“UNIBANK COMMERCIAL BANK” OPEN JOINT STOCK COMPANY

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

For the Year Ended December 31, 2022

"UNIBANK COMMERCIAL BANK" OPEN JOINT STOCK COMPANY

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

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of "Unibank Commercial Bank" OJSC (the "Bank") and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at December 31, 2022, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

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

The consolidated financial statements for the year ended December 31, 2022 were authorized for issue on May 25, 2023 by the Management Board of the Group.

On behalf of the Executive Board:

Mr. Farid Abushov

Chairman of the Executive Board
Baku, the Republic of Azerbaijan

May 25, 2023

Mr. Faig Zeynalov

Chief Financial Officer
Baku, the Republic of Azerbaijan

May 25, 2023

KPMG Audit Azerbaijan LLC
Port Baku South Tower
153 Neftchilar Avenue,
Baku, Azerbaijan AZ1010
Telephone + 994 12 404 89 10
Fax + 994 12 404 89 14
Website www.kpmg.az

Independent Auditors' Report

To the Shareholders and Supervisory Board of "Unibank Commercial Bank" Open Joint Stock Company

Opinion

We have audited the consolidated financial statements of "Unibank Commercial Bank" Open Joint Stock Company (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

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

Key Audit Matters

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

Expected credit losses for loans and advances to customers

Please refer to the Notes 8 and 28 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Loans and advances to customers represent 60% of total assets and are stated net of allowance for expected credit losses ("ECL") that are estimated on a regular basis and are sensitive to the assumptions used. The estimation of expected credit losses requires Management to apply significant judgments and estimation techniques to determine probability of default (PD), projected exposure at default (EAD) and loss given default (LGD), considering observed historical data, current economic situation and available forward-looking information. The calculation of ECL for loans and advances to customers on an individual basis requires scenario analysis of the estimated future cash flows considering current and projected financial performance of the borrowers and estimated proceeds from realizable collateral. Credit loss allowance for loans to customers is a key audit matter due to the significance of the balances to the Group's consolidated financial position, and the complexity and judgement related to the estimation of ECL under IFRS 9 *Financial Instruments*.	We engaged our own specialists in financial risk management to analyse the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9 *Financial Instruments*. To analyze the adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate we performed the following procedures: - For loans to legal entities, for which potential changes in ECL may have a significant impact on the consolidated financial statements, we tested whether the appropriate Stages are correctly assigned by the Group by analysing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. - We evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of ECL. We analysed the overall adequacy of the adjustment to account for various scenarios and forward-looking information and compared it with our estimates taking into account the current and future economic situation and operating conditions of borrowers. - For a sample of loans to legal entities, we tested the correctness of data inputs for PD, LGD and EAD calculation comparing to supporting documents. - For a sample of Stage 3 loans to legal entities, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information. - For loans to individuals, we tested the correctness of data inputs for PD, LGD and EAD calculation, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into the appropriate Stages. We agreed input data to supporting documents on a sample basis.

	- For loans to individuals and legal entities, we tested the design and operating effectiveness of controls, including involvement of specialists in information risk management, over completeness and accuracy of data inputs into ECL calculation models, timely reflection of delinquency events and loan repayments in the underlying systems. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Nasiba Muradkhanova

KPMG Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

25 May 2023

"UNIBANK COMMERCIAL BANK" OPEN JOINT STOCK COMPANY

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

	Notes	December 31, 2022	December 31, 2021 after reclassification
ASSETS			
Cash and cash equivalents	6	254,951	118,885
Due from other banks	7	19,520	11,904
Loans and advances to customers	8	845,114	659,047
Investment securities	9	73,678	62,252
Deferred income tax asset	25	-	5,153
Premises and equipment	10	90,403	81,203
Intangible assets	10	16,167	15,574
Derivative financial assets		1,463	-
Other financial assets	11	63,499	34,543
Other assets	12	32,771	29,284
TOTAL ASSETS		**1,397,566**	**1,017,845**
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	13	76,302	47,075
Customer accounts	14	1,009,192	719,706
Term borrowings	15	95,690	96,203
Derivative financial liabilities		936	83
Deferred income tax liabilities		334	-
Debt securities in issue	18	55,798	25,641
Lease liability	16	8,271	6,914
Other liabilities	17	36,565	7,769
TOTAL LIABILITIES		**1,283,088**	**903,391**
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	19	138,200	130,686
Share premium	19	484	484
Other reserves		(2,615)	(185)
Accumulated deficit		(21,591)	(16,531)
TOTAL EQUITY		**114,478**	**114,454**
TOTAL LIABILITIES AND EQUITY		**1,397,566**	**1,017,845**

On behalf of the Executive Board:

Mr. Farid Abushov

Chairman of the Executive Board
Baku, the Republic of Azerbaijan

May 25, 2023

Mr. Faig Zeynalov

Chief Financial Officer
Baku, the Republic of Azerbaijan

May 25, 2023

The notes on pages 11-86 form an integral part of these consolidated financial statements.

"UNIBANK COMMERCIAL BANK" OPEN JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Interest income calculated using the effective interest method	20	159,679	118,307
Interest expense	20,31	(55,761)	(43,320)
Net interest income before expected credit losses on interest bearing assets	20	**103,918**	**74,987**
Expected credit losses on interest bearing assets	21	(12,350)	(17,500)
Net interest income		**91,568**	**57,487**
Fee and commission income	22	58,357	29,451
Fee and commission expense	22	(55,325)	(22,338)
Net gain from foreign currencies	23	1,919	1,970
Net loss from derivative financial instruments		(183)	(83)
Impairment (loss)/recovery on other assets	12	(2,410)	3,450
(Expense)/recovery of expected credit losses on guarantees and credit related commitments	21	(926)	281
Administrative and other operating expenses	24	(97,423)	(76,374)
Other operating income, net		5,618	5,838
Profit / (loss) before income tax		**1,195**	**(318)**
Income tax (expense)/recovery	25	(6,255)	412
(Net loss)/profit for the year		**(5,060)**	**94**
OTHER COMPREHENSIVE INCOME			
Items that will be reclassified subsequently to profit or loss			
Fair value loss on debt investment securities	9	(3,037)	(535)
Income tax recovery recorded directly in other comprehensive income	25	607	107
Other comprehensive loss for the year		**(2,430)**	**(428)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(7,490)**	**(334)**
Loss per share basic and diluted (AZN)	26	**(0.10)**	**0.002**

On behalf of the Executive Board:

Mr. Farid Abushov

Chairman of the Executive Board
Baku, the Republic of Azerbaijan

May 25, 2023

Mr. Faig Zeynalov

Chief Financial Officer
Baku, the Republic of Azerbaijan

May 25, 2023

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"UNIBANK COMMERCIAL BANK" OPEN JOINT STOCK COMPANY

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

(in thousands of Azerbaijan Manats)

	Share capital	Share premium	Other reserves	Accumulated deficit	Total equity
January 1, 2021	**125,686**	**484**	**243**	**(12,598)**	**113,815**
Shares issued (Note 19)	5,000	-	-	-	5,000
Net profit for the year	-	-	-	94	94
Other comprehensive loss for the year (Note 9)	-	-	(428)	-	(428)
Dividends declared	-	-	-	(4,027)	(4,027)
December 31, 2021	**130,686**	**484**	**(185)**	**(16,531)**	**114,454**
Shares issued (Note 19)	18,700	-	-	-	18,700
Shares bought-back (Note 19)	(11,186)	-	-	-	(11,186)
Net loss for the year	-	-	-	(5,060)	(5,060)
Other comprehensive loss for the year (Note 9)	-	-	(2,430)	-	(2,430)
December 31, 2022	**138,200**	**484**	**(2,615)**	**(21,591)**	**114,478**

On behalf of the Executive Board:

Mr. Farid Abushov

Chairman of the Executive Board
Baku, the Republic of Azerbaijan

May 25, 2023

Mr. Faig Zeynalov

Chief Financial Officer
Baku, the Republic of Azerbaijan

May 25, 2023

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The notes on pages 11-86 form an integral part of these consolidated financial statements.

"UNIBANK COMMERCIAL BANK" OPEN JOINT STOCK COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands of Azerbaijan Manats)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received		158,008	120,556
Interest paid		(53,017)	(35,233)
Fees and commissions received		58,357	29,451
Fees and commissions paid		(55,325)	(22,338)
Net (loss)/gain from foreign currencies		2,088	2,567
Other operating income received, net		5,597	6,649
Administrative and other operating expenses paid		(87,014)	(70,909)
Income tax paid		(410)	(986)
Cash flows from operating activities before changes in operating assets and liabilities		**28,284**	**29,757**
(Increase)/decrease in operating assets:			
Due from other banks		(7,541)	(5,857)
Loans and advances to customers		(205,685)	(182,377)
Other financial assets		(28,953)	(9,969)
Other assets		(2,246)	1,782
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		29,314	27,205
Customer accounts		285,221	166,674
Other liabilities		27,519	1,595
Net cash provided from operating activities		**125,913**	**28,810**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investment securities		(34,910)	(33,583)
Proceeds from investment securities		21,004	23,763
Acquisition of premises, equipment and intangible assets		(22,160)	(16,038)
Proceeds from disposal of premises and equipment		107	829
Net cash used in investing activities		**(35,959)**	**(25,029)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from term borrowings	15	23,298	18,630
Repayment of term borrowings	15	(25,220)	(21,426)
Proceeds from debt securities in issue	18	43,218	25,500
Repayment of debt securities in issue	18	(13,744)	(16,094)
Repayment of principal portion of lease liabilities	16	(1,202)	(1,197)
Derivative financial assets		(793)	-
Issuance of ordinary shares	19	18,700	5,000
Buyback of ordinary shares	19	(763)	-
Dividends paid		-	(4,027)
Net cash provided from financing activities		**43,494**	**6,386**
Effect of exchange rate changes on cash and cash equivalents		2,618	(939)
Net increase in cash and cash equivalents		136,066	9,228
Cash and cash equivalents at the beginning of the year	6	118,885	109,657
Cash and cash equivalents at the end of the year	6	**254,951**	**118,885**

On behalf of the Executive Board:

Mr. Farid Abushov

Chairman of the Executive Board
Baku, the Republic of Azerbaijan
May 25, 2023

Mr. Faig Zeynalov

Chief Financial Officer
Baku, the Republic of Azerbaijan
May 25, 2023

The notes on pages 11-86 form an integral part of these consolidated financial statements.

1. ORGANIZATION

These consolidated financial statements of the "Unibank Commercial Bank" OJSC (the "Bank") and its subsidiary (together referred to as the "Group") for the year ended December 31, 2022, have been prepared in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is a joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. As at December 31, 2022 the Bank is ultimately controlled by Mr. Eldar Garibov (December 31, 2021: Mr. Eldar Garibov). See Note 19.

On January 23, 2008, the Bank registered its fully owned subsidiary, Unicapital Open Joint Stock Company ("Unicapital"), with the Ministry of Justice of the Republic of Azerbaijan. Unicapital commenced its operations in February 2008. Major activities of Unicapital are trust management of stock portfolios and dealing in the stock market of the Republic of Azerbaijan.

Principal activity of the Bank. The principal business activity of the Bank is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has been operating under a full banking license issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") since 1992.

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

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

As at December 31, 2022 the Bank has 29 branches (December 31, 2021: 29 branches) within the Republic of Azerbaijan.

The Bank's registered address is 55 Rashid Behbudov Street, AZ1014, Baku, the Republic of Azerbaijan.

Business environment

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

The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government continued major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on the oil and gas sector. During 2022 the oil prices reached 7-year maximum which created significant surplus in the country's current account and increased foreign currency reserves. The Central Bank of Azerbaijan Republic (CBAR) maintained stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD since 2018. The CBAR refinancing rate was increased from 6.25 to 7.25 per cent during 2021 and further increased to 7.75 per cent during 2022, to address rising prices in global markets and increased inflationary pressure in Azerbaijan.

In February 2022, because of the military conflict between the Russian Federation and Ukraine, a number of countries imposed sanctions against the Russian Federation. The conflict affects not only the economic activity of two countries but the global economy as well. As a result of sanctions, commodity and food prices have risen in many countries around the world, the established links between supply of resources have been disrupted, inflation also affects the prices, and analysts also forecast economic implications for the global industry.

The consolidated financial statements reflect management's assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorized at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"), assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. These consolidated financial statements have been prepared assuming that the Group is a going concern and will continue in operation for the foreseeable future. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Changes in presentation of comparative figures. As at 31 December 2021 comparative information is reclassified to conform to changes in presentation in the current year as described below in order to give a clearer presentation of the business and its operations:

Cash and cash equivalents amounting AZN 4,211 thousand, previously presented as Mandatory cash balances with the Central Bank of the Republic of Azerbaijan, is reclassified to cash and cash equivalents.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The following table summarizes the impact from the above retrospective changes on the Group's consolidated financial statements:

31 December 2021 AZN'000	**As previously reported**	**Reclassification amount**	**Financial statement caption after reclassification**
Consolidated statement of financial position			
Cash and cash equivalents	114,674	4,211	118,885
Mandatory cash balances with the Central Bank of the Republic of Azerbaijan	4,211	(4,211)	-
Consolidated statement of cash flows			
(Increase)/decrease in operating assets:			
Mandatory cash balances with the Central Bank of the Republic of Azerbaijan	(1,048)	1,048	-
Net cash provided from operating activities	27,762	1,048	28,810
Net increase in cash and cash equivalents	8,180	1,048	9,228
Cash and cash equivalents at the beginning of the year	106,494	3,163	109,657
Cash and cash equivalents at the end of the year	114,674	4,211	118,885

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 30.

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

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

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

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

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

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

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

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

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

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt financial asset measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

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

All other financial assets are classified as measured at FVTPL.

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

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

- the stated policies and objectives for the portfolio management as well as compliance with those policies and practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Group's management;

- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

In making the assessment, the Group considers:

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

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

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the expected credit losses ("ECL") for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects:

(i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

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

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL"). If the Group identifies Significant Increase in Credit Risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 28 for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group's definition of credit impaired assets and definition of default is explained in Note 28. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

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

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- POCI assets: Impairment allowance is not created for POCI assets upon their initial recognition. Instead, the amount of lifetime expected credit losses is included into the effective interest rate calculation (the "EIR");

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

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

Derecognition of financial assets. The Group derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.
Derecognition of financial liabilities. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

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

Repurchase and reverse repurchase agreements. Securities sold under sale and repurchase (repo) agreements are accounted for as secured financing transactions, with the securities retained in the consolidated statement of financial position and the counterparty liability included in amounts payable under repo transactions within due to banks and other financial institutions or current accounts and deposits from customers, as appropriate. The difference between the sale and repurchase prices represents interest expense and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions within due from banks or loans to customers, as appropriate. The difference between the purchase and resale prices represents interest income and is recognized in profit or loss over the term of the repo agreement using the effective interest method.

If assets purchased under an agreement to resell are sold to third parties, the obligation to return securities is recorded as a trading liability and measured at fair value.

