

OJSC International Bank of Azerbaijan
Interim condensed consolidated financial statements
30 June 2024

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Report on review of interim financial information

Interim condensed consolidated financial statements

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Report on Review of Interim Financial Information

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC International Bank of Azerbaijan and its subsidiaries (the "Group"), which comprise the interim consolidated statement of financial position as at 30 June 2024 and the related interim consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

Ernst & Young Holdings (CIS) B.V.

18 September 2024

Baku, Azerbaijan

Interim consolidated statement of financial position**As at 30 June 2024***(Figures in tables are in thousands of Azerbaijani manats)*

	Notes	30 June 2024 (unaudited)	31 December 2023
Assets			
Cash and cash equivalents	4	1,990,483	2,816,799
Mandatory cash balances with central banks	5	1,955,957	1,823,961
Due from banks and other financial institutions	6	725,779	1,571,285
Investment securities	7	2,718,192	2,052,269
Loans to customers	8	5,666,435	4,910,003
Receivables from CJSC "Agrarkredit"	16	224,994	294,902
Current income tax assets		6,272	2,103
Deferred income tax assets		525	525
Property, equipment and intangible assets		246,633	244,788
Other assets	9	149,498	212,694
Total assets		13,684,768	13,929,329
Liabilities			
Due to banks and other financial institutions	10	1,040,683	577,300
Customer accounts	11	9,536,042	10,261,807
Payables to CJSC "Agrarkredit"	16	56,381	61,950
Other borrowed funds	12	247,469	229,053
Debt securities issued	13	491,944	496,968
Current income tax liabilities		1,363	2,178
Deferred income tax liabilities		60,085	55,085
Other liabilities	9	188,117	198,097
Total liabilities		11,622,084	11,882,438
Equity			
Share capital	15	1,225,648	1,225,648
Foreign currency translation reserve		(60,176)	(66,848)
Revaluation reserve for premises		45,004	45,332
Unrealized gain on investment securities		51,530	53,882
Retained earnings and other reserves		800,678	788,877
Total equity		2,062,684	2,046,891
Total liabilities and equity		13,684,768	13,929,329

Signed and authorized for release on behalf of the Management Board:



Mr. Abbas Ibrahimov
Chairman of the Management Board




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

Baku, Azerbaijan

18 September 2024

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

Interim consolidated statement of profit or loss and other comprehensive income**For the six months ended 30 June 2024***(Figures in tables are in thousands of Azerbaijani manats)*

		<i>For the six months ended 30 June (unaudited)</i>	<i>For the six months ended 30 June (unaudited)</i>
	<i>Notes</i>	<i>2024</i>	<i>2023</i>
Interest income calculated using the effective interest rate			
Loans to customers		320,907	215,625
Investment securities		59,493	49,606
Cash and cash equivalents		57,209	66,211
Due from banks and other financial institutions		18,551	33,192
Receivables from CJSC "Agrarkredit"		5,287	6,841
		461,447	371,475
Interest expense			
Customer accounts		(71,615)	(49,312)
Due to banks and other financial institutions		(17,236)	(1,067)
Debt securities issued		(16,025)	(15,938)
Other borrowed funds		(4,039)	(5,293)
Lease liabilities		(1,054)	(639)
		(109,969)	(72,249)
Net interest income		351,478	299,226
Credit loss expense	18	(18,256)	(15,675)
Net interest income after impairment losses for interest bearing assets		333,222	283,551
Fee and commission income	19	101,699	64,884
Fee and commission expense	19	(66,071)	(32,429)
Net loss arising on initial recognition of financial instruments and loan modification		(214)	(234)
Net gains/(losses) from operations in foreign currencies:			
- Dealing		45,930	40,734
- Translation differences		(662)	(4,240)
Impairment of property, equipment and intangible assets		(85)	-
Provision (charge)/reversal for credit losses on credit-related commitments and other financial assets	18	(518)	986
Other impairment reversal/(charge)	18	351	(143)
Operating expenses	20	(168,150)	(149,579)
Loss on repurchase of debt	13	-	(199)
Other operating income		1,614	1,361
Non-interest loss		(86,106)	(78,859)
Profit before income tax expense		247,116	204,692
Income tax expense	14	(50,315)	(41,488)
Profit for the period		196,801	163,204
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Unrealized loss on debt securities at FVOCI		(4,645)	(580)
Exchange differences on translating foreign operations		6,672	(20,070)
Income tax relating to components of other comprehensive income to be reclassified to profit or loss in subsequent periods		929	116
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		2,956	(20,534)
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Unrealized gain on equity securities		1,705	11,094
Change in revaluation reserve for premises		(410)	(1,035)
Income tax relating to components of other comprehensive income not to be reclassified to profit or loss in subsequent periods		(259)	(2,012)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		1,036	8,047
Total comprehensive income for the period		200,793	150,717
Earnings per share, basic and diluted (AZN per share)	15	0.04	0.04

