OJSC International Bank of Azerbaijan

Separate financial statements

For the year ended 31 December 2023
together with an independent auditor's report

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Independent auditor's report

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

Opinion

We have audited the separate financial statements of OJSC International Bank of Azerbaijan (the "Bank"), which comprise the separate statement of financial position as at 31 December 2023, and the separate statement of profit or loss and other comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policy information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the separate financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying separate financial statements.

Key audit matter	How our audit addressed the key audit matter
Allowance for loans to customers and provision for credit related commitments	
Given the significance of the allowance for loans to customers and provision for credit related commitments to the Bank's financial position, the complexity and judgments related to the estimation of expected credit losses ("ECL") under IFRS 9 *Financial Instruments* ("IFRS 9"), we considered this area as a key audit matter. The Bank exercises significant judgment and applies estimation techniques to determine probability of default, projected exposure at default and loss arising at default, considering observed historical data, current economic situation and available forward-looking information. The calculation of ECL for financial assets on an individual basis requires scenario analysis of the estimated future cash flows considering current and projected financial performance of the borrowers and value of collateral. Information on the allowance for expected credit losses on loans to customers and provision for credit related commitments is included in Note 4 – *Significant accounting judgments and estimates*, Note 9 – *Loan to customers*, Note 19 – *Commitments and contingencies*, and Note 23 – *Risk management* to the separate financial statements.	Our audit procedures, among others, comprised the following: ▸ We evaluated expected credit loss methodology developed by the Bank in accordance with the requirements of IFRS 9 to estimate allowance for impairment of loans to customers and provision for credit related commitments; ▸ We considered the appropriateness of the Bank's definition of default and criteria for significant increase in credit risk and consistency of their application in accordance with methodology; ▸ We evaluated underlying statistical models, key inputs and assumptions used and assessed incorporation of forward-looking information in the calculation of ECL on a collective basis; ▸ We analysed the expected cash flow projections on individually significant loans, including those arising from potential sale of collateral. We considered reports of the Bank's internal and external appraisers and available market information on the fair value of collateral; ▸ We evaluated information disclosed in the notes to the separate financial statements in regard to allowance for impairment of loans to customers and provision for credit related commitments.

Other information included in the Bank's 2023 Annual Report

Other information consists of the information included in the Bank's 2023 Annual Report other than the separate financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's 2023 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of management and the Audit committee for the separate financial statements

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

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

The Audit committee is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the separate financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

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

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

The partner in charge of the audit resulting in this independent auditor's report is Nargiz Karimova.

Ernst & Young Holdings (CIS) B.V.

1 April 2024

Baku, Azerbaijan

Separate statement of financial position

As at 31 December

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2023	2022
Assets			
Cash and cash equivalents	6	2,542,288	5,254,638
Mandatory cash balances with central banks	7	1,823,366	470,112
Due from banks and other financial institutions	7	1,571,081	1,488,186
Investment securities	8	2,006,987	2,659,406
Loans to customers	9	4,859,139	3,348,064
Receivables from CJSC Agrarkredit	18	294,902	382,974
Property, equipment and intangible assets	10	220,462	205,464
Investment in subsidiaries	1	113,464	113,464
Other assets	11	189,849	75,504
Total assets		**13,621,538**	**13,997,812**
Liabilities			
Due to banks and other financial institutions	12	480,912	75,569
Customer accounts	13	10,157,257	11,170,050
Payables to CJSC Agrarkredit	18	61,950	63,030
Other borrowed funds	14	214,519	229,025
Debt securities issued	15	496,968	505,410
Current income tax liabilities		104	50,803
Deferred income tax liabilities	16	47,958	30,714
Other liabilities	11	187,843	135,265
Total liabilities		**11,647,511**	**12,259,866**
Equity			
Share capital	17	1,225,648	1,225,648
Revaluation reserve for premises	17	37,585	33,656
Unrealized gain on investment securities		51,260	20,907
Retained earnings and other reserves		659,534	457,735
Total equity		**1,974,027**	**1,737,946**
Total liabilities and equity		**13,621,538**	**13,997,812**

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

"AZƏRBAYCAN BEYNƏLXALQ BANKI" AÇIQ SƏHMDAR CƏMİYYƏTİ
OPEN JOINT STOCK COMPANY "THE INTERNATIONAL BANK OF AZERBAIJAN"
ABB

1 April 2024

Baku, Azerbaijan

The accompanying notes are an integral part of these separate financial statements.

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022*
Interest income calculated using the effective interest rate			
Loans to customers		473,851	374,251
Cash and cash equivalents		111,105	71,101
Investment securities		101,228	55,567
Due from banks and other financial institutions		62,506	58,888
Receivables from CJSC Agrarkredit		13,641	16,519
		762,331	**576,326**
Interest expense			
Customer accounts		(100,544)	(61,239)
Debt securities issued		(31,873)	(38,877)
Other borrowed funds		(9,168)	(8,033)
Due to banks and other financial institutions		(9,646)	(3,845)
Lease liabilities		(1,476)	(1,877)
		(152,707)	**(113,871)**
Net interest income		**609,624**	**462,455**
Credit loss expense	20	(22,148)	(11,761)
Net interest income after impairment losses for interest bearing assets		**587,476**	**450,694**
Fee and commission income	21	139,397	99,035
Fee and commission expense	21	(101,342)	(59,421)
Net gains/(losses) from operations in foreign currencies:			
- Dealing		69,456	81,918
- Translation differences		(11)	(1,143)
Reversal of impairment of property, equipment and intangible assets	10	2,955	1,969
Provision reversal/(charge) for credit losses on credit-related commitments and other financial assets	20	7,869	1,063
Other impairment (charge)/reversal	20	(133)	1,655
Operating expenses	22	(276,417)	(216,360)
Loss on repurchase of debt	15	(199)	(11,085)
Dividend income		17,388	15,214
Other operating income		1,302	1,361
Non-interest loss		**(139,735)**	**(85,794)**
Profit before income tax expense		**447,741**	**364,900**
Income tax expense	16	(89,342)	(75,310)
Net profit for the year		**358,399**	**289,590**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Unrealized gain/(loss) on debt securities at FVOCI		18,422	(67,695)
Income tax relating to components of other comprehensive income to be reclassified to profit or loss in subsequent periods		(3,684)	13,539
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods		**14,738**	**(54,156)**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Unrealised gain/(loss) on equity securities		19,519	(3,216)
Change in revaluation reserve for premises	10	4,911	814
Income tax relating to components of other comprehensive income not to be reclassified to profit or loss in subsequent periods		(4,886)	480
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**19,544**	**(1,922)**
Other comprehensive income/loss for the year, net of tax		**34,282**	**(56,078)**
Total comprehensive income for the year		**392,681**	**233,512**
Earnings per share, basic and diluted (AZN per share)	17	0.08	0.06

The accompanying notes are an integral part of these separate financial statements.

Separate statement of changes in equity

For the year ended 31 December

(Figures in tables are in thousands of Azerbaijani manats)

	Share capital	*Revaluation reserve for premises and investment*	*Unrealised gain on investment securities*	*Retained earnings and other reserves*	*Total equity*
As at 1 January 2022	**1,241,287**	**33,005**	**77,636**	**272,631**	**1,624,559**
Net profit for the year	–	–	–	289,590	**289,590**
Other comprehensive loss for the year	–	651	(56,729)	–	**(56,078)**
Total comprehensive income for the year	**–**	**651**	**(56,729)**	**289,590**	**233,512**
Dividends declared to shareholders (Note 17)	–	–	–	(125,000)	**(125,000)**
Liquidation of shares and related accrued dividends (Note 17)	(15,639)			20,514	**4,875**
As at 31 December 2022	**1,225,648**	**33,656**	**20,907**	**457,735**	**1,737,946**
Net profit for the year	–	–	–	358,399	**358,399**
Other comprehensive income for the year	–	3,929	30,353	–	**34,282**
Total comprehensive income for the year	**–**	**3,929**	**30,353**	**358,399**	**392,681**
Dividends declared to shareholders (Note 17)	–	–	–	(156,600)	**(156,600)**
	–	–	–	–	**–**
As at 31 December 2023	**1,225,648**	**37,585**	**51,260**	**659,534**	**1,974,027**

The accompanying notes are an integral part of these separate financial statements.

Separate statement of cash flows

For the year ended 31 December

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022*
Cash flows from operating activities			
Interest received		712,358	495,937
Interest paid		(131,419)	(90,580)
Dividends received		17,388	15,768
Fees and commissions received		137,905	103,242
Fees and commissions paid		(99,573)	(60,999)
Gains from operations in foreign currencies		69,455	81,918
Staff costs paid		(154,771)	(122,149)
Other operating expenses paid		(67,839)	(58,634)
Other operating income received		1,781	512
Cash flows from operating activities before changes in operating assets and liabilities		**485,285**	**365,015**
Net (increase)/decrease in operating assets			
Mandatory cash balances with central banks		(1,353,254)	(405,325)
Due from banks and other financial institutions		(38,724)	(1,393,861)
Loans to customers		(1,524,445)	(426,082)
Receivable from CJSC “AgrarKredit”		86,560	91,412
Other assets		(74,268)	(10,188)
Net (decrease)/increase in operating liabilities			
Due to banks and other financial institutions		404,916	16,512
Customer accounts		(1,002,283)	2,485,608
Other liabilities		(22,655)	(2,650)
Net cash flows (used in) / from operating activities before income tax		**(3,038,868)**	**720,441**
Income tax paid		(132,378)	(70,851)
Net cash (used in) / from operating activities		**(3,171,246)**	**649,590**
Cash flows (used in) / from investing activities			
Purchase of investment securities		(916,998)	(2,645,999)
Proceeds from sale and redemption of investment securities		1,603,636	849,873
Purchase of and prepayments for property, equipment and intangible assets		(34,351)	(25,230)
Net cash from / (used in) investing activities		**652,287**	**(1,821,356)**
Cash flows (used in) / from financing activities			
Repayments of other borrowed funds		(165,340)	(180,447)
Proceeds from other borrowed funds		151,069	167,773
Repayments and buy-back on debt securities issued		(22,509)	(266,988)
Proceed from debt securities issued		–	20,000
Dividend payment	17	(156,600)	(124,713)
Net cash used in financing activities		**(193,380)**	**(384,375)**
Effect of exchange rate changes on cash and cash equivalents		(11)	(1,622)
Net decrease in cash and cash equivalents		**(2,712,350)**	**(1,557,763)**
Cash and cash equivalents, beginning of year	6	**5,254,638**	**6,812,401**
Cash and cash equivalents, end of year	6	**2,542,288**	**5,254,638**

The accompanying notes are an integral part of these separate financial statements.

Separate statement of cash flows (continued)

(Figures in tables are in thousands of Azerbaijani manats)

Changes in liabilities arising from financing activities comprise:

	Debt securities issued	***Other borrowed funds***	***Total***
Carrying amount at 31 December 2021	**728,264**	**251,568**	**979,832**
Cash proceeds	20,000	167,773	**187,773**
Buy-back and redemption	(266,988)	(180,447)	**(447,435)**
Loss recognized on repurchase of debt	11,085	–	**11,085**
Other changes	13,049	(9,869)	**3,180**
Carrying amount at 31 December 2022	**505,410**	**229,025**	**734,435**
Cash proceeds	–	151,069	**151,069**
Buy-back and redemption	(22,509)	(165,340)	**(187,849)**
Loss recognized on repurchase of debt	199	–	**199**
Other changes	13,868	(235)	**13,633**
Carrying amount at 31 December 2023	**496,968**	**214,519**	**711,487**

The “Other changes” line includes the effect of accrued but not yet paid interest on debt securities issued and other borrowed funds, as well as gains and losses on initial recognition. The Bank classifies interest paid (including those accrued in prior periods) as cash flows from operating activities.

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

The International Bank of Azerbaijan ("the Bank") was incorporated in 1991 as a 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 general full banking license issued on 30 December 1992. The Bank's primary business consists of commercial activities, trading with securities, foreign currencies and derivative instruments, originating loans and guarantees.

