“RABITABANK”
OPEN JOINT STOCK COMPANY

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditors’ Report
For the Year Ended December 31, 2023

"RABITABANK" OPEN JOINT-STOCK COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Shareholders, Supervisory Board and Management of "Rabitabank" Open Joint Stock Company:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated statement of financial position as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

The key audit matters	How was the matter addressed in our audit?
· Allowance for expected credit losses on loans to customers	
Loans to customers represent 62% of total assets as at December 31, 2023 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.	We engaged our experts 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".
The estimation of expected credit losses requires management to apply significant judgments and estimation techniques to determine the 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.	To analyse the adequacy of professional judgement and assumptions made by management in relation to allowance for ECL estimate we performed the following procedures:
Credit loss allowance for loans to customers is a key audit matter due to the significance of the balances to the Group's financial position, and the complexity and judgement related to the estimation of ECL under IFRS 9 "Financial Instruments".	For loans to customers, 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 reconciled the input data with supporting documents on a sample basis.
	We also assessed whether the disclosures of the consolidated financial statements appropriately reflect the Group's exposure to credit risk.

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

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

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

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

Auditors' Responsibilities for the Audit of the 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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Baker Tilly Azerbaijan

May 15, 2024
Baku, the Republic of Azerbaijan

"RABITABANK" OPEN JOINT-STOCK COMPANY

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

(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Interest income	4, 29	92,704	70,337
Interest expense	4, 29	(30,272)	(20,218)
Net interest income before (charge)/reversal of expected credit losses on loans to customers		**62,432**	**50,119**
Charge of expected credit losses on loans to customers	7, 29	(7,685)	(6,107)
Recovery/(charge) of expected credit losses on investment securities	7	280	(249)
Charge of expected credit losses from due from banks and other financial institutions	7	(122)	(84)
Net interest income		**54,905**	**43,679**
Fee and commission income	5	38,811	36,398
Fee and commission expense	6	(41,242)	(38,001)
Net fee and commission income		**(2,431)**	**(1,603)**
Net gain on trading in foreign currencies		3,629	6,294
Net loss on foreign exchange operations		(6)	(30)
Other operating income, net		2,078	2,125
Operating income		**58,175**	**50,465**
General and administrative expenses	9	(17,235)	(14,867)
Personnel expenses	8, 29	(29,220)	(24,410)
Impairment recovery/(losses) from assets held for sale and other assets	7	1,248	(1,462)
(Charge)/recovery of expected credit losses for financial guarantee contracts	7	(2,227)	2,284
Profit before income tax		**10,741**	**12,010**
Income tax expense	10	(4,529)	(5,348)
Net profit for the year		**6,212**	**6,662**
Other comprehensive income			
OCI to be reclassified to profit or loss in subsequent periods			
Net change in fair value of debt instruments at fair value through OCI		-	1,237
Changes in allowance for expected credit losses of debt instruments at fair value through OCI	13	-	(507)
Income tax recorded directly in OCI	10	-	(146)
Net other comprehensive income		-	**584**
Total comprehensive income for the year		**6,212**	**7,246**
Earnings per share			
Basic and diluted (expressed in AZN)	22	**1.24**	**1.33**

On behalf of the Management Board:

Mr. Aydin Huseynov
Chairman of the Management Board

May 15, 2024
Baku, the Republic of Azerbaijan

Ms. Farida Gasimzade
Chief Accountant

May 15, 2024
Baku, the Republic of Azerbaijan

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The notes on pages 8-88 form an integral part of these consolidated financial statements.

"RABITABANK" OPEN JOINT-STOCK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023

(In thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Cash and cash equivalents	11	199,818	165,198
Due from banks and other financial institutions	12	50,925	34,432
Investment securities	13	99,442	93,698
Loans to customers	14, 29	698,295	584,626
Assets held for sale	15	754	1,699
Property, equipment and intangible assets	16	10,608	10,635
Right-of-use assets	27	4,137	2,294
Deferred income tax assets	10	2,236	918
Other assets	17	51,968	47,086
Total assets		**1,118,183**	**940,586**
LIABILITIES			
Deposits and balances from banks	18	11,010	11,521
Current accounts and deposits from customers	19, 29	767,934	626,194
Borrowed funds	20	202,681	164,189
Subordinated borrowings	20, 29	6,062	6,062
Lease liabilities	27	4,337	2,491
Other liabilities	21	23,361	23,543
Total liabilities		**1,015,385**	**834,000**
EQUITY			
Share capital	22	102,047	102,047
Revaluation surplus for buildings	22	2,228	2,320
(Accumulated deficit)/retained earnings		(1,477)	2,219
Total equity		**102,798**	**106,586**
Total liabilities and equity		**1,118,183**	**940,586**

On behalf of the Management Board:

Rabitəbank Açıq Səhmdar Cəmiyyəti
Rabitəbank
Rabitabank Open Joint-Stock Company

Mr. Aydin Huseynov
Chairman of the Management Board

May 15, 2024
Baku, the Republic of Azerbaijan

Ms. Farida Gasimzade
Chief Accountant

May 15, 2024
Baku, the Republic of Azerbaijan

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2023

(In thousands of AZN, unless otherwise indicated)

	Share capital	Revaluation surplus for buildings	(Accumulated deficit)/retained earnings	Net unrealized income/(loss) in investment securities	Total equity
Balance as at January 1, 2022	**102,047**	**2,412**	**(4,535)**	**(584)**	**99,340**
Net profit for the year	-	-	6,662	-	6,662
Other comprehensive income for the year	-	-	-	584	584
Depreciation for buildings' revaluation surplus	-	(92)	92	-	-
Balance as at December 31, 2022	**102,047**	**2,320**	**2,219**	**-**	**106,586**
Net profit for the year	-	-	6,212	-	6,212
Dividend declared	-	-	(10,000)	-	(10,000)
Depreciation for buildings' revaluation surplus	-	(92)	92	-	-
Balance as at December 31, 2023	**102,047**	**2,228**	**(1,477)**	**-**	**102,798**

On behalf of the Management Board:

Mr. Aydin Huseynov
Chairman of the Management Board

May 15, 2024
Baku, the Republic of Azerbaijan

Ms. Farida Gasimzade
Chief Accountant

May 15, 2024
Baku, the Republic of Azerbaijan

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2023

(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		90,227	69,301
Interest paid		(26,590)	(17,886)
Fee and commissions received		38,811	36,398
Fee and commissions paid		(41,242)	(38,001)
Net receipts from foreign exchange operations		3,629	6,294
Personnel expenses paid		(28,503)	(21,744)
General and administrative expenses paid		(14,903)	(12,717)
Other operating income received		1,995	2,011
Increase/(decrease) in operating assets			
Due from banks and other financial institutions		(16,589)	(14,500)
Loans to customers		(118,864)	(145,850)
Asset held for sale		2,816	2,239
Other assets		(4,451)	(15,494)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		(510)	(692)
Current accounts and deposits from customers		138,414	(99,146)
Other liabilities		1,727	1,207
Net cash provided from operating activities before income tax paid		**25,967**	**(248,580)**
Income tax paid		(9,768)	(4,393)
Cash flows provided/(used in) from operating activities		**16,199**	**(252,973)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments of property, equipment and intangible assets		(2,313)	(3,219)
Purchases of investment securities, net		(5,519)	(12,326)
Proceeds from sales of property and equipment and intangible assets		94	-
Cash flows used in investing activities		**(7,738)**	**(15,545)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds of borrowed funds	20	128,019	89,398
Repayment of borrowed funds	20	(89,699)	(72,280)
Repayment of lease liabilities	27	(2,064)	(1,853)
Dividends paid to the shareholders		(10,000)	-
Cash flows provided from financing activities		**26,256**	**15,265**
Net increase/(decrease) in cash and cash equivalents		**34,717**	**(253,253)**
Effect of changes in exchange rates on cash and cash equivalents		(97)	(768)
Cash and cash equivalents as at the beginning of the year	11	165,198	419,219
Cash and cash equivalents as at the end of the year	11	**199,818**	**165,198**

On behalf of the Management Board:

Rabitəbank Açıq Səhmdar Cəmiyyəti • Rabitəbank Open Joint-Stock Co • Rabitəbank

Mr. Aydin Huseynov
Chairman of the Management Board

May 15, 2024
Baku, the Republic of Azerbaijan

Ms. Farida Gasimzade
Chief Accountant

May 15, 2024
Baku, the Republic of Azerbaijan

The notes on pages 8-88 form an integral part of these consolidated financial statements.

(In thousands of AZN, unless otherwise indicated)

1. BACKGROUND

Organization and operations

These consolidated financial statements comprise the financial statements of “Rabitabank” OJSC (the “Bank”) and its subsidiary (together the “Group”).

The Bank was established in the Republic of Azerbaijan as an Open Joint Stock Company in 1993. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan (the “CBAR”). The Bank has a general banking license, and is a member of the state deposit insurance system in the Republic of Azerbaijan.

The Bank’s registered office is 28 May street 33, AZ 1010, Baku, the Republic of Azerbaijan.

As at December 31, 2023 the Bank has 27 branches and division (December 31, 2022: 27 branches and division). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

Information about the principal subsidiary included in the consolidated financial statements:

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**December 31, 2023**	**December 31, 2022**
“Capital Partners” OJSC	Azerbaijan	Investment	100	100

At December 31, 2023 and 2022, the Bank also had an investments in dormant subsidiary, which were not included in the consolidated financial statements.

The Bank is owned by:

	December 31, 2023, %	**December 31, 2022, %**
Shareholders		
Mr. Rauf Aliyev	40.60	40.60
Ms. Valida Abasova	20.13	20.13
Mr. Seyran Nuriyev	14.51	14.51
Mr. Zakir Nuriyev	14.44	14.44
Ms. Dilara Nuriyeva	9.11	9.11
Mr. Aslan Khasiyev	1.07	1.07
Others	0.14	0.14
Total	**100.00**	**100.00**

As at December 31, 2023 and 2022, the Bank is ultimately owned by Mr. Rauf Aliyev, Ms. Valida Abasova, Mr. Zakir Nuriyev, Ms. Dilara Nuriyeva, Mr. Seyran Nuriyev, Mr. Aslan Khasiyev who exercise joint control over the Bank.

Business environment

The Group’s operations are conducted in the Republic of Azerbaijan. 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 Azerbaijan economy also has a significant exposure to the level of international energy prices. Crude oil prices increased in the first half of the year because of supply concerns however starting from the second half of the year oil prices generally decreased as concerns about a possible economic recession reduced demand. The Brent crude oil spot price averaged USD 100 per barrel in 2022. Strong oil prices supported the economic growth of the country.

The depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in business environment, therefore government took all required actions to keep the exchange rate stable over the past 7 years. As a result, continuous fluctuation in global oil prices did not affect the local currency and therefore did not increase the uncertainty in the business environment.

The economy of Azerbaijan expanded 1.1 percent year-on-year in the January-December period 2023, slowing from a 4.6% growth in the same period last year. The non-oil & gas sector increased by 3.7%, while the oil & gas sector contracted 1.7%.

From the production side, the strongest contributions came from industry (40.5%) and retail trade (10%). Additional support was seen in transportation & storage (6.2%) and construction (6.2%).

The sustainability of the cease-fire arrangement over the Karabakh region also improves the business environment as there are a number of government-led projects to attract investment and develop the territories released from occupation

GDP reached AZN 123 billion (USD 72.4 billion) in 2023 with 1.1% growth compared to 2022. During the eleven months of 2023 foreign trade turnover of the Republic of Azerbaijan reached about USD 41.2 billion of which export amounted to USD 25.4 billion and import amounted to USD 15.8 billion according to the statistics of the State Customs Committee. Inflation rate decreased from 13.9% in December 2022 to 8.8% in December 2023.

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

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. “Fitch” and “S&P” evaluated the rating of the Republic of Azerbaijan as “BB+”. “Moody’s Investors Service” set a “Ba1” credit rating for the country.

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

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements for the year ended December 31, 2023 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Going concern

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

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

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

Basis of measurement

The consolidated financial statements are prepared on a historical cost basis except buildings are stated at revalued amounts and certain investment securities designated as at FVOCI are measured at fair value.

Functional and presentation currency

The functional currency of the Group is the Azerbaijani Manat (“AZN”) as, being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

At December 31, 2023 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.700 and EUR 1 = AZN 1.8766 (December 31, 2022: USD 1 = AZN 1.700 and EUR 1 = AZN 1.8114).

The AZN is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in AZN is rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3;
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 24.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2023 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 24;
- loan impairment estimates - Note 14;
- building revaluation estimates - Note 16;
- estimates of fair values of financial assets and liabilities – Note 30.

3. MATERIAL ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on retranslation of equity securities at FVOCI.

Interest

Effective interest rate

Interest income and expense are recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortized cost and gross carrying amount

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3.

Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortized cost.

Interest expense presented in the consolidated statement of profit or loss and other comprehensive income includes:

- interest on financial liabilities measured at amortized cost.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(b)).

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fee and commission income – including account servicing fees and sales commission – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Group’s financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBAR and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. The mandatory reserve deposit with the CBAR is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

Financial assets and financial liabilities

Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as 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 rise 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 as 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 rise 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 other comprehensive income. This election is made on an investment-by-investment basis.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or 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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of 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.

Reclassification

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.

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

Financial liabilities (including deposits by financial institutions and customers, term borrowings and other financial liabilities) are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

Any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities, as explained in Note 3. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire.

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 maximise 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 recognises 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 3), 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 (see Note 3).

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 derecognises 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 percent 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.

Impairment

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments measured at amortized cost;
- financial guarantee contracts issued; and
- loan commitments issued.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 24).

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1' financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as 'Stage 2' and 'Stage 3' financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and* financial guarantee contracts: the present value of expected payments to reimburse the holder less any amounts that the *Group* expects to recover.

See also Note 24.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized (see Note 3) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 24).

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL is incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

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;
- *loan commitments and financial guarantee contracts: generally, as a provision;*

- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount* is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'reversal of expected credit losses on loans to customers' in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received.

If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at the bid price and liabilities and short positions at the ask price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

Loans to customers

‘Loans to customers’ caption in the consolidated statement of financial position include:

- loans to customers measured at amortized cost (see Note 3); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Investment securities

The ‘investment securities’ caption in the statement of financial position includes:

- debt investment securities measured at amortized cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- equity investment securities designated as at FVOCI.

Deposits, subordinated borrowings and other borrowed funds

Deposits, subordinated borrowings and borrowed funds initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Property and equipment

Owned assets

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

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

Revaluation

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

Depreciation

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

The estimated useful lives are as follows:

Buildings	50 years
Computers	5 years
Furniture and equipment	5 years
Vehicles	4 years
Leasehold improvement	Over the term of the contract

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from five to ten years.

Leases

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

Group as a lessee

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

Right-of-use assets

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

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

Lease liabilities

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

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

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

Assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group’s accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Group recognises a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of the Azerbaijani legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plan for the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow 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 Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due.

Adoption of new and revised standards and interpretations

In the current year, the Group has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for the year ended December 31, 2023.

IFRS 17 "Insurance contracts" – was issued in May 2017 and replaced IFRS 4 "Insurance contracts". The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 "Insurance Contracts" to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. This standard is not applicable to the Group.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 – In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

Definition of Accounting Estimates – Amendments to IAS 8 – In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12 – In May 2021, the Board issued amendments to IAS 12, which narrowed the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12 – In May 2023 the Board issued amendments to IAS 12, which introduce a mandatory exception in IAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes are effective immediately upon issuance. These amendments provide a mandatory exception in IAS 12, exempting entities from recognizing and disclosing deferred tax assets and liabilities associated with Pillar Two income taxes. The amendments clarify that IAS 12 applies to income taxes arising from legislation implementing the Pillar Two Model Rules by the Organization for Economic Cooperation and Development (OECD). While disclosure requirements are effective later, entities must disclose their application of the exception, separately detail current tax expenses related to Pillar Two income taxes, and provide information on exposure to Pillar Two income taxes for effective and future periods. The transitional provisions apply immediately and retrospectively, with specific disclosure requirements applicable for annual reporting periods starting on or after January 1, 2023, excluding any interim period ending on or before December 31, 2023.

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

New standards and interpretations not yet adopted

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

IASB has issued “**Lease Liability in a Sale and Leaseback” (Amendments to IFRS 16) with amendments** that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current - In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

In addition, a requirement has been introduced to require disclosure when a liability arising from a loan agreement is classified as non-current and the entity’s right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

In May 2023, the IASB published **“Supplier Finance Arrangements” (Amendment to IAS 7 and IFRS 7)** – These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity’s liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB’s response to investors’ concerns that some companies’ supplier finance arrangements are not sufficiently visible, hindering investors’ analysis. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with transitional reliefs in the first year.

In August 2023, the IASB amended **IAS 21 “The Effects of Changes in Foreign Exchange Rates**” to clarify when a currency is exchangeable into another currency and how a company estimates a spot rate when a currency lacks exchangeability. An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency, with a normal administrative delay, and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations. The amendments are effective for annual reporting periods beginning on or after January 1, 2025, with the option for early adoption.

On April 9, 2024, the IASB issued a new standard – **IFRS 18, ‘Presentation and Disclosure in Financial Statements’** – in response to investors’ concerns about the comparability and transparency of entities’ performance reporting. The new requirements introduced in IFRS 18 will help to achieve comparability of the financial performance of similar entities, especially related to how ‘operating profit or loss’ is defined. The key new concepts introduced in IFRS 18 relate to:

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

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes. IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'.

IFRS 18 will apply for reporting periods beginning on or after January 1, 2027 and also applies to comparative information.

In May, 2024 , the IASB has published the new standard **IFRS 19 "Subsidiaries without Public Accountability: Disclosures**", which permits a subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements. IFRS 19 is optional for subsidiaries that are eligible and sets out the disclosure requirements for subsidiaries that elect to apply it.

An entity is only permitted to apply IFRS 19 when:

- it is a subsidiary;
- it does not have public accountability, and
- its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

The new standard is effective for reporting periods beginning on or after January 1, 2027 with earlier application permitted.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

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

(In thousands of AZN, unless otherwise indicated)

4. NET INTEREST INCOME

	Year ended December 31, 2023	Year ended December 31, 2022
Interest income calculated using the effective interest method		
Loans to customers	82,453	62,971
Investment securities	5,222	4,650
Cash and cash equivalents	4,037	1,659
Due from banks and other financial institutions	992	1,057
Total interest income calculated using the effective interest method	**92,704**	**70,337**
Interest expense calculated using the effective interest method		
Current accounts and deposits from customers	(23,484)	(14,814)
Borrowed funds	(4,675)	(4,193)
Deposits and balances from banks	(1,409)	(498)
Subordinated borrowings	(446)	(446)
Lease liabilities	(258)	(267)
Total interest expense calculated using the effective interest method	**(30,272)**	**(20,218)**
Net interest income	**62,432**	**50,119**

5. FEE AND COMMISSION INCOME

	Year ended December 31, 2023	Year ended December 31, 2022
Plastic card operations	28,320	27,005
Settlements	4,576	3,389
Cash withdrawal	3,325	2,925
Guarantee letters	1,283	2,147
Foreign exchange	626	459
Others	681	473
Total fee and commission income	**38,811**	**36,398**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

(In thousands of AZN, unless otherwise indicated)

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15**
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, overdraft facilities, foreign currency transactions, credit card transactions. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
	The Group charges commission fee to the customers for the guarantee letters issued.	Since, the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, the Group recognises revenue over time.

6. FEE AND COMMISSION EXPENSE

	Year ended December 31, 2023	**Year ended December 31, 2022**
Plastic card operations	(34,485)	(30,790)
Payment terminals	(4,109)	(4,788)
Settlements	(2,011)	(1,728)
Brokerage	(169)	(152)
Cash withdrawals	(249)	(172)
Others	(219)	(371)
Total fee and commission expense	**(41,242)**	**(38,001)**

7. IMPAIRMENT (LOSSES)/RECOVERY

	Year ended December 31, 2023	**Year ended December 31, 2022**
Charge of expected credit losses for loans to customers	(7,685)	(6,107)
(Charge)/recovery of expected credit losses for financial guarantee contracts	(2,227)	2,284
Impairment recovery /(losses) on assets held for sale	1,641	(1,521)
Recovery/(charge) of expected credit losses for investment securities	280	(249)
Impairment (losses)/recovery for other assets	(393)	59
Charge of expected credit losses for due from banks and other financial institutions	(122)	(84)
Total impairment losses	**(8,506)**	**(5,618)**

(In thousands of AZN, unless otherwise indicated)

8. PERSONNEL EXPENSES

	Year ended December 31, 2023	Year ended December 31, 2022
Employee compensation	(24,797)	(20,708)
Payments to Social Security Fund	(4,423)	(3,702)
Total personnel expenses	**(29,220)**	**(24,410)**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2023	Year ended December 31, 2022
Marketing and advertising expenses	(2,842)	(2,151)
Depreciation and amortization expenses	(2,349)	(2,077)
Payments to the Deposit Insurance Fund	(2,347)	(1,938)
Depreciation of ROU	(1,809)	(1,593)
Property and equipment maintenance	(1,315)	(1,210)
Premises security	(1,212)	(1,038)
Office supplies	(1,008)	(918)
Taxes other than income tax (including fines and penalties)	(786)	(733)
Professional services fees	(779)	(717)
Communication expenses	(660)	(790)
Membership fees	(369)	(316)
Business travel and related expenses	(310)	(216)
Charity expenses	(201)	(125)
Vehicle running costs	(187)	(225)
Low value and short-term lease expense	(127)	(135)
Other	(934)	(685)
Total general and administrative expenses	**(17,235)**	**(14,867)**

10. INCOME TAX EXPENSE

	December 31, 2023	December 31, 2022
Current income tax expense	(4,993)	(5,348)
Revesion of prior year current income tax expense	(854)	-
Deferred income tax benefit recognized in profit or loss	1,318	500
Total income tax expense recognized in profit or loss	**(4,529)**	**(5,348)**
Deferred income tax benefit recognized in other comprehensive income	-	(146)
Total income tax expense recognized in profit or loss	**-**	**(146)**

In 2023, the applicable tax rate for current and deferred tax is 20% (2022: 20%).

(In thousands of AZN, unless otherwise indicated)

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

	Year ended December 31, 2023	%	Year ended December 31, 2022	%
Profit before income tax	10,741		12,010	
Income tax at the applicable tax rate	(2,148)	20.0	(2,402)	20.0
Revision of prior year income tax estimation	(854)		-	
Non-deductable costs	(1,527)		(1,882)	
Change in valuation allowance	-		(1,064)	
Total income tax expense	**(4,529)**		**(5,348)**	

Deferred income tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and tax losses carried forward give rise to net deferred tax assets as at December 31, 2023 and 2022. These deferred tax assets are not recognized in these financial statements. Future tax benefits will only be realized if profits will be available against which unused tax losses can be utilised and there are no changes to the law and regulations that adversely affect the Group’s ability to claim deductions in future periods. These future tax benefits are not recognized due to uncertainties concerning their realisation.

The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended December 31, 2023 and 2022 are presented as follows:

	January 1, 2023	Recognized in profit or loss	December 31, 2023
Cash and cash equivalents	3	-	3
Loans to customers	1,571	1,083	2,654
Property and equipment	(129)	-	(129)
Right-of-use assets	(459)	(362)	(821)
Assets held for sale	74	(171)	(97)
Investment securities	19	(57)	(38)
Due from banks and other financial institutions	15	-	15
Other assets	-	25	25
Lease liabilities	498	361	859
Borrowed funds	(45)	30	(15)
Other liabilities	686	409	1,095
Unrecognized deferred income tax assets	(1,315)	-	(1,315)
Net deferred income tax assets	**918**	**1,318**	**2,236**

(In thousands of AZN, unless otherwise indicated)

	January 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	December 31, 2022
Cash and cash equivalents	3	-	-	3
Loans to customers	139	1,432	-	1,571
Property and equipment	(129)	-	-	(129)
Right-of-use assets	(505)	46	-	(459)
Assets held for sale	(223)	297	-	74
Investment securities	261	(96)	(146)	19
Due from banks and other financial institutions	2	13	-	15
Lease liabilities	543	(45)	-	498
Borrowed funds	(86)	41	-	(45)
Other liabilities	810	(124)	-	686
Unrecognized deferred income tax assets	(251)	(1,064)	-	(1,315)
Net deferred income tax assets	**564**	**500**	**(146)**	**918**

11. CASH AND CASH EQUIVALENTS

	December 31, 2023	December 31, 2022
Cash on hand	39,423	39,210
Nostro accounts with the CBAR	7,335	43,771
Nostro accounts and overnight placements with other banks		
- rated from A- to A+	21	8,734
- rated from BBB- to BBB+	2,242	13,634
- rated from BB- to BB+	5,426	3,233
- rated from B- to B+	5,211	4,750
- not rated	1,421	60
Total nostro accounts and overnight placements with other banks	**14,321**	**30,411**
Term deposits and notes		
CBAR notes up to 90 days	12,233	26,806
Term deposits with the CBAR up to 90 days	98,000	25,000
Term deposits with other banks	28,506	-
Term deposits and notes	**138,739**	**51,806**
Total cash and cash equivalents	**199,818**	**165,198**

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

In these consolidated financial statements ratings of financial assets and financial liabilities are converted to Fitch ratings.

