thousands of Azerbaijani manats)

24. Deferred Income

	2023	2022
Deferred income at 1 January	**417**	**804**
New grants received	-	-
Amortisation of deferred income	(261)	(387)
Deferred income at 31 December	**156**	**417**

In November 2019, the Bank received borrowings from CBAR with fixed contractual interest rate lower than the market interest rate in accordance with the Presidential Decree dated on 28 February 2019 related to problematic loans of individuals in the Republic of Azerbaijan. The first line of credit amounted to AZN 4,968 thousand with the carrying amount of the loan at inception AZN 3,859 thousand giving a rise to government grant in amount of AZN 1,108 thousand.

The last line of the credit was issued by the CBAR on 28 January 2020 amounted AZN 3,553 thousand. The carrying amount of the loan at inception AZN 2,840 thousand, represented the future cash flows relating to the loan discounted at the market effective interest rate. The difference of AZN 713 thousand between the contractual and carrying amount of the loan, was recorded as deferred income in 2020 and is amortised through interest expense until the loan's maturity date in five years. The Bank did not receive any new borrowings from CBAR during 2023 and 2022.

25. Equity

The nominal registered amount of the Bank's issued share capital is AZN 258,718 thousand (2022: AZN 258,718 thousand).

As at 31 December 2023, the Bank had 60,875 thousand authorized, issued and fully paid ordinary shares (2022: 60,875 thousand) with a nominal value of AZN 4.25 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote. Each ordinary share carries equal right to participate in profits and obtain dividends, as declared from time to time by the general shareholders meeting, and to participate in net assets upon the entity's liquidation.

Capital reserve within equity represents a waiver of interest on subordinated debt and the conversion of senior loan into preference shares, which was classified as subordinated loan in 2022. For details refer to Note 22.

26. Commitments and Contingencies

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

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

Management believes that its interpretation of the relevant legislation as of 31 December 2023 is appropriate and that the Bank's tax, currency and customs positions will be sustained.

Compliance with the Central Bank of the Republic of Azerbaijan ratios.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored by the CBAR using the ratios established by the CBAR in supervising the Bank. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities.

(Figures in tables are in thousands of Azerbaijani manats)

26 Commitments and Contingencies (Continued)

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Compliance with covenants. The Bank has agreed to comply with certain financial and business covenants in various financing and similar agreements. As at 31 December 2023 the Bank was in compliance with covenants under four financing agreements with outstanding balances amounting to AZN 51,826 thousand (31 December 2022: nil).

CBAR capital adequacy ratio.

The CBAR requires banks to maintain a minimum capital adequacy ratio of 5% (2022: 5%) and 10% (2022: 10%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

Based on the prudential reports provided to Central Bank of Azerbaijan and internal management reports, as of 31 December 2023 and 2022, the Bank's capital and capital adequacy ratio on this basis was as follows:

	2023	**2022**
Tier 1 capital	71,766	56,261
Tier 2 capital	71,739	44,908
Total capital	**143,505**	**101,169**
Risk weighted assets	**1,065,503**	**854,137**
Tier 1 capital adequacy ratio	6.7%	6.6%
Total capital adequacy ratio	13.5%	11.8%

Based on the prudential reports provided to the Central Bank of Azerbaijan and internal management reports, the Bank was in compliance with the statutory capital adequacy ratio throughout 2023.

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments, if the unused amounts were to be drawn down. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The Bank monitors the term to maturity of credit related commitments, because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

	2023	**2022**
Credit related commitments		
Guarantees issued	9,094	9,892
Undrawn loan commitments	17,177	14,195
Total credit related commitments, gross	**26,271**	**24,087**
Less : provisions for credit related commitments (Note 18)	(68)	(178)
Total credit related commitments, net of provision	**26,203**	**23,909**
Less: deposits held as security against guarantees	(1,668)	(822)
Total credit related commitments, net of ECL provision and deposits held as security	**24,535**	**23,087**

(Figures in tables are in thousands of Azerbaijani manats)

27. Fee and Commission Income and Expense

Net fee and commission income comprises:

	2023	2022
Fee and commission income		
Plastic cards	7,775	6,630
Settlement operations	6,357	6,545
Cash operations	1,817	1,683
Other	292	234
Total fee and commission income	**16,241**	**15,092**
Fee and commission expense		
Plastic cards	(8,795)	(6,877)
Cash operations	(2,681)	(2,076)
Central Credit Registry fees	(440)	(411)
Settlement operations	(414)	(255)
Other	(1,091)	(1,951)
Total fee and commission expense	**(13,421)**	**(11,570)**
Net fee and commission income	**2,820**	**3,522**

Commission expenses in the amount of AZN 1,580 thousand incurred on cash transactions at third party vendor terminals are presented within "cash operations" line in disclosure note (2022: AZN 1,692 thousand). Included in "Other" line is AZN 1,054 thousand fee (2022: AZN 1,796 thousand) for data processing center services provided by third party.

28. Personnel, General and Administrative Expenses

Personnel expenses comprise:

	2023	2022
Salaries	36,816	31,595
Social security costs	4,995	4,404
Other employee related expenses	174	106
Personnel expenses	**41,985**	**36,105**

General and administrative expenses comprise:

	2023	2022
Deposit insurance fee	5,801	4,760
Consultancy and other professional services	4,796	3,551
Data processing	2,986	2,636
Advertising and marketing expenses	1,478	1,443
Stationery and office supplies	1,387	1,095
Security services	1,036	952
Repair and maintenance	883	969
Communications	834	788
Taxes other than income tax	829	977
Expense from disposal of repossessed collateral	812	3,638
Occupancy and rent	186	33
Business travel expenses	120	225
Other expenses	1,220	1,312
Total general and administrative expenses	**22,368**	**22,379**

The annual fee for the external audit of the Bank's financial statements for 2023 is AZN 176 thousand, net of VAT.

