# OJSC International Bank of Azerbaijan

## Interim condensed consolidated financial statements

*30 June 2020*

# Contents

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# Report on Review of Interim Financial Information

To the Shareholders and Supervisory Board of
OJSC International Bank of Azerbaijan

### *Introduction*

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC International Bank of Azerbaijan and its subsidiaries (the "Group"), which comprise the interim consolidated statement of financial position as at 30 June 2020 and the related interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of review*

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

### *Conclusion*

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

Ernst & Young Holdings (CIS) B.V.

Baku, Azerbaijan

22 September 2020

## Interim consolidated statement of financial position

## As at 30 June 2020

*(Figures in tables are in thousands of Azerbaijani manats)*

| | Notes | 30 June 2020 (unaudited) | 31 December 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 5 | 1,957,326 | 2,789,673 |
| Mandatory cash balances with central banks | | 58,017 | 60,059 |
| Due from banks and other financial institutions | 6 | 2,946,858 | 3,179,615 |
| Investment securities | 8 | 462,696 | 207,661 |
| Loans to customers | 7 | 2,200,349 | 2,165,804 |
| Receivables from CJSC Agrarkredit | 2 | 709,101 | 693,281 |
| Current income tax assets | | – | 4,387 |
| Deferred income tax assets | | 980 | 1,029 |
| Property, equipment and intangible assets | | 197,933 | 192,993 |
| Other assets | 9 | 68,410 | 47,243 |
| **Total assets** | | **8,601,670** | **9,341,745** |
| **Liabilities** | | | |
| Due to banks and other financial institutions | 13 | 50,797 | 31,979 |
| Customer accounts | 14 | 4,755,705 | 5,606,673 |
| Payables to CJSC Agrarkredit | 2 | 89,133 | 89,055 |
| Other borrowed funds | 16 | 216,548 | 104,504 |
| Debt securities issued | 15 | 1,523,843 | 1,526,354 |
| Current income tax liabilities | | 19,436 | 74,748 |
| Deferred income tax liabilities | | 68,182 | 83,498 |
| Other liabilities | 9 | 129,254 | 141,206 |
| **Total liabilities** | | **6,852,898** | **7,658,017** |
| **Equity** | | | |
| Share capital | 17 | 1,241,287 | 1,241,287 |
| Additional paid-in capital | | 1,847,437 | 1,847,437 |
| Foreign currency translation reserve | | (20,404) | 6,368 |
| Revaluation reserve for premises | | 39,682 | 38,760 |
| Unrealised gain on investment securities | | 63,264 | 58,568 |
| Accumulated deficit | | (1,422,494) | (1,508,692) |
| **Total equity attributable to shareholders of the Bank** | | **1,748,772** | **1,683,728** |
| **Total liabilities and equity** | | **8,601,670** | **9,341,745** |

**Signed and authorised for release on behalf of the Management Board:**

Mr. Abbas Ibrahimov
Chairman of the Management Board

Mr. Nabi Aliyev
Deputy Chairman of the Management Board, CFO

Baku, Azerbaijan

22 September 2020

*The accompanying selected explanatory notes on pages 5 to 26 are an integral part of these interim condensed consolidated financial statements.*

## Interim consolidated statement of profit or loss and other comprehensive income

## For the six months ended 30 June 2020

*(Figures in tables are in thousands of Azerbaijani manats)*

| | *Notes* | *For the six months ended 30 June (unaudited) 2020* | *For the six months ended 30 June (unaudited) 2019* |
|---|---|---|---|
| **Interest income calculated using effective interest rate** | | | |
| Loans to customers | | 156,526 | 110,639 |
| Due from banks and other financial institutions | | 51,470 | 76,084 |
| Cash and cash equivalents | | 9,009 | 19,273 |
| Receivables from CJSC Agrarkredit | | 14,170 | 24,711 |
| Investment securities | | 3,951 | 1,426 |
| | | **235,126** | **232,133** |
| **Interest expense** | | | |
| Customer accounts | | (19,831) | (18,000) |
| Due to banks and other financial institutions | | (200) | (361) |
| Other borrowed funds | | (2,029) | (1,332) |
| Debt securities issued | | (50,237) | (47,832) |
| Lease liabilities | | (250) | (629) |
| | | **(72,547)** | **(68,154)** |
| **Net interest income** | | **162,579** | **163,979** |
| Credit loss expense | 11 | (48,536) | (20,324) |
| **Net interest income after impairment losses for interest bearing accounts** | | **114,043** | **143,655** |
| Fee and commission income | 12 | 39,787 | 42,984 |
| Fee and commission expense | 12 | (11,029) | (10,745) |
| Net loss arising on initial recognition of financial instruments and loan modification | | (4,068) | – |
| Net gains/(losses) from foreign currencies: | | | |
| - dealing | | 27,302 | 32,179 |
| - translation differences | | 10,838 | (15,798) |
| Reversal of provision for credit losses on credit-related commitments and other financial assets | 11 | 13,612 | 16,298 |
| Other impairment (reversal)/charge | 11 | (278) | 18,938 |
| Operating expenses | 19 | (78,153) | (67,082) |
| Other operating income | | 1,639 | 4,837 |
| **Non-interest income/(expense)** | | **(350)** | **21,611** |
| **Profit before income tax expense** | | **113,693** | **165,266** |
| Income tax expense | 10 | (27,495) | (39,368) |
| **Profit for the period** | | **86,198** | **125,898** |
| **Other comprehensive income** | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods* | | | |
| Unrealised gains on debt securities | | 3,704 | – |
| Exchange differences on translating foreign operations | | (26,772) | 15,901 |
| Income tax relating to components of other comprehensive income to be reclassified to profit or loss in subsequent periods | | (741) | – |
| **Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods** | | **(23,809)** | **15,901** |
| *Other comprehensive income that will not be reclassified to profit or loss in subsequent periods* | | | |
| Unrealised gains on equity securities | | 2,166 | 17,958 |
| Change in revaluation reserve for premises | | 1,153 | 1,306 |
| Income tax relating to components of other comprehensive income not to be reclassified to profit or loss in subsequent periods | | (664) | (3,853) |
| **Total other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | **2,655** | **15,411** |
| **Total comprehensive income for the period** | | **65,044** | **157,210** |
| Earnings per share, basic and diluted (AZN per share) | 17 | 0.02 | 0.03 |

*The accompanying selected explanatory notes on pages 5 to 26 are an integral part of these interim condensed consolidated financial statements.*

## Interim consolidated statement of changes in equity

## For the six months ended 30 June 2020

*(Figures in tables are in thousands of Azerbaijani manats)*

| | *Attributable to shareholders of the Bank* | | | | | | |
|---|---|---|---|---|---|---|---|
| | ***Share capital*** | ***Additional paid-in capital*** | ***Accumulated deficit*** | ***Unrealised gain on investment securities*** | ***Revaluation reserve on premises*** | ***Foreign currency translation*** | ***Total equity*** |
| **As at 1 January 2019** | **1,241,287** | **1,909,116** | **(1,569,665)** | **38,419** | **36,878** | **(12,846)** | **1,643,189** |
| Net profit for the period | – | – | 125,898 | – | – | – | **125,898** |
| Other comprehensive income for the period | – | – | – | 14,366 | 1,045 | 15,901 | **31,312** |
| **Total comprehensive income for the period** | **–** | **–** | **125,898** | **14,366** | **1,045** | **15,901** | **157,210** |
| **At 30 June 2019 (unaudited)** | **1,241,287** | **1,909,116** | **(1,443,767)** | **52,785** | **37,923** | **3,055** | **1,800,399** |
| **As at 1 January 2020** | **1,241,287** | **1,847,437** | **(1,508,692)** | **58,568** | **38,760** | **6,368** | **1,683,728** |
| Net profit for the period | – | – | 86,198 | – | – | – | **86,198** |
| Other comprehensive income/(loss) for the period | – | – | – | 4,696 | 922 | (26,772) | **(21,154)** |
| **Total comprehensive income (loss) for the period** | **–** | **–** | **86,198** | **4,696** | **922** | **(26,772)** | **65,044** |
| **At 30 June 2020 (unaudited)** | **1,241,287** | **1,847,437** | **(1,422,494)** | **63,264** | **39,682** | **(20,404)** | **1,748,772** |