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

As at 31 December 2023 the Bank had 69 branches (31 December 2022: 64) operating in the Republic of Azerbaijan.

As at 31 December 2023 and 2022 shareholders of the Bank were as follows:

Shareholders	***2023 (%)***	***2022 (%)***
Ministry of Finance of the Republic of Azerbaijan	92.56	92.56
State Committee on Property Issues of the Republic of Azerbaijan	3.81	3.81
CJSC Agrarkredit	0.23	0.23
Other*	3.40	3.40
Total	**100.00**	**100.00**

* *Other shareholders included minority shareholders holding an interest less than 2% each.*

In August 2020, in order to improve business activity of the government-owned organizations, the President of the Republic of Azerbaijan approved decree on establishment of Azerbaijan Investment Holding ("AIH") and on 5 November 2020, the list of state-owned companies to be transferred to the management of Azerbaijan Investment Holding was approved. The transfer of the International Bank of Azerbaijan OJSC to the management of the AIH and the regulation of a number of related issues was approved by the Decree of the President of the Republic of Azerbaijan dated 22 September 2021.

As of 31 December, investments in subsidiaries comprise of the following:

	2023	***2022***
IBA-Moscow LLC	101,623	101,623
International Leasing Company LLC	8,340	8,340
IBA-Invest Investment Company CJSC	3,000	3,000
Azericard LLC	500	500
IBA GEO JSC	1	1
	113,464	**113,464**

As at 31 December 2023 and 2022, the Bank's ownership over its entities is illustrated in below table:

		Proportion of ownership interest (%)		
Name	***Country of operation***	***2023***	***2022***	***Type of operation***
Subsidiaries				
IBA-Moscow LLC	Russian Federation	100.0	100.0	Banking
IBA GEO JSC	The Republic of Georgia	100.0	100.0	None
Azericard LLC	The Republic of Azerbaijan	100.0	100.0	Card processing
International Leasing Company LLC	The Republic of Azerbaijan	100.0	100.0	Leasing
IBA-Invest Investment Company CJSC	The Republic of Azerbaijan	100.0	100.0	Investment

IBA-Moscow LLC

As at 31 December 2023 and 2022, the Bank owns 100% of "IBA-Moscow" Limited Liability Company ('the subsidiary") which was established by the Bank on 24 January 2002. "IBA Moscow" LLC is located in Russian Federation, operating in the banking sector, with registered and paid up share capital of AZN 101,623 thousand as of 31 December 2023 (31 December 2022: AZN 101,623 thousand). Head office of "IBA Moscow" LLC is located in Moscow. The activities of the subsidiary are regulated by the Central Bank of Russia. "IBA Moscow" LLC conducts its business under a general full banking license issued on 25 January 2002.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation

General

These separate financial statements (hereinafter: “financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The Bank has prepared the financial statements on the basis that it will continue to operate as a going concern.

The Azerbaijani manat is the presentation currency of the Bank and the functional currency of OJSC International Bank of Azerbaijan as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Bank is required to maintain its records and prepare its financial statements in Azerbaijani manat and in accordance with IFRS. These financial statements are presented in thousands of Azerbaijani manat (“AZN”), except when otherwise indicated. The financial statements have been prepared under the historical cost convention except for premises and investment securities at fair value through other comprehensive income (FVOCI).

3. Summary of significant accounting policies

Changes in accounting policies

New and amended standards and interpretations

The Bank applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2023. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD’s BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity’s exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:

   - An indication of the proportion of an entity’s profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
   - An indication of how the entity’s overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Bank has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Bank has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Bank’s financial statements at 31 December 2023.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of significant accounting policies (continued)

Changes in accounting policies (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non−life, direct insurance and re−insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features; a few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. IFRS 17 is based on a general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short−duration contracts.

The Bank evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available. The amendments had no impact on the Bank's financial statements.

The Bank evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available. The amendments had no impact on the Bank's financial statements.

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements* provide 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.

The amendments had no impact on recognition or presentation of any items in the financial statements of the Bank, but had an impact on disclosure of accounting policies.

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Bank's financial statements.

Fair value measurement

The Bank measures financial instruments carried at FVOCI and non-financial assets such as premises, at fair value at each reporting date.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at one of:

- Amortised cost;
- FVOCI; or
- FVPL.

Amounts due from credit institutions, loans to customers, investment securities at amortised cost

The Bank only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- 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 (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Bank determines its business model at the level that best reflects how it manages Banks of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/ discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of significant accounting policies (continued)

Financial assets and liabilities (continued)

Expected credit losses for debt instruments at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to profit or loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss and other comprehensive income and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The Bank occasionally issues loan commitments at below market interest rates. Such commitments are initially recognised at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees are assessed together with other financial instruments and thus fall within the scope of IFRS 9.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts with the CBAR, excluding obligatory reserves, and amounts due from banks and other financial institutions due on demand or within 90 days from the date of origination and that are free from contractual encumbrances.

Leases

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 10,000). Lease payments on short-term leases and leases of low-value assets are recognised as expenses on a straight-line basis over the lease term.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of significant accounting policies (continued)

Renegotiated loans

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

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

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

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 Bank records a modification gain or loss, presented in the statement of profit or loss and other comprehensive income, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as a result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest must have been made during at least half of the probation period in accordance with the modified payment schedule.

Derecognition of financial assets and liabilities

Write-off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Property and equipment

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

Office premises of the Bank are recorded at a revalued amount subject to revaluation to market value on a regular basis. The frequency of revaluation depends upon the movements in the fair values of the premises being revalued. Increases in the carrying amount arising on revaluation are credited to other comprehensive income unless the increase reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the revaluation gain is recognised in profit or loss to the extent of the amount of the reversal. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation reserve in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for office premises included in equity is reclassified directly to retained earnings on the retirement or disposal of the asset.

Depreciation of an asset begins when it is available for use. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Useful life
Office premises	50 years
Furniture, fixtures, vehicles and other fixed assets	4-10 years
Computer and communication equipment	4-10 years
Leasehold improvements	10 years (but not longer than respective lease period)

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalisation.

Repossessed collateral

In certain circumstances, collateral is repossessed following the foreclosure on loans that are in default. Repossessed collateral is measured at the lower of the carrying amount and net realisable value and reported within “Other assets”.

Intangible assets

Intangible assets include banking licenses, software and other licenses, as well as computer software.

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic lives of 1-10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investments in subsidiaries

Investments in the subsidiaries are accounted for using the cost method in the financial statements in accordance with IAS 27 *Separate Financial Statements.*

Share capital

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as retained earnings and other reserves.

Segment reporting

The Bank’s segmental reporting is based on the following operating segments: Retail banking, Corporate banking and Treasury.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognised when incurred. Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee and commission income include fee and commission received on plastic cards operations, settlement transactions, servicing of contingent liabilities and cash transactions which are recognised as revenue as the services are provided. Fee and commission expense consist of fee and commission paid on plastic card operations, settlement transactions and cash transactions.

Fee and commission income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in ‘interest income’.

Foreign currency translation

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

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains from dealing operations.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of significant accounting policies (continued)

Foreign currency translation (continued)

The Bank used the following official exchange rates at 31 December 2023 and 2022 in the preparation of these financial statements:

	2023	***2022***
1 US dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.8766	AZN 1.8114
1 Georgian lari	AZN 0.6326	AZN 0.6298
1 Russian rouble	AZN 0.0188	AZN 0.0230

Standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank’s financial statements are listed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

- *Amendments to IFRS 16: Lease Liability in a Sale and Leaseback;*
- *Amendments to IAS 1: Classification of Liabilities as Current or Non-current;*
- *Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7.*

These amendments are not expected to have a material impact on the Bank’s financial statements.

4. Significant accounting judgments and estimates

In the process of applying the Bank’s accounting policies, management has made the following judgments and made estimates which have affected the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values (Note 24).

Revaluation of premises

The determination of fair value of the Bank’s premises is based on a number of factors including market conditions, comparable sales, and the condition of the property. Due to the inherent subjectivity involved in estimating fair value, there is a degree of estimation uncertainty in this process. The Bank's management has applied their judgment in determining the appropriate assumptions and inputs used in the valuation process, but there is always a risk that actual outcomes may differ from the estimates made. Management continuously monitors market conditions and other factors that may impact the fair value of the premises and updates the valuations as necessary to reflect any changes. Despite these efforts, there remains a degree of estimation uncertainty inherent in the revaluation process that should be considered by users of the financial statements. More details are provided in Note 10 and Note 24.

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. In addition, large-scale business disruptions may give rise to liquidity issues for some entities and consumers. The Bank’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

(Figures in tables are in thousands of Azerbaijani manats)

4. Significant accounting judgments and estimates (continued)

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing whether there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- The development of ECL models, including the various formulae and the choice of inputs;
- The determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- The selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 9 and 23.

Leases − estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (for example, when the Bank does not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the Bank's functional currency).

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Bank's credit rating).

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management believes that as at 31 December 2023 and 2022 its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

5. Segment reporting

The Bank 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. The Bank's reportable segments under IFRS 8 are therefore as follows:

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

(Figures in tables are in thousands of Azerbaijani manats)

5. Segment reporting (continued)

	Corporate		Retail		Treasury		Unallocated		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Interest income	165,065	133,721	308,255	240,529	289,011	202,076	–	–	**762,331**	**576,326**
Interest expense	(70,304)	(41,408)	(41,522)	(30,044)	(40,881)	(42,419)	–	–	**(152,707)**	**(113,871)**
Net interest income	**94,761**	**92,313**	**266,733**	**210,485**	**248,130**	**159,657**	**–**	**–**	**609,624**	**462,455**
Credit loss (expense)/reversal	(10,223)	(6,720)	(12,725)	(2,329)	800	(2,712)	–	–	**(22,148)**	**(11,761)**
Net interest income after provision for impairment losses	**84,538**	**85,593**	**254,008**	**208,156**	**248,930**	**156,945**	**–**	**–**	**587,476**	**450,694**
Fee and commission income	70,990	59,094	60,494	27,530	7,913	12,411	–	–	**139,397**	**99,035**
Fee and commission expense	(7,057)	(6,066)	(87,912)	(46,178)	(6,373)	(7,177)	–	–	**(101,342)**	**(59,421)**
Net gains from operations in foreign currencies:										
- Dealing	51,932	56,485	17,483	18,733	41	6,700	–	–	**69,456**	**81,918**
- Translation differences	–	–	–	–	(11)	(1,143)	–	–	**(11)**	**(1,143)**
Reversal of impairment of property, equipment and intangible assets	–	–	–	–	–	–	2,955	1,969	**2,955**	**1,969**
Other impairment reversal/(charge)	(133)	1,655	–	–	–	–	–	–	**(133)**	**1,655**
Provision reversal/(charge) for credit losses on credit-related commitments and other financial assets	7,869	1,063	–	–	–	–	–	–	**7,869**	**1,063**
Dividend income	–	–	–	–	–	–	17,388	15,214	**17,388**	**15,214**
Other operating income	–	–	–	–	–	–	1,302	1,361	**1,302**	**1,361**
Non-interest income	**123,601**	**112,231**	**(9,935)**	**85**	**1,570**	**10,791**	**21,645**	**18,544**	**136,881**	**141,651**
Operating expenses	(58,973)	(46,366)	(156,367)	(111,895)	(37,058)	(37,540)	(24,019)	(20,559)	**(276,417)**	**(216,360)**
Loss on repurchase of debt	–	–	–	–	(199)	(11,085)	–	–	**(199)**	**(11,085)**
Non-interest expenses	(58,973)	(46,366)	(156,367)	(111,895)	(37,257)	(48,625)	(24,019)	(20,559)	**(276,616)**	**(227,445)**
Profit/(loss) before income tax expense	**149,166**	**151,458**	**87,706**	**96,346**	**213,243**	**119,111**	**(2,374)**	**(2,015)**	**447,741**	**364,900**
Income tax (expense)/benefit	(29,765)	(31,259)	(17,501)	(19,884)	(42,550)	(24,583)	474	416	(89,342)	(75,310)
Net profit/(loss) for the year	**119,401**	**120,199**	**70,205**	**76,462**	**170,693**	**94,528**	**(1,900)**	**(1,599)**	**358,399**	**289,590**
Segment assets	2,513,858	1,671,720	2,694,674	1,911,907	8,395,941	10,404,609	17,065	9,576	13,621,538	13,997,812
Segment liabilities	8,081,060	9,434,888	2,461,693	2,085,063	1,050,642	652,780	54,116	87,135	11,647,511	12,259,866

The amount of revenues from subsidiaries of the Bank is disclosed in Note 26 *"Related party disclosures"*.