Derivative financial instruments. In the normal course of business, the Group enters into various derivative financial instruments including foreign currency forwards and cross currency swaps (back-to-back loans) in the foreign exchange and capital markets. The counterparties are mostly local banks. 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. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. The Group presents net interest payments on derivative financial instruments within the “Net gain from foreign currencies” line on a net basis. Gains and losses resulting from these instruments are included in the statement of profit or loss within net loss from derivative financial instruments.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponding accounts and term deposits with the Central Bank of the Republic of Azerbaijan (the “CBAR”) with original maturity of less or equal to 90 days, notes issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) up to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and mandatory cash balances with the Central Bank of the Republic of Azerbaijan (the “CBAR”). Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

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

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

(i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and

(ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 28 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

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

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

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

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

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

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

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

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

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

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

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

2022 and 2021	Residual values	Useful lives in years
Buildings	40%	50 years
Office and computer equipment	20%	5 - 6 years
Furniture, fixtures and other equipment	30%	5 - 8 years
Leasehold improvements	-	over the term of the underlying lease
Right of use asset	-	over the term of the underlying lease

Construction in progress is carried at cost, less any recognized impairment loss. Cost includes professional fees. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes building for future use as property and equipment.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment. Depreciation on items of investment property is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Estimated useful lives of investment property are 50 years. At each end of each reporting period management assesses whether there is any indication of impairment of investment properties. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. However, since it is not possible to measure fair value less costs to sell because there is no basis for making reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions, the entity uses the asset's value in use as its recoverable amount. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss for the year.

Intangible assets

Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful lives of intangible assets are 10 years. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

Repossessed collateral. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

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

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

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

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

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

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

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

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

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

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

Equity reserves. The reserves recorded in equity (other comprehensive income) on the Group’s consolidated statement of financial position include “other reserve” which comprises changes in fair value of investment securities at FVOCI.

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

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

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

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

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

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

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

Foreign currency translation. The functional currency of the Group is the currency of the primary economic environment in which the Group operates. The functional and the presentation currency of the Group, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats (“AZN”).

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

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

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

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

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

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

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

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

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

Measurement of ECL allowance. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 28. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refer to Note 28.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioral aspects of particular customer portfolios. The Group identifies behavioral 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 28.

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

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

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

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

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

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the CBAR key rate, if the loan agreement entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Group further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 2(d)(iv)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities
The Group derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.
If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification . Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Initial recognition of related party transactions. In the normal course of business, the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 31.

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

The fair value measurement of term borrowings. The fair value measurement at initial recognition of term borrowings requires judgement in determining the inputs to the valuation technique used, including the discount rate and any applicable risk adjustments (see Note 15).

4. STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

(a) *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)*

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Group will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2022, the deductible temporary difference in relation to the right-of-use asset is 318 thousand AZN and the deductible temporary difference in relation to the lease liability is 266 thousand AZN (Note 25), resulting in a net deferred tax asset of 53 thousand AZN (Note 25). There will be no impact on retained earnings on adoption of the amendments.

(b) Other standards.

The following new and amended standards are not expected to have a significant impact on the Group's financial statements.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

5. MANAGEMENT OF CAPITAL

The objectives of management when managing the Bank's and Group's capital are (i) to comply with the capital requirements set by the CBAR and (ii) to safeguard the Group's ability to continue as a going concern.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Under the current prudential capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (December 31, 2021: AZN 50,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (December 31, 2021: 10%) and (c) maintain a ratio of Tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 5% (December 31, 2021: 5%).

Management considers that the Bank was in compliance with the regulatory requirements as at December 31, 2022 and 2021. The calculation of capital adequacy based on the prudential reports prepared by the Bank in accordance with the prudential regulations set by the CBAR was as follows:

	December 31, 2022 (unaudited)	**December 31, 2021 (unaudited)**
Total capital	127,609	105,922
Risk-weighted assets	1,092,519	848,093
Capital adequacy ratio (%)	**11.68%**	**12.49%**

The table below provides an overview of the differences in composition of the net assets as at December 31, 2022 presented in the Group's consolidated financial statements prepared under IFRS and total statutory capital determined under the rules and regulations of the CBAR.

	December 31, 2022 (unaudited)	**December 31, 2021 (unaudited)**
Total statutory capital	**127,609**	**105,922**
Differences between statutory capital and IFRS equity:		
- retained earnings/(accumulated losses)	9,815	17,443
-loan loss allowance	11,782	3,687
-provision for potential losses	(1,131)	(205)
-income tax (expense)/ recovery	(5,342)	1,342
-others	4,506	12,619
- differences on deduction	19,819	20,910
-intangible assets	14,856	15,553
-deferred tax assets	3,976	4,367
-investments	987	990
- general allowances	(9,750)	(8,220)
- other capital	(34,032)	(23,037)
IFRS equity of the Bank	**113,461**	**113,018**
IFRS equity of the Subsidiary	**1,017**	**1,436**
Total equity attributable to owners of the Bank	**114,478**	**114,454**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

6. CASH AND CASH EQUIVALENTS

	December 31, 2022	December 31, 2021
Cash on hand	71,640	50,600
Cash balances with the CBAR (including mandatory cash balances)	71,075	56,144
Notes issued by CBAR with original maturity up to 90 days	5,957	4,790
Correspondent accounts with other banks:		
- rated A- to A+ (Fitch Ratings)	38,200	740
- rated BBB- to BBB+ (Fitch Ratings)	46,398	2,990
- rated below BBB- (Fitch Ratings)	21,681	3,486
- not rated	-	135
Total correspondent accounts with other banks	**106,279**	**7,351**
Total cash and cash equivalents	**254,951**	**118,885**

As at December 31, 2022 the Group had two banks (December 31, 2021: one bank), with balances exceeding 10% of total cash and cash equivalents. The gross value of these balances as at December 31, 2022 was AZN 122,317 thousand (December 31, 2021: AZN 56,723 thousand).

The most recently published international rating for the Republic of Azerbaijan is BB+ (Fitch Ratings) (2021: BB+/Fitch Ratings).

As at 31 December 2022, included in Cash balances with the CBAR are mandatory cash balances with CBAR totaling 41,155 thousand (December 31, 2021: AZN 4,211 thousand). As at 31 December 2022, credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at 4% of the previous month average balances of certain liabilities in AZN and 5% of the previous month average balances of certain liabilities in foreign currencies respectively, attracted from customers by the credit institutions. This is an increase from the previous rates of 0.5% and 1% respectively, which were in effect until 6 June 2022 when the CBAR made the decision to increase the rates.

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

7. DUE FROM OTHER BANKS

	December 31, 2022	December 31, 2021
Term placements with resident banks	-	2,000
Term placements with non-resident banks	18,348	9,904
Repurchase agreements with financial institutions	1,172	-
Net due from other banks	**19,520**	**11,904**

As at December 31, 2022 there is no term placement with local banks. (As at December 31, 2021 term placement with local banks included term placements with one bank with principal balance amounting to the equivalent of AZN 2,000 thousand and bearing 7% annual interest rate).

As at December 31, 2022 there is no accrued interest income included in due from other banks (December 31, 2021: nil)

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Amounts due from other banks are not collateralized. An analysis by credit quality of amounts due from other banks is as follows:

	December 31, 2022	December 31, 2021
Current and not impaired		
>BBB (Fitch Ratings)	15,917	9,716
<BBB (Fitch Ratings)	2,430	2,000
- not rated	1,173	188
Total due from other banks	**19,520**	**11,904**

As at December 31, 2022 the Group has two banks (December 31, 2021: two banks) with an outstanding balance exceeding 10% of total due from other banks. The gross value of these balances as at December 31, 2022 is AZN 18,222 thousand (December 31, 2021: AZN 11,716 thousand).

As at December 31, 2022 included in balances Due from banks are blocked guarantee deposits placed by the Group for its plastic cards operations totaling 14,884 thousand (December 31, 2021: AZN 5,210 thousand).

As at 31 December 2022, AZN equivalent 909 thousand is the amount of deposit blocked against the Group’s guarantees (December 31, 2021: AZN 4,506 thousand).

The Bank did not recognize any ECL allowance.

There was no write-off during the year ended 31 December 2022.

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

	Stage 1	Stage 3	Total
Gross carrying value as at January 1, 2021	**6,082**	**36,127**	**42,209**
Net change in carrying value	5,822	-	5,822
Write-offs	-	(36,127)	(36,127)
As at December 31, 2021	**11,904**	**-**	**11,904**

	Stage 1	Stage 3	Total
ECL allowance as at January 1, 2021	**-**	**(36,127)**	**(36,127)**
Net change in ECL value	-	-	-
Write-offs	-	36,127	36,127
As at December 31, 2021	**-**	**-**	**-**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

8. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2022	December 31, 2021
Business loans	151,900	190,945
Cash consumer loans	335,008	284,734
Credit cards	202,776	129,625
Micro loans	135,125	78,028
Purchase of apartments and mortgages	61,786	56,173
Purchase of motor vehicles	356	336
Gross loans and advances to customers	**886,951**	**739,841**
Less: Allowance for expected credit loss	(41,837)	(80,794)
Net loans and advances to customers	**845,114**	**659,047**

During the year ended December 31, 2022 the Group restructured loans in the amount of AZN 2,672 thousand under the COVID-19 restructuring program (December 31, 2021: AZN 4,132 thousand).

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

	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Retail loans				
Cash consumer loans	335,008	37.8%	284,734	38.5%
Credit cards	202,776	22.9%	129,625	17.5%
Micro loans	135,125	15.2%	78,028	10.5%
Purchase of apartments and mortgages	61,786	7.0%	56,173	7.6%
Purchase of motor vehicles	356	0.04%	336	0.05%
Total retail loans	**735,051**	**82.9%**	**548,896**	**74.1%**
Business loans				
Trade and services	97,601	11.0%	125,439	17.0%
Manufacturing	32,470	3.7%	31,476	4.3%
Agriculture	13,054	1.5%	12,561	1.7%
Construction	3,140	0.4%	12,246	1.7%
Other	5,635	0.6%	9,223	1.2%
Total business loans	**151,900**	**17.1%**	**190,945**	**25.9%**
Gross loans and advances to customers	**886,951**	**100.0%**	**739,841**	**100.0%**

As at December 31, 2022 the Group had 27 borrowers (December 31, 2021: 33 borrowers) with the outstanding loan amount above AZN 1,000 thousand. The aggregate balance of these borrowers was AZN 65,020 thousand (December 31, 2021: AZN 104,755 thousand) or 7.3% (December 31, 2021: 14%) of the gross loan portfolio.

As at December 31, 2022 mortgage loans included AZN 57,736 thousand (December 31, 2021: AZN 52,831 thousand) under the program covered by the borrowing agreement with the Azerbaijan Mortgage Fund. In addition, a further 579 thousand (December 31, 2021: AZN 1,266 thousand) of these loans are awaiting the approval of the Azerbaijan Mortgage Fund to be included as part of this program and therefore for further funding under the borrowing agreement to be provided to the Group.

As at December 31, 2022, accrued interest income included in loans and advances to customers amounted to AZN 13,163 thousand (December 31, 2021: AZN 17,135 thousand).

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers for the year ended December 31, 2022:

			2022		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	612,031	33,173	89,539	5,098	739,841
Transfer to Stage 1	9,261	(7,280)	(1,981)	-	-
Transfer to Stage 2	(29,357)	29,853	(496)	-	-
Transfer to Stage 3	(12,096)	(7,780)	19,876	-	-
New financial assets originated or purchased	544,852	29,202	18,607	-	592,661
Loans repaid	(344,701)	(15,037)	(27,856)	(1,873)	(389,467)
Recovery of loans previously written off	-	-	3,407	-	3,407
Amounts written off	-	-	(58,849)	(2,670)	(61,519)
Unwinding of discount on present value of ECLs	-	-	2,028	-	2,028
At December 31, 2022	**779,990**	**62,131**	**44,275**	**555**	**886,951**

			2022		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	(11,672)	(4,727)	(64,395)	-	(80,794)
Transfer to Stage 1	(2,287)	943	1,344	-	-
Transfer to Stage 2	768	(1,249)	481	-	-
Transfer to Stage 3	2,116	5,013	(7,129)	-	-
New financial assets originated or purchased	(8,740)	(3,889)	(11,145)	-	(23,774)
Net remeasurement	9,309	(1,193)	1,129	1,944	11,189
Recoveries of assets previously written off	-	-	(3,335)	(4,614)	(7,949)
Amounts written off	-	-	58,849	2,670	61,519
Unwinding of discount on present value of ECLs	-	-	(2,028)	-	(2,028)
At December 31, 2022	**(10,506)**	**(5,102)**	**(26,229)**	-	**(41,837)**

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers for the year ended December 31, 2021:

			2021		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**409,676**	**50,485**	**95,528**	**9,813**	**565,502**
Transfer to Stage 1	8,983	(8,360)	(623)	-	-
Transfer to Stage 2	(24,818)	29,374	(4,556)	-	-
Transfer to Stage 3	(13,874)	(7,373)	21,247	-	-
New financial assets originated or purchased	411,533	21,217	14,079	-	446,829
Loans repaid	(179,469)	(52,170)	(33,950)	(6,214)	(271,803)
Recovery of loans previously written off	-	-	7,159	-	7,159
Amounts written off	-	-	(13,501)	(720)	(14,221)
Unwinding of discount on present value of ECLs	-	-	4,156	-	4,156
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	-	-	-	2,219	2,219
At December 31, 2021	**612,031**	**33,173**	**89,539**	**5,098**	**739,841**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	2021				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**(5,653)**	**(6,919)**	**(51,649)**	**-**	**(64,221)**
Transfer to Stage 1	(1,692)	1,534	158	-	-
Transfer to Stage 2	659	(3,630)	2,971	-	-
Transfer to Stage 3	154	695	(849)	-	-
New financial assets originated or purchased	(8,842)	(3,194)	(9,525)	-	(21,561)
Net remeasurement	3,702	6,787	(7,687)	1,499	4,301
Recoveries of assets previously written off	-	-	(7,159)	-	(7,159)
Amounts written off	-	-	13,501	720	14,221
Unwinding of discount on present value of ECLs	-	-	(4,156)	-	(4,156)
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	-	-	-	(2,219)	(2,219)
At December 31, 2021	**(11,672)**	**(4,727)**	**(64,395)**	**-**	**(80,794)**

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

	2022				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	**122,762**	**6,828**	**61,355**	**-**	**190,945**
Transfer to Stage 1	2,449	(2,434)	(15)	-	-
Transfer to Stage 2	(23,158)	23,173	(15)	-	-
Transfer to Stage 3	(2,761)	(619)	3,380	-	-
New financial assets originated or purchased	83,269	1,228	141	-	84,638
Loans repaid	(69,714)	(1,914)	(18,724)	-	(90,352)
Recovery of loans previously written off	-	-	2,678	-	2,678
Amounts written off	-	-	(36,110)	-	(36,110)
Unwinding of discount on present value of ECLs	-	-	101	-	101
At December 31, 2022	**112,847**	**26,262**	**12,791**	**-**	**151,900**