As at December 31, 2023, the Group had 2 bank (December 31, 2022: 1 banks), whose balance individually exceeded 10% of equity. The gross value of this balance as at December 31, 2023 was AZN 140,396 thousand (December 31, 2022: AZN 95,577 thousand).

(In thousands of AZN, unless otherwise indicated)

As at December 31, 2023 and 2022, all balances included in cash and cash equivalents are classified as Stage 1 and their ECL was not significant.

12. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2023	December 31, 2022
Mandatory reserve with the CBAR	32,892	23,274
Loans and deposits with other banks		
- rated from A- to A+	2,560	779
- rated from BB- to BB+	424	424
- rated from B- to B+	5,121	7,246
- not rated	10,413	3,647
Total loans and deposits with other banks	**18,518**	**12,096**
Less: allowance for expected credit losses	(485)	(938)
Net due from banks and other financial institutions	**50,925**	**34,432**

As at December 31, 2023, the Group had no bank except CBAR (December 31, 2022: no bank, except CBAR), whose balance exceeded 10 % of equity. The gross value of this balance as at December 31, 2023 was AZN 32,892 thousand (December 31, 2022: AZN 25,000 thousand).

As at December 31, 2023, certain balances in due from one bank are classified as Stage 3 and allowance is recognized in full amount of AZN 8 thousand (December 31, 2022: AZN 583 thousand). Other balances included in due from banks and other financial institutions are classified as Stage 1 and allowance is recognized in the amount of AZN 477 thousand (December 31, 2022: AZN 355 thousand).

Analysis of movements in the expected credit losses:

	December 31, 2023	December 31, 2022
Balance at the beginning of the year	(938)	(854)
Charge of expected credit losses	(122)	(84)
Write-off	575	-
Balance at the end of the year	**(485)**	**(938)**

Credit risk

As at December 31, 2023 the balance in the amount of AZN 10,413 thousand of not rated deposit with other banks is due from local banks (December 31, 2022: AZN 3,647 thousand).

As at December 31, 2023, included in loans and deposits with other banks blocked non-interest bearing accounts amounted to AZN 3,418 thousand. (December 31, 2022: blocked non-interest bearing accounts in the amount of AZN 1,629 thousand).

(In thousands of AZN, unless otherwise indicated)

The analysis of not overdue or credit-impaired loans and deposits with other banks is presented below:

	December 31, 2023	**December 31, 2022**
Not overdue	51,402	34,787
Overdue more than 360 days	8	583
Less: allowance for expected credit losses	(485)	(938)
Total loans and deposits with other banks	**50,925**	**34,432**

Mandatory reserve with the CBAR

The mandatory reserve deposit is a non-interest-bearing deposit calculated in accordance with regulations issued by the CBAR and whose withdrawal ability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and depends on the level of customer funds attracted.

As at December 31, 2023, accrued interest income included in due from banks and other financial institutions amounted to AZN 78 thousand (December 31, 2022: AZN 230 thousand).

13. INVESTMENT SECURITIES

	December 31, 2023	**December 31, 2022**
Investment securities measured at amortized cost	99,450	93,986
Investment securities designated at FVOCI - equity instruments	642	642
Less: allowance for expected credit losses	(650)	(930)
Total investment securities, net	**99,442**	**93,698**

All investment security balances are in Stage 1 as at December 31, 2023 and 2022.

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

Investment securities measured at amortized cost

	December 31, 2023	**December 31, 2022**
Corporate bonds	59,553	79,495
Government securities	39,897	14,491
Less: allowance for expected credit losses	(650)	(930)
Total investment securities measured at amortized cost	**98,800**	**93,056**

(In thousands of AZN, unless otherwise indicated)

Equity investment securities designated as FVOCI

	December 31, 2023	December 31, 2022
"Azerbaijan Credit Bureau" LLC	490	490
"Milli Kart" LLC	120	120
"Master Card International"	32	32
Equity securities	**642**	**642**

Analysis of movements in the expected credit losses on investments designated as FVOCI:

	December 31, 2023	December 31, 2022
Balance at the beginning of the year	-	(507)
Recovery of expected credit losses	-	507
Balance at the end of the year	**-**	**-**

As at December 31, 2023, accrued interest income included in investment securities amounted to AZN 1,432 thousand (December 31, 2022: AZN 1,506 thousand).

14. LOANS TO CUSTOMERS

	December 31, 2023	% of total gross loans	December 31, 2022	% of total gross loans
Loans to corporate customers				
Corporate loans	253,633	35%	262,473	42%
Total loans to corporate customers	**253,633**		**262,473**	
Loans to individual customers				
Cash loans	182,299	25%	147,733	24%
Mortgage loans	136,515	19%	99,104	16%
Micro loans	93,236	13%	53,642	9%
Lombard loans	37,313	5%	31,505	5%
Consumer loans	17,029	2%	17,957	3%
Credit cards	3,327	1%	4,300	1%
Car loans	174	0%	617	0%
Total loans to individual customers	**469,893**		**354,858**	
Gross loans to customers	**723,526**		**617,331**	
Less: Allowance for expected credit losses	(25,231)		(32,705)	
Net loans to customers	**698,295**		**584,626**	

As at December 31, 2023, accrued interest income included in loans to customers amounted to AZN 5,709 thousand (December 31, 2022: AZN 10,520 thousand).

(In thousands of AZN, unless otherwise indicated)

The following tables show reconciliations from the opening to the closing balances of the loss allowance of loans to customers.

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost*								
Balance at January 1	7,905	191	24,609	32,705	7,592	170	29,086	36,848
Transfer to Stage 1	893	(88)	(805)	-	373	(28)	(345)	-
Transfer to Stage 2	(38)	186	(148)	-	(6)	33	(27)	-
Transfer to Stage 3	(801)	(76)	877	-	(494)	(46)	540	-
Net remeasurement of loss allowance	(4,266)	(55)	3,450	(871)	(5,689)	(67)	3,811	(1,945)
New financial assets originated or purchased	7,028	1,034	494	8,556	6,129	129	1,794	8,052
Write-offs	-	-	(20,506)	(20,506)	-	-	(13,511)	(13,511)
Recoveries of assets previously written -off	-	-	3,020	3,020	-	-	1,276	1,276
Unwinding of discount on present value of ECLs	-	-	2,327	2,327	-	-	1,985	1,985
Balance at December 31	**10,721**	**1,192**	**13,318**	**25,231**	**7,905**	**191**	**24,609**	**32,705**

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost-corporate loans*								
Balance at January 1	5,123	101	22,481	27,705	4,417	72	26,437	30,926
Transfer to Stage 1	697	(68)	(629)	-	243	-	(243)	-
Transfer to Stage 2	(30)	142	(112)	-	(1)	4	(3)	-
Transfer to Stage 3	(758)	(31)	789	-	(467)	(4)	471	-
Net remeasurement of loss allowance	(2,409)	(74)	2,344	(139)	(2,810)	(39)	3,503	654
New financial assets originated or purchased	4,729	979	286	5,994	3,741	68	1,635	5,444
Write-offs	-	-	(18,187)	(18,187)	-	-	(11,923)	(11,923)
Recoveries of assets previously written -off	-	-	2,733	2,733	-	-	914	914
Unwinding of discount on present value of ECLs	-	-	2,051	2,051	-	-	1,690	1,690
Balance at December 31	**7,352**	**1,049**	**11,756**	**20,157**	**5,123**	**101**	**22,481**	**27,705**

(In thousands of AZN, unless otherwise indicated)

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost-cash loans*								
Balance at January 1	1,403	75	822	2,300	1,676	53	1,105	2,834
Transfer to Stage 1	62	(16)	(46)	-	13	(4)	(9)	-
Transfer to Stage 2	(4)	8	(4)	-	(5)	17	(12)	-
Transfer to Stage 3	(32)	(42)	74	-	(22)	(32)	54	-
Net remeasurement of loss allowance	(984)	31	948	(5)	(1,454)	(8)	625	(837)
New financial assets originated or purchased	1,443	37	158	1,638	1,196	49	89	1,334
Write-offs	-	-	(1,064)	(1,064)	-	-	(1,252)	(1,252)
Recoveries of assets previously written -off	-	-	177	177	-	-	138	138
Unwinding of discount on present value of ECLs	-	-	154	154	-	-	83	83
Balance at December 31	**1,889**	**93**	**1,218**	**3,200**	**1,404**	**75**	**821**	**2,300**

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized mortgage-loans*								
Balance at January 1	139	-	321	460	148	24	351	523
Transfer to Stage 1	51	-	(51)	-	102	(22)	(80)	-
Transfer to Stage 2	(1)	1	-	-	-	5	(5)	-
Transfer to Stage 3	(1)	-	1	-	-	(2)	2	-
Net remeasurement of loss allowance	(18)	4	111	97	(147)	(5)	93	(59)
New financial assets originated or purchased	94	-	-	94	36	-	-	36
Write-offs	-	-	(371)	(371)	-	-	(64)	(64)
Recoveries of assets previously written -off	-	-	14	14	-	-	3	3
Unwinding of discount on present value of ECLs	-	-	6	6	-	-	21	21
Balance at December 31	**264**	**5**	**31**	**300**	**139**	**-**	**321**	**460**

(In thousands of AZN, unless otherwise indicated)

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost-micro loans								
Balance at January 1	368	9	277	654	256	11	291	558
Transfer to Stage 1	41	(4)	(37)	-	2	(2)	-	-
Transfer to Stage 2	(3)	5	(2)	-	-	-	-	-
Transfer to Stage 3	(7)	(2)	9	-	(3)	(6)	9	-
Net remeasurement of loss allowance	(279)	16	7	(256)	(228)	(2)	(80)	(310)
New financial assets originated or purchased	625	13	27	665	341	8	28	377
Write-offs	-	-	(218)	(218)	-	-	(135)	(135)
Recoveries of assets previously written -off	-	-	37	37	-	-	111	111
Unwinding of discount on present value of ECLs	-	-	74	74	-	-	53	53
Balance at December 31	**745**	**37**	**174**	**956**	**368**	**9**	**277**	**654**

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost-lombard loans*								
Balance at January 1	21	3	53	77	61	5	46	112
Transfer to Stage 1	1	-	(1)	-	4	-	(4)	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Net remeasurement of loss allowance	(21)	(3)	(36)	(60)	(65)	(5)	(29)	(99)
New financial assets originated or purchased	35	5	6	46	21	3	15	39
Write-offs	-	-	(23)	(23)	-	-	(15)	(15)
Recoveries of assets previously written -off	-	-	9	9	-	-	4	4
Unwinding of discount on present value of ECLs	-	-	19	19	-	-	36	36
Balance at December 31	**36**	**5**	**27**	**68**	**21**	**3**	**53**	**77**

(In thousands of AZN, unless otherwise indicated)

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost- consumer loans*								
Balance at January 1	785	1	406	1,192	877	1	325	1,203
Transfer to Stage 1	41	-	(41)	-	9	-	(9)	-
Transfer to Stage 2	-	8	(8)	-	-	7	(7)	-
Transfer to Stage 3	(2)	-	2	-	-	-	-	-
Net remeasurement of loss allowance	(512)	(9)	92	(429)	(847)	(7)	(36)	(890)
New financial assets originated or purchased	78	-	3	81	746	-	-	746
Write-offs	-	-	(476)	(476)	-	-	(31)	(31)
Recoveries of assets previously written -off	-	-	45	45	-	-	71	71
Unwinding of discount on present value of ECLs	-	-	8	8	-	-	93	93
Balance at December 31	**390**	**-**	**31**	**421**	**785**	**1**	**406**	**1,192**

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost- credit cards*								
Balance at January 1	64	2	127	193	123	-	118	241
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	(1)	(1)	2	-	(1)	-	1	-
Net remeasurement of loss allowance	(42)	1	(19)	(60)	(105)	1	(16)	(120)
New financial assets originated or purchased	23	-	14	37	47	1	27	75
Write-offs	-	-	(63)	(63)	-	-	(26)	(26)
Recoveries of assets previously written -off	-	-	4	4	-	-	19	19
Unwinding of discount on present value of ECLs	-	-	15	15	-	-	4	4
Balance at December 31	**44**	**2**	**80**	**126**	**64**	**2**	**127**	**193**

(In thousands of AZN, unless otherwise indicated)

	2023				2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loan to customers at amortized cost- car loans*								
Balance at January 1	2	-	122	124	35	4	412	451
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	22	(22)	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	(1)	(2)	3	-
Net remeasurement of loss allowance	(1)	(21)	3	(19)	(33)	(2)	(249)	(284)
New financial assets originated or purchased	1	-	-	1	1	-	-	1
Write-offs	-	-	(104)	(104)	-	-	(65)	(65)
Recoveries of assets previously written -off	-	-	1	1	-	-	16	16
Unwinding of discount on present value of ECLs	-	-	-	-	-	-	5	5
Balance at December 31	**2**	**1**	**-**	**3**	**2**	**-**	**122**	**124**

* The loss allowance in these tables includes ECL on loan commitments, because the Group does not separately identify the ECL on the loan commitment component from those on the financial instrument component.

Significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:

Credit quality analysis

The following table sets out information about the credit quality of loans to customers measured at amortized cost as at December 31, 2023 and 2022. Unless specially indicated, the amounts in the table represent gross carrying amounts.

Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 3.

Loan categories presented in the tables below are based on the quality of loans as following: Excellent - Not overdue, Good - Overdue less than 30 days, Satisfactory - Overdue 30-89 days, Nonsatisfactory - Overdue 90-179 days, Special monitoring - Overdue 180-360 days, Non-performing - Overdue more than 360 days.

(In thousands of AZN, unless otherwise indicated)

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Corporate loans				
Excellent	218,946	338	331	219,615
Good	7,957	993	680	9,630
Satisfactory	1,249	1,718	257	3,224
Non-satisfactory	-	-	3,415	3,415
Special monitoring	-	-	15,095	15,095
Non-performing	1	-	2,653	2,654
Total	**228,153**	**3,049**	**22,431**	**253,633**
Less: Allowance for expected credit losses	(7,352)	(1,049)	(11,756)	(20,157)
Carrying amount	**220,801**	**2,000**	**10,675**	**233,476**

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Corporate loans				
Excellent	219,012	31	1,598	220,641
Good	8,750	-	3,037	11,787
Satisfactory	560	503	1,141	2,204
Non-satisfactory	-	-	4,701	4,701
Special monitoring	-	-	2,900	2,900
Non-performing	-	-	20,240	20,240
Total	**228,322**	**534**	**33,617**	**262,473**
Less: Allowance for expected credit losses	(5,123)	(101)	(22,481)	(27,705)
Carrying amount	**223,199**	**433**	**11,136**	**234,768**

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost - *Cash loans*				
Excellent	177,333	1	19	177,353
Good	2,656	2	22	2,680
Satisfactory	26	371	38	435
Non-satisfactory	-	-	491	491
Special monitoring	-	-	615	615
Non-performing	-	-	725	725
Total	**180,015**	**374**	**1,910**	**182,299**
Less: Allowance for expected credit losses	(1,888)	(93)	(1,219)	(3,200)
Carrying amount	**178,127**	**281**	**691**	**179,099**

(In thousands of AZN, unless otherwise indicated)

	December 31, 2022				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortized cost - ***Cash loans***					
Excellent	144,101	9	133	581	144,824
Good	1,158	1	3	73	1,235
Satisfactory	49	266	74	49	438
Non-satisfactory	-	-	277	28	305
Special monitoring	-	-	244	35	279
Non-performing	-	-	552	100	652
Total	**145,308**	**276**	**1,283**	**866**	**147,733**
Less: Allowance for expected credit losses	(1,404)	(75)	(821)	-	(2,300)
Carrying amount	**143,904**	**201**	**462**	**866**	**145,433**

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Mortgage loans				
Excellent	136,237	-	-	136,237
Good	155	-	-	155
Satisfactory	-	24	-	24
Non-satisfactory	-	-	33	33
Special monitoring	-	-	-	-
Non-performing	-	-	66	66
Total	**136,392**	**24**	**99**	**136,515**
Less: Allowance for expected credit losses	(264)	(5)	(31)	(300)
Carrying amount	**136,128**	**19**	**68**	**136,215**

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Mortgage loans				
Excellent	98,156	-	240	98,396
Good	47	-	17	64
Satisfactory	231	-	70	301
Non-satisfactory	-	-	-	-
Special monitoring	-	-	89	89
Non-performing	-	-	254	254
Total	**98,434**	**-**	**670**	**99,104**
Less: Allowance for expected credit losses	(139)	-	(321)	(460)
Carrying amount	**98,295**	**-**	**349**	**98,644**

(In thousands of AZN, unless otherwise indicated)

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Micro loans				
Excellent	90,399	3	11	90,413
Good	2,206	-	4	2,210
Satisfactory	68	170	13	251
Non-satisfactory	-	-	158	158
Special monitoring	-	-	116	116
Non-performing	-	-	88	88
Total	**92,673**	**173**	**390**	**93,236**
Less: Allowance for expected credit losses	(745)	(37)	(174)	(956)
Carrying amount	**91,928**	**136**	**216**	**92,280**

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Micro loans				
Excellent	51,486	1	87	51,574
Good	1,670	-	2	1,672
Satisfactory	-	30	21	51
Non-satisfactory	-	-	29	29
Special monitoring	-	-	44	44
Non-performing	-	-	272	272
Total	**53,156**	**31**	**455**	**53,642**
Less: Allowance for expected credit losses	(368)	(9)	(277)	(654)
Carrying amount	**52,788**	**22**	**178**	**52,988**

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Lombard loans				
Excellent	35,594	-	-	35,594
Good	1,545	-	1	1,546
Satisfactory	7	66	-	73
Non-satisfactory	-	-	27	27
Special monitoring	-	-	24	24
Non-performing	2	-	47	49
Total	**37,148**	**66**	**99**	**37,313**
Less: Allowance for expected credit losses	(36)	(5)	(27)	(68)
Carrying amount	**37,112**	**61**	**72**	**37,245**

(In thousands of AZN, unless otherwise indicated)

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Lombard loans				
Excellent	30,114	-	29	30,143
Good	1,128	-	7	1,135
Satisfactory	-	68	14	82
Non-satisfactory	-	-	37	37
Special monitoring	-	-	41	41
Non-performing	-	-	67	67
Total	**31,242**	**68**	**195**	**31,505**
Less: Allowance for expected credit losses	(21)	(3)	(53)	(77)
Carrying amount	**31,221**	**65**	**142**	**31,428**

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Consumer loans				
Excellent	16,445	21	2	16,468
Good	478	-	-	478
Satisfactory	5	7	-	12
Non-satisfactory	-	-	-	-
Special monitoring	-	-	39	39
Non-performing	-	-	32	32
Total	**16,928**	**28**	**73**	**17,029**
Less: Allowance for expected credit losses	(390)	-	(31)	(421)
Carrying amount	**16,538**	**28**	**42**	**16,608**

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Consumer loans				
Excellent	13,712	-	103	13,815
Good	3,401	-	6	3,407
Satisfactory	16	23	-	39
Non-satisfactory	-	-	27	27
Special monitoring	-	-	-	-
Non-performing	-	-	669	669
Total	**17,129**	**23**	**805**	**17,957**
Less: Allowance for expected credit losses	(785)	(1)	(406)	(1,192)
Carrying amount	**16,344**	**22**	**399**	**16,765**

(In thousands of AZN, unless otherwise indicated)

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Credit cards				
Excellent	3,208	-	1	3,209
Good	25	-	14	39
Satisfactory	-	9	3	12
Non-satisfactory	-	-	14	14
Special monitoring	-	-	31	31
Non-performing	-	-	22	22
Total	**3,233**	**9**	**85**	**3,327**
Less: Allowance for expected credit losses	(44)	(2)	(80)	(126)
Carrying amount	**3,189**	**7**	**5**	**3,201**

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Credit cards				
Excellent	4,007	-	4	4,011
Good	151	-	29	180
Satisfactory	-	12	12	24
Non-satisfactory	-	-	16	16
Special monitoring	-	-	21	21
Non-performing	-	-	48	48
Total	**4,158**	**12**	**130**	**4,300**
Less: Allowance for expected credit losses	(64)	(2)	(127)	(193)
Carrying amount	**4,094**	**10**	**3**	**4,107**

	December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Car loans				
Excellent	147	25	-	172
Good	2	-	-	2
Satisfactory	-	-	-	-
Non-satisfactory	-	-	-	-
Special monitoring	-	-	-	-
Non-performing	-	-	-	-
Total	**149**	**25**	**-**	**174**
Less: Allowance for expected credit losses	(2)	(1)	-	(3)
Carrying amount	**147**	**24**	**-**	**171**

(In thousands of AZN, unless otherwise indicated)

	December 31, 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Car loans				
Excellent	391	-	33	424
Good	35	-	-	35
Satisfactory	-	-	5	5
Non-satisfactory	-	-	40	40
Special monitoring	-	-	-	-
Non-performing	-	-	113	113
Total	**426**	**-**	**191**	**617**
Less: Allowance for expected credit losses	(2)	-	(122)	(124)
Carrying amount	**424**	**-**	**69**	**493**

The following table sets out information on loans to customers that are credit-impaired (excluding POCI) and related collateral held in order to mitigate potential losses as at December 31, 2023:

				Fair value of collateral held				
AZN’000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Precious metals**	**Real estate**	**Equipments**	**Total**
Corporate loans	22,431	(11,756)	10,675	5,703	-	11,977	35,162	52,842
Cash loans	1,910	(1,219)	691	-	-	-	-	-
Micro loans	390	(174)	216	-	-	281	381	662
Mortgage loans	99	(31)	68	-	-	206	-	206
Lombard loans	99	(27)	72	-	98	-	-	98
Credit cards	85	(80)	5	-	-	72	-	72
Consumer loans	73	(31)	42	17	-	175	-	192
Car loans	-	-	-	-	-	-	-	-
Total credit-impaired loans to customers	**25,087**	**(13,318)**	**11,770**	**5,720**	**98**	**12,711**	**35,543**	**54,072**

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2023:

				Fair value of collateral held				
AZN’000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Precious metals**	**Real estate**	**Equipments**	**Total**
Corporate loans	253,633	(20,157)	233,476	35,857	108	349,906	86,564	472,435
Cash loans	182,299	(3,200)	179,099	31	87	698	3,643	4,459
Mortgage loans	136,515	(300)	136,215	-	-	175,059	-	175,059
Micro loans	93,236	(956)	92,280	83	3,130	55,182	60,457	118,852
Lombard loans	37,313	(68)	37,245	-	37,932	-	-	37,932
Consumer loans	17,029	(421)	16,608	15,112	-	6,953	3	22,068
Credit cards	3,327	(126)	3,201	1,358	-	187	61	1,606
Car loans	174	(3)	171	-	-	-	409	409
Total loans to customers	**723,526**	**(25,231)**	**698,295**	**52,441**	**41,257**	**587,985**	**151,137**	**832,820**

(In thousands of AZN, unless otherwise indicated)

The following table sets out information on loans to customers that are credit-impaired (excluding POCI) and related collateral held in order to mitigate potential losses as at December 31, 2022:

				Fair value of collateral held				
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Precious metals**	**Real estate**	**Equipments**	**Total**
Corporate loans	33,617	(22,481)	11,136	893	-	48,315	4,881	54,089
Mortgage loans	1,283	(821)	462	-	-	88	7	95
Lombard loans	805	(406)	399	24	-	830	-	854
Consumer loans	670	(321)	349	-	-	1,245	-	1,245
Cash loans	455	(277)	178	-	1	396	732	1,129
Micro loans	195	(53)	142	-	206	-	-	206
Credit cards	191	(122)	69	-	-	160	347	507
Car loans	130	(127)	3	-	-	12	-	12
Total credit-impaired loans to customers	**37,346**	**(24,608)**	**12,738**	**917**	**207**	**51,046**	**5,967**	**58,137**

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2022:

				Fair value of collateral held				
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Precious metals**	**Real estate**	**Equipments**	**Total**
Corporate loans	262,473	(27,705)	234,768	25,361	44	281,171	74,652	381,228
Cash loans	147,733	(2,300)	145,433	2	77	1,376	5,982	7,437
Mortgage loans	99,104	(460)	98,644	-	-	130,165	-	130,165
Micro loans	53,642	(654)	52,988	48	2,138	32,114	38,324	72,624
Lombard loans	31,505	(77)	31,428	-	33,193	-	-	33,193
Consumer loans	17,957	(1,192)	16,765	13,358	-	7,729	5	21,092
Credit cards	4,300	(193)	4,107	1,190	-	434	42	1,666
Car loans	617	(124)	493	-	-	160	1,468	1,628
Total loans to customers	**617,331**	**(32,705)**	**584,626**	**39,959**	**35,452**	**453,149**	**120,473**	**649,033**

Repossessed collateral

During the year ended December 31, 2023, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 230 thousand (December 31, 2022: AZN 592 thousand).

Significant credit exposures

As at December 31, 2023, the Group had 3 borrowers or groups of connected borrowers (December 31, 2022: 3) with gross loan balances individually exceeding 10% of equity. The gross value of these loans as at December 31, 2023 was AZN 48,368 thousands (December 31, 2022: AZN 48,898 thousands).