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

Interim consolidated statement of changes in equity**For the six months ended 30 June 2024***(Figures in tables are in thousands of Azerbaijani manats)*

	Share capital	Foreign currency translation reserve	Revaluation reserve for premises	Unrealized gain on investment securities	Retained earnings and other reserves	Total equity
As at 1 January 2023	1,225,648	(37,412)	42,719	24,819	564,589	1,820,363
Net profit for the period	-	-	-	-	163,204	163,204
Other comprehensive loss for the period	-	(20,070)	(828)	8,411	-	(12,487)
Total comprehensive income for the period	-	(20,070)	(828)	8,411	163,204	150,717
Dividends declared to shareholders (Note 15)	-	-	-	-	-	-
As at 30 June 2023 (unaudited)	1,225,648	(57,482)	41,891	33,230	727,793	1,971,080
As at 1 January 2024	1,225,648	(66,848)	45,332	53,882	788,877	2,046,891
Net profit for the period	-	-	-	-	196,801	196,801
Other comprehensive income for the period	-	6,672	(328)	(2,352)	-	3,992
Total comprehensive income for the period	-	6,672	(328)	(2,352)	196,801	200,793
Dividends declared to shareholders (Note 15)	-	-	-	-	(185,000)	(185,000)
As at 30 June 2024 (unaudited)	1,225,648	(60,176)	45,004	51,530	800,678	2,062,684

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

Interim consolidated statement of cash flows*(Figures in tables are in thousands of Azerbaijani manats)*

	Notes	<i>For the six months ended 30 June (unaudited)</i>	<i>For the six months ended 30 June (unaudited)</i>
		2024	2023
Cash flows from operating activities			
Interest received		433,679	346,121
Interest paid		(98,741)	(54,644)
Dividends received		260	327
Fees and commissions received		102,053	65,579
Fees and commissions paid		(63,330)	(30,138)
Gains from operations in foreign currencies		45,929	40,734
Staff costs paid		(121,961)	(94,489)
Other operating expenses paid		(41,345)	(34,169)
Other operating income received		1,344	270
Cash flows from operating activities before changes in operating assets and liabilities		257,888	239,591
<i>Net (increase)/decrease in operating assets</i>			
Mandatory cash balances with central banks		(131,995)	(344,200)
Due from banks and other financial institutions		860,536	(332,324)
Loans to customers		(765,530)	(657,986)
Receivable from CJSC "AgrarKredit"		54,996	85,899
Other assets		44,766	(6,244)
<i>Net increase/(decrease) in operating liabilities</i>			
Due to banks and other financial institutions		445,829	300,704
Customer accounts		(743,928)	(2,172,508)
Other liabilities		18,847	1,788
Net cash flows from/(used in) operating activities before income tax		41,409	(2,885,280)
Income tax paid		(41,879)	(89,359)
Net cash flows used in operating activities		(470)	(2,974,639)
Cash flows from investing activities			
Purchase of investment securities		(1,763,441)	(801,323)
Proceeds from sale and redemption of investment securities		1,103,831	1,498,056
Purchase and prepayments for property, equipment and intangible assets		(12,425)	(8,736)
Net cash flows (used in)/from investing activities		(672,035)	687,997
Cash flows from financing activities			
Repayments of other borrowed funds		(44,052)	(117,181)
Proceeds from other borrowed funds		63,819	56,405
Repayments and buy-back on debt securities issued	13	(12,210)	(15,471)
Dividend payment	15	(185,000)	-
Net cash flows used in financing activities		(177,443)	(76,247)
Effect of exchange rate changes on cash and cash equivalents		23,632	(19,900)
Net decrease in cash and cash equivalents		(826,316)	(2,382,789)
Cash and cash equivalents, beginning of period	4	2,816,799	5,375,211
Cash and cash equivalents, end of period	4	1,990,483	2,992,422

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

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

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 30 June 2024 and 31 December 2023 the Bank had 72 and 69 branches, respectively operating in the Republic of Azerbaijan.