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**(2,664)**	**(481)**	**(46,200)**	**-**	**(49,345)**
Transfer to Stage 1	(8)	8	-	-	-
Transfer to Stage 2	522	(522)	-	-	-
Transfer to Stage 3	154	171	(325)	-	-
New financial assets originated or purchased	(559)	(239)	(50)	-	(848)
Net remeasurement	1,836	326	5,564	-	7,726
Recoveries of assets previously written -off	-	-	(2,606)	-	(2,606)
Amounts written-off	-	-	36,110	-	36,110
Unwinding of discount on present value of ECLs	-	-	(101)	-	(101)
At December 31, 2022	**(719)**	**(737)**	**(7,608)**	**-**	**(9,064)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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

	2021				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**97,826**	**15,039**	**67,467**	**-**	**180,332**
Transfer to Stage 1	1,074	(991)	(83)	-	-
Transfer to Stage 2	(18,309)	20,324	(2,015)	-	-
Transfer to Stage 3	(9,608)	(4,265)	13,873	-	-
New financial assets originated or purchased	79,105	2,636	212	-	81,953
Loans repaid	(27,326)	(25,915)	(15,502)	-	(68,743)
Recovery of loans previously written off	-	-	614	-	614
Amounts written off	-	-	(5,102)	-	(5,102)
Unwinding of discount on present value of ECLs	-	-	1,891	-	1,891
At December 31, 2021	**122,762**	**6,828**	**61,355**	**-**	**190,945**

	2021				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**(1,560)**	**(434)**	**(33,640)**	**-**	**(35,634)**
Transfer to Stage 1	(54)	54	-	-	-
Transfer to Stage 2	507	(1,233)	726	-	-
Transfer to Stage 3	83	138	(221)	-	-
New financial assets originated or purchased	(1,909)	(309)	(134)	-	(2,352)
Net remeasurement	269	1,303	(15,528)	-	(13,956)
Recoveries of assets previously written -off	-	-	(614)	-	(614)
Amounts written-off	-	-	5,102	-	5,102
Unwinding of discount on present value of ECLs	-	-	(1,891)	-	(1,891)
At December 31, 2021	**(2,664)**	**(481)**	**(46,200)**	**-**	**(49,345)**

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

	2022				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	**238,344**	**20,593**	**20,699**	**5,098**	**284,734**
Transfer to Stage 1	4,088	(2,961)	(1,127)	-	-
Transfer to Stage 2	(3,511)	3,967	(456)	-	-
Transfer to Stage 3	(6,075)	(5,963)	12,038	-	-
New financial assets originated or purchased	217,693	23,795	15,770	-	257,258
Loans repaid	(168,481)	(11,056)	(6,682)	(1,873)	(188,092)
Recovery of loans previously written off	-	-	338	-	338
Amounts written off	-	-	(18,104)	(2,670)	(20,774)
Unwinding of discount on present value of ECLs	-	-	1,544	-	1,544
At December 31, 2022	**282,058**	**28,375**	**24,020**	**555**	**335,008**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**(5,572)**	**(3,046)**	**(13,903)**	**-**	**(22,521)**
Transfer to Stage 1	(1,803)	649	1,154	-	-
Transfer to Stage 2	146	(600)	454	-	-
Transfer to Stage 3	1,467	4,047	(5,514)	-	-
New financial assets originated or purchased	(4,591)	(3,366)	(9,668)	-	(17,625)
Net remeasurement	5,039	(1,407)	(3,571)	1,944	2,005
Recoveries of assets previously written -off	-	-	(338)	(4,614)	(4,952)
Amounts written off	-	-	18,104	2,670	20,774
Unwinding of discount on present value of ECLs	-	-	(1,544)	-	(1,544)
At December 31, 2022	**(5,314)**	**(3,723)**	**(14,826)**	-	**(23,863)**

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

	2021				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**132,909**	**22,185**	**18,314**	**9,813**	**183,221**
Transfer to Stage 1	1,586	(1,516)	(70)	-	-
Transfer to Stage 2	(3,268)	5,429	(2,161)	-	-
Transfer to Stage 3	(1,990)	(2,051)	4,041	-	-
New financial assets originated or purchased	199,347	16,424	12,426	-	228,197
Loans repaid	(90,240)	(19,878)	(12,001)	(6,214)	(128,333)
Recovery of loans previously written off	-	-	4,192	-	4,192
Amounts written off	-	-	(5,769)	(720)	(6,489)
Unwinding of discount on present value of ECLs	-	-	1,727	-	1,727
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	-	-	-	2,219	2,219
At December 31, 2021	**238,344**	**20,593**	**20,699**	**5,098**	**284,734**

	2021				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**(2,238)**	**(4,400)**	**(12,284)**	**-**	**(18,922)**
Transfer to Stage 1	(500)	399	101	-	-
Transfer to Stage 2	112	(2,200)	2,088	-	-
Transfer to Stage 3	41	488	(529)	-	-
New financial assets originated or purchased	(4,734)	(2,287)	(8,409)	-	(15,430)
Net remeasurement	1,747	4,954	5,280	1,499	13,480
Recoveries of assets previously written -off	-	-	(4,192)	-	(4,192)
Amounts written off	-	-	5,769	720	6,489
Unwinding of discount on present value of ECLs	-	-	(1,727)	-	(1,727)
Repayment of originated credit-impaired assets in the amount exceeding expected cash flows including ECL at origination	-	-	-	(2,219)	(2,219)
At December 31, 2021	**(5,572)**	**(3,046)**	**(13,903)**	-	**(22,521)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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

			2022		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	**122,370**	**3,564**	**3,691**	**-**	**129,625**
Transfer to Stage 1	1,013	(899)	(114)	-	-
Transfer to Stage 2	(2,404)	2,428	(24)	-	-
Transfer to Stage 3	(2,505)	(800)	3,305	-	-
New financial assets originated or purchased	111,948	3,421	2,322	-	117,691
Loans repaid	(39,426)	(1,314)	(979)	-	(41,719)
Recovery of loans previously written off	-	-	120	-	120
Amounts written off	-	-	(3,261)	-	(3,261)
Unwinding of discount on present value of ECLs	-	-	320	-	320
At December 31, 2022	**190,996**	**6,400**	**5,380**	**-**	**202,776**

			2022		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**(2,755)**	**(882)**	**(2,411)**	**-**	**(6,048)**
Transfer to Stage 1	(269)	216	53	-	-
Transfer to Stage 2	92	(115)	23	-	-
Transfer to Stage 3	460	574	(1,034)	-	-
New financial assets originated or purchased	(1,322)	(250)	(1,230)	-	(2,802)
Net remeasurement	1,698	(135)	(1,076)	-	487
Recoveries of assets previously written off	-	-	(120)	-	(120)
Amounts written off	-	-	3,261	-	3,261
Unwinding of discount on present value of ECLs	-	-	(320)	-	(320)
At December 31, 2022	**(2,096)**	**(592)**	**(2,854)**	**-**	**(5,542)**

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

			2021		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**86,058**	**10,381**	**2,982**	**-**	**99,421**
Transfer to Stage 1	5,207	(5,172)	(35)	-	-
Transfer to Stage 2	(1,943)	2,056	(113)	-	-
Transfer to Stage 3	(1,589)	(530)	2,119	-	-
New financial assets originated or purchased	54,008	1,445	953	-	56,406
Loans repaid	(19,371)	(4,616)	(3,188)	-	(27,175)
Recovery of loans previously written off	-	-	1,481	-	1,481
Amounts written off	-	-	(813)	-	(813)
Unwinding of discount on present value of ECLs	-	-	305	-	305
At December 31, 2021	**122,370**	**3,564**	**3,691**	**-**	**129,625**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

			2021		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**(1,573)**	**(1,999)**	**(2,013)**	**-**	**(5,585)**
Transfer to Stage 1	(1,116)	1,076	40	-	-
Transfer to Stage 2	34	(158)	124	-	-
Transfer to Stage 3	25	59	(84)	-	-
New financial assets originated or purchased	(1,621)	(371)	(592)	-	(2,584)
Net remeasurement	1,496	511	1,087	-	3,094
Recoveries of assets previously written off	-	-	(1,481)	-	(1,481)
Amounts written off	-	-	813	-	813
Unwinding of discount on present value of ECLs	-	-	(305)	-	(305)
At December 31, 2021	**(2,755)**	**(882)**	**(2,411)**	**-**	**(6,048)**

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

			2022		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	**75,369**	**796**	**1,863**	**-**	**78,028**
Transfer to Stage 1	45	(40)	(5)	-	-
Transfer to Stage 2	(229)	230	(1)	-	-
Transfer to Stage 3	(495)	(216)	711	-	-
New financial assets originated or purchased	120,154	758	374	-	121,286
Loans repaid	(61,923)	(511)	(848)	-	(63,282)
Recovery of loans previously written off	-	-	41	-	41
Amounts written off	-	-	(1,008)	-	(1,008)
Unwinding of discount on present value of ECLs	-	-	60	-	60
At December 31, 2022	**132,921**	**1,017**	**1,187**	**-**	**135,125**

			2022		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**(602)**	**(173)**	**(1,240)**	**-**	**(2,015)**
Transfer to Stage 1	(41)	28	13	-	-
Transfer to Stage 2	6	(10)	4	-	-
Transfer to Stage 3	28	121	(149)	-	-
New financial assets originated or purchased	(2,242)	(34)	(197)	-	(2,473)
Net remeasurement	549	29	50	-	628
Recoveries of assets previously written off	-	-	(41)	-	(41)
Amounts written off	-	-	1,008	-	1,008
Unwinding of discount on present value of ECLs	-	-	(60)	-	(60)
At December 31, 2022	**(2,302)**	**(39)**	**(612)**	**-**	**(2,953)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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

			2021		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**45,247**	**1,264**	**3,884**	**-**	**50,395**
Transfer to Stage 1	43	(40)	(3)	-	-
Transfer to Stage 2	(481)	498	(17)	-	-
Transfer to Stage 3	(455)	(275)	730	-	-
New financial assets originated or purchased	68,930	526	368	-	69,824
Loans repaid	(37,915)	(1,177)	(2,555)	-	(41,647)
Recovery of loans previously written off	-	-	772	-	772
Amounts written off	-	-	(1,471)	-	(1,471)
Unwinding of discount on present value of ECLs	-	-	155	-	155
At December 31, 2021	**75,369**	**796**	**1,863**	**-**	**78,028**

			2021		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**(282)**	**(50)**	**(2,845)**	**-**	**(3,177)**
Transfer to Stage 1	(9)	5	4	-	-
Transfer to Stage 2	6	(37)	31	-	-
Transfer to Stage 3	5	10	(15)	-	-
New financial assets originated or purchased	(550)	(133)	(277)	-	(960)
Net remeasurement	228	32	1,318	-	1,578
Recoveries of assets previously written off	-	-	(772)	-	(772)
Amounts written off	-	-	1,471	-	1,471
Unwinding of discount on present value of ECLs	-	-	(155)	-	(155)
At December 31, 2021	**(602)**	**(173)**	**(1,240)**	**-**	**(2,015)**

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

			2022		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	**53,186**	**1,388**	**1,599**	**-**	**56,173**
Transfer to Stage 1	1,666	(946)	(720)	-	-
Transfer to Stage 2	(55)	55	-	-	-
Transfer to Stage 3	(260)	(182)	442	-	-
New financial assets originated or purchased	11,432	-	-	-	11,432
Loans repaid	(5,157)	(238)	(416)	-	(5,811)
Recoveries of assets previously written off	-	-	31	-	31
Amounts written off	-	-	(42)	-	(42)
Unwinding of discount on present value of ECLs	-	-	3	-	3
At December 31, 2022	**60,812**	**77**	**897**	**-**	**61,786**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	2022				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	(79)	(145)	(351)	-	(575)
Transfer to Stage 1	(166)	42	124	-	-
Transfer to Stage 2	2	(2)	-	-	-
Transfer to Stage 3	7	100	(107)	-	-
New financial assets originated or purchased	(26)	-	-	-	(26)
Net remeasurement	187	(6)	(3)	-	178
Recoveries of assets previously written off			(31)	-	(31)
Amounts written off	-	-	42	-	42
Unwinding of discount on present value of ECLs	-	-	(3)	-	(3)
At December 31, 2022	**(75)**	**(11)**	**(329)**	**-**	**(415)**

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

	2021				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**47,617**	**1,616**	**2,256**		**51,489**
Transfer to Stage 1	1,073	(641)	(432)	-	-
Transfer to Stage 2	(813)	1,063	(250)	-	-
Transfer to Stage 3	(232)	(252)	484	-	-
New financial assets originated or purchased	10,143	186	120	-	10,449
Loans repaid	(4,602)	(584)	(511)	-	(5,697)
Recovery of loans previously written off	-	-	(83)	-	(83)
Amounts written off	-	-	15	-	15
At December 31, 2021	**53,186**	**1,388**	**1,599**		**56,173**

	2021				
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**-**	**(36)**	**(329)**	**-**	**(365)**
Transfer to Stage 1	(13)	-	13	-	-
Transfer to Stage 2	-	(2)	2	-	-
New financial assets originated or purchased	(28)	(94)	(113)	-	(235)
Net remeasurement	(38)	(13)	8	-	(43)
Amounts written off	-	-	83	-	83
Unwinding of discount on present value of ECLs	-	-	(15)	-	(15)
At December 31, 2021	**(79)**	**(145)**	**(351)**	**-**	**(575)**

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

	2022				
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2022	**-**	**4**	**332**	**-**	**336**
New financial assets originated or purchased	356	-	-	-	356
Loans repaid	-	(4)	(207)	-	(211)
Recovery of loans previously written off	-	-	199	-	199
Amounts written off	-	-	(324)	-	(324)
At December 31, 2022	**356**	**-**	**-**	**-**	**356**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

			2022		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2022	**-**	**-**	**(290)**	**-**	**(290)**
Net remeasurement	-	-	165	-	165
Recoveries of assets previously written off	-	-	(199)	-	(199)
Amounts written off	-	-	324	-	324
At December 31, 2022	-	-	**-**	**-**	**-**

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

			2021		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at January 1, 2021	**19**	**-**	**625**	**-**	**644**
Transfer to Stage 2	(4)	4	-	-	-
Loans repaid	(15)	-	(193)	-	(208)
Recovery of loans previously written off	-	-	100	-	100
Amounts written off	-	-	(263)	-	(263)
Unwinding of discount on present value of ECLs	-	-	63	-	63
At December 31, 2021	**-**	**4**	**332**	**-**	**336**

			2021		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
At January 1, 2021	**-**	**-**	**(538)**	**-**	**(538)**
Net remeasurement	-	-	148	-	148
Recoveries of assets previously written off	-	-	(100)	-	(100)
Amounts written off	-	-	263	-	263
Unwinding of discount on present value of ECLs	-	-	(63)	-	(63)
At December 31, 2021	-	-	**(290)**	**-**	**(290)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans and advances to customers outstanding as at December 31, 2022 is as follows:

	Business loans	**Cash consumer loans**	**Credit cards**	**Purchase of apartments and mortgages**	**Micro loans**	**Purchase of motor vehicles**	**Total**
Stage 1 (12-months ECL)	112,847	282,058	190,996	60,812	132,921	356	**779,991**
Stage 2 (lifetime ECL)	26,262	28,375	6,400	77	1,017	-	**62,131**
- not past due	6,323	352	-	-	20	-	**6,695**
- less than 30 days overdue	8,816	21	-	-	33	-	**8,870**
- 30 to 90 days overdue	11,123	28,002	6,400	77	964	-	**46,566**
Stage 3 (lifetime ECL):	12,791	24,020	5,380	897	1,187	-	**44,275**
- not past due	-	147	124	-	-	-	**271**
- less than 30 days overdue	2,118	49	111	-	-	-	**2,278**
- 30 to 90 days overdue	-	132	157	-	-	-	**289**
- over 90 days overdue	10,673	23,692	4,988	897	1,187	-	**41,438**
POCI	-	555	-	-	-	-	**555**
Total gross loans and advances to customers	**151,900**	**335,008**	**202,776**	**61,786**	**135,125**	**356**	**886,951**
Less: Credit loss allowance	(9,064)	(23,863)	(5,542)	(415)	(2,953)	-	(41,837)
Total net loans and advances to customers	**142,836**	**311,145**	**197,234**	**61,371**	**132,172**	**356**	**845,114**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Analysis by credit quality of loans outstanding as at December 31, 2021 is as follows:

	Business loans	Cash consumer loans	Credit cards	Purchase of apartments and mortgages	Micro loans	Purchase of motor vehicles	Total
Stage 1 (12-months ECL)	122,762	238,344	122,370	53,186	75,369	-	612,031
Stage 2 (lifetime ECL)	6,828	20,593	3,564	1,388	796	4	33,173
- not past due	5,829	13,544	2,224	982	357	-	22,936
- less than 30 days overdue	696	2,700	526	297	134	4	4,357
- 30 to 90 days overdue	303	4,349	814	109	305	-	5,880
Stage 3 (lifetime ECL):	61,355	20,699	3,691	1,599	1,863	332	89,538
- not past due	13,058	4,755	777	527	32	-	19,149
- less than 30 days overdue	369	982	148	248	56	-	1,803
- 30 to 90 days overdue	198	1,264	144	45	111	-	1,762
- over 90 days overdue	47,730	13,698	2,622	779	1,664	332	66,824
POCI	-	5,098	-	-	-	-	5,098
Total gross loans and advances to customers	**190,945**	**284,734**	**129,625**	**56,173**	**78,028**	**336**	**739,841**
Less: Credit loss allowance	(49,345)	(22,521)	(6,048)	(575)	(2,015)	(290)	(80,794)
Total net loans and advances to customers	**141,600**	**262,213**	**123,577**	**55,598**	**76,013**	**46**	**659,047**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The fair value of collateral in respect of Stage 3 loans and advances to customers excluding the effect of overcollateralization at December 31, 2022 was as follows:

	Business loans	Cash consumer loans	Purchase of apartments and mortgages	Credit cards	Micro loans	Purchase of motor vehicles	Total
Real estate	5,014	-	568	-	160	-	5,742
Personal transport	60	-	-	-	-	-	60
Bank deposits	-	-	-	28	-	-	28
Total	**5,074**	**-**	**568**	**28**	**160**	**-**	**5,830**

The Group considers fair value of realized collaterals for loss given default rate determination during collective impairment assessment of loan portfolio.

Fair value of collateral in respect of Stage 3 loans and advances to customers excluding the effect of over-collateralization at December 31, 2021 was as follows:

	Business loans	Cash consumer loans	Purchase of apartments and mortgages	Credit cards	Micro loans	Purchase of motor vehicles	Total
Real estate	9,095	127	1,242	-	181	-	10,645
Personal transport	92	31	-	-	-	31	154
Moveable property	28	-	-	-	53	-	81
Bank deposits	56	-	-	13	-	-	69
Other assets	28	-	-	-	-	-	28
Total	**9,299**	**158**	**1,242**	**13**	**234**	**31**	**10,977**

Currency, interest rate, geographical and liquidity analysis of loans and advances to customers are disclosed in Note 28. Refer to Note 30 for the estimated fair value of each class of amounts of loans and advances to customers. Information on related party balances is disclosed in Note 31.

9. INVESTMENT SECURITIES

	31-Dec-22	31-Dec-21
Government securities of the Republic of Azerbaijan (FVOCI)	44,731	31,065
Corporate debt securities (FVOCI)	1,585	1,783
Corporate shares – unquoted (FVOCI)	927	930
Government securities of the Republic of Azerbaijan (AC)	11,231	22,195
Corporate debt securities (AC)	15,299	6,609
Less allowance for credit loss	(95)	(330)
Total investment securities	**73,678**	**62,252**

As at December 31, 2022, accrued interest income included in investment securities amounted to AZN 785 thousand (December 31, 2021: AZN 843 thousand).

(in thousands of Azerbaijan Manats, unless otherwise indicated)

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI at December 31, 2022 and at December 31, 2022 is as follows:

Debt securities at FVOCI	2022	2021
Gross carrying value as at January 1	**33,778**	**13,709**
New assets originated or purchased (2022: 4.75% p.a 2021: 4.75% p.a)	16,502	20,604
Fair value change	(3,037)	(535)
As at December 31	**47,243**	**33,778**

Debt securities at FVOCI	2022	2021
ECL allowance as at 1 January	**(75)**	**(20)**
New assets originated or purchased	(32)	(41)
Changes to models and inputs used for ECL calculations	13	(14)
As at December 31	**(94)**	**(75)**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost at December 31, 2022 and at December 31, 2022 is as follows:

Debt securities at amortized cost	2022	2021
Gross carrying value as at January 1	**28,804**	**39,247**
New assets originated or purchased (2022: 3.5% - 13.5% p.a 2021: 4.50% - 12.5% p.a)	18,408	12,979
Assets repaid	(21,004)	(23,763)
Foreign exchange and other movements	322	341
As at December 31	**26,530**	**28,804**

Debt securities at amortized cost	2022	2021
ECL allowance as at 1 January	**(330)**	**(90)**
New assets originated or purchased	(87)	(190)
Assets repaid or sold	165	-
Changes to models and inputs used for ECL calculations	157	(50)
As at December 31	**(95)**	**(330)**

Details of corporate unquoted shares designated as FVOCI are:

Name	Nature of business	% of ownership	December 31, 2022	December 31, 2021
"Milli Kart" LLC	Card processing	8.0	400	400
Azerbaijan Credit Bureau	Data processing	12.5	250	250
Baku Stock Exchange	Stock exchange	6.0	240	240
S.W.I.F.T SCRL	Telecommunication	0.5	37	40
Total investment securities			**927**	**930**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

All investment securities are in Stage 1 as at 31 December 2022 and 2021 respectively. An analysis of changes in gross carrying value and corresponding ECL allowance on investment securities during the year ended December 31, 2022 and 2021 is as follows:

	2022	**2021**
Gross carrying value as at January 1	**61,652**	**52,206**
Net change in carrying value	11,194	9,446
As at December 31	**72,846**	**61,652**

	2022	**2021**
ECL allowance as at January 1	**(330)**	**(90)**
Net change in ECL value	235	(240)
As at December 31	**(95)**	**(330)**

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

The Group recognized loss on fair value change of debt investment securities in FVOCI in the amount of AZN 3,037 thousand during the year ended December 31, 2022 (2021: AZN 535 thousand loss on fair value change of debt investment securities).

(in thousands of Azerbaijan Manats, unless otherwise indicated)

10. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings	Office and computer equipment	Furniture, fixture and other equipment	Construction in progress	Leasehold improvements	Total premises and equipment	Intangible assets	Total
Net book value as at January 1, 2021	**47,089**	**8,964**	**10,831**	**574**	**4,645**	**72,103**	**15,313**	**87,416**
Additions	4,466	2,391	2,782	3,422	2,465	15,526	2,807	18,333
Transfers in/(out)	3,290	-	-	(3,290)	-	-	-	-
Disposals	(693)	(9)	(676)	(87)	(315)	(1,780)	-	(1,780)
Accumulated depreciation of disposals	189	1	460	-	315	965	-	965
Depreciation and amortization charge	(1,543)	(1,599)	(1,168)	-	(1,301)	(5,611)	(2,546)	(8,157)
Cost as at December 31, 2021	64,225	18,688	22,538	619	10,816	116,886	26,839	143,725
Accumulated depreciation/amortization as at December 31, 2021	(11,427)	(8,940)	(10,309)	-	(5,007)	(35,683)	(11,265)	(46,948)
Net book value as at December 31, 2021	**52,798**	**9,748**	**12,229**	**619**	**5,809**	**81,203**	**15,574**	**96,777**
Additions	2,705	3,480	2,778	2,721	4,489	16,164	3,351	19,515
Transfers in/(out)	2,721	-	-	(2,721)	-	-	-	-
Disposals	(276)	(2)	(98)	-	(249)	(624)	(513)	(1,137)
Accumulated depreciation of disposals	200	-	71	-	249	520	513	1,033
Depreciation and amortization charge	(2,204)	(1,946)	(1,276)	-	(1,442)	(6,871)	(2,757)	(9,628)
Cost as at December 31, 2022	69,375	22,166	25,218	619	15,056	132,434	29,677	162,111
Accumulated depreciation/amortization as at December 31, 2022	(13,431)	(10,886)	(11,514)	-	(6,200)	(42,031)	(13,510)	(56,099)
Net book value as at December 31, 2022	**55,944**	**11,280**	**13,704**	**619**	**8,856**	**90,403**	**16,167**	**106,570**

Construction in progress consists of construction and refurbishment of branch premises. Upon completion, assets are transferred to land and buildings.

Included in the carrying amount of the land and buildings category of premises and equipment the amount of AZN 7,960 thousand is the right-of-use assets for 21 branches area as at December 31, 2022 (December 31, 2021: AZN 6,907 thousand).

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Intangible assets include software and licenses. Additions to intangible assets during the year ended December 31, 2022 included security software, corporate internet banking software, bank accounting software modules and other licenses in the amount of AZN 3,351 thousand (2021 included security software, corporate internet banking software, bank accounting software modules and other licenses in the amount of AZN 2,807 thousand).

As at December 31, 2022 included in the closing balance of premises and equipment were fully depreciated assets still in use with the total initial cost of AZN 595 thousand (December 31, 2021: AZN 844 thousand).

11. OTHER FINANCIAL ASSETS

	December 31, 2022	December 31, 2021
Receivables from online payments	51,103	30,499
Receivables for credit and debit card transactions	6,054	-
Brokerage operations	4,866	3,191
Settlements on money transfer operations	665	746
Other financial assets	811	107
	63,499	**34,543**

Receivables for credit and debit card transactions represent net funds receivable from other local banks for cash withdrawn from the Bank's ATMs by customers of other banks.

As at December 31, 2022 and 2021, the Group did not have overdue other financial assets. All other financial assets are in Stage 1 and their ECL is not material as for December 31, 2022 and 2021.

12. OTHER ASSETS

	December 31, 2022	December 31, 2021
Repossessed collaterals	17,048	19,354
Prepayment for equipment	10,471	5,232
Prepaid expenses	4,196	3,668
Investment property	1,188	1,215
Others	3,276	813
	36,179	**30,282**
Less: Provision for impairment of repossessed collaterals	(3,408)	(998)
Total other assets	**32,771**	**29,284**

Movements in provision for impairment of repossessed collaterals during the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Balance at January 1	**998**	**4,397**
Increase/ (decrease) in provision for impairment losses	2,596	(2,409)
Derecognized as a result of sale of assets	(186)	(990)
Balance at December 31	**3,408**	**998**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

As at December 31, 2022 and 2021 repossessed collaterals mainly represent immovable properties confiscated by the Group for loans and lease receivables determined to be credit impaired. During the year ended December 31, 2022 the Group recognized impairment loss on repossessed collaterals in the amount of AZN 2,596 thousand (2021: impairment gain on repossessed collaterals in the amount of AZN 2,409 thousand).

The following table provides the reconciliation between the carrying amounts of investment property at the beginning and end of the period:

	Investment property
Cost	
Balance at January 1, 2021	3,962
Disposal	(1,204)
Transfer to "Repossessed collateral"	(1,472)
Balance at December 31, 2021	**1,286**
Depreciation	
Balance at January 1, 2021	(38)
Accumulated depreciation of disposal	8
Depreciation charge	(41)
Balance at December 31, 2021	**(71)**
Carrying amount	
At December 31, 2021	**1,215**
Cost	
Balance at January 1, 2022	1,286
Balance at December 31, 2022	**1,286**
Depreciation	
Balance at January 1, 2022	(71)
Depreciation charge	(27)
Balance at December 31, 2022	**(98)**
Carrying amount	
At December 31, 2022	**1,188**

As at December 31, 2022, investment property was carried at cost. Management believes that the fair value of investment property as at December 31, 2022 and 2021 approximated its carrying amount. The fair value of the Group's investment property is categorized into level 3 of the fair value hierarchy.

13. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2022	December 31, 2021
Short-term placements of other banks and financial institutions	48,615	36,866
Correspondent accounts and overnight placement of other banks	25,596	10,001
Payables under repurchase agreements with financial institutions	2,091	208
Total due to other banks	**76,302**	**47,075**

As at December 31, 2022 short-term placements of other banks and financial institutions included several placements of resident banks, bearing interest rates of 3.00-8.75% per annum with maturities to December 2022 (December 31, 2021: placement of several banks, bearing interest rates of 0.5-7.9% per annum with maturity to December 2021).

As at December 31, 2022, there is no accrued interest expenses included in amounts due to banks and other financial institutions (December 31, 2021: AZN 115 thousand).

(in thousands of Azerbaijan Manats, unless otherwise indicated)

As at December 31, 2022 the Group has 4 banks and other financial institutions (December 31, 2021: 3 banks) with outstanding balance exceeding 10% of total due to banks and other financial institutions. The gross value of this balance as at December 31, 2022 is 74,117 AZN thousand (December 31, 2021: AZN 33,475 thousand).

14. CUSTOMER ACCOUNTS

	December 31, 2022	December 31, 2021
Individuals		
- Term deposits	540,903	469,087
- Current/demand accounts	248,512	116,503
Other legal entities		
- Term deposits	31,301	12,846
- Current/settlement accounts	187,545	120,234
State and public organizations		
- Current/settlement accounts	931	1,036
Total customer accounts	**1,009,192**	**719,706**

Economic sector concentrations within customer accounts are as follows:

	December 31, 2022		December 31, 2021	
	Amount	%	Amount	%
Individuals	781,083	77.5	583,041	81.0
Trade and services	162,855	16.1	90,342	12.6
Energy and mining	23,683	2.3	19,529	2.7
Finance	17,355	1.7	15,258	2.1
Communication and transport	11,298	1.2	2,024	0.3
Manufacturing	6,089	0.6	5,045	0.7
Construction	2,518	0.2	1,252	0.2
Agriculture	2,456	0.2	1,152	0.2
Other	1,855	0.2	2,063	0.2
Total customer accounts	**1,009,192**	**100.0**	**719,706**	**100.0**

As at December 31, 2022 the Group had 50 customers (December 31, 2021: 40 customers) with balances above AZN 1,000 thousand. The aggregate balance of these customers was AZN 255,334 thousand (December 31, 2021: AZN 157,918 thousand) or 25% (December 31, 2021: 22,3%) of total customer accounts.