(In thousands of AZN, unless otherwise indicated)

Key assumptions and judgments for estimating the loan impairment

As at December 31, 2023 and 2022, the Group estimates ECL for significant corporate loans in Stage 3 based on an individual review of each loan and estimation of its future cash flows. This estimate of future cash flows is dependent on factors such as the estimated value of underlying collateral and delay of 12 to 48 months in obtaining proceeds from the foreclosure of collateral. The Group then calculates the net present value of these cash flows using a discount rate which equates to the original effective interest rate of the loan, in order to determine the required amount of ECL.

For the remaining portfolio of loans the Group calculates ECL as described in Note 24, on a collective basis. The key areas of uncertainty and assumptions used in the calculation of the collective impairment are:

- a delay in obtaining proceeds from the foreclosure of collateral;
- a discount for real estates originally appraised value.

Changes in these estimates could affect the expected credit losses. For example, to the extent that the net present value of the estimated cash flow differs by one percent, the expected credit losses on loans to customers as at December 31, 2023 would be AZN 252 thousand lower/higher (December 31, 2022: AZN 327 thousand lower/higher).

15. ASSETS HELD FOR SALE

	December 31, 2023	December 31, 2022
Balance at the beginning of the year	6,327	8,565
Repossessed during the year	230	592
Sold during the year	(2,902)	(2,830)
Impairment allowance	(2,901)	(4,628)
Balance at the end of the year	**754**	**1,699**

The management's plan is to sell repossessed collaterals within a year.

Analysis of movements in the cumulative change in fair value less costs to sell:

	December 31, 2023	December 31, 2022
Balance at the beginning of the year	(4,628)	(5,378)
Impairment reversal/(losses)	1,641	(1,521)
Write-off	86	2,271
Balance at the end of the year	**(2,901)**	**(4,628)**

(In thousands of AZN, unless otherwise indicated)

16. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings	Computers	Furniture and equipment	Vehicles	Computer software	Leasehold improvement	Total
Cost/revalued amount							
Balance at January 1, 2022	**5,431**	**4,707**	**5,736**	**1,435**	**1,304**	**795**	**19,408**
Additions	39	1,227	1,092	348	354	304	3,364
Disposals	-	(17)	(120)	(2)	-	(37)	(176)
Balance at December 31, 2022	**5,470**	**5,917**	**6,708**	**1,781**	**1,658**	**1,062**	**22,596**
Additions	-	817	173	762	78	503	2,333
Disposals	-	(39)	(94)	(218)	-	(131)	(482)
Balance at December 31, 2023	**5,470**	**6,695**	**6,787**	**2,325**	**1,736**	**1,434**	**24,447**
Depreciation and amortization							
Balance at January 1, 2022	**(1,154)**	**(2,982)**	**(3,743)**	**(1,221)**	**(608)**	**(322)**	**(10,030)**
Depreciation and amortization	(109)	(820)	(689)	(172)	(152)	(135)	(2,077)
Disposals	-	11	96	2	-	37	146
Balance at December 31, 2022	**(1,263)**	**(3,791)**	**(4,336)**	**(1,391)**	**(760)**	**(420)**	**(11,961)**
Depreciation and amortization	(108)	(897)	(724)	(198)	(173)	(249)	(2,349)
Disposals	-	36	86	218	-	131	471
Balance at December 31, 2023	**(1,371)**	**(4,652)**	**(4,974)**	**(1,371)**	**(933)**	**(538)**	**(13,839)**
Carrying amount							
At December 31, 2023	**4,099**	**2,043**	**1,813**	**954**	**803**	**896**	**10,608**
At December 31, 2022	**4,207**	**2,126**	**2,372**	**390**	**898**	**642**	**10,635**

There are no capitalized borrowing costs related to the acquisition or construction of property and equipment during 2023 (December 31, 2022: nil).

(In thousands of AZN, unless otherwise indicated)

Revalued assets

The fair values of the Group’s buildings are categorised into Level 3 of the fair value hierarchy. During the year the Group has not carried out revaluation, but management estimates that fair values of assets are close to their carrying amount.

The previous basis used for the appraisal is the market approach. The market approach is based on an analysis of the results of comparable sales of similar buildings. The key assumption used in applying the market approach is the selling price, in the absence of undue stress and if reasonable time is given.

The carrying value of buildings as at December 31, 2023, if they would not have been revalued, would be AZN 1,585 thousand (December 31, 2022: AZN 1,681 thousand).

17. OTHER ASSETS

	December 31, 2023	December 31, 2022
Receivables from intermediary	34,802	32,722
Credit and debit cards receivables	10,879	9,567
Amounts due from payment systems	2,834	2,456
Other receivables	2,392	1,397
Total other financial assets	**50,898**	**46,232**
Deferred expenses	1,044	372
Prepayments for purchase of property, equipment and intangible assets	91	111
Prepaid tax other than income tax	215	2
Others	662	918
Less: allowance for impairment	(942)	(549)
Total other non-financial assets	**1,070**	**854**
Total other assets	**51,968**	**47,086**

As at December 31, 2023 and 2022, the Group did not have overdue other financial assets. All other financial assets are in Stage 1 and their ECL is not material as December 31, 2023 and 2022. All other financial assets are not rated.

18. DEPOSITS AND BALANCES FROM BANKS

	December 31, 2023	December 31, 2022
Term placements	10,666	10,541
Correspondent accounts and overnight placements	344	980
Total deposits and balances from banks	**11,010**	**11,521**

As at December 31, 2023, the Group had 1 bank (December 31, 2022: 1 bank), whose balance exceeded 10 % of equity. The gross value of this balance as at December 31, 2023 was AZN 10,666 thousand (December 31, 2022: AZN 10,847 thousand).

(In thousands of AZN, unless otherwise indicated)

As at December 31, 2023, accrued interest expense included in deposits and balances from banks amounted to AZN 1 thousand (December 31, 2022: AZN 1 thousand).

19. CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2023	December 31, 2022
Current accounts and demand deposits		
- Retail	198,537	157,543
- Corporate	187,248	230,063
Term deposits		
- Retail	272,514	172,983
- Corporate	109,635	65,605
	767,934	**626,194**

Economic sector concentrations within customer accounts are as follows:

	December 31, 2023	December 31, 2022
Analysis by economic sector/customer type:		
Individuals	471,051	330,527
Construction and real estate	210,297	90,567
Trade and services	54,511	161,396
Financial institutions	10,060	19,481
State organization	5,957	13,560
Others	16,058	10,663
Total current accounts and deposits from customers	**767,934**	**626,194**

As at December 31, 2023, the Group had 5 customers (December 31, 2022: 7 customers), whose balances individually exceeded 10% of equity. The total amounts of these balances as at December 31, 2022 were AZN 185,729 thousand (December 31, 2022: AZN 146,382 thousand).

As at December 31, 2023, the Group maintained customer deposit balances of AZN 52,441 thousand (December 31, 2022: AZN 39,959 thousand) that served as collateral for loans.

As at December 31, 2023, accrued interest expense included in current accounts and deposits from customers amounted to AZN 10,124 thousand (December 31, 2022: AZN 6,872 thousand).

Included in customer accounts in the amount of AZN 396,579 thousand and AZN 287,657 thousand as at December 31, 2023 and 2022, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

20. BORROWED FUNDS AND SUBORDINATED BORROWINGS

	December 31, 2023	December 31, 2022
Borrowed funds		
Azerbaijan Mortgage and Credit Guarantee Fund	133,490	96,046
Entrepreneurship Development Fund of the Republic of Azerbaijan	61,005	56,591
Agrarian Credit and Development Agency under the Ministry of Agriculture	7,128	9,509
Central Bank of the Republic of Azerbaijan	1,058	2,043
Total borrowed funds	**202,681**	**164,189**
Subordinated borrowings	**6,062**	**6,062**
Total	**208,743**	**170,251**

Azerbaijan Mortgage and Credit Guarantee Fund

The Group signed an agreement on December 2, 2016 with the Azerbaijan Mortgage and Credit Guaratee Fund, for the initial financing and refinancing of mortgage loans at an interest rate of 1-4% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 8% p.a. As at December 31, 2023, the Group has AZN 133,490 thousand (December 31, 2022: AZN 96,046 thousand) payable to the fund, repayable up to September 2053. There are no financial covenants with regard to borrowing from the Azerbaijan Mortgage and Credit Guaratee Fund, the Group should comply with.

Entrepreneurship Development Fund of the Republic of Azerbaijan

The Group signed a credit agreement on November 26, 2009 with the Entrepreneurship Development Fund of the Republic of Azerbaijan, a programme under the auspices of the Ministry of Economy of the Republic of Azerbaijan, for the financing of small and medium-size enterprises. Under this programme, funds are made available to the Group at an interest rate of 1.0% per annum and the Group lends these funds on to eligible borrowers at rates not higher than 6.0%-8.0% per annum. As at December 31, 2023 the Group has AZN 61,005 thousand (December 31, 2022: AZN 56,591 thousand) payable to the fund, repayable up to October 2032. There are no financial covenants with regard to borrowing from the Entrepreneurship Development Fund of the Republic of Azerbaijan that the Group should comply with.

Agrarian Credit and Development Agency under the Ministry of Agriculture

The Group signed an agreement with the Agrarian Credit and Development Agency under the Ministry of Agriculture on May 24, 2018 for financing agricultural investments. Under this programme, funds are made available to the Group at an interest rate of 2.0% per annum and the Group lends these funds on to eligible borrowers at rates not higher than 7.0%. As at December 31, 2023, the Group has AZN 7,128 thousand (December 31, 2022: AZN 9,509 thousand) payable to the fund, repayable up to September 2028. There are no financial covenants with regard to borrowing from the Azerbaijan State Agency on Agricultural Credits that the Group should comply with.

The Central Bank of Republic Azerbaijan

During 2019, the Group borrowed AZN 3,440 thousand from the CBAR with annual interest rate of 0.1% 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 on February 28, 2019. Carrying amount of this borrowing was AZN 1,058 thousand as at December 31, 2023 (December 31, 2022 2,043 thousand).

In estimating the discount rates for term borrowings from Entrepreneurship Development Fund of the Republic of Azerbaijan, Azerbaijan Mortgage and Credit Guarantee Fund and Agrarian Credit and Development Agency under the Ministry of Agriculture the Group considers this market as a separate market from other commercial borrowing business as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

As at December 31, 2023, accrued interest expense included in borrowed funds amounted to AZN 1,380 thousand (December 31, 2022: AZN 1,208 thousand).

(In thousands of AZN, unless otherwise indicated)

Subordinated borrowings

As at December 31, 2023, USD denominated subordinated borrowings included deposits placed by related parties in the amount of AZN 6,062 thousand (December 31, 2022: AZN 6,062 thousand) maturing in September 2024 and with annual average interest rate of 7.5% (December 31, 2022: 7.5% per annum). In case of bankruptcy, the repayment of the subordinated borrowings will be made after repayment in full of all other liabilities of the Group.

As at December 31, 2023, accrued interest expense included in subordinated borrowings amounted to AZN 112 thousand (December 31, 2022: AZN 112 thousand).

Reconciliation of movements of liabilities to cash flows arising from financing activities

	Liabilities		
	Borrowed funds	**Subordinated borrowings**	**Total**
Balance at January 1, 2023	**164,189**	**6,062**	**170,251**
Changes from financing cash flows			
Receipts of borrowed funds	128,019	-	128,019
Repayment of borrowed funds	(89,699)	-	(89,699)
Total changes from financing cash flows	**202,509**	**6,062**	**208,571**
Other changes			
Interest expense	4,675	446	5,121
Interest paid	(4,503)	(446)	(4,949)
Balance at December 31, 2023	**202,681**	**6,062**	**208,743**

	Liabilities		
	Borrowed funds	**Subordinated borrowings**	**Total**
Balance at January 1, 2022	**146,816**	**6,062**	**152,878**
Changes from financing cash flows			
Receipts of borrowed funds	89,398	-	89,398
Repayment of borrowed funds	(72,280)	-	(72,280)
Total changes from financing cash flows	**163,934**	**6,062**	**169,996**
Other changes			
Interest expense	4,193	446	4,639
Interest paid	(3,938)	(446)	(4,384)
Balance at December 31, 2022	**164,189**	**6,062**	**170,251**

(In thousands of AZN, unless otherwise indicated)

21. OTHER LIABILITIES

	December 31, 2023	December 31, 2022
Settlement on other operations	10,036	8,314
Payables to employees	4,112	3,395
Other creditors	1,561	3,639
Restricted deposit	282	282
Other	40	26
Total other financial liabilities	**16,031**	**15,656**
Provision for guarantee letters	4,526	2,299
Taxes other than income tax payable	2,736	1,599
Current income tax liability	68	3,989
Total other non-financial liabilities	**7,330**	**7,887**
Total other liabilities	**23,361**	**23,543**

22. SHARE CAPITAL AND RESERVES

Issued capital

As at December 31, 2023 the authorized, issued and outstanding share capital comprises 4,992,611 ordinary shares (December 31, 2022: 4,992,611). All shares have a nominal value of AZN 20.44 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

As at December 31, 2023 and 2022 an adjustment of AZN 747 thousand is included in share capital. The adjustment is resulted from the restatement of share capital due to hyperinflation period of the Republic of Azerbaijan economy between 1993 and end of 1997.