(Figures in tables are in thousands of Azerbaijani manats)

29. Reconciliation of Liabilities Arising from Financing Activities

The table below sets out movements in the Bank's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as financing activities in the statement of cash flows:

	Liabilities from financing activities				
	Borrowed funds	**Subordinated loans**	**Debt securities issued**	**Lease liabilities**	**Total**
Liabilities from financing activities at 1 January 2022	**48,377**	**23,105**	**-**	**4,013**	**75,495**
Cash movements					
Proceeds during the year	13,807	-	8,543	-	22,350
Repayment of principal	(21,014)	-	-		(21,014)
Repayment of interest	(1,037)	(827)	-	-	(1,864)
Repayment of lease				(1,687)	(1,687)
Non-cash movements					
Additions	-	-	-	531	531
Conversion of senior debt into preferred shares	(11,782)	11,782	-	-	-
Shareholders' waiver of interest on subordinated debt and result of conversion of senior debt into preferred shares	-	(4,769)	-	-	(4,769)
Unwinding of interest expense	1,430	2,464	-	346	4,240
Foreign currency translation difference	-	(33)	-	-	(33)
Other movements	98	(619)	-	61	(460)
Liabilities from financing activities at 31 December 2022	**29,879**	**31,103**	**8,543**	**3,264**	**72,789**
Cash movements					
Proceeds during the year	69,170	-	-	-	69,170
Repayment of principal	(16,447)	-	-		(16,447)
Repayment of interest	(1,062)	-	(468)	-	(1,530)
Repayment of lease				(1,670)	(1,670)
Non-cash movements					
Additions	-	-	-	120	120
Unwinding of interest expense	2,741	3,273	468	406	6,888
Modifications	-	-	-	1,541	1,541
Other movements	208	-	-	-	208
Liabilities from financing activities at 31 December 2023	**84,489**	**34,376**	**8,543**	**3,661**	**131,069**

30. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by respective Executive Director (ED) (Business and Retail) and CFO (Treasury), and for which discrete financial information is available. The ED and CFO allocate resources and assess the performance of the segments for the Bank. The functions of ED are performed by members of the Management Board.

a) Description of products and services from which each reportable segment derives its revenue

The Bank is organised on the basis of three main business segments:

- Business – representing loan and other credit facilities, current accounts, deposits, overdrafts of business customers managed by responsible persons of Micro and Agro Clients Department and SME and Corporate Departments. Customers of this segment are legal entities and entrepreneurs;
- Retail – representing private banking services, private customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages. These accounts are managed by responsible persons of Retail Banking Department;
- Treasury – interbank lending and borrowings, investment and securities trading activities, foreign exchange services, issuance of bonds and other treasury activities.

(b) Factors that management used to identify the reportable segments

The Bank's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different sales and marketing strategies and different expertise.

Segment financial information reviewed by the Management Board includes operating results and the statement of financial position.

Management, therefore, applied the core principle of IFRS 8 "Operating Segments", in determining which of the overlapping financial information sets should form the basis of operating segments.

(c) Measurement of operating segment profit or loss, assets and liabilities

The ED reviews financial information prepared based on IFRS Accounting Standards. Financial information displays certain aspects:

(i) income taxes are not allocated to segments;

(ii) liquidity management activities, including risk hedging, are included under "treasury" segment

As stated above, the differences are of allocation, not of measurement nature. The ED evaluates performance of each segment based on net segment result, derived from the activities directly attributable to the responsibilities of the segment

(Figures in tables are in thousands of Azerbaijani manats)

30 Segment Analysis (Continued)

(d) Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2023 is set out below:

2023	Business	Retail	Treasury	Total
Interest income	136,602	41,593	11,200	189,395
Fee and commission income	9,580	6,661	-	16,241
Interest income on finance leases	1,453	-	-	1,453
Total revenues	**147,635**	**48,254**	**11,200**	**207,089**
Interest expense	(3,214)	(61,287)	(10,808)	(75,309)
Fee and commission expense	(7,916)	(5,505)	-	(13,421)
Operating expenses	(49,699)	(22,500)	(325)	(72,524)
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition	110	-	-	110
Net gain on foreign exchange operations	2,250	1,675	-	3,925
Foreign exchange translation gains less losses	-	-	(95)	(95)
Gains less losses from sale of investment securities	-	-	-	-
Gains less losses from financial derivatives	-	-	(2,494)	(2,494)
Credit loss recovery	3,213	475	-	3,688
Cost of debt recovery	(1,963)	(289)	-	(2,252)
Net segment result	**90,416**	**(39,177)**	**(2,522)**	**48,717**

Net segment result	**48,717**
Government grant income	261
Other income	806
Income tax charge	(6,767)
Profit for the year	**43,017**

(Figures in tables are in thousands of Azerbaijani manats)

30 Segment Analysis (Continued)

Segment information for the reportable segments for the year ended 31 December 2022 is set out below:

2022	Business	Retail	Treasury	Total
Interest income	111,065	24,385	3,331	138,781
Fee and commission income	11,155	3,937	-	15,092
Interest income on finance leases	698	-	-	698
Total revenues	**122,918**	**28,322**	**3,331**	**154,571**
Interest expense	(5,923)	(47,233)	(3,871)	(57,027)
Fee and commission expense	(8,491)	(3,079)	-	(11,570)
Operating expenses	(49,806)	(15,942)	(340)	(66,088)
Gains less losses from modification of financial assets measured at amortised cost, that did not lead to derecognition	(1,942)	-	-	(1,942)
Net gain on foreign exchange operations	4,048	976	-	5,024
Foreign exchange translation gains less losses	-	-	(141)	(141)
Gains less losses from sale of investment securities	-	-	(81)	(81)
Gains less losses from financial derivatives	-	-	(5,868)	(5,868)
Credit loss recovery	8,936	611	-	9,547
Cost of debt recovery	(2,837)	(233)	-	(3,070)
Net segment result	**66,903**	**(36,578)**	**(6,970)**	**23,355**

Net segment result	**23,355**
Government grant income	387
Other income	590
Income tax charge	(3,837)
Profit for the year	**20,495**

(Figures in tables are in thousands of Azerbaijani manats)

30 Segment Analysis (Continued)

Segment assets:

2023	Segment assets	Business	Retail	Treasury
Cash and cash equivalents	164,526	32,905	131,621	-
Amounts due from credit institutions	65,911	-	-	65,911
Loans to customers	990,282	770,322	219,960	-
Investment securities	93,812	-	-	93,812
Repossessed collateral	9,589	9,589	-	-
Total segment assets	**1,324,120**	**812,816**	**351,581**	**159,723**
Property and equipment	31,565			
Intangible assets	15,733			
Deferred tax assets	3,360			
Right of use assets	3,528			
Other financial assets	14,781			
Other assets	5,547			
Total assets as per financial statements	**1,398,634**			

2022	Segment assets	Business	Retail	Treasury
Amounts due from credit institutions	1,957	-	-	1,957
Loans to customers	790,773	649,486	141,287	-
Investment securities	94,247	-	-	94,247
Repossessed collateral	16,915	16,915	-	-
Total segment assets	**903,892**	**666,401**	**141,287**	**96,204**
Amounts due from credit institutions	31,303			
Cash and cash equivalents	118,958			
Property and equipment	31,413			
Intangible assets	16,072			
Deferred tax assets	10,127			
Right of use assets	3,368			
Other financial assets	8,733			
Other assets	3,738			
Total assets as per financial statements	**1,127,604**			