Included in customer accounts in the amount of AZN 12,086 thousand and AZN 11,122 thousand as at December 31, 2022 and 2021, respectively is accrued interest payable.

Included in customer accounts in the amount of AZN 17,056 thousand and AZN 16,075 thousand as at December 31, 2022 and 2021, respectively are deposits blocked as collateral for loans issued.

Included in customer accounts in the amount of AZN 636,461 thousand and AZN 563,005 thousand as at December 31, 2022 and 2021, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

15. TERM BORROWINGS

	December 31, 2022	December 31, 2021
Funds borrowed from resident banks and government organizations	95,690	96,203
Total term borrowings	**95,690**	**96,203**

As at 31 December 2022 and 2021 included in loans received from local credit institutions are loans from the Entrepreneurship Development Fund of Azerbaijan Republic amounting to AZN 15,900 thousand and AZN 15,989 thousand, respectively. Under this program, funds made available to the Bank at an interest rate of 1% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 6% p.a. These loans have maturity periods up to 10 years.

As at 31 December 2022 and 2021 included in loans received from local credit institutions are loans from the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan amounting to AZN 58,908 thousand and AZN 53,122 thousand, respectively. Under this program, funds made available to the Bank at interest rates of 1-4% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 7% p.a. These loans have maturity periods from 5 to 30 years.

During 2022, there was no new issued loan by the CBAR to the Group, while during 2020 and 2019, the CBAR issued loans to the Group in the total amount of AZN 34,725 thousand with annual interest rate of 0.1% for restructuring problem loans based on the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan. These loans were recorded at fair value on initial recognition. As at 31 December 2022 and 31 December 2021 amortized carrying amount of these loans was AZN 15,289 thousand and AZN 22,513 thousand respectively.

On February 1, 2020 the Group signed credit agreement with Agrarian Credit and Development Agency under the Ministry of Agriculture. At 31 December 2022 the outstanding balance was AZN 5,595 thousand (31 December 2021: AZN 4,579 thousand). Under this program, funds made available to the Bank at an interest rate of 2%-2.5% p.a. and the Bank further on lends these funds to eligible borrowers at rates of 7%-12% p.a. The loans are repayable within 3 years from issue date.

The Group management believes that there are no other financial instruments similar to term borrowings from Entrepreneurship Development Fund of Azerbaijan Republic, Azerbaijan Mortgage and Credit Guarantee Fund and Agrarian Credit and Development Agency under the Ministry of Agriculture and considers this market as a separate market.

As at December 31, 2022, accrued interest payable included in term borrowings amounted to AZN 3,191 thousand (December 31, 2021: AZN 3,321 thousand).

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

	2022	2021
January 1	**96,203**	**97,028**
Cash flows		
Proceeds	23,298	18,630
Repayment	(25,220)	(21,426)
Interest paid	(2,046)	(1,801)
Non-cash changes		
Interest expense	3,455	3,772
December 31	**95,690**	**96,203**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

16. LEASE LIABILITY

The Group leases part of its head office and some of its branches. The leases typically run for a period of five to ten years.

The Group also leases areas for its ATMs with a period of one to ten years. The areas for ATMs are not exactly defined in contracts and the Group cannot control the economic benefits from the use of those spaces, i.e. does not have right to direct the use of the identified asset.

	December 31, 2022	December 31, 2021
Lease liabilities (current)	1,749	1,373
Lease liabilities (non-current)	6,522	5,541
Total lease liabilities	**8,271**	**6,914**

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

	Minimum lease payments due		
	Within one year	One to ten years	Total
Lease payments	2,068	8,229	10,297
Finance charges	(319)	(1,707)	(2,026)
Net present value as at December 31, 2022	**1,749**	**6,522**	**8,271**

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

	Minimum lease payments due		
	Within one year	One to ten years	Total
Lease payments	1,671	7,086	8,757
Finance charges	(298)	(1,545)	(1,843)
Net present value as at December 31, 2021	**1,373**	**5,541**	**6,914**

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

	2022	2021
Balance at January 1	**6,914**	**4,157**
Changes from financing cash flows		
Repayment of principal portion of lease liability	(1,202)	(1,197)
Other changes		
Interest expense	584	322
Interest paid	(591)	(273)
New leases	2,345	2,302
Modification	346	-
Remeasurement	-	2,143
Derecognition	(125)	(540)
Balance at December 31	**8,271**	**6,914**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Extension options

Some leases of office premises and branches contain extension options exercisable by the Group up to one year before the end of non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

17. OTHER LIABILITIES

	December 31, 2022	December 31, 2021
Other financial liabilities:		
Debit or credit card payables	21,894	-
Items in course of settlement	2,015	680
Others	458	286
Total other financial liabilities	**24,367**	**966**
Other non-financial liabilities:		
Payables to employees	3,932	2,590
Taxes payable	4,826	2,069
Provision for guarantees and similar commitments	1,131	205
Others	2,309	1,939
Total other non-financial liabilities	**12,198**	**6,803**
Total other liabilities	**36,565**	**7,769**

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

	Stage 1	Total
ECL allowance as at January 1, 2022	(205)	(205)
Recovery/(expense) of expected credit losses and derecognition	(926)	(926)
As at December 31, 2022	**(1,131)**	**(1,131)**

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

	Stage 1	Total
ECL allowance as at January 1, 2021	**(486)**	**(486)**
Recovery of expected credit losses and derecognition	281	281
As at December 31, 2021	**(205)**	**(205)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

18. DEBT SECURITIES IN ISSUE

	December 31, 2022	December 31, 2021
Debt securities in issue	15,929	-
Subordinated debt securities	39,869	25,641
Total debt securities in issue	**55,798**	**25,641**

On December 28, 2017, the Group issued subordinated debt securities in the amount of USD 10,000 thousand, and October 26, 2021 in the amount of USD 15,000 thousand. The debt securities bear annual interest rates of 6% and mature on December 28, 2023 and October 26, 2027 respectively.

On January 27, 2022, the Group issued debt securities in the amount of AZN 20,000 thousands which bear annual interest rates of 9% and mature at 27 July 2023.

On November 30, 2022, the Group issued subordinated debt securities in the amount of USD 15,000 thousands which bear annual interest rates of 8%, and mature at 30 November 2028.

As at December 31, 2022, accrued interest payable included in debt securities in issue amounted to AZN 684 thousand (December 31, 2021: AZN 238 thousand).

The repayment of Group’s subordinated debt ranks after all other creditors in case of liquidation of the Group.

A reconciliation of the opening and closing amounts of debt securities in issue with relevant cash and non-cash changes from financing activities is stated below:

	2022	2021
January 1,	**25,641**	**16,036**
Cash flows		
Issued	43,218	25,500
Repurchase/repayment	(13,744)	(16,094)
Interest paid	(2,173)	(888)
Non-cash changes		
Interest expense	2,856	1,087
December 31,	**55,798**	**25,641**

19. SHARE CAPITAL

	Number of outstanding ordinary shares	Ordinary shares	Share premium	Total
As at December 31, 2021	**48,046,455**	**130,686**	**484**	**131,170**
As at December 31, 2022	**50,808,968**	**138,200**	**484**	**138,684**

The nominal value of the registered amount of the Bank's issued share capital as at December 31, 2022 is AZN 138,200 thousand (December 31, 2021: AZN 130,686 thousand).

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The shareholders of the Bank as at December 31, 2022 and 2021 were as follows:

No	Shareholders	December 31, 2022, % (rounded up to one hundred decimal)	December 31, 2021, % (rounded up to one hundred decimal)
1	Mr. Eldar Garibov	94.08	86.7
2	Canley Finance SA	-	7.31
3	Other minor individual shareholders	5.92	5.99

Share premium represents the excess of contributions received over the nominal value of shares issued.

On July 20, 2022 and December 6, 2022 the Bank issued 4,375,000 and 2,500,000 ordinary shares that were obtained by the existing shareholders according to their previous proportions. On December 12, 2022, the Bank repurchased 4,112,487 shares from its two shareholders which resulted in decrease of share capital by AZN 11,185,965. 280,515 of the total number of repurchased shares, were paid for in cash to a minor individual shareholder, while the remaining 3,831,972 shares were settled by offsetting outstanding loans receivable from one of the shareholders (Canley Finance SA). As a result, Bank's share capital increased up to AZN 138,200,393 as at December 31, 2022 from AZN 130,686,358 as at December 31, 2021.

Mr. Eldar Garibov remains to be ultimate controlling party of the Group.

As at December 30, 2022 all ordinary shares have a nominal value of AZN 2.72 per share (December 31, 2021: AZN 2.72 per share) and rank equally. Each share carries one vote. During the year ended December 31, 2022, no dividends were declared and paid (December 31, 2021: AZN 4,027 thousand).

Dividends payable is restricted to the maximum retained earnings of the Group, which are determined according to the legislation of the Republic of Azerbaijan. Banks are not allowed to pay dividends if net assets are less than share capital. During 2022, no dividends were declared or paid by the Group. As the distribution of dividends during 2021 had not negatively affected the financial stability of the Group, the Management believed that CBAR would not impose any administrative sanction due to this incompliance.

20. INTEREST INCOME AND EXPENSE

	Year ended December 31, 2022	Year ended December 31, 2021
Interest income on financial assets calculated the effective interest method comprises:		
- Loans and advances to customers	155,171	114,687
- Investment securities	3,440	3,491
- Due from other banks and correspondent accounts	1,068	129
Total interest income	**159,679**	**118,307**
Interest expense on financial liabilities recorded at amortized cost comprises:		
- Term deposits of individuals	(44,314)	(35,742)
- Term borrowings, due to banks and other financial institutions	(6,355)	(5,090)
- Debt securities in issue	(2,858)	(1,087)
- Term deposits of legal entities	(1,650)	(1,080)
- Lease liability	(584)	(321)
Total interest expense	**(55,761)**	**(43,320)**
Net interest income	**103,918**	**74,987**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

21. (CHARGE)/RECOVERY OF EXPECTED CREDIT LOSSES

The table below shows the ECL (charge)/recovery on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended December 31, 2022:

	Note	Stage 1	Stage 2	Stage 3	POCI	Total
- Loans and advances to customers	8	569	(5,082)	(10,016)	1,944	(12,585)
- Investment securities	9	235	-	-	-	235
Charge of credit loss allowance on financial assets		**804**	**(5,082)**	**(10,016)**	**1,944**	**(12,350)**
- Unused credit lines and guarantees	29	(926)	-	-	-	(926)
Total credit loss allowance charge		**(122)**	**(5,082)**	**(10,016)**	**1,944**	**(13,276)**

The table below shows the ECL (charge)/recovery on financial instruments recorded in the statement of profit or loss and other comprehensive income for the year ended December 31, 2021:

	Note	Stage 1	Stage 2	Stage 3	POCI	Total
- Loans and advances to customers	8	(5,140)	3,593	(17,212)	1,499	(17,260)
- Investment securities	9	(240)	-	-	-	(240)
Charge of credit loss allowance on financial assets		**(5,380)**	**3,593**	**(17,212)**	**1,499**	**(17,500)**
- Unused credit lines and guarantees	29	281	-	-	-	281
Total credit loss allowance charge		**(5,099)**	**3,593**	**(17,212)**	**1,499**	**(17,219)**

22. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended December 31, 2022	Year ended December 31, 2021
Fee and commission income:		
Plastic cards operations	41,064	16,870
Settlement transactions	8,670	5,062
Cash transactions	3,872	3,281
Brokerage operations	1,918	1,068
Guarantees and letters of credit issued	514	230
Others	2,319	2,940
Total fee and commission income	**58,357**	**29,451**
Fee and commission expense:		
Plastic cards operations	(35,215)	(14,261)
Cash transactions	(14,208)	(5,484)
Centralized credit registry	(4,570)	(1,707)
Settlement transactions	(879)	(613)
Guarantees and letters of credit	(68)	(40)
Others	(385)	(233)
Total fee and commission expense	**(55,325)**	**(22,338)**
Net fee and commission income	**3,032**	**7,113**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

23. NET GAIN FROM FOREIGN CURRENCIES

	Year ended December 31, 2022	Year ended December 31, 2021
Gains less losses from trading in foreign currencies	3,643	4,101
Foreign exchange translation gains/(losses), net	169	(597)
Net result from foreign currency derivatives	(1,555)	(1,534)
Total net gain from foreign currencies	**1,919**	**1,970**

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended December 31, 2022	Year ended December 31, 2021
Staff costs	(55,130)	(42,321)
Depreciation expenses	(6,885)	(5,611)
Advertising expenses	(6,349)	(5,072)
Insurance of customer deposits	(4,339)	(3,578)
Computer software costs	(4,036)	(3,057)
Communication expenses	(3,062)	(2,077)
Amortization expenses	(2,743)	(2,546)
Purchase of plastic cards	(2,006)	(510)
Professional fees	(1,714)	(2,871)
Publishing and stationery	(1,685)	(428)
Repair and maintenance expenses	(1,416)	(1,207)
Utility expenses	(1,227)	(1,049)
Security expenses	(1,178)	(1,106)
Rent expenses	(1,101)	(802)
Representation expenses	(817)	(509)
Taxes other than income tax	(768)	(738)
Other insurance expenses	(360)	(398)
Tax penalties	-	(1,425)
Other expenses	(2,607)	(1,070)
Total administrative and other operating expenses	**(97,423)**	**(76,374)**

Included in staff costs for the year ended December 31, 2022 are obligatory payments to the State Social Protection Fund of the Republic of Azerbaijan in the amount of AZN 6,755 thousand (2021: AZN 5,188 thousand).

25. INCOME TAXES

(a) Components of income tax expense

Income tax expense comprises the following:

	Year ended December 31, 2022	Year ended December 31, 2021
Current income tax	(162)	(219)
Deferred income tax	(6,903)	631
Income tax (expense)/recovery for the year	**(6,255)**	**412**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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

The income tax rate applicable to the majority of the Group's income is 20%. A reconciliation between the expected and the actual taxation charge is provided below.

	Year ended December 31, 2022	Year ended December 31, 2021
Loss before income tax	**1,195**	**(318)**
Theoretical tax benefit at statutory rate (20%)	(239)	64
Change in unrecognized deferred income tax asset	5,060	1,016
Tax effect of net non-deductible items	(864)	(668)
Expiration of tax effect of previous tax losses	(10,212)	-
Income tax expense/(recovery) for the year	**(6,255)**	**412**

(c) Deferred taxes analyzed by type of temporary difference

Differences between IFRS and Azerbaijan statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20%.