*The accompanying selected explanatory notes on pages 5 to 26 are an integral part of these interim condensed consolidated financial statements.*

## Interim consolidated statement of cash flows

## For the six months ended 30 June 2020

*(Figures in tables are in thousands of Azerbaijani manats)*

| | *Notes* | *For the six months ended 30 June (unaudited) 2020* | *For the six months ended 30 June (unaudited) 2019* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 138,653 | 117,874 |
| Interest paid | | (54,038) | (52,186) |
| Fees and commissions received | | 39,746 | 42,097 |
| Fees and commissions paid | | (9,721) | (10,115) |
| Gains from operations in foreign currencies | | 27,302 | 32,179 |
| Staff costs paid | | (46,476) | (33,393) |
| Other operating expenses paid | | (24,960) | (22,692) |
| Other operating income received | | 425 | 4,835 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **70,931** | **78,599** |
| *Net (increase)/decrease in operating assets* | | | |
| Mandatory cash balances with central banks | | 2,043 | 135 |
| Due from banks and other financial institutions | | 282,060 | 335,621 |
| Loans to customers | | (57,264) | (90,801) |
| Other assets | | (21,975) | (6,201) |
| *Net (decrease)/increase in operating liabilities* | | | |
| Due to banks and other financial institutions | | 18,406 | (9,993) |
| Customer accounts | | (850,507) | 125,983 |
| Other liabilities | | 5,917 | (31,662) |
| **Net cash flows (used in) / from operating activities before income tax** | | **(550,389)** | **401,681** |
| Income tax paid | | (93,548) | (2,546) |
| **Net cash (used in) / from operating activities** | | **(643,937)** | **399,135** |
| **Cash flows (used in) / from investing activities** | | | |
| Purchase of investment securities | | (267,732) | – |
| Proceeds from sale and redemption of investment securities | | 18,063 | – |
| Purchase of and prepayments for property, equipment and intangible assets | | (16,260) | (5,117) |
| **Net cash used in investing activities** | | **(265,929)** | **(5,117)** |
| **Cash flows (used in) / from financing activities** | | | |
| Repayments of other borrowed funds | | (13,265) | (11,219) |
| Repayments of subordinated debt | | – | – |
| Proceeds from other borrowed funds | 16 | 126,326 | 11,138 |
| Repayments and buy-backs of debt securities issued | | (19,887) | – |
| Acquisition of non-controlling interests | | – | – |
| **Net cash from / (used in) financing activities** | | **93,174** | **(81)** |
| Effect of exchange rate changes on cash and cash equivalents | | (15,655) | 703 |
| **Net increase/(decrease) in cash and cash equivalents** | | **(832,347)** | **394,640** |
| Cash and cash equivalents, beginning of year | 5 | 2,789,673 | 1,810,173 |
| **Cash and cash equivalents, ending of year** | 5 | **1,957,326** | **2,204,813** |

*The accompanying selected explanatory notes on pages 5 to 26 are an integral part of these interim condensed consolidated financial statements.*

*(Figures in tables are in thousands of Azerbaijani manats)*

## 1. Principal activities

International Bank of Azerbaijan (the "Bank") was incorporated in 1991 as a fully state-owned bank and is domiciled in the Republic of Azerbaijan.

The activities of the Bank are regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR"). The Bank conducts its business under a full general banking license issued on 30 December 1992. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, and originating loans and guarantees.

The registered office of the Bank is located at 67 Nizami Street, AZ1005, Baku, the Republic of Azerbaijan.

As at 30 June 2020 and 31 December 2019 the Bank had 36 branches operating in the Republic of Azerbaijan.

The accompanying interim condensed consolidated financial statements comprise the accounts of the Bank and its subsidiaries (the "Group"). The interim condensed consolidated financial statements include the following subsidiaries:

| ***Name*** | ***Country of operation*** | ***Proportion of ownership interest (%)*** | | ***Type of operation*** |
|---|---|---|---|---|
| | | ***2020*** | ***2019*** | |
| OJSC International Bank of Azerbaijan | The Republic of Azerbaijan | Parent | | Banking |
| **Subsidiaries** | | | | |
| LLC IBA-Moscow | The Russian Federation | 100.0 | 100.0 | Banking |
| JSC IBA-GEO | The Republic of Georgia | 100.0 | 100.0 | None |
| OJSC International Insurance Company | The Republic of Azerbaijan | 100.0 | 100.0 | None |
| LLC Azericard | The Republic of Azerbaijan | 100.0 | 100.0 | Plastic cards processing center |
| LLC International Leasing Company | The Republic of Azerbaijan | 100.0 | 100.0 | Leasing |

As at 30 June 2020 and 31 December 2019 the shareholders of the Bank were as follows:

| ***Shareholder*** | ***At 30 June 2020 (unaudited) %*** | ***At 31 December 2019 %*** |
|---|---|---|
| Ministry of Finance of the Republic of Azerbaijan | 91.40 | 91.40 |
| State Committee on Property Issues of the Republic of Azerbaijan | 3.76 | 3.76 |
| CJSC Agrarkredit | 0.13 | 0.13 |
| Others* | 4.71 | 4.71 |
| **Total** | **100.0** | **100.0** |

*(*) Other shareholders include minority shareholders holding an interest less than 1% each.*

## 2. Restructuring of the Group's operations

During 2015-2016 Azerbaijan was impacted by adverse economic conditions as a result of the continued decline in global oil prices. In order to support the diversification of the economy, and strengthen its international compatibility and export potential, as well as to ensure sustainability of the balance of payments, during 2015 and 2016 the CBAR devalued the Azerbaijani manat against the US dollar from AZN 0.7862 to AZN 1.5500 for 1 USD. Following this devaluation, the CBAR announced a floating exchange rate. During 2016 the exchange rate of the AZN against the USD continued to fluctuate in the range between AZN 1.4900 and AZN 1.7707 for 1 USD. This led to a decline in most sectors of the economy and significantly increased the amount of non-performing loans in the banking sector.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 2. Restructuring of the Group's operations (continued)

### Restructuring of problematic assets

In the turbulent economic conditions that led to a continued decline in the quality of the Group's assets, an increase in problematic loans and a decline in the Group's liquidity position, the Government of Azerbaijan took a number of steps during 2015-2016 to strengthen the Group's capital position and the quality of its assets. Following an in-depth review of the asset quality and liquidity position of the Group by the CBAR and Ministry of Finance of the Republic of Azerbaijan (MoF), the President of the Republic of Azerbaijan signed a decree on 15 July 2015 providing measures to improve the health of the Group's assets. On 28 July 2015, the Ministry of Finance, the Central Bank of Azerbaijan and the Group confirmed a list of problematic assets included in the Group's restructuring plan. The problematic assets include bad or overdue loans to customers and banks, as well as certain guarantees and other off-balance sheet commitments. According to the President's decree and other documents signed between the parties involved, certain problematic assets of the Group were transferred to a government owned company CJSC Agrarkredit in several tranches during 2015-2019.

The first part of the problematic assets transfer program was successfully completed in 2016. The assets transferred as part of the program amounted to AZN 9,930,957 thousand in gross carrying value of the assets as at the date of transfer (before provisions).

During 2016, the MoF, CBAR, Financial Markets Supervisory Authority (FMSA) and the Group further worked together to identify the remaining problematic assets to be transferred to CJSC Agrarkredit as the final part of the program. On 10 February 2017, the list of such problematic assets was approved by the parties involved and the Cabinet of Ministers of the Republic of Azerbaijan. These assets amounted to AZN 4,013,909 thousand. The transfer was agreed to be made at full gross value of respective assets as at 1 January 2017, including all on and off-balance sheet exposures. In April 2017, the Group and CJSC Agrarkredit signed an agreement and initiated the transfer of the problematic assets. During 2017, the Group received promissory notes in the total amount of USD 2,900,000 thousand with a 4% coupon rate payable at maturity in exchange for the problematic assets transferred. Promissory notes in the amount of USD 2,248,000 thousand were then transferred to the State along with debt obligations of the Group under the restructuring program. The promissory notes are guaranteed by the MoF.