The geographic information comprises:

	Azerbaijan Republic		OECD countries		Non-OECD countries		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenue	839,187	676,036	123,849	74,080	8,137	6,020	**971,173**	**756,136**
Non-current assets	210,122	191,664	–	–	10,340	13,800	**220,462**	**205,464**

Revenue includes operating income excluding interest expense, fee and commission expense and provision for impairment losses.

(Figures in tables are in thousands of Azerbaijani manats)

6. Cash and cash equivalents

As at 31 December, cash and cash equivalents comprise:

	2023	*2022*
Cash on hand	437,747	359,145
Current accounts with the CBAR	702,864	1,134,534
Cash in transit	6,764	−
Correspondent accounts and time deposits with original maturity up to 90 days with credit institutions	1,394,913	3,760,959
Cash and cash equivalents	**2,542,288**	**5,254,638**

As at 31 December 2023, the Bank had a concentration of correspondent accounts and time deposits with original maturity up to 90 days with credit institutions represented by AZN 1,378,073 thousand (31 December 2022: AZN 3,726,595 thousand) in seven (31 December 2022: fourteen) largest banks.

Cash equivalents in amount of AZN 2,097,777 thousand are allocated to Stage 1 (2022: 4,895,493 thousand). The ECL relating to cash equivalents of the Bank rounds to zero in both years.

7. Due from banks and other financial institutions

As at 31 December, due from banks and other financial institutions comprise:

	2023	*2022*
Time deposits with the CBAR	1,508,285	1,463,777
Loans to credit institutions	25,045	12,815
Time deposits with non-resident banks	22,713	12,820
Time deposits with resident banks	16,151	−
Blocked accounts with non-resident banks	2,382	2,322
Less: allowance for impairment	(3,495)	(3,548)
Due from banks and other financial institutions	**1,571,081**	**1,488,186**

As at 31 December 2023, the Bank had one time deposit (31 December 2022: one time deposit) with the CBAR maturing on 11 January 2024 with interest rate 3% p.a.

The movements in allowances for impairment under IFRS 9 of amounts due from banks at amortised cost during the year ended 31 December 2023 and 31 December 2022 were insignificant.

As at 31 December 2022, credit institutions in the Republic of Azerbaijan were required to maintain a non−interest earning cash deposit (obligatory reserve with restriction on withdrawal) with the CBAR at the level of 4.0% and 5.0% of the previous month average of funds attracted from customers by a credit institution in AZN and foreign currencies, respectively.

As at 31 December 2023, according to the CBAR decision made on 20 November 2023, credit institutions are required to maintain obligatory reserve with the CBAR according to new differentiation criteria. The differentiation criteria are as follows:

- ► Whether the deposits of legal entities in local currency are less than AZN 1,000,000 thousand (AZN 750,000 thousand for foreign currency);
- ► Whether the proportion of deposits from related parties to total deposits is below than 20%;
- ► Whether the proportion of connected deposits to total deposits is below than 20%.

Since the Bank`s average deposits from legal entities and individuals both in local and foreign currencies exceed AZN 1,000,000 thousand and the proportion of connected deposits exceeds 20%, the applicable mandatory reserve rate was 20% for the Bank’s deposits as of 31 December 2023.

(Figures in tables are in thousands of Azerbaijani manats)

8. Investment securities

	2023	2022
Debt securities at amortised cost		
Government bonds	381,900	–
Notes issued by the CBAR	76,986	–
Corporate bonds	442,298	110,516
Government bonds pledged under repurchase agreements	19,210	–
Less: allowance for impairment	(2,161)	(591)
	918,233	**109,925**
Debt securities at FVOCI		
Government bonds	782,597	2,121,143
Corporate bonds	176,974	191,422
Government bonds pledged under repurchase agreements	26,080	–
Reverse repurchase agreements	–	9,401
Notes issued by the CBAR	–	147,346
	985,651	**2,469,312**
Debt securities at FVPL		
Corporate bonds	3,415	–
	3,415	**–**
Equity securities at FVOCI		
Corporate shares	**99,688**	**80,169**
Investment securities	**99,688**	**80,169**
	2,006,987	**2,659,406**

As at 31 December 2023, the Government bonds mainly comprise bonds issued by the Ministry of Finance of the Republic of Azerbaijan in the amount of AZN 1,182,272 thousand (as at 31 December 2022: AZN 859,673 thousand) and US Treasury bills in the amount of AZN 11,368 thousand (as at 31 December 2022: AZN 1,263,524 thousand).

As at 31 December 2023, the corporate bonds comprise bonds issued in Azerbaijan, OECD countries, and other non-OECD countries in the amounts of AZN 568,266 thousand, AZN 43,763 thousand and AZN 10,658 thousand, respectively (as at 31 December 2022: AZN 253,869 thousand in Azerbaijan, AZN 9,855 thousand in OECD countries, and AZN 38,214 thousand in non-OECD countries, respectively).

As at 31 December 2023, the corporate shares comprise class 'B' common equity shares of Mastercard Incorporated and class 'C' common equity shares of Visa Incorporated at fair market values of AZN 27,400 thousand and AZN 71,798 thousand, respectively, as well as ordinary shares of Azerbaijan Credit Bureau and Baku Stock Exchange at fair market values of AZN 250 thousand and AZN 240 thousand, respectively (as at 31 December 2022: class 'B' common equity shares of Mastercard Incorporated and class 'C' common equity shares of Visa Incorporated at fair market values of AZN 22,339 thousand and AZN 57,340 thousand, respectively, as well as ordinary shares of Azerbaijan Credit Bureau and Baku Stock Exchange at fair market values of AZN 250 thousand and AZN 240 thousand, respectively).

Debt securities in amount of AZN 1,903,519 thousand (31 December 2022: AZN 2,574,461 thousand), or 99.7% (31 December 2022: 99.8%) of the total debt securities balance of the Bank, are allocated to Stage 1. The remaining balance of debt securities in amount of AZN 5,941 thousand (31 December 2022: AZN 5,367 is allocated to Stage 2. ECL in amount of AZN 3,675 thousand and AZN 1,466 thousand (31 December 2022: AZN 3,597 thousand and AZN 1,448 thousand) is allocated to Stage 1 and Stage 2 securities, respectively. The movements in allowances for impairment under IFRS 9 of debt securities during the year ended 31 December 2023 and 31 December 2022 were insignificant.

9. Loans to customers

As at 31 December, loans to customers comprise:

	2023	2022
Loans to legal entities	2,512,379	1,639,597
Loans to individuals	2,528,198	1,870,922
Loans to customers, gross	**5,040,577**	**3,510,519**
Less: allowance for impairment losses	(181,438)	(162,455)
Loans to customers	**4,859,139**	**3,348,064**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

As at 31 December 2023, the Bank had a concentration of loans consisting of AZN 1,088,915 thousand, or 22% of the gross loan portfolio (31 December 2022: AZN 761,815 thousand or 22%) due from its ten (31 December 2022: ten) largest borrowers. An allowance of AZN 12,700 thousand (31 December 2022: AZN 6,678 thousand) was recognised against these loans.

Loans to individuals comprise the following products as at 31 December 2023:

	2023	***2022***
Mortgage loans	1,138,305	884,744
Consumer loans and others	1,389,893	986,178
Total loans to customers, gross	**2,528,198**	**1,870,922**
Less: allowance for impairment losses	(120,181)	(112,467)
Loans to customers	**2,408,017**	**1,758,455**

Economic sector risk concentrations within the loan portfolio as at 31 December are as follows:

	2023	***2022***
Analysis by sector		
Individuals	2,528,198	1,870,922
Trade and service	886,025	812,688
Construction and real estate development	603,851	495,291
Railroad, air and other transportation	453,638	34,634
Manufacturing	287,350	84,225
Oil and gas sector, power production and distribution	126,740	186,418
Communication	129,676	–
Others	25,099	26,341
Total loans to customers, gross	**5,040,577**	**3,510,519**
Less: allowance for impairment losses	(181,438)	(162,455)
Loans to customers	**4,859,139**	**3,348,064**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to Loans to legal entities during the year ended 31 December 2023 is as follows:

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2023	**1,565,701**	**21,556**	**49,299**	**3,041**	**1,639,597**
New assets originated or purchased	1,697,575	–	–	–	**1,697,575**
Change in accrued interest balance	(9,956)	423	4,469	938	**(4,126)**
Assets repaid	(793,365)	(19,016)	(7,412)	(374)	**(820,167)**
Transfer to 12-month ECL	1,703	(192)	(1,511)	–	**–**
Transfer to lifetime ECL not credit-impaired	(5,115)	5,115	–	–	**–**
Transfer to lifetime ECL credit-impaired	(5,033)	(2,771)	7,804	–	**–**
Write-offs	–	–	(500)	–	**(500)**
At 31 December 2023	**2,451,510**	**5,115**	**52,149**	**3,605**	**2,512,379**

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2023	**(16,905)**	**(1,333)**	**(31,750)**	**–**	**(49,988)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss					
New assets originated or purchased	(18,590)	–	–	–	**(18,590)**
Change in accrued interest balance	(94)	(133)	(1,842)	–	**(2,069)**
Assets repaid	5,915	1,256	6,092	–	**13,263**
Transfer to 12-month ECL	(739)	3	736	–	**–**
Transfer to lifetime ECL not credit-impaired	661	(661)	–	–	**–**
Transfer to lifetime ECL credit-impaired	5	181	(186)	–	**–**
Net remeasurement of ECL	3,258	(207)	(3,304)	–	**(253)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss					
Unwind of discount	–	–	(4,120)	–	**(4,120)**
Write-offs	–	–	500	–	**500**
At 31 December 2023	**(26,489)**	**(894)**	**(33,874)**	–	**(61,257)**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to Loans to individuals during the year ended 31 December 2023 is as follows:

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2023	**1,729,594**	**30,377**	**110,951**	**1,870,922**
New assets originated or purchased	1,325,592	–	–	**1,325,592**
Change in accrued interest balance	3,753	199	(2,667)	**1,285**
Assets repaid	(635,762)	(7,794)	(15,669)	**(659,225)**
Transfer to 12-month ECL	18,546	(10,994)	(7,552)	**–**
Transfer to lifetime ECL not credit-impaired	(29,671)	30,647	(976)	**–**
Transfer to lifetime ECL credit-impaired	(32,827)	(7,776)	40,603	**–**
Recoveries of amounts previously written off	–	–	351	**351**
Write-offs	–	–	(10,727)	**(10,727)**
At 31 December 2023	**2,379,225**	**34,659**	**114,314**	**2,528,198**

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(19,345)**	**(5,533)**	**(87,589)**	**(112,467)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(20,886)	–	–	**(20,886)**
Change in accrued interest balance	(407)	(70)	(1,737)	**(2,214)**
Assets repaid	6,026	1,314	12,893	**20,233**
Transfer to 12-month ECL	(7,267)	1,806	5,461	**–**
Transfer to lifetime ECL not credit-impaired	385	(1,439)	1,054	**–**
Transfer to lifetime ECL credit-impaired	540	1,873	(2,413)	**–**
Net remeasurement of ECL	16,217	(4,747)	(23,484)	**(12,014)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwind of discount	–	–	(3,209)	**(3,209)**
Recoveries of amounts previously written off	–	–	(351)	**(351)**
Write-offs	–	–	10,727	**10,727**
At 31 December 2023	**(24,737)**	**(6,796)**	**(88,648)**	**(120,181)**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