	January 1, 2022	Charged to profit or loss	Charged to other comprehensive income	December 31, 2022
Tax effect of deductible/(taxable) temporary differences				
Customer accounts	151	278	-	429
Other liabilities	652	611	-	1,263
Due from other banks	3,371	308	-	3,679
Lease liability	(282)	(266)	-	(548)
Loans and advances to customers	(4,667)	(769)	-	(5,436)
Premises, equipment and intangible assets	(2,314)	(82)	-	(2,396)
Other assets	(2,538)	799	-	(1,739)
Investment securities	71	(41)	607	637
Derivative financial liabilities	17	193	-	210
Derivative financial assets	-	(315)		(315)
Due to banks and other financial institutions	(7)	-	-	(7)
Other temporary differences	(86)	-	-	(86)
Tax loss carried forward	15,844	(11,869)	-	3,975
Deferred income tax asset before unrecognized tax assets	10,212	(11,153)	607	(334)
Deferred tax asset not recognized	(5,060)	5,060	-	-
Net deferred income tax asset	**5,152**	**(6,903)**	**607**	**(334)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	January 1, 2021	Charged to profit or loss	Charged to other comprehensive income	December 31, 2021
Tax effect of deductible/(taxable) temporary differences				
Customer accounts	-	541	-	541
Other liabilities	749	(97)	-	652
Due from other banks	8,792	(5,421)	-	3,371
Lease liability	56	(338)	-	(282)
Loans and advances to customers	(7,413)	2,356	-	(5,057)
Premises, equipment and intangible assets	(2,361)	47	-	(2,314)
Other assets	(1,701)	(837)	-	(2,538)
Investment securities	34	(70)	107	71
Derivative financial liabilities	-	17	-	17
Due to banks and other financial institutions	(7)	-	-	(7)
Other temporary differences	(86)	-	-	(86)
Tax loss carried forward	12,427	3,417	-	15,844
Deferred income tax asset before unrecognized tax assets	10,490	(385)	107	10,212
Deferred tax asset not recognized	(6,076)	1,016	-	(5,060)
Net deferred income tax asset	**4,414**	**631**	**107**	**5,152**

In the context of the Group's current structure and Azerbaijan tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

The composition of the total net deferred tax asset of the Group after offsetting within the individual entities comprising the Group is, as follows:

	December 31, 2022	December 31, 2021
Deferred income tax asset	(334)	5,152
Total net deferred income tax asset	**(334)**	**5,152**

Movement in valuation allowance of deferred income tax asset is as follows:

	December 31, 2022	December 31, 2021
Opening balance as at January 1	(5,060)	(6,076)
Charged to profit or loss	5,060	1,016
Total deferred income tax asset not recognized	**-**	**(5,060)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

26. EARNINGS/ (LOSS) PER SHARE

Basic (loss)/earnings per share are calculated by dividing the (loss)/profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the period, excluding treasury shares.

The Group has no dilutive potential ordinary shares, therefore, the diluted (loss)/earnings per share equal the basic (loss)/earnings per share.

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Profit/(loss) for the year attributable to ordinary shareholders		(5,060)	94
Weighted average number of ordinary shares in issue (thousands)	19	49,838	46,668
Basic and diluted (loss)/earnings per ordinary share (expressed in AZN per share)		**(0.10)**	**0.002**

27. 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 the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Group.

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

The Group is organized on the basis of main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages.
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products.
- Investment banking – representing treasury operations and trading of securities.

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

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

Segment financial information reviewed by the CODM includes the results and the statement of financial position of the Group's subsidiaries. Ongoing review of these subsidiary entities is delegated to the local management teams, but the CODM performs regular review on a consolidated basis. The CODM obtains financial statements of the Group's subsidiaries. Such financial information overlaps with segment analysis provided internally to the CODM.

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. Management considered that information on subsidiary entities is available when required in concluding that segments include details of the subsidiaries.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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

The CODM reviews financial information prepared based on the IFRS.

The CODM evaluates performance of each segment based on profit before tax.

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

Segment information for the main reportable business segments of the Group for the years ended December 31, 2022 and 2021 is set out below:

	Retail banking	Corporate banking	Investment banking	Eliminations	Total Group
Year ended December 31, 2022					
Interest income	139,227	15,663	4,508	281	159,679
Fee and commission income	46,242	8,457	1,761	1,897	58,357
Total revenues	**185,470**	**24,120**	**6,269**	**2,178**	**218,036**
Interest expense	(42,702)	(8,513)	(4,266)	(281)	(55,761)
Fee and commission expense	(50,217)	(2,378)	(833)	(1,897)	(55,325)
Impairment loss on repossessed collateral	-	(2,410)	-	-	(2,410)
Charge of expected credit loss	(11,737)	(848)	235	-	(12,350)
Charge of expected credit losses for guarantees and credit related commitments	(926)	-	-	-	(926)
Foreign exchange translation gains/(losses), net	-	-	-	-	-
Administrative and other operating expenses	(79,203)	(7,258)	(1,307)	-	(87,769)
Segment results	**685**	**2,712**	**98**	**-**	**3,495**
Year ended December 31, 2021					
Interest income	99,463	14,552	3,620	672	118,307
Fee and commission income	20,565	5,791	988	2,108	29,451
Total revenues	**120,028**	**20,342**	**4,608**	**2,780**	**147,758**
Interest expense	(29,644)	(9,642)	(3,362)	(672)	(43,320)
Fee and commission expense	(16,800)	(2,623)	(807)	(2,108)	(22,338)
Impairment loss on repossessed collateral	-	3,450	-	-	3,450
Charge of expected credit loss	(952)	(16,308)	(240)	-	(17,500)
Recovery of expected credit losses for guarantees and credit related commitments	-	281	-	-	281
Foreign exchange translation gains/(losses), net	(409)	(142)	(46)	-	(597)
Administrative and other operating expenses	(54,121)	(11,708)	(995)	-	(66,824)
Segment results	**18,102**	**(16,350)**	**(842)**	**-**	**910**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Total reportable segment assets and liabilities as at December 31, 2022 and 2021 are presented in the following table:

	Retail banking	Corporate banking	Investment banking	Eliminations	Total Group as at December 31, 2022
Total reportable segment assets	799,135	277,986	107,309	8,833	1,193,263
Total reportable segment liabilities	(829,602)	(288,584)	(111,400)	(8,332)	(1,237,918)
Capital expenditure paid	18,665	3,495			22,160

	Retail banking	Corporate banking	Investment banking	Eliminations	Total Group as at December 31, 2021
Total reportable segment assets	580,706	202,055	65,852	3,475	852,088
Total reportable segment liabilities	(606,398)	(210,994)	(68,765)	(2,551)	(888,708)
Capital expenditure paid	12,219	3,819	-	-	16,038

(e) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

A reconciliation of adjusted profit before tax to total profit before income tax is provided as follows:

	2022	2021
Adjusted (profit)/loss before income tax for reportable segments	**3,495**	**910**
Gain from foreign currencies	1,919	2,567
Other operating income, net	5,618	5,838
Depreciation of premises and equipment and investment property	(6,885)	(5,579)
Amortization of intangible assets	(2,743)	(2,546)
Net losses from derivative financial instruments	(183)	(83)
Tax penalties	(26)	(1,425)
Profit/(loss) before income tax	**1,195**	**(318)**

The adjustments are attributable to the following:

- Gains/(losses) arising from trading in foreign currencies are not allocated to the segments.
- The Group does not allocate depreciation and amortization to the segments.
- The Group does not allocate other operating loss and other non-operating income to segments.

Reportable segments' assets are reconciled to total assets as follows:

	December 31, 2022	December 31, 2021
Total reportable segment assets	**1,193,263**	**852,088**
Premises, equipment and intangible assets	106,570	96,777
Other financial assets	63,499	34,543
Other assets	32,771	29,284
Derivative financial assets	1,463	
Deferred income tax asset	-	5,153
Total consolidated assets	**1,397,566**	**1,017,845**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The adjustments are attributable to the following:

- Income taxes, other assets and other financial assets are not allocated between the reporting segments for internal management reporting.
- Premises, equipment and intangible assets are not allocated between the reporting segments for internal management reporting.

Reportable segments’ liabilities are reconciled to total liabilities as follows:

	December 31, 2022	December 31, 2021
Total reportable segment liabilities	**1,237,918**	**888,708**
Other financial liabilities	24,367	966
Other non-financial liabilities	12,198	6,803
Lease liability	8,271	6,914
Deferred income tax liabilities	334	-
Total consolidated liabilities	**1,283,008**	**903,391**

The adjustments are attributable to the following:

- Current income tax liability, other financial liabilities and other liabilities are not allocated between the reportable segments for internal management reporting.
- Deferred income tax liability is not calculated for the purpose of internal management reporting.

The Group does not report the geographical segment based on the fact that the substantially all of its operating are carries out in the Republic of Azerbaijan.

(f) Analysis of revenues by products and services

The Group’s revenues are analyzed by products and services in Note 20 (interest income) and Note 22 (fee and commission income).

28. FINANCIAL RISK MANAGEMENT

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

The Group has exposure to financial risks which include credit, liquidity, market and operational risks. The taking of risk is integral to the Group’s business.

The Group’s risk management function’s aim is to achieve an appropriate balance between risk and return and to minimize potential adverse effects on the Group’s financial performance.

Risk management framework

The risk management function is an integral part of the Group’s internal control system and is centralized. The Group’s risk management policies and approaches aim to identify, analyze, mitigate and manage the risks faced by the Group. This is accomplished through setting appropriate risk limits and controls, continuously monitoring risk levels and the adherence to limits and procedures and ensuring that business processes are correctly formulated and maintained.

Risk Management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and to ensure that "best practices" are implemented. The Group, as part of its risk culture, emphasizes integrity, management and employee standards in order to maintain and continuously improve upon a conservative control environment.

Risk management bodies and governance

Risk management policy, assessment, approval, monitoring and controls are conducted by a number of specialized bodies within the Group. The Group has established executive bodies, committees and departments which conform to Azerbaijani law, the Central Bank of the Republic of Azerbaijan regulations and the best industry practices.

The Supervisory Board of the Group has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing and approving risk management policies as well as several key risk limit approval authorities, including significantly large exposures, economic and product sector limits. It also delegates certain authority levels to the Executive Board and the Credit Committee.

Established by, appointed by and reporting directly to the Supervisory Board are the Executive Board, the Executive Committee, the Risk Management Committee ("RMC"), the Audit Committee ("AC"), the Internal Audit Department and the Credit Committee.

The Executive Board is responsible for the implementation and monitoring of risk mitigation measures and ensuring that the Group operates within the established risk parameters. The Member of the Executive Board responsible for risk management along with the Risk Management Department which reports to him are responsible for the overall risk management functions, ensuring the implementation of common principles and methods for identifying, measuring, mitigating, managing and reporting both financial and non-financial risks.

The Risk Management Committee is chaired by the Member of the Executive Board responsible for risk management. This Committee is responsible for establishing risk management methodologies and ensuring that the risk appetite of the Group is correctly reflected in the strategic and business plans of the Group. It is the main forum for discussing and recommending changes in all risk approaches and procedures to the Executive and Supervisory Boards. It ensures that the Risk Management Department, the Credit Committee, as well as the Executive Board, address all potential risks facing the Group and report on these issues to the Supervisory Board.

The Audit Committee is responsible for overseeing and monitoring the internal control framework of the Group and for assessing the adequacy of risk management policies and procedures, as an integral part of the internal control system of the Group. The Chairman of the AC, an independent professional auditor, and the other two Committee members are representatives of two of the shareholders. The AC members cannot be employees or part of the management structure of the Group. They provide recommendations to the Executive Board, the Risk Management Committee and the Supervisory Board on development of the framework, as well as their views on, the quality of risk management and compliance with established policies, procedures and limits. The AC supervises the work of the Internal Audit, which reports directly to the AC. The Internal Audit's working plans, schedule of audits and its reports, including non-planned audits, are closely reviewed and approved by the AC.

Implementation plans based on Internal Audit's and the AC's recommendations, including status reports, are approved by the Executive Board and reported to the Executive Board, the Supervisory Board and the General Meeting of the Shareholders.

The Credit Committee consists of five members. They are nominated by the Risk Management Committee and the Executive Board and elected by the Supervisory Board. The Credit Committee manages and approves, or recommends for approval counterparty credit risk exposures within its credit approval authority for corporate, retail and financial sector entities. It also continuously reviews and makes recommendations as to analysis methodology and portfolio quality, including overall structure, diversification and pricing. The Credit Committee is one of the bodies which ensures adherence to all approval and authority limits and high standards for risk analysis and assessments.

RMC is responsible for the management and optimization of the Group's asset and liability structure. It is an integral part of the risk management process that focuses on various market risks, including liquidity, foreign currency and interest rate risks. RMC's functions include making recommendations for approval of strategies, policies and limits associated with the aforementioned risks. It is responsible for providing timely and reliable information and reports regarding these risk areas. RMC assists in setting pricing policies and funding strategies. It is also responsible, along with other risk management and controlling units of the Group, for ensuring that Treasury and other relevant units work with the parameters set by RMC, the Executive Board and the Supervisory Board.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations when due. The major portion of credit risk arises from the Group's loans and advances to customers and banks and other on and off-balance sheet credit exposures. For risk reporting purposes, the Group considers and consolidates all elements of credit risk exposures such as individual customer and counterparty default risk and industry risk.

The general credit risk approval structure, for corporate legal entities, private individuals and financial organizations, is as follows:

For secured business loans:

- The Chairman of the Supervisory Board together with The Credit Committee reviews and approves limits up to a maximum limit of 15% of Tier1 capital and meets on a regular basis;
- The Risk Management, Director of the Corporate Banking Services Department, Director of the Micro business Department and Director of the Problem Business Loans Management Department reviews and approves limits up to a maximum limit of AZN 150 thousand.

For secured retail loans:

- The Chairman of the Supervisory Board reviews and approves limits up to a maximum limit of 15% of the Tier1 capital and meets on a regular basis;
- The Risk Management, Retail Banking Services Department and the Problem Retail Loans Management Department reviews and approves limits up to a maximum limit of AZN 150 thousand.

For unsecured business loans:

- The Supervisory Board reviews and approves limits up to a maximum limit of 10% of the Tier1 capital and meets on a regular basis;
- The Chairman of the Supervisory Board together with The Credit Committee reviews and approves limits up to a maximum limit of 6% of Tier1 capital and meets on a regular basis;
- The Risk Management, Director of the Corporate Banking Services Department, Director of the Micro business Department and Director of the Problem Business Loans Management Department reviews and approves limits up to a maximum limit of AZN 20 thousand.

For unsecured retail loans:

- The Supervisory Board reviews and approves up to a maximum limit of 10% of the Tier1 capital and meets on a regular basis;
- The Chairman of the Supervisory Board together with The Credit Committee reviews and approves limits up to a maximum limit of 6% of Tier1 capital and meets on a regular basis;
- The Risk Management, Retail Banking Services Department and the Problem Retail Loans Management Department reviews and approves limits up to a maximum limit of AZN 20 thousand.

The Supervisory Board also approves general limits so as to control and manage risk diversification:

- Portfolio limits: corporate loans, retail loans and interbank exposures as percentages of the total portfolio;
- Portfolio limits: secured facilities and unsecured facilities as percentages of the total portfolios and as a percentage of the retail portfolio; and
- Economic sector and product exposures: as a percentage of the corporate and retail portfolios.

The Executive Board also approves limits and authority levels for exposures, as follows:

- By branch;
- By collateral type and loan to value ratios;
- By individual authority.

As at December 31, 2022 and 2021 the breakdown of the loan portfolio by economic and product sectors is provided in Note 8.