(Figures in tables are in thousands of Azerbaijani manats)

30 Segment Analysis (Continued)

Segment liabilities:

2023	Segment liabilities	Business	Retail	Treasury
Amounts due to customers	1,078,873	220,989	857,884	-
Amounts due to credit institutions	23,541	1,497	444	21,600
Debt securities issued	8,543	-	-	8,543
Borrowed funds	84,489	26,334	5,923	52,232
Subordinated loans	34,376	26,505	7,871	-
Derivative financial liabilities	1,080	-	-	1,080
Total segment liabilities	**1,230,902**	**275,325**	**872,122**	**83,455**
Lease liabilities	3,661			
Deferred income	156			
Other financial liabilities	9,604			
Other liabilities	6,794			
Total liabilities as per financial statements	**1,251,117**			

2022	Segment liabilities	Business	Retail	Treasury
Amounts due to customers	883,617	152,600	731,017	-
Amounts due to credit institutions	49,910	-	-	49,910
Debt securities issued	8,543	-	-	8,543
Borrowed funds	29,879	24,773	5,106	-
Subordinated loans	31,103	23,696	7,407	-
Derivative financial liabilities	3,804	-	-	3,804
Total segment liabilities	**1,006,856**	**201,069**	**743,530**	**62,257**
Lease liabilities	3,264			
Deferred income	417			
Other financial liabilities	5,007			
Other liabilities	7,527			
Total liabilities as per financial statements	**1,023,071**			

(e) Analysis of revenues by products and services

The Bank's revenues are analysed by products and services in the statement of profit or loss and other comprehensive income (interest income) and Note 27 (fee and commission income).

31. Risk Management

The Bank is exposed to financial and operational risks. Risk exposure is integral to the Bank's business. The Bank's risk management function's aim is to achieve an appropriate balance between risk and return and to minimise potential adverse effects on the Bank's financial performance.

Risk Management Framework

The Management Board is the primary body responsible for the risk management function in the Bank. The risk management function is carried out in respect of financial risks and operational risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function of the Management Board are (i) determining and assessing the specific risks of the Bank's activity, (ii) establishing risk limits and (iii) ensuring that the exposures stay within these limits. The Management Board is also responsible for ensuring an appropriate balance between risk and return, whilst minimizing any potential adverse effects on the Bank's financial performance. The operational risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

31 Risk Management (Continued)

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

Risk Management Bodies and Governance

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

The Supervisory Board has overall responsibility for the oversight of the risk management framework. This includes the management of key risks, along with the review and approval of risk management policies and key risk limits such as large exposures, economic and product sector limits. It also delegates certain risk supervision authority levels to the Management Board, the Risk Committee and the Asset and Liability Committee ("ALCO").

Overall roles and responsibilities for the risk management framework are shown below:

Responsibility area	***Supervising body***	***Executive Management***
Strategic and organizational risk	Supervisory Board	Management Board
Credit risk	Management Board / Risk Committee	Business Banking / Risk Department
Market and liquidity risk	Risk Committee, ALCO	Finance/Treasury
Operational risks	Management Board	Internal Audit / Risk Department

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Bank identifies, measures, monitors and controls the risk inherent in individual credits or transactions as well as the risk of the entire portfolio. The Bank sets limits on the amount of risk it is willing to accept for individual counterparties and for sector, region, industry and product concentrations and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed, to take corrective action and to provide adequate capital against credit risk incurred.

Credit-related commitments risks

The Bank offers guarantees to its customers which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying amount represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 9.

31 Risk Management (Continued)

Impairment assessment

IFRS 9's impairment requirements have been applied to all debt instruments that are measured at AC and to off-balance sheet lending commitments such as overdrafts, credit cards, credit lines and financial guarantees (hereafter "Financial Assets").

Provisions are taken upon initial recognition of the financial asset, based on the expected credit losses (ECL) at the time of initial recognition. For individually significant credit exposures, defined credit exposures by obligor who are at the end of the latest reporting date in Stage 3, and for financial instruments and securities, the Bank assesses individually their ECL. For credit exposures that are not individually significant and credit exposures that are significant but for which there is no objective evidence of impairment the ECL are assessed collectively.

The bank applies IFRS 9's three stage approach to impairment for financial assets at initial recognition and at each reporting date as follows:

- **Stage 1**: the bank recognizes a credit loss allowance equal to 12-month ECL. These are calculated for financial assets where there has not been a significant increase in credit risk since initial recognition, and they represent the ECL from potential default events that might materialize within 12 months of the reporting date for those financial assets.
- **Stage 2**: the bank recognizes a credit loss allowance equal to lifetime ECL for the financial assets where there has been a significant increase in credit risk since initial recognition. This requires the computation of ECL based on the lifetime probability of default (i.e. the probability of default occurring over the remaining lifetime of a financial asset).
- **Stage 3**: the bank recognizes a loss allowance equal to lifetime ECL, reflecting a PD of 100%, for the financial assets that are deemed credit impaired.

For credit risk modelling purposes Bank has applied 3 stage approach to impairment of financial assets. At initial recognition, financial assets (except for POCI) are assigned to Stage 1. Based on the contamination concept (including its exceptions), if there is a SICR the financial asset is transferred to Stage 2 and to Stage 3 based on the obligor's default status. POCI are assigned to Stage 3 at origination.

Significant increase in credit risk (SICR)

Financial assets classified as Stage 2 have experienced a SICR since initial recognition. The bank uses two criteria to determine if there has been a SICR:

- A backstop of 30 days past due for all its credit products,
- A financial asset has been restructured and was not more than 90 days past due.

To determine whether there is a SICR for a financial asset the bank has considered all reasonable and supportable information that is relevant without undue cost or effort.

Financial assets, with the exception of POCI (purchased or originated credit impaired), can also move to Stage 1 from Stage 2 should the credit risk subsequently reduce or no longer represent a SICR since initial recognition. The bank has applied a probation period of 6 months for non-restructured credit exposures and 12 months for all restructured credit exposures, regardless of whether a financial asset has less than 31 days past due at the reporting date. This probation period resets whenever the credit exposure is re-restructured with standard restructured classification or every time it exceeds 30 days past due. Financial assets can also move to Stage 2 (and afterwards Stage 1, except for POCI) from Stage 3 should the financial asset no longer be credit impaired. The bank has applied a probation period of 12 months for all credit exposures that were credit impaired, regardless of whether a financial asset has less than 91 days past due at the reporting date.

This probation period resets whenever the credit exposure is re-restructured with restructured impaired classification or every time it exceeds 90 days past due. For non-restructured credit exposures, additionally during the probation period obligors must have paid at least interest to move to a lower Stage, while for restructured credit exposures, obligors must have paid 10% of the principal in the last time the borrower fulfilled the Stage 3 criteria. POCI financial assets cannot move from Stage 3 to another Stage regardless of the obligor's days past due or default status.