The value of promissory notes received from CJSC Agrarkredit in 2017 exceeded the value of the corresponding problematic assets transferred by AZN 515,767 thousand, for which the payables to CJSC Agrarkredit were recognised in the consolidated statement of financial position as at 31 December 2017. Due to further transfers of problematic assets and off-balance sheet commitments, the payable amount decreased in 2018 and as at 31 December 2018 amounted to AZN 364,596 thousand.

During 2019, the remaining part of the problematic loans in a net amount of AZN 37,443 thousand which were planned to be transferred to CJSC Agrarkredit were written off by the Group. As a result of the cancellation of transfer by the shareholders, AZN 68,288 thousand was recognised as a distribution to the shareholders.

On 22 November 2019, the Group signed trilateral agreements with the Ministry of Finance of the Republic of Azerbaijan and CJSC Agrarkredit to net off dividends payable to the Ministry of Finance of the Republic of Azerbaijan in the amount of AZN 157,652 thousand and CJSC Agrarkredit in the amount of AZN 179 thousand and payables to CJSC Agrarkredit in the amount of AZN 334,682 with promissory notes received from CJSC Agrarkredit in the amount of AZN 492,334 thousand. In accordance with trilateral agreements signed among the parties, the maturity of promissory notes received from CJSC Agrarkredit was prolonged by 5 years on 14 February 2020, resulting in a modification loss in the amount of AZN 3,375 thousand.

As a result, as at 30 June 2020 receivables from CJSC Agrarkredit and payables to CJSC Agrarkredit amounted to AZN 709,101 and AZN 89,133, respectively (31 December 2019: AZN 693,281 and AZN 89,055 thousand). As at 30 June 2020, the ECL due to receivables from CJSC Agrarkredit of the Group is AZN 4,007 thousand (31 December 2019: 9,111 thousand).

### Restructuring of liabilities

Due to financial difficulties, the Group defaulted on certain liabilities and announced their restructuring on 11 May 2017.

In September 2017, the Group completed the restructuring of its liabilities under the terms set out in the approved Restructuring Plan. The Group was unable to obtain "permanent moratorium" under the Cross-Border Insolvency Regulations in support of a voluntary restructuring of the Group in the Republic of Azerbaijan due to objections made by several creditors. As of the date of issuance of these interim condensed consolidated financial statements there was no legal claim towards the Group in respect of the restructuring of its liabilities. Technically, the restructuring is expected to be finalised when all issued Eurobonds are distributed to all the creditors.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 2. Restructuring of the Group's operations (continued)

### Restructuring of liabilities (continued)

A significant portion of the problematic assets transferred as part of the first stage of the program were denominated in foreign currencies. As the payments made by CJSC Agrarkredit to the Group in exchange for the problematic assets included in the first stage of the program were denominated in AZN, this created significant exposure for the Group to foreign currency risk.

To ensure future operational profitability and maintain financial stability the Group's management and shareholders intend to develop the Group's business both in the corporate and retail segments and have developed a plan that includes, but is not limited to, the following steps:

- Improve the cost efficiency of existing operations;
- Abandon investments with low return;
- Hedge or close the final short open currency position;
- Attract funding in the functional currency;
- Continue the implementation of the development strategy for 2019-2022; and
- Prepare for privatization of the Group in future.

Management believes that the above-mentioned measures and continued financial support of the controlling shareholder will ensure that the Group will continue as a going concern and, accordingly, these consolidated financial statements have been prepared on the assumption that the Group will continue in operation for the foreseeable future.

## 3. Basis of preparation

### General

The interim condensed consolidated financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2019.

### Effect of the COVID-19 pandemic

Due to the rapid spread of the COVID-19 pandemic in early 2020, many governments, including the Government of the Republic of Azerbaijan, introduced various measures to combat the outbreak, including travel restrictions, quarantine, closures of businesses and other venues, and lockdowns of certain areas.

These measures have affected the global supply chain, demand for goods and services, and scale of business activity. The pandemic itself as well as measures to minimise its consequences are expected to influence the business of entities in a wide range of industries. Since March 2020, there has been significant volatility in stock, currency and commodity markets, including a decrease in crude oil prices and a decrease in the AZN to EUR exchange rate.

More details are provided in Note 18.

### Estimation uncertainty

To the extent that information is available as at 30 June 2020, the Group has reflected revised estimates of expected future cash flows in its ECL assessment (Note 7) , estimation of fair values of financial instruments (Note 20).

*(Figures in tables are in thousands of Azerbaijani manats)*

## 3. Basis of preparation (continued)

### Changes in accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2019. No new interpretations or amendments of standards that have been issued but are not yet effective have been early adopted by the Group.

Several other amendments effective since 1 January 2020 have been applied but do not have an impact on the interim condensed consolidated financial statements of the Group.

## 4. Segment information

The Group discloses information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This matter is regulated by IFRS 8 *Operating Segments* and other standards that require special disclosures in the form of segmental reporting.

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of services delivered or provided. For managerial purposes, the Group is organised into three operating segments:

- Corporate banking – comprising direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency and derivative products;
- Retail banking – comprising private banking services, retail customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Treasury – comprising interbank lending and borrowings, securities trading, swaps, foreign exchange services, issuance of bonds and promissory notes and other treasury functions.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is not measured differently from operating profit or loss in the interim condensed consolidated financial statements.

Transfer prices between operating segments are arm's length, similar to transactions with third parties.

The following tables present income and profit information regarding the Group's operating segments for the six months ended 30 June 2020 and 2019, respectively:

| ***Six months ended 30 June 2020 (unaudited)*** | ***Retail banking*** | ***Corporate banking*** | ***Treasury*** | ***Unallocated*** | ***Total*** |
|---|---|---|---|---|---|
| Interest income | 86,075 | 72,556 | 76,495 | – | **235,126** |
| Interest expense | (15,778) | (4,561) | (51,958) | (250) | **(72,547)** |
| **Net interest income** | **70,297** | **67,995** | **24,537** | **(250)** | **162,579** |
| Reversal of provision for credit losses on credit-related commitments | – | 13,612 | – | – | **13,612** |
| Other impairment reversal/(charge) | – | (278) | – | – | **(278)** |
| Credit loss expense | (43,134) | (9,970) | 4,568 | – | **(48,536)** |
| Fee and commission income | 9,050 | 29,384 | 1,353 | – | **39,787** |
| Fee and commission expense | (9,092) | (1,553) | (384) | – | **(11,029)** |
| Other non-interest income | 2,187 | 20,119 | 17,473 | – | **39,779** |
| Net loss arising on initial recognition of financial instruments and loan modification | – | | (4,068) | – | **(4,068)** |
| Operating expense | (26,345) | (15,630) | (403) | (35,775) | **(78,153)** |
| **Segment profit/(loss)** | **2,963** | **103,679** | **43,076** | **(36,025)** | **113,693** |
| Income tax expense | (544) | (18,421) | (8,530) | – | **(27,495)** |
| **Profit for the period** | **2,419** | **85,258** | **34,546** | **(36,025)** | **86,198** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 4. Segment information (continued)

| *Six months ended 30 June 2019 (unaudited)* | *Retail banking* | *Corporate banking* | *Treasury* | *Unallocated* | *Total* |
|---|---|---|---|---|---|
| Interest income | 72,237 | 38,402 | 121,494 | – | **232,133** |
| Interest expense | (16,283) | (2,346) | (49,525) | – | **(68,154)** |
| **Net interest income** | **55,954** | **36,056** | **71,969** | **–** | **163,979** |
| Reversal of provision for credit losses on credit-related commitments | – | 16,298 | – | – | **16,298** |
| Credit loss expense | (16,501) | (4,248) | 425 | – | **(20,324)** |
| Fee and commission income | 5,325 | 36,891 | 768 | – | **42,984** |
| Fee and commission expense | (6,481) | (1,581) | (2,683) | – | **(10,745)** |
| Other non-interest income | 5,370 | 48,021 | (13,235) | – | **40,156** |
| Operating expense | (22,440) | (10,418) | (252) | (33,972) | **(67,082)** |
| **Segment profit/(loss)** | **21,227** | **121,019** | **56,992** | **(33,972)** | **165,266** |
| Income tax expense | (4,194) | (23,913) | (11,261) | – | **(39,368)** |
| **Profit for the period** | **17,033** | **97,106** | **45,731** | **(33,972)** | **125,898** |