Credit risk management

Credit risk policy is developed by the Risk Management Committee and Executive Board in line with the risk profile and strategic plans of the Group. It is approved by the Supervisory Board.

This policy establishes:

- Procedures for generating, analyzing, reviewing and approving counterparty risk exposures;
- The methodology for the credit assessment of counterparties;
- The methodology for the credit rating of counterparties;
- The methodology for the evaluation and control of collateral;
- Credit documentation requirements;
- Loan administration procedures;
- Procedures for the ongoing monitoring of credit exposures;
- Environmental policy; and
- Loan loss provisioning policy.

Loan/credit requests are originated and generated by client managers and credit inspectors. Credit applications within approved authority limits are approved by the relevant business generating units. The copies of the approved requests are submitted to the Risk Management Department for prior-control, including being assigned a rating and input into a monitoring schedule. Risk exposure requests above these limits are sent to the Credit Group of the Risk Management Department. The Credit Group performs a secondary analysis and issues a report, rating and opinion. If the credit request is below a certain authorized limit and receives a positive opinion from Risk Management, and is signed off by the appropriate individuals, then the request is considered approved. If the opinion of risk management is negative then the request is sent to the Credit Committee for adjudication. If approved and the transaction is in an amount higher than the competence of the Credit Committee then it is sent to the Executive Board for approval. Large transactions, as defined above, have to be submitted to the Supervisory Board for approval.

Consumer lending is built based on the scoring model. The model is empirical, which is created according to the statistic information. The model consists of 7 score groups, where the first level is the lowest value of PD, and the last level is the highest one. Depending on the level, the credit amount and the interest rates are provided for the consumer lending.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of a party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in entering into conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

Credit assessments are done on a portfolio basis concentrating on amount and term limits, approval procedures, target groups, types of product, default statistics, loan/value ratios (if applicable), and pricing.

Expected credit loss (ECL) measurement – definitions

The ECL model is forward looking model. The need to incorporate forward-looking information means that application of the standard will require considerable judgment as to how changes in macroeconomic factors will affect ECLs.

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

Lifetime period – PD needs to take into account whole life of a given facility. A common simplifying assumption is that the Hazard Rate (Credit Curve) of the credit risk process has a flat Term Structure, which means that the Marginal Default Probability on any given future year is the same as the first year.

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

12-month ECL – One-year probability of default (PD) can be seen as a snapshot of lifetime PD. Two main reasons suggest treating one-year and lifetime separately. Firstly, banks have been developing one-year PD models over the last two decades for Basel II regulatory requirements. Secondly, a building-block-structure split in one-year and lifetime PD facilitates the learning process. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

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

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

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

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

- the borrower is more than 90 days past due on its contractual payments;
- restructured credits which have delay days in probation period. (Have not passed probation period);
- the borrower has the external rating below Caa2;
- other information available on borrower bankruptcy or default.

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

- any days past due;
- the borrower has the external rating below Caa2;
- other information available on borrower bankruptcy or default.

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

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

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

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

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

For loans issued to legal entities and bonds issued by the legal entities:

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

For interbank operations and bonds issued by the banks:

- Deteriorating change in external rating;
- Monitoring suggests borrower has financial difficulties.

For loans to individuals:

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

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

ECL measurement – description of estimation techniques

General principle

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

Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition; loss allowance is based on 12-month ECLs.

Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired; loss allowance is based on lifetime ECLs.

Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Bank only recognizes the cumulative changes in lifetime expected credit losses.
The Group can carry out three separate approaches for ECL measurement:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, overdue days and the availability of collateral or other credit support.

The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

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

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

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

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

ECL measurement for off-balance sheet financial instruments

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

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

The Group has used a behavioural scoring model for macro-economic variables of credit loss calculation of loan portfolio.

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

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

Validation

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

Collateral and other credit enhancements

Exposure to credit risk is also assessed and managed, in part, by obtaining, controlling and monitoring collateral in the form of mortgage interests over property, pledge of assets and securities and other collateral including deposits, corporate and personal guarantees.

While collateral is an important mitigating factor in assessing the credit risk, it is the Group's policy to establish that loans are within the customer's capacity to repay rather to rely solely on security. Collateral is considered as a secondary source of repayment. In limited cases, depending on the customer's standing or on the type of product or amounts, the facilities may be unsecured. The Group has in place various limits on the unsecured portions of its risk portfolio.

The principal types of collateral accepted by the Group are as follows:

- Commercial real estate;
- Residential real estate;
- Corporate capital assets;
- Corporate liquid assets;
- Transport vehicles;
- Term deposits;
- Other, including precious metals.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Strict appraisal, documentation and, where applicable, registration procedures are in place for all forms of collaterals. Loan to values ratios are approved by the Executive Board and controlled by the Risk Management Department. The loan to value limits as of December 31, 2022 and December 31, 2021 are as follows:

Type of collateral	Ratio of loan amount to liquid value of collateral
Real estate	up to 80%
Precious metals	up to 100%
Machinery, equipment	up to 50%
Inventory	up to 60%
Vehicles, transport	up to 70%
Term deposit	up to 90%

As supplement collateral the Bank may accept personal guarantees.

An exclusion from the collateral guidelines requires high level authorization of the Executive Board.
The Monitoring Group is responsible for establishing a schedule of monitoring events, fulfilling this plan and notifying the appropriate parties if the monitoring results are unsatisfactory and recommending a plan of action. The Monitoring Group physically monitors all transactions above an established amount plus does selected checks of transactions below this amount. All transactions above a certain amount are first monitored either before or at least within one month of disbursement. Following this, risk exposures are monitored according to a schedule.

The Statistical Group of the Risk Management Department is charged with compiling and reporting on all counterparty credit risk issues, including compliance with all limits, risk concentrations, portfolio trends, past due and default statistics, loan loss reserves and collateral statistics. Besides regular monthly reporting, they also compile reports on adherence to selected credit procedures.

Related party lending

The Central Bank of the Republic of Azerbaijan has strict definitions regarding the category of "related parties". Mainly, these are corporate entities owned/controlled by the shareholders or the private individuals themselves or immediate family members. Also included are individuals with senior management/authority positions in the Group. The largest loan per related party private individual may not be more than 3% of the consolidated capital of the Group. Per related corporate entity, the limit is 10%. The overall limit for related party risk exposure is 20%. Pricing and other terms and conditions must be done on an arms-length basis.

Allowance for loan losses – provisioning policy

The Group establishes an allowance for loan losses that represents its estimate of losses incurred in its risk exposures.

In its IFRS reporting, the Group utilizes the methodology which complies with IFRS 9.

Maximum exposure to credit risk

The Group's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets on the consolidated statement of financial position. The impact of possible netting-off of assets and liabilities to reduce potential credit exposure is not significant.

The maximum credit risk for off-balance items, mainly letters of credit and guarantees, represents the gross amount of the commitment. The Group's maximum exposure to off-balance credit risk is disclosed in Note 29.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Currency risk

The Group is exposed to effects of fluctuation in the prevailing local/foreign currency exchange rates on its financial position. Currency risk is the risk that movements in foreign exchange rates will affect the Group's income or the value of its portfolios of financial instruments.

The main element in the Group's risk policy regarding foreign currency risk is that there is no conscious effort to take a trading position in any currency. Limited open positions occur as a natural consequence of business operations only. The Group uses every effort to match its assets and liabilities by currency.

Exposure to foreign exchange risk faced by the Bank is also limited by the Central Bank of the Republic of Azerbaijan statutory requirements.

The foreign exchange exposures are managed by the Risk Management Department, who issue daily reports, reviewed and controlled by the Treasury Department. The table below summarizes the Group's exposure to foreign currency exchange rate risk at the end of the reporting period:

	December 31, 2022				
	Monetary assets	**Monetary liabilities**	**Forward contracts**	**SWAP agreements**	**Net position**
AZN	986,181	(943,043)	-	(58,500)	(15,362)
USD	184,334	(236,903)	-	51,000	(1,569)
EUR	77,560	(86,991)	-	9,057	(374)
Other	8,687	(2,683)	-	-	6,004
Total	**1,256,762**	**(1,269,620)**	**-**	**1,557**	**(11,301)**

	December 31, 2021				
	Monetary assets	**Monetary liabilities**	**Forward contracts**	**SWAP agreements**	**Net position**
AZN	711,285	(698,230)	-	(25,500)	(12,445)
USD	156,337	(178,523)	-	25,500	3,314
EUR	16,975	(18,211)	-	-	(1,236)
Other	2,034	(1,541)	-	-	493
Total	**886,631**	**(896,505)**	**-**	**-**	**(9,874)**

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

The Group has extended loans and advances denominated in foreign currencies. Depending on the revenue stream and cost structure of the borrower, the possible appreciation of the currencies in which loans and advances have been extended against the Azerbaijani Manat may adversely affect the borrower's repayment ability and therefore increase the potential of future loan losses.

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

	December 31, 2022	**December 31, 2021**
US Dollars strengthening by 50% (2020: 50%)	(628)	1,326
US Dollars weakening by 50% (2020: 50%)	628	(1,326)
Euro strengthening by 50% (2020: 50%)	(150)	(494)
Euro weakening by 50% (2020: 50%)	150	494
Other currency strengthening by 50% (2020: 50%)	2,402	197
Other currency weakening by 50% (2020: 50%)	(2,402)	(197)

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Other than as a result of any impact on the Group’s profit or loss, there is no other impact on the Group’s equity as a result of such changes in exchange rates.

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

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

	Less than 1 month	1-6 months	6-12 months	Over 1 year	Non-interest bearing	Carrying amount
December 31, 2022						
ASSETS						
Cash and cash equivalents	132,632	-	-	-	122,319	254,951
Due from other banks	1,172	-	-	3,288	15,060	19,520
Loans and advances to customers	39,323	186,957	227,624	378,595	12,615	845,114
Investment securities	2,584	3,621	3,073	63,367	1,033	73,678
Other financial assets	-	-	-	-	63,499	63,499
Total financial assets	**175,711**	**190,578**	**230,697**	**445,250**	**214,526**	**1,256,762**
LIABILITIES						
Due to banks and other financial institutions	(17,500)	(18,206)	(15,000)	-	(25,596)	(76,302)
Customer accounts	(219,515)	(234,367)	(248,549)	(45,654)	(261,107)	(1,009,192)
Term borrowings	(1,202)	(2,706)	(8,870)	(79,960)	(2,952)	(95,690)
Debt securities in issue	-	-	(15,982)	(39,132)	(684)	(55,798)
Lease liability	(143)	(719)	(888)	(6,521)	0	(8,271)
Other financial liabilities	-	-	-	-	(24,367)	(24,367)
Total financial liabilities:	**(238,360)**	**(255,998)**	**(289,289)**	**(171,267)**	**(314,706)**	**(1,269,620)**
	(62,649)	**(65,420)**	**(58,592)**	**273,983**	**(100,180)**	**(12,858)**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

	Less than 1 month	1-6 months	6-12 months	Over 1 year	Non-interest bearing	Carrying amount
December 31, 2021						
ASSETS						
Cash and cash equivalents	4,790	-	-	-	114,095	118,885
Due from other banks	-	2,000	-	-	9,904	11,904
Loans and advances to customers	37,638	153,202	170,663	287,719	9,825	659,047
Investment securities	1,045	3,461	2,306	53,668	1,772	62,252
Other financial assets	-	-	-	-	34,543	34,543
Total financial assets	**43,473**	**158,663**	**172,969**	**341,387**	**170,139**	**886,631**
LIABILITIES						
Due to banks and other financial institutions	(13,400)	(5,000)	(28,350)	-	(325)	(47,075)
Customer accounts	(30,841)	(168,847)	(207,348)	(63,770)	(248,900)	(719,706)
Term borrowings	(1,126)	(5,089)	(11,851)	(75,001)	(3,136)	(96,203)
Debt securities in issue	-	-	-	(25,403)	(238)	(25,641)
Lease liability	(114)	(566)	(693)	(5,541)	-	(6,914)
Other financial liabilities	-	-	-	-	(966)	(966)
Total financial liabilities:	**(45,481)**	**(179,502)**	**(248,242)**	**(169,715)**	**(253,565)**	**(896,505)**
	(2,008)	**(20,839)**	**(75,273)**	**171,672**	**(83,426)**	**(9,874)**

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

At present, the Group manages its interest rate risk by matching, where possible, its maturity and/or repricing positions. In addition, the Group's monthly interest margins are continually reviewed in order to reprice its assets when deemed appropriate. Operational procedures set the acceptable interest rate margin at a minimum of 10%. The Risk Management Department constantly monitors the maintenance of this margin. RMC is also responsible for presenting interest rate movement reports and forecasts. At present, through the Group's matching policies and high interest rate margins, potential interest rate risk is not considered to be significant.

RMC and Treasury are responsible for managing interest rate risk, the Risk Management Department for controlling and the Executive Board must approve all guidelines and asset/liability repricing.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The Group monitors interest rates for its financial instruments. The table below summarizes interest rates based on reports reviewed by key management personnel:

	December 31, 2022				December 31, 2021			
	USD	AZN	EUR	Other	USD	AZN	EUR	Other
Assets								
Cash and cash equivalents	3.5	5.7	1.9	-	-	6.0	-	-
Due from other banks	5.1	6.3	0.5	-	-	7.0	-	-
Loans and advances to customers	5.5	21.4	5.2	-	7.0	20.9	3.2	-
Investment securities	4.7	8.4	1.8	-	4.7	7.2	1.8	-
Liabilities								
Due to other banks and financial institutions	-	6.3	-	-	0.5	6.9	-	-
Customer accounts	2.2	8.1	0.1	-	1.7	9.7	0.1	-
Term borrowings	-	2.3	-	-	-	3.6	-	-
Debt securities in issue	8.1	9.0	-	-	6.0	-	-	-
Lease liability	-	7.5	-	-	-	7.5	-	-

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

Geographical risk concentrations

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

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	169,603	84,462	886	254,951
Due from other banks	1,172	18,279	69	19,520
Loans and advances to customers	843,917	294	903	845,114
Investment securities	67,618	6,060	-	73,678
Other financial assets	63,499	-	-	63,499
TOTAL FINANCIAL ASSETS	**1,145,809**	**109,095**	**1,858**	**1,256,762**
FINANCIAL LIABILITIES:				
Due to banks and other financial institutions	(50,772)	(25,530)	-	(76,302)
Customer accounts	(902,089)	(84,527)	(22,576)	(1,009,192)
Term borrowings	(95,690)	-	-	(95,690)
Debt securities in issue	(55,798)	-	-	(55,798)
Lease liability	(8,271)	-	-	(8,271)
Other financial liabilities	(24,367)	-	-	(24,367)
TOTAL FINANCIAL LIABILITIES	**(1,136,987)**	**(110,057)**	**(22,576)**	**(1,269,620)**
NET POSITION	**8,822**	**(962)**	**(20,718)**	**(12,858)**
CREDIT RELATED COMMITMENTS	**236,965**	**-**	**-**	**236,965**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Assets, liabilities and credit related commitments have generally been based on the country in which the counterparty is located. Balances with the Republic of Azerbaijan counterparties actually outstanding to/from off-shore companies of these the Republic of Azerbaijan counterparties are allocated to the caption "the Republic of Azerbaijan". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

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

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
FINANCIAL ASSETS:				
Cash and cash equivalents	111,550	5,063	2,272	118,885
Due from other banks	2,000	9,772	132	11,904
Loans and advances to customers	655,299	600	3,148	659,047
Investment securities	56,721	5,531	-	62,252
Other financial assets	34,543	-	-	34,543
TOTAL FINANCIAL ASSETS	**860,113**	**20,966**	**5,552**	**886,631**
FINANCIAL LIABILITIES:				
Due to banks and other financial institutions	(43,673)	(3,400)	(2)	(47,075)
Customer accounts	(696,864)	(12,322)	(10,520)	(719,706)
Term borrowings	(96,203)	-	-	(96,203)
Debt securities in issue	(25,641)	-	-	(25,641)
Lease liability	(6,914)	-	-	(6,914)
Other financial liabilities	(966)	-	-	(966)
TOTAL FINANCIAL LIABILITIES	**(870,261)**	**(15,722)**	**(10,522)**	**(896,505)**
NET POSITION	**(10,148)**	**5,244**	**(4,970)**	**(9,874)**
CREDIT RELATED COMMITMENTS	**135,060**	**-**	**-**	**135,060**

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations arising from its financial obligations. It refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of financial institutions.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is part of the assets/liabilities management process. The Executive Board and Supervisory Board set limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals under both normal and stressed conditions. They also set parameters for the risk diversification of the liability base.