31 Risk Management (Continued)

Contamination concept

For both restructuring and days past due the bank applies the contamination concept to all its financial assets. Contamination refers to the concept that if any part of a credit exposure towards an obligor is restructured and/or in days past due all the credit exposure is treated as restructured and/or in days past due. Furthermore, the bank applies the contamination concept by the worse classification, i.e. restructuring classification and/or days past due.

However, the contamination concept is not applied for these cases:

- Immaterial amount of credit products with technical problems,
- Any part of a credit exposure that is deemed insignificant, i.e. which represents less than 20% of the total credit exposure.

Definition of default and cure

The Bank has defined a default event as any of the below criteria:

- A backstop of 90 days past due for all its credit products,
- Restructured impaired if last restructuring was performed in the last 12 months,
- Purchased and credit impaired at origination (POCI).

Except for POCI, if 12 months after the last default event the borrower is no longer considered as defaulted if:

- There was no other default event within the last 12 months,
- The borrower paid at least 10% of the outstanding principal 12 months before.

This definition is in line with the regulatory definition of default used by the Bank for capital and regulatory reporting, as well as IFRS 9's rebuttable presumption that default does not occur later than when a payment of principal or interest is 90 days past due.*PD estimation process*

12-months PD is calculated based on average monthly discrete-time migration matrices between PAR buckets, repaid and written-off states which are powered to 12. Average yearly discrete-time migration matrices are then derived by powering the 12-month migration matrix to the number of remaining lifetime of pools of homogenous portfolios, these are used to calculate lifetime cumulative PD for Stage 2. For Stage 3 and POCI financial assets, PD is equal to 100%.

To assess accuracy of PD calculations, area under the curve (AUC) with confidence levels of 95% under the assumption of normal distribution. For all pools of loan portfolios, the AUC was higher than 60% with confidence levels of 95%. Furthermore, binomial test was performed for each Stage in the transition matrixes. For all 6 pools, all PAR buckets were significantly overestimated at a confidence level of 95%. From a risk point of view, underestimation is more critical, however for Stage 3 PD is assumed to be 100% and not the PD estimated by the transition matrix modelling.

For off-balance sheet customer financial assets, the following ECL rates are applied:

- if the borrower has on-balance sheet credit exposures: the borrower's ECL rate, considering the Bank's contamination concept;
- if the borrower has no on-balance sheet credit exposures: Stage 1 non-restructured ECL rate depending on the borrower's client segment (i.e. microenterprise, SME or retail).

LGD was calculated for all collective assessed borrowers as the net present value of discounted cash-flows taking into consideration:

- All repayments, including repossessed collateral,
- All partial writes-offs of accrued interest and/or principal.

Cash-flows were discounted by using the effective interest rate of each financial asset at the reporting date. IFRS 9 requires expected discounted cash flows from collateral and other credit enhancements. Although the bank requests different types of collateral from borrowers, only future recoveries from real estate collateral was considered, as from the experience of the bank these are the most likely to be realized. The bank does periodical re-valuation of these and thus the current collateral (liquidation) value of the real estate collateral was used.

31 Risk Management (Continued)

The Bank has updated LGD model during 2023. Updates to the model consider below mentioned elements:

- A maximum recovery span of four years has been computed, beyond which the LGD ratio escalates to 100%.
- Recoveries from Individually assessed customers have been excluded from the calculation as well as from defaulted exposure.
- To avoid bias, LGD was only calculated for borrowers for whom the first default date had occurred more than 18 months before the latest reporting date.
- Generalized approach to repossessed assets has been applied. After discounting of their sales values to repossession date with average historical loan interest rates, the discounted value has been considered as the payment of repossession date.

As for the Micro and Retail & Staff portfolios the Bank does not typically take real estate as collateral, the Bank has reflected real estate collateral in the ECL calculation only for its SME portfolio as future expected recoveries. Expected cash-flows from future recoveries from the realization/repossession of real estate was discounted assuming the cash-flow occurs up to 4 years from the first default date. No CCF was computed for real estate as from the historical data available there was no strong correlation between PD and real estate prices.

The total effect of LGD model update accounts for AZN 492 thousand ECL increase (Micro segment – AZN 158 thousand increase, Retail & Staff segment – AZN 1, 572 thousand increase, SME segment – AZN 1.238 thousand decrease). While AZN 585 thousand increase belongs to Stage 1 loans, impact from stage 2 and stage 3 loans were AZN 176 thousand increase and AZN 269 thousand decrease, respectively.

Nevertheless, any past recoveries from any type of collateral sale/repossession was considered for the calculation of LGD of all loan customer portfolios and discounted according to the date on which the cash-inflow occurred. Forward-looking estimates were added as an overlay to adjust the 12-month and lifetime ECL.

Individually assessed allowances

Individual assessment is performed at borrower level with exposure above USD 500 thousand in default. Individual assessments are performed based on probability-weighted scenarios net present value of expected cash-flows resulting from repayment expectations and sale/repossession of collateral. Expected cash-flows incorporate certain discounts to on-balance amounts and thus are risk weighted. These are discounted by using the effective interest rate of each financial asset at the reporting date.

For individual assessed borrowers, the Bank has identified payment ability in cash based on their business and discussions and consent of the borrower. Based on these assessments, the Bank has concluded that most of businesses are able to generate cash flows and only some of these businesses will not be able to generate income, thus collateral will be the most likely source of repayments.

For Financial Leasing loans, because of product specifications and small sample size they have been assessed individually. This product is based on the sale of repossessed assets with the condition that the assets are possessed by the Bank until maturity and in certain predefined conditions the Bank holds the right to stop the contract and repossess the assets. Therefore, the Bank does not carry significant credit risk.

For this product, in terms of individual ECL calculation, minimum of 10% threshold has been applied. The idea behind this approach is that, generally the Bank sells repossessed assets with up to 10% discount.

Collectively assessed allowances

When estimating ECLs for collective assessments, IFRS 9 suggests that loans are grouped in pools of loans based on shared credit risk characteristics. Examples of the criteria given in the Standards are:

- Instrument type,
- Credit risk ratings,
- Collateral type,
- Date of initial recognition,
- Remaining term of maturity,
- Industry,
- Geographic location of the borrower

(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

Micro	SME	Retail
Restructured loans • Non-restructured loans disbursed prior to 2016	Restructured loans • Non-restructured loans disbursed prior to 2016	Restructured loans • Non-restructured loans disbursed prior to 2016
Non-restructured loans disbursed after 2015	Non-restructured loans disbursed after 2015	Non-restructured loans disbursed after 2015

Restructured loans and non-restructured loans disbursed prior to 2016 have been most affected by the macroeconomic crisis, thus the Bank has pooled these customer loan portfolios together.