The following table presents the assets and liabilities of the Group's operating segments:

| *Segment assets* | *Retail banking* | *Corporate banking* | *Treasury* | *Unallocated* | *Total* |
|---|---|---|---|---|---|
| At 30 June 2020 (unaudited) | 1,160,519 | 1,214,268 | 6,135,825 | 91,058 | **8,601,670** |
| At 31 December 2019 | 1,121,214 | 1,186,730 | 6,931,136 | 102,665 | **9,341,745** |

| *Segment liabilities* | *Retail banking* | *Corporate banking* | *Treasury* | *Unallocated* | *Total* |
|---|---|---|---|---|---|
| At 30 June 2020 (unaudited) | 1,359,381 | 3,724,353 | 1,674,463 | 94,701 | **6,852,898** |
| At 31 December 2019 | 1,362,213 | 4,467,932 | 1,659,787 | 168,085 | **7,658,017** |

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Cash on hand | 197,590 | 228,796 |
| Current accounts with the central banks | 49,838 | 179,090 |
| Correspondent accounts and time deposits with credit institutions up to 90 days | 1,709,898 | 2,381,787 |
| **Cash and cash equivalents** | **1,957,326** | **2,789,673** |

All balances of cash equivalents are allocated to Stage 1. The ECL relating to cash equivalents of the Group rounds to zero.

## 6. Amounts due from banks and other financial institutions

Amounts due from credit institutions comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Time deposits with the CBAR | 2,521,834 | 2,825,550 |
| Restricted accounts with non-resident banks | 10,453 | 12,694 |
| Time deposits with resident banks | 1,717 | 1,652 |
| Time deposits with non-resident banks | 412,300 | 339,784 |
| Loans to credit institutions | 4,812 | 8,761 |
| Less – allowance for impairment | (4,258) | (8,826) |
| **Amounts due from credit institutions** | **2,946,858** | **3,179,615** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 6. Amounts due from banks and other financial institutions (continued)

An analysis of changes in the ECL allowance during the period ended 30 June 2020 is as follows:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL allowance as at 1 January 2020** | **(5,256)** | **(1,652)** | **(1,918)** | **(8,826)** |
| New assets originated or purchased | (376) | (65) | – | **(441)** |
| Assets repaid | 998 | – | 1,918 | **2,916** |
| Transfer to lifetime ECL credit-impaired | – | 1,717 | (1,717) | **–** |
| Net remeasurement of loss allowance | 2,093 | – | – | **2,093** |
| **At 30 June 2020 (unaudited)** | **(2,541)** | **–** | **(1,717)** | **(4,258)** |

An analysis of changes in the ECL allowance during the period ended 30 June 2019 is as follows:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL allowance as at 1 January 2019** | **(5,553)** | **(158)** | **–** | **(5,711)** |
| New assets originated or purchased | (607) | – | – | **(607)** |
| Assets repaid | 868 | 158 | – | **1,026** |
| Net remeasurement of loss allowance | 6 | – | – | **6** |
| **At 30 June 2019 (unaudited)** | **(5,286)** | **–** | **–** | **(5,286)** |

## 7. Loans to customers

Loans to customers comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Loans to individuals | 1,169,867 | 1,095,309 |
| Loans to legal entities | 1,212,559 | 1,193,240 |
| **Total loans to customers, gross** | **2,382,426** | **2,288,549** |
| Less: allowance for impairment losses | (182,077) | (122,745) |
| **Total loans to customers** | **2,200,349** | **2,165,804** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 7. Loans to customers (continued)

### Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the ECL in relation to loans to legal entities and loans to individuals during the period ended 30 June 2020 is as follows:

| *Loans to legal entities* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(12,227)** | **(15,499)** | **(31,621)** | **(59,347)** |
| New assets originated or purchased | (12,172) | – | – | **(12,172)** |
| Change in accrued balance | 3,849 | (8) | – | **3,841** |
| Unwind of discount | – | – | (1,235) | **(1,235)** |
| Assets repaid | 2,721 | 652 | 9,541 | **12,914** |
| Transfer to 12-month ECL | (7,403) | 288 | 7,115 | **–** |
| Transfer to lifetime ECL not credit-impaired | 752 | (752) | – | **–** |
| Transfer to lifetime ECL credit-impaired | 2,093 | 9,601 | (11,694) | **–** |
| Write-offs | – | – | 1,364 | **1,364** |
| Net remeasurement of ECL | 1,371 | 2,315 | (18,239) | **(14,553)** |
| **At 30 June 2020 (unaudited)** | **(21,016)** | **(3,403)** | **(44,769)** | **(69,188)** |

| *Loans to individuals* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(20,192)** | **(6,088)** | **(37,118)** | **(63,398)** |
| New assets originated or purchased | (8,867) | – | – | **(8,867)** |
| Change in accrued balance | (962) | (188) | – | **(1,150)** |
| Unwind of discount | – | – | (1,173) | **(1,173)** |
| Assets repaid | 2,102 | 510 | 622 | **3,234** |
| Transfer to 12-month ECL | (1,756) | 877 | 879 | **–** |
| Transfer to lifetime ECL not credit-impaired | 2,148 | (2,664) | 516 | **–** |
| Transfer to lifetime ECL credit-impaired | 1,940 | 3,628 | (5,568) | **–** |
| Net remeasurement of ECL | (8,208) | (12,597) | (20,730) | **(41,535)** |
| **At 30 June 2020 (unaudited)** | **(33,795)** | **(16,522)** | **(62,572)** | **(112,889)** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 7. Loans to customers (continued)

### Allowance for impairment of loans to customers at amortised cost (continued)

An analysis of changes in the ECL in relation to loans to legal entities during the period ended 30 June 2019 is as follows:

| ***Loans to legal entities*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **(15,839)** | **(9,924)** | **(53,747)** | **(79,510)** |
| New assets originated or purchased | (4,453) | – | – | **(4,453)** |
| Change in accrued balance | 27 | 106 | – | **133** |
| Unwind of discount | – | – | (1,463) | **(1,463)** |
| Assets repaid | 1,521 | 1,160 | 3,800 | **6,481** |
| Transfer to 12-month ECL | (3,113) | 2,857 | 256 | **–** |
| Transfer to lifetime ECL not credit-impaired | 1,143 | (1,761) | 618 | **–** |
| Net remeasurement of ECL | 1,134 | (4,995) | (2,548) | **(6,409)** |
| **At 30 June 2019 (unaudited)** | **(19,580)** | **(12,557)** | **(53,084)** | **(85,221)** |

An analysis of changes in the ECL in relation to loans to individuals during the period ended 30 June 2019 is as follows:

| ***Loans to individuals*** | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **(21,307)** | **(7,832)** | **(33,459)** | **(62,598)** |
| New assets originated or purchased | (4,950) | – | – | **(4,950)** |
| Change in accrued balance | (17) | (4) | – | **(21)** |
| Unwind of discount | – | – | (917) | **(917)** |
| Assets repaid | 1,944 | 963 | 2,790 | **5,697** |
| Transfer to 12-month ECL | (6,849) | 3,855 | 2,994 | **–** |
| Transfer to lifetime ECL not credit-impaired | 944 | (2,559) | 1,615 | **–** |
| Transfer to lifetime ECL credit-impaired | 480 | 694 | (1,174) | **–** |
| Net remeasurement of ECL | 13,290 | (692) | (12,165) | **433** |
| **At 30 June 2019 (unaudited)** | **(16,465)** | **(5,575)** | **(40,316)** | **(62,356)** |

During the six months ended 30 June 2020, the Group did not introduce payment holidays or any additional measures for customers affected by the ongoing COVID-19 pandemic. The Group consistently applied its staging criteria for the purpose of estimating expected credit losses as at 30 June 2020, including the backstop indicators for default and a significant increase in credit risk based on the number of overdue days. However, during the estimate of expected credit losses, the Group identified additional recovery scenarios for the mortgage segment that would mitigate the incremental credit risk arising from the COVID-19 pandemic. The additional scenarios resulted in a reduction in expected credit losses as at 30 June 2020.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 7. Loans to customers (continued)

### Modified and restructured loans

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

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

For the six months ended 30 June 2020, the Group considers the modification impact on consumer or corporate loans to be non-substantial.