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

An analysis of changes in the gross carrying value and corresponding ECL in relation to Loans to legal entities during the year ended 31 December 2022 was as follows:

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
Gross carrying value as at 1 January 2022	**1,550,764**	**9,641**	**30,527**	**–**	**1,590,932**
New assets originated or purchased	650,044	–	–	3,011	**653,055**
Change in accrued interest balance	7,851	–	2,326	30	**10,207**
Assets repaid	(605,470)	(4,319)	(6,059)	–	**(615,848)**
Transfer to 12−month ECL	5,106	(5,081)	(25)	–	**–**
Transfer to lifetime ECL not credit−impaired	(21,503)	21,503	–	–	**–**
Transfer to lifetime ECL credit−impaired	(21,091)	(188)	21,279	–	**–**
Recoveries of amounts previously written off	–	–	1,251	–	**1,251**
At 31 December 2022	**1,565,701**	**21,556**	**49,299**	**3,041**	**1,639,597**

Loans to legal entities	***Stage 1***	***Stage 2***	***Stage 3***	***POCI***	***Total***
ECL as at 1 January 2022	**(20,280)**	**(331)**	**(18,802)**	**–**	**(39,413)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss					
New assets originated or purchased	(9,576)	–	–	–	**(9,576)**
Change in accrued interest balance	(90)	–	(1,129)	–	**(1,219)**
Assets repaid	7,477	127	4,339	–	**11,943**
Transfer to 12−month ECL	(201)	189	12	–	**–**
Transfer to lifetime ECL not credit−impaired	535	(535)	–	–	**–**
Transfer to lifetime ECL credit−impaired	1,322	7	(1,329)	–	**–**
Net remeasurement of ECL	3,908	(790)	(10,986)	–	**(7,868)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss					
Unwind of discount	–	–	(2,604)	–	**(2,604)**
Recoveries of amounts previously written off	–	–	(1,251)	–	**(1,251)**
At 31 December 2022	**(16,905)**	**(1,333)**	**(31,750)**	–	**(49,988)**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

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

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

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**1,358,618**	**30,452**	**100,129**	**1,489,199**
New assets originated or purchased	906,955	–	–	**906,955**
Change in accrued interest balance	4,831	220	129	**5,180**
Assets repaid	(504,104)	(8,006)	(18,375)	**(530,485)**
Transfer to 12-month ECL	20,222	(12,564)	(7,658)	**–**
Transfer to lifetime ECL not credit-impaired	(23,597)	26,031	(2,434)	**–**
Transfer to lifetime ECL credit-impaired	(33,331)	(5,756)	39,087	**–**
Recoveries of amounts previously written off	–	–	472	**472**
Write-offs	–	–	(399)	**(399)**
At 31 December 2022	**1,729,594**	**30,377**	**110,951**	**1,870,922**

Loans to individuals	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(21,432)**	**(5,788)**	**(78,672)**	**(105,892)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(16,721)	–	–	**(16,721)**
Change in accrued interest balance	(583)	(65)	(55)	**(703)**
Assets repaid	7,089	1,458	13,962	**22,509**
Transfer to 12-month ECL	(7,386)	2,264	5,122	**–**
Transfer to lifetime ECL not credit-impaired	2,055	(3,739)	1,684	**–**
Transfer to lifetime ECL credit-impaired	6,825	1,353	(8,178)	**–**
Net remeasurement of ECL	10,808	(1,016)	(17,206)	**(7,414)**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwind of discount	–	–	(4,173)	**(4,173)**
Recoveries of amounts previously written off	–	–	(472)	**(472)**
Write-offs	–	–	399	**399**
At 31 December 2022	**(19,345)**	**(5,533)**	**(87,589)**	**(112,467)**

(Figures in tables are in thousands of Azerbaijani manats)

9. Loans to customers (continued)

Modified and restructured loans

The Bank 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.

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 Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

The table below includes Stage 2 and Stage 3 assets that were modified during the period, with the related modification loss suffered by the Bank.

	2023	***2022***
Loans modified during the period		
Amortised cost before modification	3,367	15,875
Net modification loss	141	(608)

(Figures in tables are in thousands of Azerbaijani manats)

10. Property, equipment and intangible assets

The movements in property and equipment were as follows:

Historical cost / revalued amount	*Office premises*	*Leasehold improvements*	*Furniture, fixtures, vehicles, and other fixed assets*	*Computers and communication equipment*	*Total property and equipment*	*Intangible assets*	*Total property, equipment and intangible assets*
As at 31 December 2021	**131,586**	**5,190**	**82,272**	**81,083**	**300,131**	**34,324**	**334,455**
Additions	5,787	1,397	7,967	7,808	**22,959**	13,958	**36,917**
Disposals and write-offs	–	–	(436)	(6,396)	**(6,832)**	(7,556)	**(14,388)**
Impairment	(1,969)	–	–	–	**(1,969)**	–	**(1,969)**
Revaluation	(2,842)	–	–	–	**(2,842)**	–	**(2,842)**
As at 31 December 2022	**132,562**	**6,587**	**89,803**	**82,495**	**311,447**	**40,726**	**352,173**
Additions	3,566	3,900	9,013	10,933	**27,412**	7,503	**34,915**
Disposals and write-offs	–	(1,336)	(5,299)	(2,964)	**(9,599)**	(8,586)	**(18,185)**
Reversal of impairment	2,955	–	–	–	**2,955**	–	**2,955**
Revaluation	927	–	–	–	**927**	–	**927**
As at 31 December 2023	**140,010**	**9,151**	**93,517**	**90,464**	**333,142**	**39,643**	**372,785**

(Figures in tables are in thousands of Azerbaijani manats)

10. Property, equipment and intangible assets (continued)

Accumulated depreciation and impairment	***Office premises***	***Leasehold improvements***	***Furniture, fixtures, vehicles, and other fixed assets***	***Computers and communication equipment***	***Total property and equipment***	***Intangible assets***	***Total property, equipment and intangible assets***
As at 31 December 2021	**–**	**(3,412)**	**(66,454)**	**(56,682)**	**(126,548)**	**(12,344)**	**(138,892)**
Depreciation charge	(3,656)	(297)	(4,475)	(5,568)	**(13,996)**	(11,432)	**(25,428)**
Disposals and write-offs	–	–	481	5,966	**6,447**	7,508	**13,955**
Revaluation	3,656	–	–	–	**3,656**	–	**3,656**
As at 31 December 2022	**–**	**(3,709)**	**(70,448)**	**(56,284)**	**(130,441)**	**(16,268)**	**(146,709)**
Depreciation charge	(3,984)	(992)	(5,744)	(7,295)	**(18,015)**	(9,740)	**(27,755)**
Disposals and write-offs	–	1,305	5,215	3,051	**9,571**	8,586	**18,157**
Revaluation	3,984	–	–	–	**3,984**	–	**3,984**
As at 31 December 2023	**–**	**(3,396)**	**(70,977)**	**(60,528)**	**(134,901)**	**(17,422)**	**(152,323)**
Net book value							
As at 31 December 2021	**131,586**	**1,778**	**15,818**	**24,401**	**173,583**	**21,980**	**195,563**
As at 31 December 2022	**132,562**	**2,878**	**19,355**	**26,211**	**181,006**	**24,458**	**205,464**
As at 31 December 2023	**140,010**	**5,755**	**22,540**	**29,936**	**198,241**	**22,221**	**220,462**

As at 31 December 2023 and 2022, fully depreciated assets in use were included in property, equipment and intangible assets in the amount of AZN 97,174 thousand and AZN 101,116 thousand, respectively.

As at 31 December 2023 and 2022 premises owned by the Bank were recognised at fair value. The valuation was carried out by an independent firm of appraisers, who hold relevant professional qualifications and who have experience in the valuation of assets in similar locations and in a similar category. The fair value is determined by reference to market-based evidence. The sales comparison method (comparative approach) was used by the independent appraisers engaged by the Bank for the valuation of the premises. As at 31 December 2023 and 2022, the fair value of the Bank's premises was categorised within Level 3 within the fair value hierarchy.

The following table summarises the sensitivity of the fair value measurement of the Bank's premises categorised within Level 3 of the fair value hierarchy to changes in unobservable inputs as at 31 December 2023.

Input	***Description of input***	***Description of sensitivity***
Trade discount (difference between bid and ask price)	Local realtors were interviewed, and the resulting discount interval on bargain was found to be between 10% and 15%	The corrective adjustment on bargain may vary from 10% to 15%. An increase in the trade discount input might lead to a decrease in the fair value of the Bank's premises

(Figures in tables are in thousands of Azerbaijani manats)

11. Other assets and liabilities

As at 31 December, other assets comprise:

	2023	*2022*
Other financial assets		
Funds in settlement	84,377	39,601
Receivable from Azerbaijan Deposit Insurance Fund	49,615	–
Pledged funds with non-resident organisations	13,524	12,215
Accrued commission and receivables from settlement of off-balance sheet commitments	7,151	8,530
Allowance for impairment of other assets	(7,262)	(8,324)
	147,405	**52,022**
Other non-financial assets		
Right-of-use assets	18,567	9,294
Prepayments	14,407	7,078
Deferred expense	5,688	4,138
Repossessed collateral	3,782	2,972
	42,444	**23,482**
Other assets	**189,849**	**75,504**

The Bank has been appointed as the agent bank by the ADIF to settle the claims of individuals who have deposits in the "Muganbank" OJSC, following the termination of its license on 27 November 2023. Those individuals may approach the Bank and receive compensation to which they are entitled. As a result, the Bank has reimbursed ~ AZN 75,930 thousand of the deposits of the "Muganbank" OJSC customers out of which AZN 26,315 thousand has been received from ADIF and the remaining AZN 49,615 thousand has been recognized as receivable from ADIF.

Other liabilities as at 31 December comprise:

	2023	*2022*
Other financial liabilities		
Funds in settlement	78,638	52,006
Lease liability	19,888	10,170
Credit loss allowance for credit-related commitments	12,734	19,541
Dividends payable to shareholders	58	287
	111,318	**82,004**
Other non-financial liabilities		
Payables to employees	40,005	31,251
Payables to local budget	11,774	5,107
Taxes other than income tax	9,966	8,113
Obligations for legal claims	6,700	–
Deferred revenue on plastic cards	6,109	6,952
Provision for other contingencies and commitments	1,971	1,838
	76,525	**53,261**
Other liabilities	**187,843**	**135,265**

The movements in allowances for impairment under IFRS 9 of other financial assets at amortised cost during the year ended 31 December 2023 and 31 December 2022 were insignificant.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of the credit risk.

	31 December 2023			*31 December 2022*		
	Notional amount	*Fair values*		*Notional amount*	*Fair value*	
		Asset	*Liability*		*Asset*	*Liability*
Foreign exchange contracts						
Swaps – domestic	121,632	46	–	–	–	–
Total derivative assets		**46**	**–**		**–**	**–**

(Figures in tables are in thousands of Azerbaijani manats)

11. Other assets and liabilities (continued)

The loss allowance for credit related commitments and provision for other contingencies and commitments comprise the following:

	2023	*2022*
Credit-related commitments	12,734	19,541
Performance guarantees	1,971	1,838
Credit loss allowance for credit-related commitments and provision for other contingencies and commitments	**14,705**	**21,379**

12. Due to banks and other financial institutions

As at 31 December, due to banks and other financial institutions comprise:

	2023	*2022*
Time deposits of resident banks and other financial institutions	310,285	2,553
Correspondent accounts of resident banks	85,641	32,496
Correspondent accounts of non-resident banks	39,924	40,520
Payables under repurchase agreements	45,062	–
Due to banks and other financial institutions	**480,912**	**75,569**

As at 31 December 2023, debt securities at FVOCI in total amount of AZN 26,080 thousand (31 December 2022: zero) and debt securities at amortised cost in the amount of AZN 19,210 thousand (31 December 2022: zero) are pledged as collateral for repurchase agreements with banks and other financial institutions.