Loss given default

If an obligor defaults, the bank calculates the LGD applying the contamination concept as described above. The LGD that the bank will incur depends on:

- The EAD of the obligor,
- the workout period,
- the recoveries within the workout period from repayments, collateral realization or repossession of collateral.
- Years since the last default

Based on expert judgment the bank estimates that the workout period is up to 4 years or until write-off since the first date the obligor defaults. That is, recoveries from written-off portfolio are not considered for LGD calculation.

Exposure at default (EAD)

For revolving financial assets and off-balance credit commitments, based on expert judgment, EAD is considered as the approved limit and/or commitment with the Bank. Thus, it does not match the amount outstanding in the financial statements of the Bank. This portfolio represents on average less than 1% of the total outstanding portfolio and thus there is insufficient historical information to model EAD. Thus, the Bank has opted for a more conservative approach by assuming that there is a high probability that in case of default the borrower will have drawn fully or almost fully the approved limit before there are evidences of SICR. Due to the size of this portfolio the assumption has immaterial impact in the final ECL calculation.

For all remaining financial assets, the Bank has considered the outstanding credit exposure (including accrued interest) at the reporting date.

Forward looking modelling

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as non-oil GDP Growth, Brent oil price and Consumer Price Index (CPI). During 2023 some updates were made to the inputs and the changes are reflected in Note 4.

- Adverse and Upside Scenarios - was generated by the expert judgement of the Bank taking into the account the predictions of governmental and international financial institutions.
- To incorporate forward-looking information into the ECL allowances, the Bank calculates overlay based on a probability-weighted 3-scenarios model: Baseline Scenario reflects the most probable state of the economy balanced by risks from both sides. The Bank has used macroeconomic forecasts provided by the CBAR (Central Bank of Azerbaijan Republic) and the State Statistical Committee, covering several macroeconomic variables which were deemed as the most relevant for the portfolio (e.g., foreign exchange rates, capital investment, nominal average wages, Brent oil prices, non-oil GDP growth, Consumer Price Index, Real GDP growth) and reflect those institutions' view of the most likely development for those variables. These variables are forecasted over a three-year period. In the absence of further forecasted years which would match the remaining lifetime of the financial assets the Bank has taken the 3rd forecasted year for the remaining forecasted years. The alternative scenarios consider different types of shocks. The shocks are selected based on their relevance to current circumstances

The most probable scenario is based on the predictions of governmental and international financial institutions, therefore the probability of this scenarios is 50 %. The rest scenarios: Adverse and Upside has equal chances and each of them has the probability of 25 %. And historically there have been too rare cases when actual results differed from projected ones beyond 25 % threshold.

(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

Credit quality per class of financial assets

External ratings. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of PD are applied for the following financial instruments: amounts due from the CBAR, balances on correspondent accounts including overnight deposits and term deposits, investment in debt securities.

Master scale credit risk grade	Corresponding ratings of external international rating agencies (Moody's)	Corresponding PD interval
Excellent	Aaa to Baa3	0,01% - 0,5%
Good	Ba1 to B1	0,51% - 3%
Satisfactory	B2, B3	3% - 10%
Special monitoring	Caa1+ to Ca	10% - 99,9%
Default	C	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

The credit quality of financial assets is disclosed within each relevant Note.

As at 31 December 2023 and 31 December 2022 guarantees and loan commitments distribution between stages is as follows. For further information refer to Note 26.

As at 31 December 2023	Stage 1	Total
Financial guarantees	9,094	9,094
Undrawn loan commitment	17,177	17,177
Total	**26,271**	**26,271**

As at 31 December 2022	Stage 1	Total
Financial guarantees	9,892	9,892
Undrawn loan commitment	14,195	14,195
Total	**24,087**	**24,087**

(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

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

	2023				2022			
	Azerbaijan	**OECD**	**CIS and other countries**	**Total**	**Azerbaijan**	**OECD**	**CIS and other countries**	**Total**
Financial assets								
Cash and cash equivalents	81,769	80,933	1,824	164,526	109,677	8,925	356	118,958
Amounts due from credit institutions	65,909	2	-	65,911	32,674	586	-	33,260
Investment securities	76,543	17,269	-	93,812	80,849	13,398	-	94,247
Loans to customers	990,282	-	-	990,282	790,773	-	-	790,773
Other financial assets	12,797	1,375	609	14,781	6,992	1,427	314	8,733
Total financial assets	**1,227,300**	**99,579**	**2,433**	**1,329,312**	**1,020,965**	**24,336**	**670**	**1,045,971**
Financial liabilities								
Amounts due to credit institutions	23,541	-	-	23,541	49,910	-	-	49,910
Amounts due to customers	1,036,913	12,520	29,440	1,078,873	848,762	12,809	22,046	883,617
Borrowed funds	84,489	-	-	84,489	29,879	-	-	29,879
Other financial liabilities	5,869	667	3,068	9,604	4,883	42	82	5,007
Derivative financial liabilities	1,080	-	-	1,080	3,804	-	-	3,804
Debt securities issued	-	-	-	-	8,543	-	-	8,543
Subordinated loans	-	34,376	-	34,376	-	31,103	-	31,103
Total financial liabilities	**1,151,892**	**47,563**	**32,508**	**1,231,963**	**945,781**	**43,954**	**22,128**	**1,011,863**
Net position in on-balance sheet financial instruments	**75,408**	**52,016**	**(30,075)**	**97,349**	**75,184**	**(19,618)**	**(21,458)**	**34,108**
Credit related commitments	**24,535**	**-**	**-**	**24,535**	**23,087**	**-**	**-**	**23,087**

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31 Risk Management (Continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Bank cannot meet its payment obligations when they fall due under normal or stress circumstances. To limit this risk, management has established a broad range of diversified funding sources in addition to its core deposit base. As part of the asset-liability management the Bank monitors and steers its liquidity position based on the expected future cash in and outflows on a daily basisThe Bank pursues a policy of keeping at all times a comfortable level of liquid funds mainly in form of cash on accounts with the CBAR and highly rated international banks in OECD countries. In addition, the Bank maintains with the CBAR a cash deposit (obligatory reserve), the amount of which depends on the level of customer deposits attracted.

The liquidity position is assessed and managed by the Bank primarily on a standalone basis and is monitored against regulatory requirements. A key ratio set up by the CBAR for assessing the liquidity position is the Instant Liquidity Ratio which is defined as the relation of highly liquid assets to liabilities payable on demand. The ratio is 74% as at 31 December 2023 (31 December 2022: 64%), as compared to the minimum percentage required by the CBAR of 30%.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The daily liquidity position is monitored and regular liquidity stress testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department.