## 8. Investment securities

Investment securities including those pledged under repurchase agreements comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Government bonds | 310,754 | 63,772 |
| Corporate bonds | 79,419 | 72,632 |
| **Debt securities at FVOCI** | **390,173** | **136,404** |
| Corporate shares | 72,523 | 71,257 |
| **Equity securities at FVOCI** | **72,523** | **71,257** |
| **Total investment securities** | **462,696** | **207,661** |

All balances of debt investment securities are allocated to Stage 1. The ECL relating to investment securities of the Group rounds to zero.

## 9. Other assets and liabilities

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| **Other financial assets** | | |
| Accrued commission and receivables from the settlement of off-balance sheet commitments | 8,650 | 8,572 |
| Funds in settlement | 24,795 | 23,290 |
| Receivable from the Azerbaijan Deposit Insurance Fund | 18,195 | – |
| Pledged funds with non-resident organisations | 10,005 | 10,005 |
| Allowance for impairment of other assets | (9,387) | (8,887) |
| | **52,258** | **32,980** |
| **Other non-financial assets** | | |
| Repossessed collateral | 1,812 | 2,673 |
| Prepayments | 6,508 | 5,068 |
| Right-of-use assets | 4,600 | 3,255 |
| Deferred expenses | 3,232 | 3,267 |
| | **16,152** | **14,263** |
| **Other assets** | **68,410** | **47,243** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 9. Other assets and liabilities (continued)

Other liabilities comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| **Other financial liabilities** | | |
| Funds in settlement | 27,206 | 24,156 |
| Dividends payable to shareholders | 1,498 | 1,494 |
| Credit loss allowance for credit-related commitments | 69,282 | 82,894 |
| Lease liabilities | 4,778 | 3,415 |
| | **102,764** | **111,959** |
| **Other non-financial liabilities** | | |
| Provision for other contingencies and commitments | 4,206 | 3,928 |
| Taxes other than income tax | 49 | 1,557 |
| Payables to employees | 13,107 | 14,345 |
| Payables to local budget | 3,090 | 3,580 |
| Deferred revenue on plastic cards | 6,038 | 5,837 |
| | **26,490** | **29,247** |
| **Other liabilities** | **129,254** | **141,206** |

## 10. Taxation

Corporate income tax expense comprises:

| | *For the six months ended* | |
|---|---|---|
| | *30 June 2020 (unaudited)* | *30 June 2019 (unaudited)* |
| Current tax charge/(credit) | (42,971) | (46,691) |
| Changes in deferred tax | 16,408 | 3,470 |
| Less: deferred tax recognised directly in other comprehensive income | (932) | 3,853 |
| **Income tax expense** | **(27,495)** | **(39,368)** |

## 11. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the interim condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2020 (unaudited):

| | *Note* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| Loans to customers | 7 | (20,166) | (9,316) | (28,806) | **(58,288)** |
| Due from banks and other financial institutions | 6 | 2,715 | 1,652 | 201 | **4,568** |
| Receivables from CJSC Agrarkredit | | 5,184 | – | – | **5,184** |
| **Credit loss charge on interest bearing financial assets (unaudited)** | | **(12,267)** | **(7,664)** | **(28,605)** | **(48,536)** |
| Financial guarantees | 18 | 24,401 | (340) | (3,502) | **20,559** |
| Letters of credit | 18 | 45 | – | – | **45** |
| Undrawn loan commitments | 18 | (6,992) | – | – | **(6,992)** |
| **Credit-related commitments (unaudited)** | | **17,454** | **(340)** | **(3,502)** | **13,612** |
| **Reversal of provision for credit losses on credit-related commitments and other financial assets (unaudited)** | | **17,454** | **(340)** | **(3,502)** | **13,612** |
| **Total credit loss charge (unaudited)** | | **5,187** | **(8,004)** | **(32,107)** | **(34,924)** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 11. Credit loss expense and other impairment and provisions (continued)

The table below shows the ECL charges on financial instruments recorded in the interim consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2019 (unaudited):

| | *Note* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|---|
| Loans to customers | 7 | 8,496 | (3,462) | (25,783) | **(20,749)** |
| Due from banks and other financial institutions | 6 | 267 | 158 | – | **425** |
| **Credit loss charge on interest bearing assets (unaudited, not reviewed)** | | **8,763** | **(3,304)** | **(25,783)** | **(20,324)** |
| Financial guarantees | 18 | (97) | (72) | 14,034 | **13,865** |
| Letters of credit | 18 | 300 | 568 | – | **868** |
| Undrawn loan commitments | 18 | 776 | – | – | **776** |
| **Credit-related commitments (unaudited, not reviewed)** | | **979** | **496** | **14,034** | **15,509** |
| Other financial assets | | (22) | 3 | 808 | **789** |
| **Reversal of provision for credit losses on credit-related commitments and other financial assets (unaudited, not reviewed)** | | **957** | **499** | **14,842** | **16,298** |
| **Total credit loss charge (unaudited, not reviewed)** | | **9,720** | **(2,805)** | **(10,941)** | **(4,026)** |

The provision for ECL on credit-related commitments and provision for performance guarantees are recorded within other non-financial liabilities for the period ended 30 June 2020 (Note 9).

| | *Legal claims* | *Performance guarantees* | *Total* |
|---|---|---|---|
| **31 December 2018** | **(4,980)** | **(19,835)** | **(24,815)** |
| Reversal | 1,800 | 15,907 | **17,707** |
| Redemption | 3,180 | – | **3,180** |
| **31 December 2019** | **–** | **(3,928)** | **(3,928)** |
| Reversal/(charge) | – | (278) | **(278)** |
| Redemption | – | – | **–** |
| **30 June 2020 (unaudited)** | **–** | **(4,206)** | **(4,206)** |

The provision for ECL on credit-related commitments and provision for legal claims and performance guarantees are recorded within other non-financial liabilities for the period ended 30 June 2019 (Note 9).

| | *Legal claims* | *Performance guarantees* | *Total* |
|---|---|---|---|
| **31 December 2017** | **–** | **(33,652)** | **(33,652)** |
| (Charge)/reversal | (4,980) | 13,817 | **8,837** |
| **31 December 2018** | **(4,980)** | **(19,835)** | **(24,815)** |
| Reversal | 1,628 | 17,310 | **18,938** |
| Redemption | 3,352 | – | **3,352** |
| **30 June 2019 (unaudited)** | **–** | **(2,525)** | **(2,525)** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 12. Net fee and commission income

Net fee and commission income comprises:

| | *30 June 2020 (unaudited)* | *30 June 2019 (unaudited)* |
|---|---|---|
| Plastic cards operations | 27,485 | 29,170 |
| Servicing guarantees and letters of credit | 4,986 | 6,248 |
| Settlement transactions | 5,057 | 5,106 |
| Cash transactions | 1,580 | 1,960 |
| Other | 679 | 500 |
| **Fee and commission income** | **39,787** | **42,984** |
| Plastic cards operations | (8,428) | (7,430) |
| Cash transactions | (812) | (1,781) |
| Settlement transactions | (1,160) | (1,146) |
| Other | (629) | (388) |
| **Fee and commission expense** | **(11,029)** | **(10,745)** |
| **Net fee and commission income** | **28,758** | **32,239** |

## 13. Due to banks and other financial institutions

Due to banks and other financial institutions comprises:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Correspondent accounts of non-resident banks | 4,012 | 7,890 |
| Correspondent accounts of resident banks | 35,406 | 13,884 |
| Time deposits of resident banks and other financial institutions | 11,379 | 10,205 |
| **Due to banks and other financial institutions** | **50,797** | **31,979** |

## 14. Customer accounts

Amounts due to customers comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| **Legal entities** | | |
| - Current/settlement accounts | 3,166,310 | 3,978,599 |
| - Term deposits | 281,091 | 300,803 |
| - Restricted customer deposits | 101,180 | 120,681 |
| **Total legal entities** | **3,548,581** | **4,400,083** |
| **Individuals** | | |
| - Current/settlement accounts | 531,266 | 524,763 |
| - Term deposits | 675,763 | 681,722 |
| - Restricted customer deposits | 95 | 105 |
| **Total individuals** | **1,207,124** | **1,206,590** |
| **Total customer accounts** | **4,755,705** | **5,606,673** |

## 15. Debt securities issued

Debt securities issued comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Eurobonds | 1,519,102 | 1,521,784 |
| Certificates of deposit | 4,741 | 4,570 |
| **Total debt securities issued** | **1,523,843** | **1,526,354** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 15. Debt securities issued (continued)

As at 30 June 2020, the Group had one class of Eurobonds issued in September 2017 with a coupon rate of 3.5% p.a. maturing in September 2024. The Group is obliged to comply with non-financial covenants in relation to these Eurobonds. As of the date of issuance of these interim condensed consolidated financial statements, the Group was in compliance with these covenants.