Revaluation surplus for buildings

The revaluation surplus for buildings comprises the cumulative positive revalued value of buildings, until the assets are derecognized or impaired.

Dividends

During 2023, dividends in the amount of AZN 10,000 thousand were declared and paid by the Group (2022: nil).

Earnings per share

	December 31, 2023	December 31, 2022
Net profit attributable to ordinary shareholders (AZN'000)	6,212	6,662
Weighted average number of ordinary shares for the year ended December 31, (thousands of shares)	4,993	4,993
Basic and diluted earnings per share (AZN per share)	**1.24**	**1.33**

(In thousands of AZN, unless otherwise indicated)

23. ANALYSIS BY SEGMENT

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the chief operating decision maker reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the reportable segments:

- retail banking – includes loans, deposits and other transactions with retail customers;
- corporate banking – includes loans, deposits and other transactions with corporate customers.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are based on statutory financial information and that are reviewed by the CEO. Segment profit is used to measure performance, as management believes that such information is the most pertinent in evaluating the results of certain segments relative to others who operate within these industries.

Segment breakdown of assets and liabilities is presented below:

	December 31, 2023 (unaudited)	December 31, 2022 (unaudited)
ASSETS		
Corporate banking	600,861	545,119
Retail banking	455,820	336,058
Other	74,083	67,869
Total in management accounting	**1,130,764**	**949,046**
Total IFRS adjustments amount	(12,581)	(8,460)
Total per IFRS	**1,118,183**	**940,586**
LIABILITIES		
Corporate banking	522,458	483,480
Retail banking	473,444	332,583
Other	25,963	27,368
Total in management accounting	**1,021,865**	**843,431**
Total IFRS adjustments amount	(6,480)	(9,431)
Total per IFRS	**1,015,385**	**834,000**

(In thousands of AZN, unless otherwise indicated)

Segment information for the main reportable segments for the year ended December 31, 2023 is presented below:

	Retail banking (unaudited)	Corporate banking (unaudited)	Unallocated (unaudited)	Total in management accounting (unaudited)	Total IFRS adjustment amount	Total per IFRS (unaudited)
Interest income calculated using the effective interest method	64,216	26,957	-	91,173	1,531	92,704
Fee and commission income	30,221	16,312	-	46,533	(7,722)	38,811
Net gain on trading in foreign currencies	2,357	1,272	-	3,629	-	3,629
Net loss on foreign exchange operations	(4)	(2)	-	(6)	-	(6)
Charge of expected credit losses on due from banks and other financial institutions	(70)	(52)	-	(122)	-	(122)
Other operating income	-	-	2,078	2,078	-	2,078
Revenue	**96,720**	**44,487**	**2,078**	**143,285**	**(6,191)**	**137,094**
Interest expense	(20,119)	(9,792)	-	(29,911)	(361)	(30,272)
Charge of expected credit losses on loans to customers	(2,354)	(1,271)	-	(3,625)	(4,060)	(7,685)
(Charge)/recovery of expected credit losses from investment securities		(4)	-	(4)	284	280
Fee and commission expense	(24,834)	(15,651)	-	(40,485)	(757)	(41,242)
Impairment recovery/(loss) on assets held for sale	-	-	786	786	855	1,641
Impairment recovery on other assets and liabilities	-	-	(393)	(393)	(2,227)	(2,620)
Personnel expenses	(18,977)	(10,243)	-	(29,220)	-	(29,220)
General and administrative expenses	(12,501)	(6,748)	-	(19,249)	2,014	(17,235)
Segment result	**17,935**	**778**	**1,380**	**21,184**	**(10,443)**	**10,741**
Income tax expense	-	-	(5,469)	(5,469)	940	(4,529)
Net profit after taxes						**6,212**

(In thousands of AZN, unless otherwise indicated)

Segment information for the main reportable segments for the year ended December 31, 2022 is presented below:

	Retail banking (unaudited)	Corporate banking (unaudited)	Unallocated (unaudited)	Total in management accounting (unaudited)	Total IFRS adjustment amount	Total per IFRS (unaudited)
Interest income calculated using the effective interest method	46,933	21,328	-	68,261	2,076	70,337
Fee and commission income	23,818	17,617	-	41,435	(5,037)	36,398
Net gain on trading in foreign currencies	2,915	3,379	-	6,294	-	6,294
Net gain on foreign exchange operations	(14)	(16)	-	(30)	-	(30)
Charge of expected credit losses on due from banks and other financial institutions	(11)	(8)	-	(19)	(65)	(84)
Other operating income	-	-	987	987	1,138	2,125
Revenue	**73,641**	**42,300**	**987**	**116,928**	**(1,888)**	**115,040**
Interest expense	(13,358)	(6,387)	-	(19,745)	(473)	(20,218)
Charge of expected credit losses on loans to customers	(7,247)	(5,361)	-	(12,608)	6,501	(6,107)
(Charge)/recovery of expected credit losses from investment securities		-		-	(249)	(249)
Fee and commission expense	(19,229)	(17,202)	-	(36,431)	(1,570)	(38,001)
Impairment gains on assets held for sale	-	-	36	36	(1,557)	(1,521)
Impairment losses on other assets and liabilities	34	25	-	59	2,284	2,343
Personnel expenses	(14,014)	(10,366)	-	(24,380)	(30)	(24,410)
General and administrative expenses	(9,062)	(6,703)	-	(15,765)	898	(14,867)
Segment result	**10,765**	**(3,694)**	**1,023**	**8,094**	**3,916**	**12,010**
Income tax expense	-	-	(5,882)	(5,882)	534	(5,348)
Net profit after taxes						**6,662**

24. RISK MANAGEMENT, CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

Corporate governance framework

The Group is established as an open joint-stock company in accordance with Azerbaijani law. The supreme governing body of the Group is the General Shareholders’ meeting that is called for annual or extraordinary meetings. The General Shareholders’ meeting makes strategic decisions on the Group’s operations.

The General Shareholders’ meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Group’s activities.

Azerbaijani legislation and the charter of the Group establish lists of decisions that are exclusively approved by the General Shareholders’ meeting and that are approved by the Supervisory Board.

As at December 31, 2023, the Supervisory Board includes:

- Zakir Nuriyev – Chairman of the Supervisory Board;
- Rauf Aliyev – Member of the Supervisory Board;
- Aslan Khasiyev – Member of the Supervisory Board;

General activities of the Group are managed by the collective executive body of the Group. The General Shareholders’ meeting elects the Management Board. The executive body of the Group is responsible for implementation of decisions of the General Shareholders’ meeting and the Supervisory Board of the Group. Executive body of the Group reports to the Supervisory Board of the Group and to the General Shareholders’ meeting.

As at December 31, 2023 the Management Board included:

- Aydin Huseynov – Chairman of the Management Board;
- Orhan Gultekin – First Deputy Chairman of the Management Board;
- Samir Rzayev – CFO Member of the Management Board;
- Ramil Nasibov – CTO, Member of the Management Board;
- Natiq Novruzov – CRO, Member of the Management Board.

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Group that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Group's internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documenting of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Group put in place a system of automated controls.

The internal control system in the Group comprises:

- the Supervisory Board and its committees;
- the Chief Executive Officer and the Management Board;
- the Chief Accountant;
- the Risk Management Function;
- the Security Function, including IT-security;
- the Human Resource Function;
- the Internal Audit Function;
- other employees, division and functions that are responsible for compliance with the established standards, policies and procedures, including:

- heads of branches and heads of business units;
- business processes managers;
- division responsible for compliance with anti-money laundering requirements;
- the legal officer – an employee responsible for compliance with the legal and regulatory requirements;
- other employees with control responsibilities.

The main functions of the Internal Audit Function include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organisation (methods, programmes, rules and procedures for banking operations and transactions, and for the management of banking risks);
- audit of reliability of internal control system over automated information systems;
- audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the credit organisation’s property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit by the Risk Department.

Compliance with the Group standards is supported by a program of periodic reviews undertaken by the Internal Audit Function. The Internal Audit Function is independent from management and reports directly to the Audit Committee and Supervisory Board. The results of the Internal Audit Function reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and Supervisory Board and senior management of the Group.

Management believes that the Group complies with the CBAR requirements related to risk management and internal control systems, including requirements related to the Internal Audit Function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

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

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

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

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Group operates within established risk parameters.

The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the Deputy Chairman of the Management Board.

The Management Board of the Group has the responsibility for controlling the Group’s compliance with risk limits and capital adequacy ratios as established by the CBAR. With the view of controlling effectiveness of the Group’s risk management procedures and their consistent application the Management Board of the Group periodically receives reports prepared by the Internal Audit Function and the Risk Department, discuss the contents of these reports and consider proposed corrective actions.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a Credit Committee and an Asset and Liability Management Committee (ALCO).

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

Market risk

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by the ALCO based on recommendations of the Risk Department.

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

Interest rate risk

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

(In thousands of AZN, unless otherwise indicated)

Interest rate gap analysis

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

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Carrying amount
December 31, 2023							
FINANCIAL ASSETS							
Cash and cash equivalents	138,739	-	-	-	-	61,079	199,818
Due from banks and other financial institutions	3,003	4,692	6,023	4,315	-	32,892	50,925
Investment securities	3,091	9,901	56,150	29,898	-	402	99,442
Loans to customers	25,955	62,443	188,703	290,046	131,148	-	698,295
Other financial assets	-	-	-	-	-	50,898	50,898
Total financial assets	**170,788**	**77,036**	**250,876**	**324,259**	**131,148**	**145,271**	**1,099,378**
FINANCIAL LIABILITIES							
Deposits and balances from banks	-	-	3,740	6,800	-	470	11,010
Current accounts and deposits from customers	19,921	25,602	298,894	59,185	4,714	359,618	767,934
Subordinated borrowings	112	-	5,950	-	-	-	6,062
Borrowed funds	516	47	5,236	61,278	135,604	-	202,681
Lease liability	206	412	1,847	1,594	278	-	4,337
Other financial liabilities	-	-	-	-	-	16,031	16,031
Total financial liabilities	**20,755**	**26,061**	**315,667**	**128,857**	**140,596**	**376,119**	**1,008,055**
Liquidity gap	**150,033**	**50,975**	**(64,791)**	**195,402**	**(9,448)**	**(230,848)**	**91,323**

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Carrying amount
December 31, 2022							
FINANCIAL ASSETS							
Cash and cash equivalents	70,621	-	-	-	-	94,577	165,198
Due from banks and other financial institutions	1,628	-	8,725	805	-	23,274	34,432
Investment securities	6,680	7,665	41,141	37,570	-	642	93,698
Loans to customers	16,513	66,938	179,579	212,842	108,754	-	584,626
Other financial assets	-	-	-	-	-	46,232	46,232
Total financial assets	**95,442**	**74,603**	**229,445**	**251,217**	**108,754**	**164,725**	**924,186**
FINANCIAL LIABILITIES							
Deposits and balances from banks	-	6,800	-	3,740	-	981	11,521
Current accounts and deposits from customers	46,305	30,564	123,339	33,726	4,654	387,606	626,194
Subordinated borrowings	112	-	-	5,950	-	-	6,062
Borrowed funds	486	38	807	55,898	106,960	-	164,189
Lease liability	118	236	1,061	916	160	-	2,491
Other financial liabilities	-	-	-	-	-	15,656	15,656
Total financial liabilities	**47,021**	**37,638**	**125,207**	**100,230**	**111,774**	**404,243**	**826,113**
Liquidity gap	**48,421**	**36,965**	**104,238**	**150,987**	**(3,020)**	**(239,518)**	**98,073**

(In thousands of AZN, unless otherwise indicated)

Interest rate gaps are managed principally through refinancing of interest-bearing liabilities maturing in respective maturity bands with liabilities at equal or lower interest rates.