Maturity analysis of assets and liabilities

Analysis of financial liabilities by remaining contractual maturities

The table below shows liabilities at 31 December 2023 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations (before deducting future finance charges), gross loan commitments and financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

Financial derivatives are included at the contractual amounts to be paid or received, unless the Bank expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows. For the purposes of the maturity analysis, embedded derivatives are not separated from hybrid (combined) financial instruments.

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

Repayments which are subject to notice are treated as if notice were given immediately. In accordance with the Azerbaijan legislation, the Bank is obliged to repay the principal amounts of a term deposit upon demand of a depositor. However, in line with its deposit retention history the Bank expects the average deposit tenors to exceed the contractual maturities of its customer deposits that are displayed below. Term deposits of individuals are included in due to customers at their contractual maturities. The borrowed funds from international lenders are shown in the below table based on the contractual repayment schedules.

(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

The table below shows liabilities at 31 December 2023 by their remaining contractual maturity:

	Less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to credit institutions	(3,073)	(10,355)	(10,853)	-	-	(24,281)
Amounts due to customers	(412,555)	(167,890)	(311,130)	(241,139)	(2,700)	(1,135,414)
Borrowed funds	-	(3,190)	(10,509)	(84,663)	(5,783)	(104,145)
Lease liabilities	(216)	(613)	(850)	(3,586)	(49)	(5,314)
Debt securities issued	-	8,734	-	-	-	8,734
Subordinated loans	-	(92)	(13,058)	(8,623)	(23,269)	(45,042)
Gross settled swaps						
- contractual amounts payable	(224)	-	(28,244)	-	-	(28,468)
- contractual amounts receivable	34	-	27,359	-	-	27,393
Net settled derivatives	-	(1,080)	-	-	-	(1,080)
Gross loan commitments	(17,177)	-	-	-	-	(17,177)
Financial guarantees	(9,094)	-	-	-	-	(9,094)
Other financial liabilities	(9,604)	-	-	-	-	(9,604)
Total potential future payments for financial obligations	**(451,909)**	**(174,486)**	**(347,285)**	**(338,011)**	**(31,801)**	**(1,343,492)**

The table below shows liabilities at 31 December 2022 by their remaining contractual maturity:

	Less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Financial liabilities						
Amounts due to credit institutions	(30,168)	(2,631)	(18,375)	-	-	(51,174)
Amounts due to customers	(314,997)	(219,554)	(269,817)	(122,684)	(2,074)	(929,126)
Borrowed funds	(24)	(121)	(2,132)	(23,807)	(4,190)	(30,274)
Lease liabilities	(133)	(637)	(733)	(3,016)	(67)	(4,586)
Debt securities issued	-	(234)	(234)	(8,734)	-	(9,202)
Subordinated loans	-	(91)	(92)	(19,614)	(25,428)	(45,225)
Gross settled swaps						
- contractual amounts payable	(1,502)	-	(54,536)	-	-	(56,038)
- contractual amounts receivable	92	-	52,843	-	-	52,935
Net settled derivatives	-	-	(3,804)	-	-	(3,804)
Gross loan commitments	(14,195)	-	-	-	-	(14,195)
Financial guarantees	(9,892)	-	-	-	-	(9,892)
Other financial liabilities	(5,007)	-	-	-	-	(5,007)
Total potential future payments for financial obligations	**(375,826)**	**(223,268)**	**(296,880)**	**(177,855)**	**(31,759)**	**(1,105,588)**

Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Bank expects that not all of the contingent liabilities or commitments will be drawn before contractual expiry of the commitments, which is shown below:

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(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

	Less than 1 month	1 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
2023	5,048	11,526	5,632	4,055	10	**26,271**
2022	5,479	7,360	5,325	5,923	-	**24,087**

The tables below show resulting liquidity gap of the Bank on discounted basis by remaining contractual maturity. The maturity analysis of financial instruments at 31 December 2023 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	164,526	-	-	-	-	164,526
Investments in debt securities	26,762	25,182	9,423	32,444	-	93,811
Due from credit institutions	62,239	-	3,672	-	-	65,911
Loans to customers	84,390	211,308	229,251	460,718	4,614	990,281
Other financial assets	14,781	-	-	-	-	14,781
Total	**352,698**	**236,490**	**242,346**	**493,162**	**4,614**	**1,329,310**
Liabilities						
Amounts due to credit institutions	(3,068)	(10,185)	(10,288)	-	-	(23,541)
Amounts due to customers	(412,122)	(161,537)	(288,060)	(214,035)	(3,119)	(1,078,873)
Borrowed funds	-	(825)	(7,186)	(70,695)	(5,783)	(84,489)
Lease liabilities	(185)	(394)	(562)	(2,488)	(32)	(3,661)
Debt securities issued	-	(8,543)	-	-	-	(8,543)
Subordinated debt	-	(88)	(12,640)	(6,702)	(14,946)	(34,376)
Gross settled swaps						
- inflows	34	-	27,200	-	-	27,234
- outflows	(224)	-	(27,200)	-	-	(27,424)
Net settled derivatives	-	-	-	(1,080)	-	(1,080)
Gross loan commitments	(17,177)	-	-	-	-	(17,177)
Financial guarantees	(9,094)	-	-	-	-	(9,094)
Other financial liabilities	(9,604)	-	-	-	-	(9,604)
Total potential future payments for financial obligations	**(451,440)**	**(181,572)**	**(318,736)**	**(295,000)**	**(23,880)**	**(1,270,628)**
Liquidity gap arising from financial instruments	**(98,742)**	**54,918**	**(76,390)**	**198,162**	**(19,266)**	**58,682**
Cumulative liquidity gap	**(98,742)**	**(43,824)**	**(120,214)**	**77,948**	**58,682**	