13. Customer accounts

As at 31 December, the amounts due to customers include the following:

	2023	*2022*
Legal entities		
- Current/settlement accounts	6,444,001	8,738,802
- Term deposits	1,120,186	231,367
- Restricted customer deposits	407,307	287,378
Total legal entities	**7,971,494**	**9,257,547**
Individuals		
- Current/settlement accounts	1,444,729	1,206,697
- Term deposits	741,034	705,597
- Restricted customer deposits	–	209
Total individuals	**2,185,763**	**1,912,503**
Customer accounts	**10,157,257**	**11,170,050**

As at 31 December 2023, customer accounts included balances with the ten (31 December 2022: ten) largest customers in the amount of AZN 4,520,753 thousand or 44% of the total customer accounts portfolio (31 December 2022: AZN 6,280,650 thousand or 56% of the total customer accounts portfolio).

As at 31 December 2023, customer accounts included balances blocked with the Bank against letters of credit and letter of guarantees in the amount of AZN 407,307 thousand (as at 31 December 2022: AZN 287,378 thousand).

(Figures in tables are in thousands of Azerbaijani manats)

13. Customer accounts (continued)

An analysis of customer accounts by economic sector as at 31 December is as follows:

	2023	*2022*
Analysis by economic sector / customer type		
Government related entities	6,377,947	7,954,328
Individuals	2,185,763	1,912,503
Trade and service	860,988	803,722
Construction	194,546	106,310
Transportation and communication	143,835	164,949
Manufacturing	121,097	37,550
Energy	98,069	94,269
Public organizations	59,918	37,377
Other	115,094	59,042
Customer accounts	**10,157,257**	**11,170,050**

14. Other borrowed funds

As at 31 December, other borrowed funds comprise:

	2023	*2022*
Term borrowings from the CBAR	–	77,676
National Fund for Support of Entrepreneurship and the Mortgage Fund (the Republic of Azerbaijan)	214,519	151,349
Total other borrowed funds	**214,519**	**229,025**

15. Debt securities issued

As at 31 December, debt securities issued comprise:

	2023	*2022*
Eurobonds	484,758	483,939
Local bonds	12,210	20,107
Certificates of deposit	–	1,364
Debt securities issued	**496,968**	**505,410**

As at 31 December 2023, the Bank had one class of Eurobonds issued in September 2017 with coupon rate of 3.5% p.a maturing in September 2024. The Bank is obliged to comply with certain non−financial covenants in relation to these Eurobonds. As at 31 December 2023, the Bank was in compliance with these covenants.

The Bank also issued bonds in June 2022 with a total face value of AZN 20,000 thousand and a coupon rate of 6% p.a maturing in June 2024. In 2023, the Bank repurchased back bonds with the cash consideration of AZN 8,000 thousand.

In 2023 the Bank repurchased back Eurobonds with the cash consideration of AZN 12,145 thousand (2022: AZN 262,936 thousand), resulting in loss recognized in the amount of AZN 199 thousand (2022: AZN 11,085 thousand).

(Figures in tables are in thousands of Azerbaijani manats)

16. Taxation

Deferred tax assets and liabilities as at 31 December comprise:

	2023	*Deferred tax recognised in profit or loss*	*Deferred tax recognised in other comprehensive income*	*2022*	*2021*
Deferred tax assets/(liabilities) in relation to:					
Due from banks and loans to customers	**(41,930)**	(16,853)	–	**(25,077)**	**(19,141)**
Investment securities	**(17,173)**	1,172	(7,588)	**(10,757)**	**(23,032)**
Property, equipment and intangible assets	**(5,595)**	(3,307)	(982)	**(1,306)**	**1,734**
Debt securities issued	**(2,013)**	2,721	–	**(4,734)**	**(10,529)**
Other assets	**479**	(1,849)	–	**2,328**	**5,293**
Other liabilities	**19,453**	10,329	–	**9,124**	**(20,027)**
Others	**(1,179)**	**(887)**	**–**	**(292)**	**(475)**
Net deferred tax liability	**(47,958)**	**(8,674)**	**(8,570)**	**(30,714)**	**(66,177)**

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2023	*2022*
Profit before tax	**447,741**	**364,900**
Tax expense at the statutory tax rate (20%)	**(89,548)**	**(72,980)**
Tax effect of permanent differences	(1,649)	(2,112)
Withholding tax on dividend from subsidiaries	2,280	2,188
Other	(425)	(2,406)
Income tax expense	**(89,342)**	**(75,310)**
Current income tax expense	(80,668)	(96,754)
Deferred tax (charge) / benefit recognised in profit or loss	(8,674)	21,444
Income tax expense	**(89,342)**	**(75,310)**

Deferred income tax liabilities	*2023*	*2022*
Deferred tax liabilities at 1 January	**(30,714)**	**(66,177)**
Change in deferred income tax balances recognised in profit or loss	(8,674)	21,444
Change in deferred income tax recognised in other comprehensive income	(8,570)	14,019
Deferred income tax liabilities at 31 December	**(47,958)**	**(30,714)**
Net deferred income tax liability	**(47,958)**	**(30,714)**

17. Equity

The Bank's share capital as at 31 December comprises the following shares:

Ordinary shares (par value of 0.27 AZN)	*Number of paid-in shares (in thousands)*	*Share capital*
As at 1 January 2022	4,597,359	1,241,287
Liquidation of shares	(57,922)	(15,639)
As at 31 December 2022	4,539,437	1,225,648
As at 31 December 2023	4,539,437	1,225,648

All ordinary shares have a nominal value of AZN 0.27 per share as at 31 December 2023 and 2022 and rank equally. Each share carries one vote.

On 3 July 2023, in accordance with a resolution of the Annual General Meeting of Shareholders, the Bank declared a dividend of AZN 156,600 thousand (2022: AZN 125,000 thousand). The dividend per share is AZN 0.04 (2022: AZN 0.03).

(Figures in tables are in thousands of Azerbaijani manats)

17. Equity (continued)

Dividend movement comprises:

	2023	*2022*
Dividend payable to Shareholders at 1 January	**287**	**5,347**
Dividend declared	156,600	125,000
Dividend off-set with Receivables from CJSC Agrarkredit (Note 18)	(324)	(258)
Liquidation of previously declared dividends	–	(4,875)
Dividend paid	(156,505)	(124,713)
Other changes	–	(214)
Dividend payable to Shareholders at 31 December	**58**	**287**

Revaluation reserve for premises

The revaluation reserve for property and equipment is used to record increases in the fair value of premises and decreases to the extent that such a decrease relates to an increase on the same asset previously recognised in equity through other comprehensive income.

Retained earnings and other reserves

Retained earnings and other reserves include results from transactions with shareholders acting in their capacity as shareholders. In turbulent economic conditions due to a continued decline in the quality of the Bank's assets, an increase in problematic loans and a decline in the liquidity position of the Bank, the Government of Azerbaijan took a number of steps to strengthen the Bank's capital position and the quality of its assets. As part of these measures, certain of the problematic assets of the Bank were transferred in several tranches during 2015-2019 to CJSC Agrarkredit. The transfer of the problematic assets occurred at an agreed amount 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 retained earnings and other reserves of the Bank.

Earnings per share

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

	2023	*2022*
Net profit for the period attributable to shareholders of the Bank	358,399	289,590
Weighted average number of ordinary shares in issue (excluding the liquidated shares)	4,539,437	4,539,437
Earnings per share − basic and diluted (AZN)	**0.08**	**0.06**

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

18. Balances with CJSC "Agrarkredit"

During 2015-2019, the Government of Azerbaijan was taking a number of steps to strengthen the Bank's capital position and the quality of its assets. As a result of restructuring of Bank's assets, the Bank received promissory notes of CJSC "Agrarkredit" in exchange of transfer of problematic assets. The value of promissory notes received from CJSC "Agrarkredit" in 2017 exceeded the gross nominal value of corresponding problematic assets transferred, for which the Payables to CJSC "Agrarkredit" was recognized in the statement of financial position and held as security against defaults in certain guarantees and letters of credit (Note 19).

During 2022, the Bank offset dividends payable to State Budget in amount of AZN 258 thousand resulting from the dividend declaration of 30 June 2022 with promissory notes received from CJSC Agrarkredit. The remaining part of declared dividends was paid to shareholders in cash during 2022, as CJSC Agrarkredit repaid a portion of its promissory notes to the Bank in amount of AZN 91,412 thousand in cash.

During 2023, the Bank offset dividends payable to CJSC Agrarkredit in amount of AZN 324 thousand resulting from the dividend declaration of 3 July 2023 with promissory notes received from CJSC Agrarkredit.

At 31 December 2023, the gross balance of Receivables from CJSC "Agrarkredit" and Payables to "Agrarkredit" amounted to AZN 296,462 thousand and AZN 61,950 thousand, respectively (31 December 2022: AZN 384,959 thousand and AZN 63,030 thousand, respectively). As at 31 December 2023, the ECL relating to Receivable from CJSC "Agrarkredit" of the Bank is AZN 1,560 thousand (31 December 2022: AZN 1,985 thousand).

(Figures in tables are in thousands of Azerbaijani manats)

19. Commitments and contingencies

Operating environment

The Bank conducts all its operations in the Republic of Azerbaijan. The economy of Azerbaijan is particularly sensitive to hydrocarbon prices. However, 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 hydrocarbon sector, which currently accounts for almost half of the country's GDP.

Economic performance

GDP of Azerbaijan grew by 4.6% in 2022, driven by strong growth in the oil and non-oil sector, which is largely due to increased foreign currency inflows as the high global prices of hydrocarbons boosted export revenues. Increased money supply, as a result of these factors, led to surplus liquidity and record high profits in banking sector during 2023, coupled with considerable decrease in default rates.

Global hydrocarbon prices experienced decline during the second half of 2022 and most of 2023, before slightly rebounding during September – October period of 2023. The country's GDP grew by only 1.8% in 2023.

The high average hydrocarbon prices during 2022 and 2023 added additional stability to the local currency.

Monetary policy

During 2022 and 2023 the CBAR actively controlled the refinancing rate and mandatory reserve requirements to promptly react to inflation and liquidity levels in the banking sector. In 2022, which was marked with high inflation rates, the refinancing rate was increased from 7.5% to 8.25%. During 2023, however, the inflation slowed down considerably, from 13.9% in the previous year to 8.8% at the conclusion of 2023. The CBAR reduced the refinancing rate to 8.00% as at 31 December 2023. In contrast, the CBAR's mandatory reserve ratios have been tightened in 2023 in response to considerable increase in surplus liquidity in the banking sector.

During 2022 and 2023, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period.

Credit Rating Assessment

During 2023 global rating agencies assessed Azerbaijani Government`s credit rating as "Ba1". Assessment reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future shocks despite the post pandemic period. Fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices.

Management response

The Bank'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 Bank's business in the foreseeable future. The Bank considers its current liquidity position to be sufficient for its sustainable functioning. The Bank monitors its liquidity position on a daily basis.

Legal

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

Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities. Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. The last tax inspection covered the year ended 31 December 2018.

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

(Figures in tables are in thousands of Azerbaijani manats)

19. Commitments and contingencies (continued)

Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

Compliance with the CBAR ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2023, the Bank was in compliance with these ratios.

Financial commitments and contingencies

The Bank provides guarantees and letters of credit to customers with the primary purpose of ensuring that funds are available to customers as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate, or cash deposits and, therefore, carry less risk than direct lending.