Average effective interest rates

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

	2023 Average effective interest rate, %			2022 Average effective interest rate, %		
	AZN	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Interest-bearing assets						
Cash and cash equivalents	6.92%	0.29%	-	4.14%	0.84%	-
Due from banks and other financial institutions	1.85%	0.93%	-	1.68%	1.03%	-
Investment securities	8.14%	4.47%	-	7.74%	5.77%	1.75%
Loans to customers	13.46%	5.18%	4.09%	12.62%	4.62%	4.68%
Interest-bearing liabilities						
Deposits and balances from banks	-	3.65%	-	-	3.65%	-
Current accounts and deposits from customers	9.34%	0.37%	1.51%	9.06%	0.81%	0.36%
Borrowed funds	2.52%	-	-	2.52%	-	-
Lease liability	8.70%	-	-	8.70%	-	-
Subordinated borrowings	-	7.50%	-	-	7.50%	-

Interest rate sensitivity analysis

The management of interest rate risk based on an interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2023 and 2022 is as follows:

	December 31, 2023	**December 31, 2022**
100 bp parallel fall	(1,437)	103
100 bp parallel rise	1,437	(103)

Currency risk

The Group has assets and liabilities denominated in several foreign currencies.

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

(In thousands of AZN, unless otherwise indicated)

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

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	166,417	28,445	4,314	642	199,818
Due from banks and other financial institutions	29,342	16,856	4,727	-	50,925
Investment securities	42,024	57,418	-	-	99,442
Loans to customers	630,179	68,094	22	-	698,295
Other financial assets	41,423	8,790	160	525	50,898
Total financial assets	**909,385**	**179,603**	**9,223**	**1,167**	**1,099,378**
FINANCIAL LIABILITIES					
Deposits and balances from banks	289	10,721	-	-	11,010
Current accounts and deposits from customers	599,339	158,687	9,156	752	767,934
Borrowed funds	202,681	-	-	-	202,681
Subordinated borrowings	-	6,062	-	-	6,062
Lease liability	4,337	-	-	-	4,337
Other financial liabilities	13,336	2,179	451	65	16,031
Total financial liabilities	**819,982**	**177,649**	**9,607**	**817**	**1,008,055**
Net position	**89,403**	**1,954**	**(384)**	**350**	**91,323**

The Group is not required to report for the regulatory currency position compliance purposes based on the above table, rather currency position based on prudential figures is reported to the regulator.

(In thousands of AZN, unless otherwise indicated)

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

	AZN	USD	EUR	Other currencies	Total
FINANCIAL ASSETS					
Cash and cash equivalents	87,568	69,527	7,848	255	165,198
Due from banks and other financial institutions	16,956	17,476	-	-	34,432
Investment securities	17,854	74,936	908	-	93,698
Loans to customers	513,442	70,667	517	-	584,626
Other financial assets	37,389	8,262	163	418	46,232
Total financial assets	**673,209**	**240,868**	**9,436**	**673**	**924,186**
FINANCIAL LIABILITIES					
Deposits and balances from banks	203	11,155	163	-	11,521
Current accounts and deposits from customers	397,794	218,644	9,213	543	626,194
Borrowed funds	164,189	-	-	-	164,189
Subordinated borrowings	-	6,062	-	-	6,062
Lease liability	2,491	-	-	-	2,491
Other financial liabilities	12,364	3,105	73	114	15,656
Total financial liabilities	**577,041**	**238,966**	**9,449**	**657**	**826,113**
Net position	**96,168**	**1,902**	**(13)**	**16**	**98,073**

A weakening of the AZN, as indicated below, against the following currencies at December 31, 2023 and 2022, would have (decreased)/increased equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2023	December 31, 2022
30% appreciation of USD against AZN	469	456
30% appreciation of EUR against AZN	(92)	(3)

A strengthening of the AZN against the above currencies at December 31, 2023 and 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

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

(In thousands of AZN, unless otherwise indicated)

The credit policy establishes:

- procedures for review and approval of loan applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer’s business and financial performance. The loan application and the report are then independently reviewed by the Risk Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Accounting and Tax departments depending on the specific risks and pending final approval of the Credit Committee.

The Group continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer’s most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Group. Retail loan credit applications are reviewed by the Retail Lending Department through the use of scoring models and application data verification procedures developed together with the Risk Department.

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Department with regard to credit concentration and market risks.

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

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	December 31, 2023	December 31, 2022
ASSETS		
Cash and cash equivalents (excluding cash on hand)	160,395	125,988
Due from banks and other financial institutions	50,925	34,432
Investment securities (excluding equity securities)	99,040	93,056
Loans to customers	698,295	584,626
Other financial assets	50,898	46,232
Total maximum exposure	**1,059,553**	**884,334**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 14.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in Note 26.

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).
- The Group uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in probability of default (PD);
- qualitative indicators;
- backstop of 30 days past due.

Credit risk grades

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group’s quantitative criteria:

- For all borrowers when contractual payments are more than 30 days past due.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain hightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experience and are disclosed below:

- For collectively assessed consumer and mortgage loans: If the Group becomes aware of a significant decline in any particular industry and anticipates the closure of businesses or significant lay-offs within that industry.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as a 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Group determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. Probation criteria for recovery and transfer of financial instruments to Stage 1 are as follows:

- All scheduled payments on the loan are made in time or overdue less than 30 days.
- For all loans previously classified as Stage 2 based on any information other than past due status and for which there is evidence that there is no longer a significant increase in credit risk.

Probation criteria for recovery and transfer of financial instruments to Stage 2 are as follows:

- Cure period of 6 months had passed since the loan had been classified as Stage 3, i.e. no restructuring or overdue more than 90 days occurred during 6 months preceding reporting date (Stage 3 to Stage 2).

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that**:**

- the criteria are capable of identifying significant increases in credit risk before exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (Stage 1) and lifetime ECL measurements (Stage 2).

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);

(In thousands of AZN, unless otherwise indicated)

- the borrower is past due more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower’s inability to pay its credit obligations.
- in assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates one economic scenario: a base case. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The historical data of defaults use the statistics of the CBAR on the share of overdue loans in total loans to individuals in the banking system. The assessment of the impact of macroeconomic information should be made at least on an annual basis.

The Group has identified and documented key drivers of credit risk and credit losses for the entire loan portfolio (including the securities portfolio, requirements for financial institutions), using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key driver is Real GDP growth forecast. The economic scenarios used as at December 31, 2023 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2023 through 2027.

	2023	2024	2025	2026	2027
Real GDP growth	1.70%	1.70%	1.70%	1.70%	1.70%

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 14 years.

When building a macroeconomic model, the Bank uses external statistics on defaults (NPL), as there is no sufficient internal statistics on defaults.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects a comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and interest rate. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect interest and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that exposure is credit-impaired (see Note 3). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading “Generating the term structure of PD”.

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral (for certain types of portfolio), seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property (for certain types of portfolio), LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using first available contractual rate as the discounting factor, as it is considered as the best proxy of effective interest rate at origination.

(In thousands of AZN, unless otherwise indicated)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of instrument type.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

December 31, 2023

		External benchmarks used	
	Exposure	**PD**	**LGD**
Cash and cash equivalents (excluding cash on hand)	160,395	Moody’s default study	S&P recovery studies
Due from banks and other financial institutions	50,925	Moody’s default study	S&P recovery studies
Investment securities	99,442	Moody’s default study	S&P recovery studies

December 31, 2022

		External benchmarks used	
	Exposure	**PD**	**LGD**
Cash and cash equivalents (excluding cash on hand)	125,988	Moody’s default study	S&P recovery studies
Due from banks and other financial institutions	34,432	Moody’s default study	S&P recovery studies
Investment securities	93,698	Moody’s default study	S&P recovery studies

Offsetting financial assets and financial liabilities

The disclosure set out in the table below includes financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

(In thousands of AZN, unless otherwise indicated)

December 31, 2023

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	52,441	52,441	-	52,441	-
Total financial assets	**52,441**	**52,441**	**-**	**52,441**	**-**
Current accounts and deposits from customers	52,441	52,441	52,441	-	-
Total financial liabilities	**52,441**	**52,441**	**52,441**	**-**	**-**

December 31, 2022

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	39,959	39,959	-	39,959	-
Total financial assets	**39,959**	**39,959**	**-**	**39,959**	**-**
Current accounts and deposits from customers	39,959	39,959	39,959	-	-
Total financial liabilities	**39,959**	**39,959**	**39,959**	**-**	**-**

Liquidity risk

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

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

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

(In thousands of AZN, unless otherwise indicated)

The liquidity management policy requires:

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

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

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

The following tables show the undiscounted cash flows on financial liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial liabilities as at December 31, 2023 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	502	64	3,972	6,866	-	11,404	11,010
Current accounts and deposits from customers	386,316	30,752	312,191	64,513	5,593	799,365	767,934
Borrowed funds	1,226	987	6,985	73,191	169,136	251,525	202,681
Subordinated borrowings	149	74	5,962	-	-	6,185	6,062
Lease liability	181	347	1,352	3,073	65	5,018	4,337
Other financial liabilities	16,031	-	-	-	-	16,031	16,031
Total financial liabilities	**404,405**	**32,224**	**330,462**	**147,643**	**174,794**	**1,089,528**	**1,008,055**
Credit related commitments	**217,186**	**-**	**-**	**-**	**-**	**217,186**	**217,186**

(In thousands of AZN, unless otherwise indicated)

The maturity analysis for financial liabilities as at December 31, 2022 is as follows:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	1,012	6,858	84	3,798	-	11,752	11,521
Current accounts and deposits from customers	443,159	32,818	129,068	36,697	5,727	647,469	626,194
Borrowed funds	829	724	3,895	70,953	157,347	233,748	164,189
Subordinated borrowings	149	74	335	6,080	-	6,638	6,062
Lease liability	142	312	1,283	1,248	185	3,170	2,491
Other financial liabilities	15,656	-	-	-	-	15,656	15,656
Total financial liabilities	**460,947**	**40,786**	**134,665**	**118,776**	**163,259**	**918,433**	**826,113**
Credit related commitments	**135,841**	**-**	**-**	**-**	**-**	**135,841**	**135,841**

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The management of the Group does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates.

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	199,818	-	-	-	-	-	-	199,818
Due from banks and other financial institutions	35,825	4,727	6,048	4,325	-	-	-	50,925
Investment securities	3,091	9,901	56,150	29,898	-	402	-	99,442
Loans to customers	25,955	62,443	188,703	290,046	106,419	-	24,729	698,295
Other financial assets	-	-	-	-	-	50,898	-	50,898
Total financial assets	**264,689**	**77,071**	**250,901**	**324,269**	**106,419**	**51,300**	**24,729**	**1,099,378**
Deposits and balances from banks	-	-	3,740	6,800	-	470	-	11,010
Current accounts and deposits from customers	379,539	25,602	298,894	59,185	4,714	-	-	767,934
Borrowed funds	516	47	5,236	61,278	135,604	-	-	202,681
Subordinated borrowings	112	-	-	5,950	-	-	-	6,062
Lease liability	149	292	1,160	2,674	62	-	-	4,337
Other financial liabilities	16,031	-	-	-	-	-	-	16,031
Total financial liabilities	**396,347**	**25,941**	**309,030**	**135,887**	**140,380**	**470**	**-**	**1,008,055**
Net position	**(131,658)**	**51,130**	**(58,129)**	**188,382**	**(33,961)**	**50,830**	**24,729**	**91,323**
Cumulative liquidity gap	**(131,658)**	**(80,528)**	**(138,657)**	**49,725**	**15,764**	**66,594**	**91,323**	

Management believes that the deposits will subsequently be prolonged for a further period, which will cover the liquidity gap arising at the end of the year.

(In thousands of AZN, unless otherwise indicated)

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
Cash and cash equivalents	165,198	-	-	-	-	-	-	165,198
Due from banks and other financial institutions	24,902	-	8,725	805	-	-	-	34,432
Investment securities	6,680	7,665	41,141	37,570	-	642	-	93,698
Loans to customers	16,513	66,938	179,579	212,842	81,755	-	26,999	584,626
Other financial assets	-	-	-	-	-	46,232	-	46,232
Total financial assets	**213,293**	**74,603**	**229,445**	**251,217**	**81,755**	**46,874**	**26,999**	**924,186**
Deposits and balances from banks	980	6,801	-	3,740	-	-	-	11,521
Current accounts and deposits from customers	433,911	30,564	123,339	33,726	4,654	-	-	626,194
Borrowed funds	486	38	807	55,898	106,960	-	-	164,189
Subordinated borrowings	112	-	-	5,950	-	-	-	6,062
Lease liability	118	236	1,061	916	160	-	-	2,491
Other financial liabilities	15,656	-	-	-	-	-	-	15,656
Total financial liabilities	**451,263**	**37,639**	**125,207**	**100,230**	**111,774**	**-**	**-**	**826,113**
Net position	**(237,970)**	**36,964**	**104,238**	**150,987**	**(30,019)**	**46,874**	**26,999**	**98,073**
Cumulative liquidity gap	**(237,970)**	**(201,006)**	**(96,768)**	**54,219**	**24,200**	**71,074**	**98,073**	

The key measure used by the Group for managing liquidity risk is the liquidity ratio stipulated by the CBAR. The Group calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand.