(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	Total
Assets						
Cash and cash equivalents	118,958	-	-	-	-	118,958
Investments in debt securities	69,672	-	-	24,575	-	94,247
Due from credit institutions	32,674	-	586	-	-	33,260
Loans to customers	55,867	164,803	187,499	378,272	4,332	790,773
Other financial assets	8,733	-	-	-	-	8,733
Total	**285,904**	**164,803**	**188,085**	**402,847**	**4,332**	**1,045,971**
Liabilities						
Amounts due to credit institutions	(29,910)	(2,000)	(18,000)	-	-	(49,910)
Amounts due to customers	(314,732)	(213,154)	(248,666)	(104,991)	(2,074)	(883,617)
Borrowed funds	-	-	(2,132)	(23,557)	(4,190)	(29,879)
Lease liabilities	(107)	(499)	(558)	(2,091)	(9)	(3,264)
Debt securities issued		(228)	(222)	(8,093)	-	(8,543)
Subordinated debt	-	(89)	(86)	(16,516)	(14,412)	(31,103)
Gross settled swaps						
- inflows	92	-	52,700	-	-	52,792
- outflows	(1,502)	-	(52,700)	-	-	(54,202)
Net settled derivatives	-	-	(3,804)	-	-	(3,804)
Gross loan commitments	(14,195)	-	-	-	-	(14,195)
Financial guarantees	(9,892)	-	-	-	-	(9,892)
Other financial liabilities	(5,007)	-	-	-	-	(5,007)
Total potential future payments for financial obligations	**(375,253)**	**(215,970)**	**(273,468)**	**(155,248)**	**(20,685)**	**(1,040,624)**
Liquidity gap arising from financial instruments	**(89,349)**	**(51,167)**	**(85,383)**	**247,599**	**(16,353)**	**5,347**
Cumulative liquidity gap	**(89,349)**	**(140,516)**	**(225,899)**	**21,700**	**5,347**	

The Bank's capability to repay its liabilities relies on its ability to realize an equivalent amount of assets within the same period of time. The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates that these customer accounts provide a long-term and stable source of funding for the Bank.

Included in due to customers are term deposits of individuals. In accordance with the Azerbaijan legislation, the Bank is obliged to repay the principal amounts of such deposits upon demand of a depositor. Refer to Note 20.

As at 31 December 2023 the Bank was in compliance with covenants under financing agreements, as disclosed in the Note 26.

(Figures in tables are in thousands of Azerbaijani manats)

31 Risk Management (Continued)

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Bank does not maintain any trading positions. Non-trading positions are managed and monitored using sensitivity analysis. Except for concentrations in foreign currencies, the Bank has no significant concentrations of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ALMC on regular basis reviews the overall interest rate spreads by detailed analysis of the assets and liabilities interest rate structure. The Bank is constantly monitoring interest rate gap. As of 31 December 2023 and 2022, the Bank does not have any financial assets and liabilities with floating interest rate.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBAR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against AZN, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income or equity, while a positive amount reflects a net potential increase.

	At 31 December 2023				At 31 December 2022			
	Monetary financial assets	**Monetary financial liabilities**	**Derivatives**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Derivatives**	**Net position**
USD	131,897	(175,597)	46,232	2,532	152,207	(186,461)	51,234	16,980
EUR	12,155	(10,184)	-	1,971	13,833	(13,839)	-	(6)
GBP	147	(2,286)	-	(2,139)	5,807	(5,437)	-	370
Total	**144,199**	**(188,067)**	**46,232**	**2,364**	**171,847**	**(205,737)**	**51,234**	**17,344**

Currency	**Increase in exchange rate* in % in 2023**	**Effect on profit before tax 2023**	**Increase in exchange rate* in % in 2022**	**Effect on profit before tax 2022**
USD/AZN	14.00	(173)	14.00	(4,796)
EUR/AZN	14.00	276	14.00	373
GBP/AZN	14.00	(299)	14.00	73

* *This means appreciation of the currencies indicated in the table against AZN (after engaging in derivative agreements).*

Currency	**Decrease in exchange rate** in % in 2023**	**Effect on profit before tax 2023**	**Decrease in exchange rate** in % in 2022**	**Effect on profit before tax 2022**
USD/AZN	(3.00)	37	(3.00)	1,028
EUR/AZN	(3.00)	(59)	(3.00)	318
GBP/AZN	(3.00)	64	(3.00)	7

** *This means devaluation of the currencies indicated in the table against AZN (after engaging in derivative agreements).*

Bank's USD denominated exposure is gradually decreasing, mostly on the "Loans to customers" side. Open currency position is managed (hedged) based on regulatory reporting.

31 Risk Management (Continued)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it has a control framework to manage such risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank has adopted detailed procedures for managing operational risks which are centred on a strict KYC (Know Your Customer) policy and which serve to protect the Bank, its customers and the laws. The procedures have been prepared in accordance with FATF (Financial Action Task Force) and other international recommendations. T24 banking software improves operational risk management by allowing up-to-date information on all activities available for management analysis at any time.

The Internal Audit Department (IAD) plays an active role in the risk management process. The IAD focuses on and reviews the major regulatory, financial and operational risks which the Bank is facing to ensure the efficiency of the processes and controls. A risk based audit approach was adopted with the emphasis on processes in areas of higher risk. Internal control mechanisms were tested to assess their adequacy and appropriateness to the Bank’s business. In all audited areas, the management establishes relevant controls over activities that correspond to the level of risks inherent to these activities and processes.

32. Fair Value Measurement

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(Figures in tables are in thousands of Azerbaijani manats)

32 Fair Value Measurement (Continued)

		Fair value measurement using			
	Date of valuation	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets measured at fair value					
Investment securities	31 December 2023	676	-	-	676
Assets for which fair values are disclosed					
Investment securities	31 December 2023	79,370	11,971	40	91,381
Cash and cash equivalents	31 December 2023	44,683	119,842	-	164,525
Amounts due from credit institutions	31 December 2023	-	65,911	-	65,911
Loans to customers	31 December 2023	-	-	989,526	989,526
Other financial assets	31 December 2023	-	14,781	-	14,781
		-			
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2023	-	1,080	-	1,080
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2023	-	23,541	-	23,541
Amounts due to customers	31 December 2023	-	1,079,150	-	1,079,150
Borrowed funds	31 December 2023	-	84,487	-	84,487
Subordinated loans	31 December 2023	-	34,357	-	34,357

		Fair value measurement using			
	Date of valuation	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Assets measured at fair value					
Investment securities	31 December 2022	709	-	-	709
Assets for which fair values are disclosed					
Investment securities	31 December 2022	90,842	3,418	40	94,300
Cash and cash equivalents	31 December 2022	45,103	73,855	-	118,958
Amounts due from credit institutions	31 December 2022	-	33,260	-	33,260
Loans to customers	31 December 2022	-	-	791,736	791,736
Other financial assets	31 December 2022	-	8,733	-	8,733
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2022	-	3,804	-	3,804
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2022	-	49,910	-	49,910
Amounts due to customers	31 December 2022	-	881,881	-	881,881
Borrowed funds	31 December 2022	-	29,879	-	29,879
Subordinated loans	31 December 2022	-	-	29,614	29,614

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value.