Financial commitments and contingencies as at 31 December comprise:

Commitments and contingencies	***2023***	***2022***
Guarantees	818,834	798,817
Letters of credit	493,732	285,450
Undrawn loan commitments	539,157	1,186,513
Less: allowance	(14,705)	(21,379)
Commitments and contingencies	**1,837,018**	**2,249,401**
Cash held as security against guarantees and letters of credit	(409,687)	(291,776)
Cash received from CJSC Agrarkredit held as security against guarantees and letters of credit*	(61,950)	(63,030)

* *Promissory notes in the amount of AZN 61,950 thousand were pledged on behalf of CJSC Agrarkredit to the Bank in case certain issued letters of credit or guarantees are defaulted on.*

An analysis of changes in the ECLs during the year ended 31 December 2023 is as follows:

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(9,420)**	**–**	**(799)**	**(10,219)**
New exposures originated or purchased	(2,860)	(14)	–	**(2,874)**
Exposures derecognised or matured (excluding write-offs)	4,696	–	799	**5,495**
Transfer to 12-month ECL	–	–	–	**–**
Transfer to lifetime ECL not credit-impaired	53	(53)	–	**–**
Transfer to lifetime ECL credit-impaired	–	–	–	**–**
Net remeasurement of ECL	1,304	40	–	**1,344**
Movements without impact on (Provision)/reversal of provision for credit related commitments and other impairment in profit or loss				
Payments for letter of financial guarantee	–	–	–	**–**
At 31 December 2023	**(6,227)**	**(27)**	**–**	**(6,254)**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(39)**	**–**	**–**	**(39)**
New exposures originated or purchased	(344)	–	–	**(344)**
Exposures derecognised or matured (excluding write−offs)	30	–	–	**30**
Net remeasurement of ECL	9	–	–	**9**
At 31 December 2023	**(344)**	**–**	**–**	**(344)**

(Figures in tables are in thousands of Azerbaijani manats)

19. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

Undrawn commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2023	**(6,468)**	**(190)**	**(2,625)**	**(9,283)**
New exposures originated or purchased	(3,158)	–	–	**(3,158)**
Exposures derecognised or matured (excluding write-offs)	4,486	265	2,053	**6,804**
Transfer to 12-month ECL	(250)	57	193	**–**
Transfer to lifetime ECL not credit-impaired	12	(24)	12	**–**
Transfer to lifetime ECL credit-impaired	11	(11)	–	**–**
Net remeasurement of ECL	199	(231)	(467)	**(499)**
At 31 December 2023	**(5,168)**	**(134)**	**(834)**	**(6,136)**

An analysis of changes in the ECLs during the year ended 31 December 2022 is as follows:

Financial guarantees	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(10,232)**	**(63)**	**(613)**	**(10,908)**
New exposures originated or purchased	(3,884)	–	(1,095)	**(4,979)**
Exposures derecognised or matured (excluding write-offs)	3,663	12	416	**4,091**
Transfer to 12-month ECL	(51)	51	–	**–**
Transfer to lifetime ECL not credit-impaired	–	–	–	**–**
Transfer to lifetime ECL credit-impaired	143	–	(143)	**–**
Net remeasurement of ECL	941	–	(2,966)	**(2,025)**
Movements without impact on (Provision)/reversal of provision for credit related commitments and other impairment in profit or loss				
Payments for letter of financial guarantee	–	–	3,602	**3,602**
At 31 December 2022	**(9,420)**	**–**	**(799)**	**(10,219)**

Letters of credit	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(99)**	**–**	**–**	**(99)**
New exposures originated or purchased	(39)	–	–	**(39)**
Exposures derecognised or matured (excluding write-offs)	99	–	–	**99**
Net remeasurement of ECL	–	–	–	**–**
At 31 December 2022	**(39)**	**–**	**–**	**(39)**

Undrawn commitments	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL as at 1 January 2022	**(9,779)**	**(256)**	**(2,577)**	**(12,612)**
New exposures originated or purchased	(2,243)	(27)	(110)	**(2,380)**
Exposures derecognised or matured (excluding write-offs)	4,731	229	457	**5,417**
Transfer to 12-month ECL	(1,041)	135	906	**–**
Transfer to lifetime ECL not credit-impaired	43	(54)	11	**–**
Transfer to lifetime ECL credit-impaired	66	25	(91)	**–**
Net remeasurement of ECL	1,755	(242)	(1,221)	**292**
At 31 December 2022	**(6,468)**	**(190)**	**(2,625)**	**(9,283)**

The movements in gross amounts of credit-related commitments that most significantly contributed to changes in respective ECLs predominantly consist of exposures derecognised or matured.

An analysis of changes in the provision for performance guarantees and legal claims during the year ended 31 December 2023 is provided in Note 20.

(Figures in tables are in thousands of Azerbaijani manats)

20. Credit loss expense and other impairment

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans and receivables at amortised cost	9	(14,976)	(824)	(6,730)	**(22,530)**
Due from banks and other financial institutions	7	146	(93)	−	**53**
Debt securities at amortised cost	8	(1,570)	−	−	**(1,570)**
Debt securities at FVOCI	8	1,492	(18)	−	**1,474**
Receivables from CJSC Agrarkredit		425	−	−	**425**
Credit loss (expense)/reversal on interest bearing financial assets		**(14,483)**	**(935)**	**(6,730)**	**(22,148)**
Financial guarantees	19	3,193	(27)	799	**3,965**
Letters of credit	19	(305)	−	−	**(305)**
Undrawn loan commitments	19	1,300	56	1,791	**3,147**
Credit-related commitments		**4,188**	**29**	**2,590**	**6,807**
Other financial assets	11	1,062	−	−	**1,062**
(Provision)/reversal for credit losses on credit-related commitments and other financial assets		**5,250**	**29**	**2,590**	**7,869**
Credit loss reversal/(charge)		**(9,233)**	**(906)**	**(4,140)**	**(14,279)**

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

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans and receivables at amortised cost	9	5,462	(747)	(13,764)	**(9,049)**
Due from banks and other financial institutions	7	(419)	−	−	**(419)**
Debt securities at amortised cost	8	742	−	−	**742**
Debt securities at FVOCI	8	(2,280)	(1,431)	−	**(3,711)**
Receivables from CJSC Agrarkredit		676	−	−	**676**
Credit loss reversal on interest bearing financial assets		**4,181**	**(2,178)**	**(13,764)**	**(11,761)**
Financial guarantees	19	812	63	(3,788)	**(2,913)**
Letters of credit	19	60	−	−	**60**
Undrawn loan commitments	19	3,311	66	(48)	**3,329**
Credit-related commitments		**4,183**	**129**	**(3,836)**	**476**
Other financial assets	11	587	−	−	**587**
Reversal of provision for credit losses on credit-related commitments and other financial assets		**4,770**	**129**	**(3,836)**	**1,063**
Credit loss expense		**8,951**	**(2,049)**	**(17,600)**	**(10,698)**

Other impairment reversal affected the balances as follows:

	Performance guarantees	***Total***
1 January 2022	**(3,493)**	**(3,493)**
Reversal	1,655	**1,655**
31 December 2022	**(1,838)**	**(1,838)**
Reversal	(133)	**(133)**
31 December 2023	**(1,971)**	**(1,971)**

Provisions for ECL for credit-related commitments and provision on legal claims and performance guarantees are recorded within other non-financial liabilities (Note 11).

(Figures in tables are in thousands of Azerbaijani manats)

21. Fee and commission income and expense

Fee and commission income and expense for the year comprises:

	2023	*2022*
Plastic cards operations	99,105	63,964
Settlement transactions	18,056	15,023
Servicing guarantees and letters of credit	11,674	11,118
Cash transactions	5,962	5,739
Others	4,600	3,191
Fee and commission income	**139,397**	**99,035**
Plastic cards operations	(75,724)	(36,212)
Cash transactions	(7,039)	(10,321)
Settlement transactions	(4,414)	(4,460)
Others	(14,165)	(8,428)
Fee and commission expense	**(101,342)**	**(59,421)**
Net fee and commission income	**38,055**	**39,614**

22. Operating expenses

Operating expenses for the year comprise:

	2023	*2022*
Staff costs	(167,547)	(131,004)
Depreciation of premises, equipment, and right-of-use assets	(23,177)	(18,104)
Fees paid to deposit insurance funds	(14,777)	(12,127)
Consultancy and other professional services	(12,119)	(10,531)
Amortisation of software and other intangible assets	(9,740)	(11,432)
Advertising and marketing services	(9,494)	(6,317)
Software maintenance	(8,393)	(6,395)
Legal claims	(6,700)	–
Outsourced staffing and security	(3,749)	(3,107)
Premises and property maintenance	(3,132)	(3,363)
Customs duties and taxes other than on income	(2,746)	(2,964)
Stationary, books, printing, and other supplies	(1,877)	(2,283)
Communication	(1,794)	(1,826)
Utilities	(1,673)	(1,412)
Insurance expense	(1,561)	(1,301)
Charity and financial aid	(1,000)	(28)
Rent	(314)	(227)
Others	(6,624)	(3,939)
Operating expenses	**(276,417)**	**(216,360)**

Fees charged to the Bank for the provision of services by all EY network firms during the year covered by the financial statements are AZN 491,500 and AZN 285,078 for audit and non-audit services, respectively.

23. Risk management

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology or industry. They are monitored through the Bank's strategic planning process.

The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Introduction (continued)

Supervisory Board

The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Audit Committee

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for fundamental audit issues and monitoring Internal Audit's activities.

Management Board

The Management Board has the responsibility to monitor the overall risk process within the Bank.

Risk Committee

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Bank Treasury

The Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal Audit

Risk management processes throughout the Bank are audited annually by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions and liquidity ratios. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Supervisory Board receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits and liquidity, plus any other risk developments.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Risk management structure

Risk mitigation

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit and customer's deposit risks are controlled and managed accordingly.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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

Credit-related commitment risks

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

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

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

Impairment assessment

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD	The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL and results from default events on a financial instrument which are possible within 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank allocates its loans into Stage 1, Stage 2, Stage 3 or POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Default and credit-impaired assets:
  - Loans with the principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
  - Loans that have been restructured with significant NPV losses;
  - Any loan considered by management as non-performing.
- Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition;
- Default on other financial instruments of the same borrower;
- Default according to external rating.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

PD estimation process

The Bank has developed a scoring model for collective assessment. Each borrower in a credit portfolio is assigned a score based on the internal scoring model that creates scores for one-year PD assessments. Lifetime PD is calculated based on the migration matrices approach. The scoring model captures different risk levels depending on exposure/client characteristics and a total score is assigned to a contract based on the weighted sum of points for each characteristic of financial quality of a portfolio unit. To consider the impact of macroeconomic factors on probability of default, the sensitivity of probabilities to macroeconomic factors is calculated by a statistical regression method. Where practicable, PDs incorporate forward-looking macroeconomic information, and the IFRS 9 stage classifications of the exposure are assigned for each grade. This is repeated for each economic scenario as appropriate.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

Treasury and interbank relationships

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data (e.g., external ratings).

Consumer lending and residential mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs to the models are the oil price, exchange rate, annual real GDP growth, the unemployment rate and others.

Corporate and small business lending

The same approach and inputs for consumer lending apply to corporate and small business lending. For corporate loans that are significant to the Bank's financial statements, the borrowers are assessed by specialised credit risk employees of the Bank.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default as well as potential early repayments.

Loss given default

The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held. The recovery rate is estimated based on historical recoveries analysis.

The Bank segments its retail lending products into smaller homogeneous portfolios based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Where appropriate, further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each Bank of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios.

LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to a credit event. In certain cases, the Bank may also consider that events explained in the Definition of default section above comprise a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a Bank of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Banking financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

Asset classes where the Bank calculates ECL on an individual basis include:

- All significant Stage 3 assets, regardless of the class of financial assets;
- Treasury and interbank relationships (such as amount due from banks, cash equivalents and debt investment securities at amortised cost and FVOCI).

Asset classes where the Bank calculates ECL on a collective basis include:

- The smaller and more generic balances of the Bank's small business lending;
- Stage 1 and 2 retail mortgages, consumer lending and the corporate lending portfolio.