## 16. Other borrowed funds

Other borrowed funds comprise:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| Term borrowings from non-resident financial institutions | 15,299 | 16,859 |
| Term borrowings from the CBAR | 115,145 | – |
| National Fund for Support of Entrepreneurship and the Mortgage Fund (of the Republic of Azerbaijan) | 86,104 | 87,645 |
| **Total other borrowed funds** | **216,548** | **104,504** |

In order to decrease the negative effect of the COVID-19 pandemic on the country's food supply sector, a loan in the amount of AZN 115,000 with a 0.5% annual interest rate and two-year maturity period was issued by the CBAR to the Group under the government program. Loans were then granted by the Group to respective companies with a 1% annual interest rate and two-year maturity.

## 17. Equity

The Group's share capital comprises the following number of shares:

| *Ordinary shares (par value of 0.27 AZN)* | *Number of paid-in shares (in thousands)* | *Share capital* |
|---|---|---|
| **As at 31 December 2018** | **4,597,359** | **1,241,287** |
| **As at 31 December 2019** | **4,597,359** | **1,241,287** |
| **As at 30 June 2020 (unaudited)** | **4,597,359** | **1,241,287** |

All ordinary shares have a nominal value of AZN 0.27 per share as at 30 June 2020 and 31 December 2019 and rank equally. Each share carries one vote.

### Revaluation reserve for premises

The revaluation reserve for premises is used to record increases in the fair value of premises and decreases to the extent that such decreases relate to increases on the same asset previously recognised in equity through other comprehensive income.

### Additional paid-in capital

Additional paid-in capital reflects the results of transactions with shareholders acting in their capacity as shareholders. In the turbulent economic conditions leading to the continued decline in the quality of the Group's assets, an increase in problematic loans and a decline in the Group's liquidity position, the Government of Azerbaijan has taken a number of steps to strengthen the Group's capital position and the quality of its assets. As part of these measures, certain problematic assets of the Group were transferred in several tranches during 2015-2018 to CJSC Agrarkredit (Note 2). The transfer of the problematic assets occurred at agreed amounts at the time of transfer. Since CJSC Agrarkredit is also ultimately controlled by the Ministry of Finance, any amounts received from CJSC Agrarkredit in excess of the net carrying amounts of transferred assets have been recognised as additional paid-in capital of the Group.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 17. Equity (continued)

### Additional paid-in capital (continued)

The gain/loss and weighted average number of shares used in the calculation of the basic and diluted loss per share are as follows:

| | ***30 June 2020 (unaudited)*** | ***30 June 2019 (unaudited)*** |
|---|---|---|
| Net profit for the period attributable to shareholders of the Bank | 86,198 | 125,898 |
| Weighted average number of ordinary shares in issue | 4,597,359 | 4,597,359 |
| **Earnings per share – basic and diluted (AZN)** | **0.02** | **0.03** |

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share are equal to basic earnings per share.

## 18. Commitments and contingencies

### Operating environment

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

During 2019, the CBAR continued to ease monetary conditions while maintaining the stability of the Azerbaijani manat. As a result, the CBAR refinancing rate was reduced from 9.75% to 7.5%. On 28 February 2019, in accordance with the Decree of the President of the Azerbaijan Republic on problem loans, the government provided funds for compensation to citizens whose debt burden had increased due to devaluation of the Azerbaijani manat in 2015. This measure significantly reduced the amount of non-performing loans, as well as supporting capital and liquidity in the banking system.

*COVID-19 pandemic*

In the first half of 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic (COVID-19).

During March-June 2020, the increasingly restrictive lockdown measures to combat COVID-19 in many countries significantly reduced economic activity and aggregate spending levels. Social distancing and quarantine measures resulted in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. International trade was also significantly reduced. Finally, oil prices tumbled to historic lows but moderately recovered by the end of the period.

A support package was introduced by the Government and CBAR to counter the economic downturn caused by the pandemic. These measures include, but are not limited to, subsidised lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures. On 23 April 2020, the CBAR decided to reduce the minimum required capital adequacy ratio from 12% to 11% for banks of systematic importance, which include the Bank, and from 10% to 9% for all other banks. These new minimum required ratios will be in effect until 2021. Furthermore, during the first half of 2020, the CBAR refinancing rate was reduced to 7%. Finally, significant foreign currency sales were made to maintain the stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period.

By June-July 2020, many countries started to demonstrate signs of reduced spread of the pandemic. Governments started to gradually lift or ease restrictions. This tendency supported a recovery in global financial and commodity markets. However, the peak of the pandemic in Azerbaijan was reached during the months of June-July 2020, and as a result the lockdown measures became even more stringent. These measures resulted in a gradual reduction of coronavirus cases, and by August 2020 the Government started easing restrictions. However, Azerbaijan is still experiencing subdued economic activity, albeit not as low as during May-July 2020.

While the Azerbaijani Government has introduced a range of stabilisation measures aimed at providing liquidity and support for Azerbaijani banks and other companies, there continues to be some uncertainty regarding future operating conditions for the Group and its counterparties which could affect the Group's financial position, results of operations and business prospects.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 18. Commitments and contingencies (continued)

### Operating environment (continued)

Adverse changes in economic conditions may result in a deterioration in the value of collateral held against loans of the Group, in addition to impacting the performance of the borrowers. To the extent that information is available, the Group has reflected revised estimates of collateral values and ECL assessments. Finally, the decline in aggregate demand and reduction of business activity may result in the impairment of real estate owned by the Group, which consists of premises and repossessed collateral.

The future economic and regulatory environment and its impact on the Group's operations may differ from management's current expectations. Due to the high level of uncertainty and limited updated and consistent information on the financial position of the Group's counterparties and borrowers, it is practically impossible to present a reliable assessment of the impact of the changes in the economic environment on the Group's 2020 results in these interim condensed consolidated financial statements.

The Group's management is monitoring economic developments in the current environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

The Group considers its current liquidity position to be sufficient for its sustainable functioning. The Group monitors its liquidity position on a daily basis.

### Legal

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

### Taxation

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

As of the authorization date for the issuance of these interim condensed consolidated financial statements, a tax inspection covering 2017-2019 is ongoing by the State Tax Service under the Ministry of Economy. Management believes that its interpretation of the relevant legislation as at 30 June 2020 and 31 December 2019 is appropriate and that the Group's tax, currency and customs positions will be sustained.

### Insurance

The Group has not currently obtained insurance coverage related to liabilities arising from errors or omissions. Liability insurance is generally not available in Azerbaijan at present.

### Compliance with CBAR ratios

In accordance with the presidential decree dated 28 November 2019, the FMSA has been abolished, and its powers, including its functions and rights in the field of licencing, regulation and supervision of the financial services market, protection of the rights of investors and consumers of the financial services market, as well as property have been transferred to the CBAR. The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements.

The Bank did not achieve full compliance with certain statutory ratios as at 30 June 2020, which is due to significant open currency positions. The ratios breached comprise:

- Ratio of maximum credit exposure of the Bank per single borrower or group of borrowers to Tier 1 Capital after deductions;
- The currency position.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 18. Commitments and contingencies (continued)

### Compliance with CBAR ratios (continued)

Consequences of the breach of the prudential ratios include withdrawal of the banking licence by the regulating body. Throughout the year the Group submitted information regarding these breaches to the CBAR on a monthly basis and no sanctions were imposed on the Group. Moreover, Management of the Group provided the CBAR with an action plan to improve the remaining ratios in future.