(Figures in tables are in thousands of Azerbaijani manats)

32 Fair Value Measurement (Continued)

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

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

	Carrying value 2023	Fair value 2023	Unrecognised gain/(loss) 2023	Carrying value 2022	Fair value 2022	Unrecognised gain 2022
Financial assets						
Loans to customers	990,282	989,526	(755)	790,773	791,736	963
Investment securities	93,136	91,381	(1,755)	93,538	94,300	762
Financial liabilities						
Amounts due to customers	1,078,873	1,079,150	(318)	883,617	881,881	1,736
Borrowed funds	84,489	84,489	-	29,879	29,879	-
Subordinated loans	34,376	34,357	19	31,103	29,614	1,489
Debt securities issued	8,543	8,543	-	8,543	8,543	-
Total unrecognised change in fair value			**(2,809)**			**4,950**

As of 31 December 2023 and 31 December 2022, the fair value of cash and cash equivalents, amounts due from credit institutions and other financial current assets and liabilities are estimated to approximate carrying amount.

As of 31 December 2023 and 31 December 2022, the carrying amount of amounts due to credit institutions and other borrowed funds approximate their fair values as their interest rates are close to the market indices.

Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

Derivatives

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

Investment securities

Investment securities primarily consist of debt securities. These securities are valued using price quotations at the reporting date. Not quoted securities were valued by using similar observable transactions occurred close to reporting date.

Loans to customers

The fair value is estimated by expected present value technique, where risk premium is incorporated either into contractual cash flows or into discount rate, defined as the risk-free rate plus the risk premium determined for loan portfolios based on similar characteristics (from credit risk quality point of view) and operating profit margin determined as relevant for each loan segment. The Bank also benchmarks discount rates to interest rates observable from the published regulatory statistics on loans based on relevant maturity.

Current accounts and deposits from customers, Other borrowed funds

Current accounts are short-term non-interest-bearing liabilities and their carrying amount approximate fair value.

Term-deposits, fair value of amount due to banks, credit institutions and government funds is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturity.

(Figures in tables are in thousands of Azerbaijani manats)

32 Fair Value Measurement (Continued)

Borrowings from government funds, where no observable rates are available a Bank will price those instruments at base rate (refinancing or government bond rates) adjusted for non-performance risk (credit risk premium) of the Bank.

Bonds issued

Those with daily quotations for identical assets are in Level 1 measurement category and the price as of reporting date would be taken as such for disclosure purpose. The price of the bond is estimated by comparing it to corporate bonds with an active market, and that have similar maturities, coupon rates, and credit rating. The discount rate is determined as the risk free rate + credit risk premium of the Issuer.

Assets for which fair value approximates carrying amount

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits.

There were no changes in valuation technique for level 2 recurring fair value measurements during the year ended 31 December 2023 (2022: none).

33. Related Party Disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected on the same terms, conditions and amounts as transactions between unrelated parties. The Bank controls transactions with related parties to assure they are carried out at market terms. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2023			*2022*		
	Share-holders	**Key management personnel**	**Other related parties**	**Share-holders**	**Key management personnel**	**Other related parties**
Deposits at 1 January	**–**	**88**	**–**	**–**	**34**	**–**
Deposits received during the year	–	23	97	–	54	–
Deposits repaid during the year	–	–	–	–	–	–
Deposits received, at 31 December	**–**	**111**	**97**	**–**	**88**	**–**
Borrowings at 1 January	**–**	**–**	**–**	**16,889**	**–**	**–**
Borrowings received during the year	-	-	-	–	-	-
Borrowings repaid during the year	-	-	-	(5,107)	-	-
Other movements	-	-	-	–	-	-
Derecognition of senior loans	-	-	-	(11,782)	-	-
Borrowings at 31 December	**–**	**–**	**–**	**–**	**–**	**–**
Current accounts at 31 December	**–**	**-**	**–**	**–**	**137**	**–**

(Figures in tables are in thousands of Azerbaijani manats)

33. Related Party Disclosures (Continued)

	2023			*2022*		
	Share-holders	**Key management personnel**	**Other related parties**	**Share-holders**	**Key management personnel**	**Other related parties**
Subordinated loans at 1 January	**31,103**	**–**	**–**	**23,105**	**–**	**–**
Subordinated loans received during the year	-	-	-	–	-	-
Subordinated loans repaid during the year	-	-	-	(827)	-	-
Recognition of new subordinated loan	-	-	-	11,782	-	-
Shareholders' waiver of interest on subordinated debt and result of conversion of senior debt into preferred shares	-	-	-	(4,769)	-	-
Unwinding of interest expense	3,273	-	-	2,464	-	-
Foreign currency translation difference	-	-	-	(33)	-	-
Other movements	-	-	-	(619)	-	-
Subordinated loans at 31 December	**34,376**	**–**	**–**	**31,103**	**–**	**–**

	2023			**2022**		
	Share-holders	**Other related parties**	**Key management personnel**	**Share-holders**	**Other related parties**	**Key management personnel**
Interest expense on deposits	-	-	(13)	-	-	(1)
Interest expense on borrowings	-	-	-	(398)	-	-
Interest expense on subordinated loans	(3,273)	-	-	(2,464)	-	-
Consulting and management services expenses	(385)	(717)	-	(779)	(1,034)	-

Loans provided to related parties are insignificant during 2023 (2022: nil).

During 2023 an amount of AZN 717 thousand (2022: AZN 1,034 thousand) is expensed under a consulting services agreement with a related party which provides key management and consulting services to the Bank ended in September 2023. Included in the amount is the fee of AZN 535 thousand (2022: AZN 928 thousand) incurred for the provision of management service by the management entity.

Key management compensation is presented below:

	2023	**2022**
	Expense	**Expense**
Short-term benefits:		
- Salaries	2,191	2,078
- State pension and social security payment for life insurance	65	21
Post-employment benefits:		
- State pension and social security costs	300	302
Other long-term employee benefits:		
- Long-term bonus scheme (management incentive plan)	1,003	-
Total	**3,559**	**2,401**

34. Events after the Reporting Period

There have been no significant events occurring after the reporting period that would require adjustment to, or disclosure in, the financial statements.

35. Abbreviations

The list of the abbreviations used in these financial statements is provided below:

Abbreviation	Full name
AC	Amortised Cost
CBAR	Central Bank of Azerbaijan Republic
CCF	Credit Conversion Factor
EAD	Exposure at Default
ECL	Expected Credit Loss
FVOCI	Fair Value through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
IFRS Accounting Standards	International Financial Reporting Standards as issued by the IASB
LGD	Loss Given Default
OCI	Other comprehensive income
PD	Probability of Default
POCI financial assets	Purchased or Originated Credit-Impaired financial assets
SICR	Significant Increase in Credit Risk
SPPI	Solely Payments of Principal and Interest
SPPI test	Assessment whether the financial instruments' cash flows represent Solely Payments of Principal and Interest