The Bank allocates these exposures to smaller homogeneous portfolios based on a combination of internal and external characteristics of the loans, for example an overdue bucket or a product type.

Forward-looking information and multiple economic scenarios

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- Oil prices;
- Real GDP growth year to year;
- Unemployment rates;
- Foreign exchange rates;
- CPI growth year to year.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Credit quality per class of financial assets

The Bank's internal credit rating grades are as follows:

Scoring based on probability of default for loans to customers	***S&P ratings' based on internal/external ratings for Financial Institutions***	***Internal rating description***
0%-10%	BBB+ to B-	Standard
10%-50%	CCC+ to C	Sub-standard
50%-100%	D	Impaired

The probability of default is used as a basis for internal ratings of corporate customers, while the S&P rating is used for financial institutions. Financial instruments are considered high grade when they are either rated AAA to A- or when they are denominated in AZN and are with (or guaranteed by) the Government of Azerbaijan.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank's internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

The table below shows gross balances as at 31 December 2023 based on the Bank's internal credit rating system:

	Note		*High grade*	*Standard grade*	*Sub−standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	1,739,812	357,965	−	−	**2,097,777**
Due from banks and other financial institutions	7	Stage 1	1,510,612	38,865	23,440	−	**1,572,917**
		Stage 3	−	−	−	1,659	**1,659**
Loans to customers	9						
− Legal entities		Stage 1	−	2,451,510	−	−	**2,451,510**
		Stage 2	−	114	5,001	−	**5,115**
		Stage 3	−	−	−	52,149	**52,149**
		POCI	−	−	−	3,605	**3,605**
− Individuals		Stage 1	−	2,349,249	29,976	−	**2,379,225**
		Stage 2	−	42	34,617	−	**34,659**
		Stage 3	−	−	−	114,314	**114,314**
Investment securities at FVOCI	8	Stage 1	178,447	801,263	−	−	**979,710**
		Stage 2	−	−	5,941	−	**5,941**
Investment securities at amortised cost	8	Stage 1	360,708	559,686	−	−	**920,394**
Investment securities at FVPL	8	Stage 1	−	3,415	−	−	**3,415**
Receivables from CJSC Agrarkredit	18	Stage 1	296,462	−	−	−	**296,462**
Other financial assets	11	Stage 1	63,139	84,377	508	−	**148,024**
		Stage 3	−	−	−	6,643	**6,643**
Undrawn loan commitments	19	Stage 1	−	533,152	523	−	**533,675**
		Stage 2	−	−	937	−	**937**
		Stage 3	−	−	−	4,545	**4,545**
Letters of credit	19	Stage 1	139,750	353,982	−	−	**493,732**
Performance guarantees	19	Stage 1	4	271,970	7	−	**271,981**
Financial guarantees	19	Stage 1	3	545,663	326	−	**545,992**
		Stage 2	−	861	−	−	**861**
Total			**4,288,937**	**8,352,114**	**101,276**	**182,915**	**12,925,242**

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

The table below shows gross balances as at 31 December 2022 based on the Bank's internal credit rating system:

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	6	Stage 1	3,861,695	1,033,798	–	–	**4,895,493**
Due from banks and other financial institutions		Stage 1	1,466,148	12,820	11,107	–	**1,490,075**
		Stage 3	–	–	–	1,659	**1,659**
Loans to customers	9						
		Stage 1	6,675	1,558,456	570	–	**1,565,701**
		Stage 2	–	899	20,657	–	**21,556**
- Legal entities		Stage 3	–	–	–	49,299	**49,299**
		POCI				3,041	**3,041**
- Individuals		Stage 1	–	1,660,404	69,190	–	**1,729,594**
		Stage 2	–	66	30,311	–	**30,377**
		Stage 3	–	–	–	110,951	**110,951**
Investment securities at FVOCI							
	8	Stage 1	1,657,920	800,190	5,835	–	**2,463,945**
		Stage 2	–	–	5,367	–	**5,367**
Investment securities at amortised cost	8	Stage 1	–	110,516	–	–	**110,516**
Receivables from CJSC Agrarkredit	18	Stage 1	384,959	–	–	–	**384,959**
	11	Stage 1	12,015	39,801	491	–	**52,307**
Other financial assets		Stage 3	–	–	–	8,039	**8,039**
Undrawn loan commitments	19						
		Stage 1	490,000	683,899	1,384	–	**1,175,283**
		Stage 2	–	1,458	1,527	–	**2,985**
		Stage 3	–	–	–	8,245	**8,245**
Performance guarantees	19	Stage 1	15	236,900	27	–	**236,942**
Letters of credit	19	Stage 1	215,512	69,938	–	–	**285,450**
Financial guarantees	19	Stage 1	6,022	551,740	1,561	–	**559,323**
		Stage 3	–	–	–	2,552	**2,552**
Total			**8,100,961**	**6,760,885**	**148,027**	**183,786**	**15,193,659**

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Credit risk (continued)

Geographical concentration information is based on location of the Bank's financial assets and liabilities. As at 31 December 2023 and 2022, the geographical concentration of the Bank's financial assets and liabilities is set out as below:

	2023				*2022*			
	The Republic of Azerbaijan	*OECD countries*	*CIS and other non-OECD countries*	*Total*	*The Republic of Azerbaijan*	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Financial assets								
Cash and cash equivalents	1,147,375	1,373,795	21,118	**2,542,288**	1,539,762	3,307,822	407,054	**5,254,638**
Mandatory cash balances with central banks	1,823,366	–	–	**1,823,366**	470,112	–	–	**470,112**
Due from banks and other financial institutions	1,545,981	25,100	–	**1,571,081**	1,473,037	11,446	3,703	**1,488,186**
Investment securities	1,825,831	154,255	26,901	**2,006,987**	1,260,297	1,381,645	17,464	**2,659,406**
Loans to customers	4,859,139	–	–	**4,859,139**	3,348,064	–	–	**3,348,064**
Receivables from CJSC Agrarkredit	294,902	–	–	**294,902**	382,974	–	–	**382,974**
Other financial assets	133,881	13,524	–	**147,405**	39,807	12,215	–	**52,022**
Total	**11,630,475**	**1,566,674**	**48,019**	**13,245,168**	**8,514,053**	**4,713,128**	**428,221**	**13,655,402**
Financial liabilities								
Due to banks and other financial institutions	436,253	1,498	43,161	**480,912**	35,067	549	39,953	**75,569**
Customer accounts	9,781,159	37,859	338,239	**10,157,257**	10,750,829	60,848	358,373	**11,170,050**
Payables to CJSC Agrarkredit	61,950	–	–	**61,950**	63,030	–	–	**63,030**
Other borrowed funds	214,519	–	–	**214,519**	229,025	–	–	**229,025**
Debt securities issued	12,060	484,908	–	**496,968**	21,471	483,939	–	**505,410**
Other financial liabilities	111,318	–	–	**111,318**	82,004	–	–	**82,004**
Total	**10,617,259**	**524,265**	**381,400**	**11,522,924**	**11,181,426**	**545,336**	**398,326**	**12,125,088**
Net assets/ (liabilities)	**1,013,216**	**1,042,409**	**(333,381)**	**1,722,244**	**(2,667,373)**	**4,167,792**	**29,895**	**1,530,314**

Liquidity risk and funding management

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains obligatory reserves with the CBAR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. As at 31 December 2023 and 2022, these ratios were as follows:

	2023, %	*2022, %*
Instant Liquidity Ratio (30% is the minimum required by the CBAR) (assets receivable or realisable within one day* / liabilities repayable on demand)	40	50

* *The deposits held in the CBAR are not taken into account.*

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2023 and 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank does not expect many customers to request repayment on the earliest date the Bank could be required to pay and believes that the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*Over 12 months*	*Total 2023*
As at 31 December 2023					
Due to banks and other financial institutions	436,600	45,238	–	–	**481,838**
Customer accounts	8,591,444	673,874	501,147	490,044	**10,256,509**
Payables to CJSC Agrarkredit	61,950	–	–	–	**61,950**
Other borrowed funds	8,103	24,615	13,514	275,565	**321,797**
Debt securities issued	–	21,860	497,983	–	**519,843**
Other financial liabilities (excluding credit loss allowance for credit related commitments)	79,921	3,209	3,595	24,140	**110,865**
Total undiscounted financial liabilities	**9,178,018**	**768,796**	**1,016,239**	**789,749**	**11,752,802**

Financial liabilities	*Less than 1 month*	*1 to 6 months*	*6 to 12 months*	*Over 12 months*	*Total 2022*
As at 31 December 2022					
Due to banks and other financial institutions	72,941	106	2,522	–	**75,569**
Customer accounts	10,296,039	263,574	369,646	286,569	**11,215,828**
Payables to CJSC Agrarkredit	63,030	–	–	–	**63,030**
Other borrowed funds	14,180	88,337	10,977	187,411	**300,905**
Debt securities issued	–	11,126	9,741	540,248	**561,115**
Other financial liabilities (excluding credit loss allowance for credit related commitments)	50,980	1,432	1,469	8,464	**62,345**
Total undiscounted financial liabilities	**10,497,170**	**364,575**	**394,355**	**1,022,692**	**12,278,792**

As of 31 December 2023, other borrowed funds included balances to Mortgage and Credit Guarantee Fund in the amount of AZN 137,617 thousand (31 December 2022: AZN 106,725 thousand) maturing within more than 5 years.

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies.

	Up to 1 month	*1 to 6 months*	*6 to 12 months*	*More than 12 months*	*Total*
As at 31 December 2023	726,514	588,942	292,112	244,155	**1,851,723**
As at 31 December 2022	1,257,405	485,031	272,160	256,184	**2,270,780**

The Bank's financial commitments and contingencies are contractually on demand. However, the Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from organisations of related parties in the period of one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank.

Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

In addition, the Bank has a significant amount held in the CBAR, which can be used to mitigate any negative impacts in case of withdrawals.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in the amounts due in less than one month in the tables above.

(Figures in tables are in thousands of Azerbaijani manats)

23. Risk management (continued)

Operational risk

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

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges and equity prices. The Bank manages exposures to market risk based on sensitivity analysis. The Bank has no significant concentration of market risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2023. The Bank does not have a substantial amount of floating rate non-trading financial instruments as at 31 December 2023 and 2022.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its statement of financial position and statement of cash flows.

The Assets and Liabilities Management Committee controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Bank an opportunity to minimize losses from significant currency rate fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Bank’s open currency position with the aim to meet the regulatory requirements.