Considering all the above facts, Management believes that the Group will not face any sanctions in the future.

### Financial commitments and contingencies

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

### Credit-related and other commitments

The Group's commitments and contingencies comprised the following:

| | *30 June 2020 (unaudited)* | *31 December 2019* |
|---|---|---|
| **Credit-related commitments** | | |
| Guarantees | 732,698 | 799,042 |
| Letters of credit | 92,995 | 108,753 |
| Undrawn loan commitments | 949,202 | 659,953 |
| Less: allowance | (73,488) | (86,822) |
| **Commitments and contingencies** | **1,701,407** | **1,480,926** |
| Less: cash held as security against guarantees and letters of credit | (101,276) | (120,776) |
| Less: cash received from CJSC Agrarkredit held as security against guarantees and letters of credit | (89,264) | (89,186) |
| | **1,510,867** | **1,270,964** |

An analysis of changes in ECL during the first six months of 2020 is as follows:

| *Financial guarantees* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(6,264)** | **(1,016)** | **(69,988)** | **(77,268)** |
| New exposures originated or purchased | (1,101) | – | – | **(1,101)** |
| Exposures derecognised or matured (excluding write-offs) | 1,815 | – | 3,428 | **5,243** |
| Transfer to 12-month ECL | (36,657) | 1,364 | 35,293 | **–** |
| Transfer to lifetime ECL not credit-impaired | 8 | (8) | – | **–** |
| Net remeasurement of ECL | 23,687 | (340) | (6,930) | **16,417** |
| **At 30 June 2020 (unaudited)** | **(18,512)** | **–** | **(38,197)** | **(56,709)** |

| *Letters of credit* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(50)** | **–** | **–** | **(50)** |
| New exposures originated or purchased | (5) | – | – | **(5)** |
| Exposures derecognised or matured (excluding write-offs) | 50 | – | – | **50** |
| **At 30 June 2020 (unaudited)** | **(5)** | **–** | **–** | **(5)** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 18. Commitments and contingencies (continued)

### Credit-related and other commitments (continued)

| *Undrawn commitments* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2020** | **(5,576)** | **–** | **–** | **(5,576)** |
| New exposures originated or purchased | (6,138) | – | – | **(6,138)** |
| Exposures derecognised or matured (excluding write-offs) | 525 | (2) | – | **523** |
| Net remeasurement of ECL | (1,379) | 2 | – | **(1,377)** |
| **At 30 June 2020 (unaudited)** | **(12,568)** | **–** | **–** | **(12,568)** |

An analysis of changes in ECL during the first six months of 2019 (unaudited) is as follows:

| *Financial guarantees* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **(3,316)** | **(5,028)** | **(80,064)** | **(88,408)** |
| New exposures originated or purchased | (541) | – | – | **(541)** |
| Exposures derecognised or matured (excluding write-offs) | 65 | – | 15,233 | **15,298** |
| Net remeasurement of ECL | 379 | (72) | (1,199) | **(892)** |
| **At 30 June 2019 (unaudited)** | **(3,413)** | **(5,100)** | **(66,030)** | **(74,543)** |

| *Letters of credit* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **(300)** | **(568)** | **–** | **(868)** |
| Exposures derecognised or matured (excluding write-offs) | 300 | 568 | – | **868** |
| **At 30 June 2019 (unaudited)** | **–** | **–** | **–** | **–** |

| *Undrawn commitments* | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| **ECL as at 1 January 2019** | **(3,362)** | **–** | **(274)** | **(3,636)** |
| New exposures originated or purchased | (1,263) | – | – | **(1,263)** |
| Exposures derecognised or matured (excluding write-offs) | 164 | – | – | **164** |
| Transfer to 12-month ECL | (274) | – | 274 | **–** |
| Transfer to lifetime ECL not credit-impaired | 555 | (555) | – | **–** |
| Transfer to lifetime ECL credit-impaired | – | – | – | **–** |
| Net remeasurement of ECL | 1,875 | – | – | **1,875** |
| **At 30 June 2019 (unaudited)** | **(2,305)** | **(555)** | **–** | **(2,860)** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 19. Operating expenses

Operating expenses comprise:

| | *30 June 2020 (unaudited)* | *30 June 2019 (unaudited)* |
|---|---|---|
| Staff costs | (42,284) | (31,505) |
| Depreciation of premises and equipment | (10,058) | (8,006) |
| Consultancy and other professional services | (5,187) | (7,084) |
| Insurance expenses | (555) | (64) |
| Software maintenance | (2,297) | (2,543) |
| Fees paid to the deposit insurance fund | (2,864) | (2,716) |
| Amortization of software and other intangible assets | (1,755) | (1,942) |
| Outsourcing and security | (1,506) | (1,701) |
| Rent | (699) | (1,887) |
| Customs duties and taxes other than on income | (1,481) | (1,972) |
| Fines and penalties | (2) | (17) |
| Premises, property and maintenance | (1,496) | (1,281) |
| Communications | (799) | (438) |
| Utility | (811) | (679) |
| Stationary, books, printing, and other supplies | (949) | (710) |
| Advertising and marketing services | (1,647) | (2,827) |
| Charity and financial aid | (2,000) | (109) |
| Other | (1,763) | (1,601) |
| **Total operating expenses** | **(78,153)** | **(67,082)** |

## 20. Fair values of financial instruments

### Fair value hierarchy

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

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

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

| | | *Fair value measurement using* | | | |
|---|---|---|---|---|---|
| | *Date of valuation* | *Quoted prices in active markets (Level 1)* | *Significant observable inputs (Level 2)* | *Significant unobservable inputs (Level 3)* | *Total* |
| **Assets measured at fair value** | | | | | |
| Investment securities | 30 June 2020 | 459,397 | 3,299 | – | **462,696** |

| | | *Fair value measurement using* | | | |
|---|---|---|---|---|---|
| | *Date of valuation* | *Quoted prices in active markets (Level 1)* | *Significant observable inputs (Level 2)* | *Significant unobservable inputs (Level 3)* | *Total* |
| **Assets measured at fair value** | | | | | |
| Investment securities | 31 December 2019 | 204,388 | 3,273 | – | **207,661** |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 20. Fair values of financial instruments (continued)

### Fair value hierarchy (continued)

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

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

| | ***Carrying value 30 June 2020 (unaudited)*** | ***Fair value 30 June 2020 (unaudited)*** | ***Carrying value 31 December 2019*** | ***Fair value 31 December 2019*** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 1,957,326 | 1,957,326 | 2,789,673 | 2,789,673 |
| Mandatory cash balances with central banks | 58,017 | 58,017 | 60,059 | 60,059 |
| Due from banks and other financial institutions | 2,946,858 | 2,946,858 | 3,179,615 | 3,179,615 |
| Loans to customers | 2,200,349 | 2,203,640 | 2,165,804 | 2,219,652 |
| Receivables from CJSC Agrarkredit | 709,101 | 709,101 | 693,281 | 693,281 |
| Other financial assets | 52,258 | 52,258 | 32,980 | 32,980 |
| **Financial liabilities** | | | | |
| Due to banks and other financial institutions | 50,797 | 50,797 | 31,979 | 31,979 |
| Customer accounts | 4,755,705 | 4,755,705 | 5,606,673 | 5,606,673 |
| Payables to CJSC Agrarkredit | 89,133 | 89,133 | 89,055 | 89,055 |
| Other borrowed funds | 216,548 | 216,548 | 104,504 | 104,504 |
| Debt securities issued | 1,523,843 | 1,523,948 | 1,526,354 | 1,481,001 |
| Other financial liabilities | 102,764 | 102,764 | 111,959 | 111,959 |

## 21. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms or conditions and or in the same amounts as transactions between unrelated parties.