The Central Bank of the Republic of Azerbaijan has in place minimum levels of liquidity required. As of December 31, 2022 the Bank was in compliance with these covenants.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The Group's liquidity policy is comprised of the following:

- Projecting cash flows and maintaining the level of liquid assets necessary to ensure liquidity in various time-bands;
- Maintaining a funding plan commensurate with the Group's strategic goals;
- Maintaining a diverse range of funding sources thereby increasing the Group's borrowing capacity, domestically as well as from foreign sources;
- Maintaining highly liquid and high-quality assets;
- Adjusting its product base by time bands against available funding sources;
- Daily monitoring of liquidity ratios against regulatory requirements; and
- Constant monitoring of asset and liability structures by time-bands.

The treasury function within the Group is charged with the following responsibilities:

- Compliance with the liquidity requirements of the Central Bank of the Republic of Azerbaijan as well as with the liquidity requirement covenants contained in the agreements with foreign lending sources;
- Daily reports to management, including reporting to management on the forecast levels of cash flows in the main currencies (AZN, USD, EUR), cash positions, changes in the consolidated statement of financial position;
- Constantly controlling/monitoring the level of liquid assets;
- Monitoring of deposit and other liability concentrations; and
- Maintaining a plan for the instant increase of cash to provide liquidity under stressed conditions.

RMC is responsible for ensuring that Treasury properly manages the Group's liquidity position. The Risk Management Department is responsible for controlling these activities. Decisions on liquidity positions and management are made by the Executive Board. Funding plans are approved by the Supervisory Board.

The table below shows liabilities at December 31, 2022 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including 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.

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

The undiscounted maturity analysis of financial liabilities by contractual maturities at December 31, 2022 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No maturity	Total
Liabilities							
Due to banks and other financial institutions	(43,307)	(18,950)	(15,270)	-	-	-	(77,527)
Customer accounts	(478,193)	(254,680)	(258,618)	(48,822)	-	-	(1,040,313)
Term borrowings	(4,389)	(3,883)	(10,179)	(30,896)	(66,302)	-	(115,649)
Debt securities in issue	(1,021)	(1,687)	(17,409)	(35,710)	(14,632)	-	(70,459)
Lease liability	(187)	(956)	(1,160)	(5,834)	(2,011)	-	(10,148)
Other financial liabilities	(24,367)	-	-	-	-	-	(24,367)
Total financial liabilities	**(551,464)**	**(280,156)**	**(302,636)**	**(121,262)**	**(82,945)**	**-**	**(1,338,463)**
Credit related commitments	**236,965**	-	-	-	-	-	**236,965**
The effect of derivatives held for risk management							
- **inflow**	10,651	25,613	-	27,071	-	-	63,335
- **outflow**	7,585	25,925	842	26,898	-	-	61,250
Net effect of derivatives held for risk management	**3,066**	**(312)**	**(842)**	**173**	**-**	**-**	**2,085**

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The undiscounted maturity analysis of financial liabilities by contractual maturities at December 31, 2021 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	Over 5 years	No maturity	Total
Liabilities							
Due to banks and other financial institutions	(13,804)	(5,915)	(29,005)	-	-	-	(48,724)
Customer accounts	(274,935)	(185,463)	(217,048)	(68,517)	-	-	(745,963)
Term borrowings	(4,525)	(6,405)	(13,322)	(42,164)	(49,081)	-	(115,497)
Debt securities in issue	(349)	(651)	(762)	(8,526)	(23,661)		(33,949)
Lease liability	(138)	(766)	(916)	(5,789)	(1,001)	-	(8,610)
Other financial liabilities	(966)	-	-	-	-	-	(966)
Total financial liabilities	**(294,717)**	**(199,200)**	**(261,053)**	**(124,996)**	**(73,743)**	**-**	**(953,709)**
Credit related commitments	**135,060**	**-**	**-**	**-**	**-**	**-**	**135,060**
The effect of derivatives held for risk management							
- **inflow**	2	25,751	-	-	-	-	25,753
- **outflow**	101	25,735	-	-	-	-	25,836
Net effect of derivatives held for risk management	**(99)**	**16**	**-**	**-**	**-**	**-**	**(83)**

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with Azerbaijan Civil Code, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The table presents an analysis of liquidity position of the Group's financial assets and liabilities by expected maturities as at December 31, 2022:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	No maturity	Total
Assets						
Cash and cash equivalents	254,951	-	-	-	-	254,951
Due from other banks	1,223	11,713	-	6,459	125	19,520
Loans and advances to customers	51,940	186,957	227,624	378,593	-	845,114
Investment securities	1,899	4,355	3,130	63,367	927	73,678
Other financial assets	63,499	-	-	-	-	63,499
Total financial assets	**373,512**	**203,025**	**230,754**	**448,419**	**1,052**	**1,256,762**
Liabilities						
Due to banks and other financial institutions	(43,097)	(18,205)	(15,000)	-	-	(76,302)
Customer accounts	(470,723)	(240,756)	(251,191)	(46,522)	-	(1,009,192)
Term borrowings	(4,156)	(2,704)	(8,870)	(79,960)	-	(95,690)
Debt securities in issue	(684)	-	(15,982)	(39,132)	-	(55,798)
Lease liability	(143)	(719)	(888)	(6,521)	-	(8,271)
Other financial liabilities	(24,367)	-	-	-	-	(24,367)
Total financial liabilities	**(543,170)**	**(262,384)**	**(291,931)**	**(172,135)**	**-**	**(1,269,620)**
The effect of derivatives						
- inflow	10,651	25,613	-	27,071	-	63,335
- outflow	7,585	25,925	842	26,898	-	61,250
Net effect of derivatives	**3,066**	**(312)**	**(842)**	**173**	**-**	**2,085**
Net liquidity gap December 31, 2022	**(166,592)**	**(59,671)**	**(62,019)**	**276,457**	**1,052**	**(10,773)**
Cumulative liquidity gap December 31, 2022	**(166,592)**	**(226,263)**	**(288,282)**	**(11,825)**	**(10,773)**	

(in thousands of Azerbaijan Manats, unless otherwise indicated)

The table presents an analysis of liquidity position of the Group's financial assets and liabilities by expected maturities as at December 31, 2021:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	Over 1 year	No maturity	Total
Assets						
Cash and cash equivalents	118,885	-	-	-	-	118,885
Due from other banks	-	6,454	51	5,211	188	11,904
Loans and advances to customers	47,463	153,202	170,663	287,719	-	659,047
Investment securities	1,281	4,067	2,306	53,668	930	62,252
Other financial assets	34,543	-	-	-	-	34,543
Total financial assets	**202,172**	**163,723**	**173,020**	**346,598**	**1,118**	**886,631**
Liabilities						
Due to banks and other financial institutions	(13,600)	(5,125)	(28,350)	-	-	(47,075)
Customer accounts	(271,747)	(173,693)	(209,801)	(64,465)	-	(719,706)
Term borrowings	(4,262)	(5,089)	(11,851)	(75,001)	-	(96,203)
Debt securities in issue	(237)	(1)	-	(25,403)	-	(25,641)
Lease liability	(114)	(566)	(693)	(5,541)	-	(6,914)
Other financial liabilities	(966)	-	-	-	-	(966)
Total financial liabilities	**(290,926)**	**(184,474)**	**(250,695)**	**(170,410)**	**-**	**(896,505)**
The effect of derivatives						
- inflow	2	25,751	-	-	-	25,753
- outflow	101	25,735	-	-	-	25,836
Net effect of derivatives	**(99)**	**16**	**-**	**-**	**-**	**(83)**
Net liquidity gap December 31, 2021	**(88,853))**	**(20,735)**	**(77,675)**	**176,188**	**1,118**	**(9,957)**
Cumulative liquidity gap December 31, 2021	**(88,853)**	**(109,588)**	**(187,263)**	**(11,075)**	**(9,957)**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

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 Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group.

Management believes that although current accounts balance of AZN 435,268 thousand as of 31 December 2022 (December 31, 2021: AZN 237,773 thousand) is included under on demand category in maturity table, apparently not all of these amounts will be withdrawn in period of one month. Past experience demonstrates that current account balances have not decreased more than 29% for the period of last ten years.

The CBAR's minimum liquidity norm for banks of 30% (the Bank's actual ratio is 40.59%) is precautionary measure taken by the regulator, which is based on the nature and established normal business practice in banking industry. The Bank has a headroom above the minimum required liquidity ratio.

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

Operational risk

The Group is exposed to operational risk. Operational risk is defined as the risk of loss, whether direct or indirect, resulting from inadequate or failed internal processes, people or systems or due to external factors other than credit, market and liquidity risks. Inadequate or inappropriately designed business process systems, management failures, technology failures, faulty control structures, human error, fraud and non-conformance to generally accepted standards of corporate behavior can cause losses for an organization.

The Group's objective in managing operational risk is to balance the avoidance of financial losses and damage to the Group's reputation with overall operational efficiencies and cost effectiveness.

Operational risk arises in the unit that generates an operation, and so the primary responsibility for addressing operational risk lies within each business unit. This responsibility is supported by the development of overall standards within the general internal control system of the Group. The approach of the Group's internal control system covers the following areas:

- requirements for the appropriate segregation of duties, including avoidance of conflicts of interest, independent authorization of transactions and strict delineations of system access rights;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls, procedures and instructions and their approval across business and risk management lines;
- constant control and monitoring of adherence to controls, procedures and instructions, including a strong internal audit function;
- continuous evaluation of present and potential operational risks;
- continuous evaluation of the adequacy of controls and procedures in addressing the risks identified;
- development of contingency plans;
- continual evaluation of IT security issues;
- requirements for the reporting of operational errors and losses and proposed remedial actions;
- appropriate recruitment, training and professional development;
- ensuring adherence to the Group's out-sourcing policy;
- ethical and code of conduct standards; and
- implementation of risk mitigation measures, including insurance.

The Operational Risk Group of the Risk Management Department and Internal Audit have primary responsibility for monitoring, reporting and making recommendations to improve the Group's operational risk management.

29. CONTINGENCIES AND COMMITMENTS

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements.

Taxation – The taxation system in Azerbaijan is prone to frequent changes in legislation and some tax law provisions are open to various interpretations. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

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

(in thousands of Azerbaijan Manats, unless otherwise indicated)

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

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

Outstanding amount of credit related commitments are, as follows:

	December 31, 2022	December 31, 2021
Cancellable undrawn credit lines	224,147	114,458
Letters of guarantee and similar commitments	12,818	20,807
Less: Expected credit losses for credit related commitments	(1,131)	(205)
Total credit related commitments	**236,965**	**135,060**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Credit related commitments are denominated in currencies as follows:

	December 31, 2022	December 31, 2021
Azerbaijani Manats	229,921	124,713
US Dollars	6,635	9,973
Euro	299	327
Ruble	110	47
Total	**236,965**	**135,060**

As at 31 December 2022 and 2021, all letters of guarantee and similar related commitments are in Stage 1.

Liquidity and currency analysis of contingencies and commitments are disclosed in Note 28. Information on related party balances is disclosed in Note 31.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- **Level 1**: quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2**: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3**: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at December 31, 2022 and 2021, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the consolidated statement of financial position:

	December 31, 2022	December 31, 2021
Investment securities at level 2	55,962	53,260
Investment securities at level 3	17,716	8,992
	73,678	**62,252**

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

The directors consider that the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values.

31. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

(in thousands of Azerbaijan Manats, unless otherwise indicated)

As at December 31, 2022 and 2021, the outstanding balances with related parties were as follows:

	Year ended December 31, 2022			Year ended December 31, 2021		
	Key manage-ment personnel	**Ultimate control-ling party**	**Other related parties**	**Key manage-ment personnel**	**Ultimate control-ling party**	**Other related parties**
Gross amount of loans and advances to customers (contractual interest rate: 2022:4% - 28% p.a.; 2021:4% - 27% p.a.)	396	115	216	225	22	208
Allowance for expected credit losses	(3)	(0)	(2)	(40)	-	(10)
Investment securities	-	-	650	-	-	650
Current/settlements accounts	447	228	606	344	91	988
Term deposits (contractual interest rate: 2022: 2% - 11.5% p.a.; 2021: 1% - 12% p.a.)	790	402	-	-	-	-
Debt securities in issue (2022: 8% p.a)	-	11,900	-	-	-	-

As at December 31, 2022 and 2021 fair value of collaterals pledged in respect to loans issued to key management personnel amounted to AZN 596 thousand and AZN 185 thousand, respectively.

The income and expense items with related parties for the years ended December 31, 2022 and 2021 were as follows:

	Year ended December 31, 2022			Year ended December 31, 2021		
	Key manage-ment personnel	**Ultimate controlling party**	**Other related parties**	**Key manage-ment personnel**	**Ultimate controlling party**	**Other related parties**
Interest income	34	7	29	10	-	31
Interest expense	(83)	(44)	(6)	(50)	(1)	(8)
Provision for expected credit loss	(43)	(0)	(12)	(40)	-	(10)
Fee and commission income	6	13	78	4	21	41
Other income	23	141	21	1	-	50
Administrative and other operating expense	3,250	1,800	-	2,079	1,798	-

(in thousands of Azerbaijan Manats, unless otherwise indicated)

During the year ended December 31, 2022, the remuneration of key management personnel comprised salaries and bonuses totaling to AZN 3,020 thousand (December 31, 2021: AZN 1,800 thousand).

Other rights and obligations with related parties were as follows:

	December 31, 2022			**December 31, 2021**		
	Key management personnel	**Ultimate controlling party**	**Other related parties**	**Key management personnel**	**Ultimate controlling party**	**Other related parties**
Letters of guarantee	-	-	85	-	-	316