Currency risk sensitivity

The following table details the Bank’s sensitivity to increases and decreases in the USD and EUR against the AZN. These are the sensitivity rates used when reporting foreign currency risk internally to key management personnel and represent management’s assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the end of the period for specified changes in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

Impact on profit before tax based on asset and liabilities values as at 31 December 2023 and 2022:

	31 December 2023		***31 December 2022***	
USD	+10% / -10%	(107,048) / 107,048	+20% / -3%	(47,380) / 7,107
EUR	+10% / -10%	497 / (497)	+20% / -9%	2,200 / (990)

Impact on other comprehensive income based on asset and liabilities values as at 31 December 2023 and 2022:

	31 December 2023		***31 December 2022***	
USD	+10% / -10%	9,969 / (9,969)	+20% / -3%	16,034 / (2,405)

(Figures in tables are in thousands of Azerbaijani manats)

24. Fair value measurements

Fair value hierarchy

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

		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 at FVOCI	31 December 2023	932,181	153,158	–	**1,085,339**
Investment securities at FVPL	31 December 2023	3,415	–	–	**3,415**
Office premises	31 December 2023	–	–	140,010	**140,010**
Assets for which fair values are disclosed					
Investment securities at amortised cost	31 December 2023	559,154	250,703	110,531	**920,388**
Loans to customers	31 December 2023	–	198,670	4,675,506	**4,874,176**

		Fair value measurement using			
As at 31 December 2023	***Date of valuation***	***Quoted prices in active markets (Level 1)***	***Significant observable inputs (Level 2)***	***Significant unobservable inputs (Level 3)***	***Total***
Liabilities for which fair values are disclosed					
Customer accounts	31 December 2023	–	8,295,922	1,867,080	**10,163,002**
Other borrowed funds	31 December 2023	–	214,519	–	**214,519**
Debt securities issued	31 December 2023	12,040	468,071	–	**480,111**

		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 at FVOCI	31 December 2022	2,216,260	329,816	3,405	**2,549,481**
Office premises	31 December 2022	–	–	132,562	**132,562**
Assets for which fair values are disclosed					
Investment securities at amortised cost	31 December 2022	–	–	105,162	**105,162**
Loans to customers	31 December 2022	–	172,051	3,217,323	**3,389,374**

(Figures in tables are in thousands of Azerbaijani manats)

24. Fair value measurement (continued)

Fair value hierarchy (continued)

As at 31 December 2022	*Date of valuation*	*Fair value measurement using* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	*Total*
Liabilities for which fair values are disclosed					
Customer accounts	31 December 2022	–	10,232,877	937,173	**11,170,050**
Other borrowed funds	31 December 2022	–	229,025	–	**229,025**
Debt securities issued	31 December 2022	18,346	479,081	1,377	**498,804**

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments as at 31 December that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets or non-financial liabilities.

	Carrying value 2023	*Fair value 2023*	*Carrying value 2022*	*Fair value 2022*
Financial assets				
Cash and cash equivalents	2,542,288	2,542,288	5,254,638	5,254,638
Mandatory cash balances with central banks	1,823,366	1,823,366	470,112	470,112
Due from banks and other financial institutions	1,571,081	1,571,081	1,488,186	1,488,186
Investment securities at amortized cost	918,233	920,388	109,925	105,162
Loans to customers	4,859,139	4,874,176	3,348,064	3,389,374
Receivables from CJSC Agrarkredit	294,902	294,902	382,974	382,974
Other financial assets	147,405	147,405	52,022	52,022
Financial liabilities				
Due to banks and other financial institutions	480,912	480,912	75,569	75,569
Customer accounts	10,157,257	10,163,002	11,170,050	11,170,050
Payables to CJSC Agrarkredit	61,950	61,950	63,030	63,030
Other borrowed funds	214,519	214,519	229,025	229,025
Debt securities issued	496,968	480,111	505,410	498,804
Other financial liabilities	111,318	111,318	82,004	82,004

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the counterparty, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the counterparty operates.

To derive a final fair value, the results are then appropriately weighted and aggregated based on the relative strength of each observation.

(Figures in tables are in thousands of Azerbaijani manats)

25. Maturity analysis of assets and liabilities

The table below shows assets and liabilities as at 31 December 2023 and 2022 by their remaining contractual maturity, by when the Bank has a right to realise the assets and an obligation to settle the liabilities. The Bank considers assets and liabilities with a remaining contractual maturity of Within one year as current, and assets and liabilities with remaining contractual maturity of More than one year as non-current. The Bank's contractual undiscounted repayment obligations are disclosed in Note 23.

	2023			*2022*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	2,542,288	−	**2,542,288**	5,254,638	−	**5,254,638**
Mandatory cash balances with central banks	1,823,366	−	**1,823,366**	470,112	−	**470,112**
Due from banks and other financial institutions	1,562,905	8,176	**1,571,081**	1,484,097	4,089	**1,488,186**
Investment securities	741,411	1,265,576	**2,006,987**	1,512,754	1,146,652	**2,659,406**
Loans to customers	1,995,132	2,864,007	**4,859,139**	1,549,749	1,798,315	**3,348,064**
Receivables from CJSC Agrarkredit	100,000	194,902	**294,902**	101,687	281,287	**382,974**
Property, equipment and intangibles	−	220,462	**220,462**	−	205,464	**205,464**
Other assets	159,068	30,781	**189,849**	53,992	21,512	**75,504**
Investment in subsidiaries	−	113,464	**113,464**	−	113,464	**113,464**
Total assets	**8,924,170**	**4,697,368**	**13,621,538**	**10,427,029**	**3,570,783**	**13,997,812**
Due to banks and other financial institutions	480,912	−	**480,912**	75,569	−	**75,569**
Customer accounts	9,721,124	436,133	**10,157,257**	10,910,654	259,396	**11,170,050**
Payables to CJSC Agrarkredit	61,950	−	**61,950**	63,030	−	**63,030**
Other borrowed funds	40,395	174,124	**214,519**	99,610	129,415	**229,025**
Debt securities issued	496,968	−	**496,968**	14,971	490,439	**505,410**
Current income tax liabilities	104	−	**104**	50,803	−	**50,803**
Deferred income tax liabilities	−	47,958	**47,958**	−	30,714	**30,714**
Other liabilities	169,514	18,329	**187,843**	125,653	9,612	**135,265**
Total liabilities	**10,970,967**	**676,544**	**11,647,511**	**11,340,290**	**919,576**	**12,259,866**
Net (liabilities)/assets	**(2,046,797)**	**4,020,824**	**1,974,027**	**(913,261)**	**2,651,207**	**1,737,946**

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

Management believes that in spite of a substantial portion of amounts due to customers being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank indicates that these amounts provide a long−term and stable source of funding. Management believes that it is unlikely that unusually large number of customers will withdraw their funds in a short time span.

The customers who hold the largest current account deposits with the Bank have a long-established history as the Bank's customers, and are mostly related parties to the Bank. Management believes that this level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

The CBAR's minimum liquidity norm for banks of 30% (the Bank's actual ratio is 40%) is a reasonable precautionary measure taken by the regulator, which is based on the nature and established normal business practice in banking industry. The Bank has a reasonably high headroom above the minimum required liquidity ratio.

Although the Bank holds considerable amounts of investment securities maturing in more than one year, the Bank is able to sell a substantial portion of such securities on an open market in case of urgent liquidity needs.

The Bank has established Treasury Department and Asset Liabilities Management Committee, which are responsible for overseeing the Bank's liquidity on day-to-day basis**.**

(Figures in tables are in thousands of Azerbaijani manats)

26. 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 affected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances as at 31 December, and related expense and income for the year are as follows:

	2023		***2022***	
	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		**2,542,288**		**5,254,638**
- Government bodies and state-owned entities	*702,966*		*1,134,605*	
- Subsidiaries	*18,691*		*32,465*	
Due from banks and other financial institutions		**1,574,576**		**1,491,734**
- Government bodies and state-owned entities	*1,508,289*		*1,463,777*	
- Subsidiaries	*-*		*1,870*	
Investment securities		**2,006,987**		**2,659,406**
- Government bodies and state-owned entities	*1,805,666*		*1,238,576*	
Loans to customers, gross		**5,040,577**		**3,510,519**
- Government bodies and state-owned entities	*513,585*		*361,616*	
- Key management personnel of the Bank	*3,496*		*1,719*	
Allowance for impairment losses on loans to customers		**(181,438)**		**(162,455)**
- Government bodies and state-owned entities	*(5,840)*		*(2,086)*	
- Key management personnel of the Bank	*(32)*		*(37)*	
Other assets		**189,849**		**75,504**
- Government bodies and state-owned entities	*49,872*		*3,010*	
Receivables from CJSC Agrarkredit		**296,462**		**384,959**
- Government bodies and state-owned entities	*296,462*		*384,959*	
Allowance for impairment on receivables from CJSC Agrarkredit		**(1,560)**		**(1,985)**
- Government bodies and state-owned entities	*(1,560)*		*(1,985)*	
Customer accounts		**(10,157,257)**		**(11,170,050)**
- Government bodies and state-owned entities	*(6,377,947)*		*(7,954,328)*	
- Key management personnel of the Bank	*(41)*		*(1,330)*	
Payables to CJSC Agrarkredit		**(61,950)**		**(63,030)**
- Government bodies and state-owned entities	*(61,950)*		*(63,030)*	
Due to banks and other financial institutions		**(480,912)**		**(75,569)**
- Government bodies and state-owned entities	*(40,298)*		*-*	
Other borrowed funds		**(214,519)**		**(229,025)**
- Government bodies and state-owned entities	*(214,519)*		*(229,025)*	
Undrawn loan commitments		**539,157**		**1,186,513**
- Government bodies and state-owned entities	*49,141*		*496,706*	
- Key management personnel of the Bank	*28*		*34*	
Letters of credit and guarantees		**1,312,566**		**1,084,267**
- Government bodies and state owned entities	*594,670*		*480,823*	
Provision for off-balance sheet commitments		**(14,705)**		**(21,379)**
- Government bodies and state owned entities	*(1,564)*		*(1,572)*	
- Key management personnel of the Bank	*(3)*		*–*	

(Figures in tables are in thousands of Azerbaijani manats)

26. Related party disclosures (continued)

Compensation to members of key management personnel of the Bank for the year comprised the following:

	2023		2022	
	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	(18,436)	**(167,547)**	(15,417)	**(131,004)**
Total	**(18,436)**		**(15,417)**	

Key management personnel include Management Board Members, Executive Directors and head of departments and their aggregate remuneration for the year ended 31 December 2023 amounted to AZN 18,436 thousand.

Included in the statement of profit or loss and other comprehensive income for the years ended 31 December 2023 and 2022 are the following amounts which were recognised in transactions with related parties:

	2023		2022	
	Related party transactions	***Total category as per the financial statements item***	***Related party transactions***	***Total category as per the financial statements item***
Interest income		**762,331**		**576,326**
- Government bodies and state-owned entities	*137,779*		*145,089*	
- Key management personnel of the Bank	*226*		*112*	
- Subsidiaries	*1,854*		*86*	
Interest expense		**(152,707)**		**(113,871)**
- Government bodies and state-owned entities	*(84,025)*		*(70,870)*	
- Key management personnel of the Bank	*(7)*		*(2)*	
- Subsidiaries	*(4,603)*		*(3,479)*	
Impairment losses / reversal of impairment losses on interest bearing assets		**(22,148)**		**(11,761)**
- Government bodies and state-owned entities	*(2,935)*		*618*	
- Key management personnel of the Bank	*(22)*		*(27)*	
Gains from operations in foreign currencies		**69,456**		**81,918**
- Government bodies and state-owned entities	*29,027*		*29,158*	
- Key management personnel of the Bank	*4*		*5*	
- Other related parties	*-*		*24*	
Fee and commission income		**139,397**		**99,035**
- Government bodies and state-owned entities	*41,539*		*37,250*	
- Key management personnel of the Bank	*10*		*7*	
Fee and commission expense		**(101,342)**		**(59,421)**
- Government bodies and state-owned entities	*(9,422)*		*(11,848)*	
- Subsidiaries	*(12,598)*		*(12,848)*	
Operating expenses		**(276,417)**		**(216,360)**
- Government bodies and state-owned entities	*(21,555)*		*(17,730)*	
- Key management personnel of the Bank	*(18,436)*		*(15,417)*	
- Subsidiaries	*(1,029)*		*-*	

(Figures in tables are in thousands of Azerbaijani manats)

27. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank'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 Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank 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 Bank's Chief Financial Officer (CFO).

Regulatory capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 6% and 12% respectively, of risk-weighted assets for regulatory capital. As at 31 December 2023, the Bank was in compliance with these requirements.

Capital adequacy ratio under the Basel Capital Accord 1988

The Bank'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 31 December 2023 and 2022 these ratios exceeded the minimum ratio of 8.0% recommended by the Basel Accord, as disclosed below:

	2023	***2022***
Tier 1 capital	1,885,182	1,919,928
Tier 2 capital	171,379	105,224
Less: deductions from capital	(99,688)	(80,169)
Total capital	**1,956,873**	**1,944,983**
Risk weighted assets	**6,602,731**	**5,097,989**
Tier 1 capital ratio	28.55%	37.66%
Total capital ratio	29.64%	38.15%