*(Figures in tables are in thousands of Azerbaijani manats)*

## 21. Related party disclosures (continued)

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

| | *30 June 2020 (unaudited)* | | *31 December 2019* | |
|---|---|---|---|---|
| | ***Related party balances*** | ***Total category as per the financial statements item*** | ***Related party balances*** | ***Total category as per the financial statements item*** |
| Cash and cash equivalents | | **1,957,326** | | **2,789,673** |
| *- Government bodies and state owned entities* | 49,876 | | 126,494 | |
| Due from banks and other financial institutions | | **2,951,116** | | **3,188,441** |
| *- Government bodies and state owned entities* | 2,521,834 | | 2,825,550 | |
| Allowance for impairment losses on due from banks and other financial institutions | | **(4,258)** | | **(8,826)** |
| *- Government bodies and state owned entities* | (1,744) | | (4,176) | |
| Investment securities | | **462,696** | | **207,661** |
| *- Government bodies and state owned entities* | 310,754 | | 63,722 | |
| *- Other related parties* | 250 | | 250 | |
| *- Associates* | – | | – | |
| Loans to customers, Gross | | **2,382,426** | | **2,288,549** |
| *- Government bodies and state owned entities* | 607,041 | | 745,839 | |
| *- Key management personnel of the Group* | 320 | | 391 | |
| *- Other related parties* | 1,392 | | 1,175 | |
| Allowance for impairment losses on loans to customers | | **(182,077)** | | **(122,745)** |
| *- Government bodies and state owned entities* | (6,929) | | (8,595) | |
| *- Key management personnel of the Group* | (58) | | (10) | |
| *- Other related parties* | (199) | | (14) | |
| Other assets | | **68,410** | | **47,243** |
| *- Government bodies and state owned entities* | 24,912 | | 41 | |
| Receivables from CJSC Agrarkredit, Gross | | **713,108** | | **702,392** |
| *- Government bodies and state owned entities* | 713,108 | | 702,392 | |
| Allowance for impairment on receivables from CJSC Agrarkredit | | **(4,007)** | | **(9,111)** |
| *- Government bodies and state owned entities* | (4,007) | | (9,111) | |
| Customer accounts | | **(4,755,705)** | | **(5,606,673)** |
| *- Government bodies and state owned entities* | (3,088,128) | | (3,912,810) | |
| *- Key management personnel of the Group* | (1,046) | | (606) | |
| *- Other related parties* | – | | – | |
| Payables to CJSC Agrarkredit | | **(89,133)** | | **(89,055)** |
| *- Government bodies and state owned entities* | (89,133) | | (89,055) | |
| Due to banks and other financial institutions | | **(50,797)** | | **(31,979)** |
| *- Government bodies and state owned entities* | (272) | | (3,732) | |
| Other borrowed funds | | **(216,548)** | | **(104,504)** |
| *- Government bodies and state owned entities* | (201,002) | | (87,645) | |
| Undrawn loan commitments | | **949,202** | | **659,953** |
| *- Government bodies and state owned entities* | 494,500 | | 490,100 | |
| *- Key management personnel of the Group* | 107 | | – | |
| *- Other related parties* | 53 | | – | |
| Letters of credit and guarantees | | **825,693** | | **907,795** |
| *- Government bodies and state owned entities* | 206,682 | | 318,303 | |
| Provision for off-balance sheet commitments | | **(73,488)** | | **(86,822)** |
| *- Government bodies and state owned entities* | (1,361) | | (4,681) | |
| *- Key management personnel of the Group* | (10) | | – | |
| *- Other related parties* | (3) | | – | |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 21. Related party disclosures (continued)

### Transactions with entities other than government-related

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

| | *30 June 2020 (unaudited)* | | *30 June 2019 (unaudited)* | |
|---|---|---|---|---|
| | ***Related party transactions*** | ***Total category as per the financial statements item*** | ***Related party transactions*** | ***Total category as per the financial statements item*** |
| Key management personnel compensation: | | | | |
| - short-term employee benefits | (4,742) | **(42,284)** | (4,666) | **(31,505)** |
| **Total** | **(4,742)** | | **(4,666)** | |

Included in the interim condensed consolidated statement of profit or loss and other comprehensive income for the years ended 30 June 2020 and 30 June 2019 are the following income and expense amounts which were recognised in transactions with related parties:

| | *30 June 2020 (unaudited)* | | *30 June 2019 (unaudited)* | |
|---|---|---|---|---|
| | ***Related party transactions*** | ***Total category as per the financial statements item*** | ***Related party transactions*** | ***Total category as per the financial statements item*** |
| Interest income | | **235,126** | | **232,133** |
| *- Government bodies and state-owned entities* | 78,237 | | 111,402 | |
| *- Key management personnel of the Group* | – | | 8 | |
| *- Other related parties* | – | | 25 | |
| Interest expense | | **(72,547)** | | **(68,154)** |
| *- Government bodies and state-owned entities* | (53,921) | | (49,553) | |
| *- Key management personnel of the Group* | (5) | | (1) | |
| *- Other related parties* | (81) | | (69) | |
| Charge of impairment losses on interest bearing assets | | **(48,536)** | | **(20,324)** |
| *- Government bodies and state-owned entities* | 505 | | 505 | |
| *- Key management personnel of the Group* | 2 | | 2 | |
| *- Other related parties* | (58) | | (58) | |
| Reversal of impairment losses on contingent liabilities and credit commitments | | **13,612** | | **16,298** |
| *- Government bodies and state owned entities* | (136) | | (1,899) | |
| Net loss arising on initial recognition of financial instruments and loan modification | | **(4,068)** | | **–** |
| *- Government bodies and state-owned entities* | (3,375) | | – | |
| Gains from operations in foreign currencies | | **27,302** | | **32,179** |
| *- Government bodies and state-owned entities* | 16,701 | | 14,399 | |
| *- Other related parties* | 1 | | – | |
| Fee and commission income | | **39,787** | | **42,984** |
| *- Government bodies and state-owned entities* | 9,385 | | 7,558 | |
| *- Key management personnel of the Group* | – | | 2 | |
| *- Other related parties* | – | | 13 | |
| Fee and commission expense | | **(11,029)** | | **(10,745)** |
| *- Government bodies and state-owned entities* | (784) | | (1,694) | |
| Operating expenses | | **(78,153)** | | **(67,082)** |
| *- Government bodies and state-owned entities* | (2,251) | | (1,423) | |
| *- Key management personnel of the Group* | (4,742) | | (4,666) | |

*(Figures in tables are in thousands of Azerbaijani manats)*

## 22. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is managed by the ratios established by the Basel Capital Accord 1988 and monitored using the ratios established by the regulator.

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

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

Compliance with capital adequacy ratios set by the regulator is monitored monthly with reports outlining their calculation reviewed and signed by the Group's Chief Financial Officer (CFO).

### CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 6% and 11%, respectively, of risk-weighted assets for regulatory capital. In January 2020 the CBAR increased the minimum capital adequacy ratio for total capital from 11% to 12%. However, as part of the stimulus measures to combat the economic downturn caused by the COVID-19 pandemic, the CBAR decided on 23 April 2020 to temporarily reduce it back to 11% and keep it at 11% until 2021. As at 30 June 2020, the Bank was in compliance with these requirements.

### Capital adequacy ratio under Basel Capital Accord 1988

The Group's international risk-based capital adequacy ratio is computed in accordance with the Basel Capital Accord 1988, with subsequent amendments including the amendment to incorporate market risks.

As at 30 June 2020 and 31 December 2019, the Bank's capital adequacy ratios on this basis were as follows:

| | ***30 June 2020 (unaudited)*** | ***31 December 2019*** |
|---|---|---|
| Tier 1 capital | 1,592,948 | 1,580,032 |
| Tier 2 capital | 157,257 | 150,690 |
| Less: deductions from capital | (72,522) | (71,257) |
| **Total capital** | **1,677,683** | **1,659,465** |
| **Risk weighted assets** | **4,090,436** | **4,130,704** |
| Tier 1 capital ratio | 38.94% | 38.25% |
| Total capital ratio | 41.01% | 40.17% |

## 23. Events after the end of the interim period

On 15 September 2020, according to the resolution of the Annual General Meeting of Shareholders, the Group declared a dividend in the total amount of AZN 150,000 thousand (AZN 0.03 thousand per share).