The Group was in compliance with this ratio as at December 31, 2023 and 2022. The following table shows the mandatory liquidity ratio calculated as at December 31, 2023 and 2022.

	Requirement	2023, % (Unaudited)	2022, % (Unaudited)
Instant liquidity ratio	Not less than 30%	81.04%	84.24%

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

(In thousands of AZN, unless otherwise indicated)

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost-effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements. The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

25. CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Group.

Under the current capital requirements set by the CBAR, groups have to: (i) hold a minimum level of total statutory capital of AZN 50,000 thousand (December 31, 2022: AZN 50,000 thousand) and (ii) maintain a ratio of total statutory capital to risk-weighted assets (statutory capital ratio) at or above a prescribed minimum of 10% (December 31, 2022: 10%).

The Group provides the CBAR with information on mandatory ratios in accordance with a set form. The Risk Department controls on daily basis compliance with capital adequacy ratios. In case values of capital adequacy ratios become close to set limits set by the CBAR and Group’s internal policy this information is communicated to the Supervisory Board.

As at December 31, 2023 and 2022, the Group was in compliance with the requirements for minimum total statutory capital amount and ratio to risk-weighted assets. The calculation of capital adequacy based on requirements set by the CBAR was as follows:

	December 31, 2023 (unaudited)	**December 31, 2022 (unaudited)**
Total regulatory capital	111,229	109,040
Risk-weighted assets	952,149	901,425
Capital adequacy ratio (%)	**11.68%**	**12.10%**

The Group also monitors its capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2007), commonly known as Basel I.

(In thousands of AZN, unless otherwise indicated)

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord:

	December 31, 2023	December 31, 2022
Tier 1 capital		
Share capital	102,047	102,047
(Accumulated deficit)/retained earnings	(1,477)	2,219
Total Tier 1 capital	**100,570**	**104,266**
Tier 2 capital		
Revaluation reserve – buildings	2,228	2,320
Subordinated borrowings (unamortized part)	1,190	2,380
Total Tier 2 capital	**3,418**	**4,700**
Less: Investments	(402)	(402)
Total capital	**103,586**	**108,564**
Risk-weighted assets		
On-balance sheet	664,480	568,205
Off-balance sheet	217,186	135,841
Total risk weighted assets	**881,666**	**704,046**
Tier 1 capital ratio	**11.75%**	**14.81%**
Total capital ratio	**11.41%**	**15.42%**

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

26. CREDIT-RELATED COMMITMENTS

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

The Group provides financial guarantees to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to five years.

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

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

(In thousands of AZN, unless otherwise indicated)

	December 31, 2023	December 31, 2022
Contracted amount		
Guarantees	186,073	109,370
Undrawn credit lines	31,113	26,471
	217,186	**135,841**

All guarantees balances are in Stage 1 (December 31, 2022: Stage 1). All balances of undrawn credit lines are in Stage 1 as at December 31, 2023 and 2022.

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

The Group provided provision for guarantees in the amount of AZN 4,526 thousand as at December 31, 2023 (December 31, 2022: AZN 2,299 thousand)

27. LEASES

Leases as lessee (IFRS 16)

The Group mainly leases a number of branch and office premises. The leases typically run for a period of 1-5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every three years to reflect market rentals.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets mainly relate to leased branches and office premises that do not meet the definition of investment property.

	Branch and office premises	Land	Total
2023			
Balance at January 1, 2023	2,294	-	2,294
Additions	3,652	-	3,652
Depreciation charge for the year	(1,809)	-	(1,809)
Balance at December 31, 2023	**4,137**	**-**	**4,137**

	Branch and office premises	Land	Total
2022			
Balance at January 1, 2022	2,449	74	2,523
Additions	1,428	-	1,428
Disposal	-	(64)	(64)
Depreciation charge for the year	(1,583)	(10)	(1,593)
Balance at December 31, 2022	**2,294**	**-**	**2,294**

See Note 24 for maturity analysis of lease liabilities as at December 31, 2023 and 2022.

(In thousands of AZN, unless otherwise indicated)

Amounts recognized in consolidated profit or loss

	2023	**2022**
Depreciation on ROU	1,809	1,593
Interest on lease liabilities	258	267
Expenses relating to short-term leases	127	135

Amounts recognized in the consolidated statement of cash flows

	2023	**2022**
Total cash outflow for leases	(2,064)	(1,853)

28. CONTINGENCIES

Insurance

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

Litigation

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

Taxation contingencies

The taxation system in the Azerbaijan Republic continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretations by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Azerbaijan Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

(In thousands of AZN, unless otherwise indicated)

The Group believes that 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 Group 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.

29. RELATED PARTY TRANSACTIONS

Control relationships

As at December 31, 2023 and 2022, the Group had no ultimate controlling party.

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

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

	December 31, 2023	December 31, 2022
Short-term employee benefits	2,182	1,221
Total short-term employee benefits	**2,182**	**1,221**

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

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

	December 31, 2023	Average effective interest rate	December 31, 2022	Average effective interest rate
Consolidated statement of financial position				
Loans outstanding (gross)	652	18.59%	178	13.89%
Charge of expected credit losses on loans to customers	(23)	-	(2)	-
Current accounts	330	-	333	-
Deposits received	2,669	1.7%	1,182	1.52%
Commitments on loans and unused credit lines	60	5.67%	49	5.7%

(In thousands of AZN, unless otherwise indicated)

Amounts included in profit or loss in relation to transactions with the members of the Supervisory Board and the Management Board for the years ended December 31, 2023 and 2022 are as follows:

	December 31, 2023	December 31, 2022
Profit or loss		
Interest income	50	25
Interest expense	(120)	(8)
Charge of expected credit losses	(21)	-

The outstanding balances and the related average effective interest rates as at December 31, 2023 and related profit or loss amounts of transactions for the year ended December 31, 2023 with other related parties are as follows:

	Shareholders and close family members and entities under control		Others*		Total
		Average interest rate, %		Average interest rate, %	
Consolidated statement of financial position					
ASSETS					
Loans to customers					
Gross outstanding balance of long-term loans in AZN	12	18.13%	2,717	18.59%	2,729
Gross outstanding balance of long-term loans in USD	-	-	337	3.79%	337
Allowance for expected credit losses	-	-	(13)	-	(13)
LIABILITIES					
Current accounts and deposits from customers					
Current accounts	1,304	-	1,195	-	2,499
Term deposits					
Short-term deposits in AZN	15,392	10.05%	845	9.13%	16,237
Short-term deposits in USD	1,887	1.05%	711	1.14%	2,598
Long-term deposits in AZN	3,142	9.75%	539	5.75%	3,681
Long-term deposits in USD	8,502	0.37%	216	0.57%	8,718
Subordinated borrowings in USD	-	-	6,062	7.50%	6,062
Commitments on loans and undrawn credit lines	144	6.39%	116		260
Profit or loss					
Interest income	2	-	186	-	188
Interest expense	(1,137)	-	(114)	-	(1,251)
Charge of expected credit losses	-	-	(6)	-	(6)

(In thousands of AZN, unless otherwise indicated)

The outstanding balances and the related average effective interest rates as at December 31, 2022 and related profit or loss amounts of transactions for the year ended December 31, 2022 with other related parties are as follows:

	Shareholders and close family members and entities under control	Average interest rate, %	Others*	Average interest rate, %	Total
Consolidated statement of financial position					
ASSETS					
Loans to customers					
Gross outstanding balance of long-term loans in AZN	17	11.25%	2,070	8.21%	2,087
Gross outstanding balance of long-term loans in USD	-	-	332	3.62%	332
Allowance for expected credit losses	-		(7)		(7)
LIABILITIES					
Current accounts and deposits from customers					
Current accounts	342	-	1,706	-	2,048
Term deposits					
Short-term deposits in AZN	6,729	9.83%	964	9.09%	7,693
Short-term deposits in USD	7,966	0.44%	4,276	0.33%	12,242
Long-term deposits in AZN	444	9.58%	2,375	5.26%	2,819
Long-term deposits in USD	-	-	1,105	0.36%	1,105
Subordinated borrowings in USD	-	-	6,062	7.5%	6,062
Commitments on loans and undrawn credit lines	168	5.41%	258	0.8%	426
Profit or loss					
Interest income	6	-	155	-	161
Interest expense	(379)	-	(207)	-	(586)
Recovery/(charge) of expected credit losses	2	-	8,061	-	8,063

(In thousands of AZN, unless otherwise indicated)

30. FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2023:

	Amortized cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	199,818	-	199,818	199,818
Due from banks and other financial institutions	50,925	-	50,925	50,925
Investment securities	98,800	642	99,442	98,129
Loans to customers	698,295	-	698,295	698,295
Other financial assets	50,898	-	50,898	50,898
	1,098,736	**642**	**1,099,378**	**1,098,065**
Deposits and balances from banks	11,010	-	11,010	11,010
Current accounts and deposits from customers	767,934	-	767,934	767,934
Borrowed funds	202,681	-	202,681	202,681
Subordinated borrowings	6,062	-	6,062	6,062
Lease liabilities	4,337	-	4,337	4,337
Other financial liabilities	16,031	-	16,031	16,031
	1,008,055	**-**	**1,008,055**	**1,008,055**

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2022:

	Amortized cost	FVOCI	Total carrying amount	Fair value
Cash and cash equivalents	165,198	-	165,198	165,198
Due from banks and other financial institutions	34,432	-	34,432	34,432
Investment securities	93,056	642	93,698	93,698
Loans to customers	584,626	-	584,626	584,626
Other financial assets	46,232	-	46,232	46,232
	923,544	**642**	**924,186**	**924,186**
Deposits and balances from banks	11,521	-	11,521	11,521
Current accounts and deposits from customers	626,194	-	626,194	626,194
Borrowed funds	164,189	-	164,189	164,189
Subordinated borrowings	6,062	-	6,062	6,062
Lease liabilities	2,491	-	2,491	2,491
Other financial liabilities	15,656	-	15,656	15,656
	826,113	**-**	**826,113**	**826,113**

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

(In thousands of AZN, unless otherwise indicated)

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that 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, 2023 by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

	Level 3	Total
Investment securities – equity	642	642
	642	**642**

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

	Level 3	Total
Investment securities – equity	642	642
	642	**642**

(In thousands of AZN, unless otherwise indicated)

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at December 31, 2023:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	199,818	-	-	199,818	199,818
Investment securities	-	98,129	-	98,129	99,442
Due from banks and other financial institutions	-	50,925	-	50,925	50,925
Loans to customers	-	-	698,295	698,295	698,295
Other financial assets	-	50,898	-	50,898	50,898
	199,818	**199,952**	**698,295**	**1,098,065**	**1,099,378**

	Level 2	Total fair values	Total carrying amount
LIABILITIES			
Deposits and balances from banks	11,010	11,010	11,010
Current accounts and deposits from customers	767,934	767,934	767,934
Borrowed funds	202,681	202,681	202,681
Subordinated borrowings	6,062	6,062	6,062
Lease liabilities	4,337	4,337	4,337
Other financial liabilities	16,031	16,031	16,031
	1,008,055	**1,008,055**	**1,008,055**

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorised as at December 31, 2022:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	165,198	-	-	165,198	165,198
Investment securities	-	93,698	-	93,698	93,698
Due from banks and other financial institutions	-	34,432	-	34,432	34,432
Loans to customers	-	-	584,626	584,626	584,626
Other financial assets	-	46,232	-	46,232	46,232
	165,198	**174,362**	**584,626**	**924,186**	**924,186**

(In thousands of AZN, unless otherwise indicated)

	Level 2	Total fair values	Total carrying amount
LIABILITIES			
Deposits and balances from banks	11,521	11,521	11,521
Current accounts and deposits from customers	626,194	626,194	626,194
Borrowed funds	164,189	164,189	164,189
Subordinated borrowings	6,062	6,062	6,062
Lease liabilities	2,491	2,491	2,491
Other financial liabilities	15,656	15,656	15,656
	826,113	**826,113**	**826,113**

31. EVENTS AFTER THE REPORTING DATE

On February 1, 2024, March 29, 2024 and May 2, 2024 the Central Bank of the Republic of Azerbaijan decreased the refinancing rate from 8% to 7.75%, from 7.75% to 7.5%, and from 7.5% to 7.25% respectively.

Mr. Rashad Abasov and Mr. Zaur Baxshaliyev were appointed as members of the Supervisory Board.

The Group has entered into a Line of Finance agreement with the Islamic Corporation for the Development of the Private Sector, totaling USD 15 million.

The Company has entered into a Trade Finance Guarantee Facility agreement with the Asian Development Bank for a total amount of USD 3 million.