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

Name	Country of operation	Proportion of ownership interest (%)		Type of operation
		30 June 2024 (unaudited)	31 December 2023	
“The International Bank of Azerbaijan” OJSC	The Republic of Azerbaijan		Parent	Banking
Subsidiaries				
“IBA-Moscow” LLC	Russian Federation	100.0	100.0	Banking
“IBA-GEO” JSC	The Republic of Georgia	100.0	100.0	None Card processing
“Azercard” LLC	The Republic of Azerbaijan	100.0	100.0	Leasing
“International Leasing Company” LLC	The Republic of Azerbaijan	100.0	100.0	
“IBA-Invest” Investment Company CJSC	The Republic of Azerbaijan	100.0	100.0	Investment

As at 30 June 2024 and 31 December 2023 shareholders of the Bank were as follows:

Shareholders	At 30 June 2024 (unaudited) (%)	At 31 December 2023 (%)
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.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation

General

The interim condensed consolidated financial statements for the six months ended 30 June 2024 have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. The Group has prepared the interim condensed consolidated financial statements on the basis that it will continue to operate as a going concern.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2023.

Estimation uncertainty

To the extent that information is available as at 30 June 2024, the Group has reflected revised estimates of expected future cash flows in its ECL assessment (Note 7 and Note 8) and estimation of fair values of financial instruments (Note 21).

Impairment losses and fair value assessment of Russian investment securities

Russia-Ukraine conflict started on 24 February 2022 and triggered a series of sanctions against Russian government and companies, restricting their ability to settle their obligations to foreign creditors. This required the Group to reassess its views used in estimation of impairment losses and fair value estimation of Russian investment securities held at FVOCI. The Group exercised judgment in determining the key assumptions used in ECL and fair value estimation. As at 30 June 2024, the fair value and related ECL of Russian investment securities were AZN 13,890 thousand (31 December 2023: AZN 30,238 thousand) and AZN 2,844 thousand (31 December 2023: AZN 7,474 thousand), respectively.

Changes in accounting policies

New and amended standards and interpretations

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2023, except for the adoption of new standards effective as of 1 January 2024. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2024, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

In May 2023, the IASB issued amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures to clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The transition rules clarify that an entity is not required to provide the disclosures in any interim periods in the year of initial application of the amendments. Thus, the amendments had no impact on the Group's interim condensed consolidated financial statements.

Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued amendments to IFRS 16 to specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments had no impact on the Group's interim condensed consolidated financial statements.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Changes in accounting policies (continued)

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

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

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

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

The amendments had no impact on the Group's interim condensed consolidated financial statements.

3. Segment information

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

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

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Segment information (continued)

The following tables present income and profit information regarding the Group's operating segments for the six months ended 30 June 2024 and 2023, respectively:

Six months ended 30 June 2024 (unaudited)	Retail banking	Corporate banking	Treasury	Unallocated	Total
Interest income	197,774	123,133	140,540	-	461,447
Interest expense	(29,630)	(46,977)	(33,362)	-	(109,969)
Net interest income	168,144	76,156	107,178	-	351,478
Provision charge for credit losses on credit related commitments	-	(518)	-	-	(518)
Other impairment reversal	-	351	-	-	351
Credit loss (expense)/reversal	(18,397)	(3,236)	3,377	-	(18,256)
Fee and commission income	54,869	46,068	762	-	101,699
Fee and commission expense	(58,499)	(4,841)	(2,731)	-	(66,071)
Other non-interest gains net of losses	4,626	23,494	18,762	-	46,882
Net loss arising on initial recognition of financial instruments and loan modification	(214)	-	-	-	(214)
Loss on repurchase of debt	-	-	-	-	-
Impairment of property, equipment and intangible assets	-	-	-	(85)	(85)
Operating expense	(84,989)	(46,877)	(15,933)	(20,351)	(168,150)
Segment profit/(loss)	65,540	90,597	111,415	(20,436)	247,116
Income tax (expense)/benefit	(13,345)	(18,446)	(22,685)	4,161	(50,315)
Profit/(Loss) for the period	52,195	72,151	88,730	(16,275)	196,801
Six months ended 30 June 2023 (unaudited)	Retail banking	Corporate banking	Treasury	Unallocated	Total
Interest income	140,717	74,492	156,266	-	371,475
Interest expense	(19,643)	(35,382)	(17,224)	-	(72,249)
Net interest income	121,074	39,110	139,042	-	299,226
Provision reversal for credit losses on credit related commitments	-	986	-	-	986
Other impairment charge	-	(143)	-	-	(143)
Credit loss (expense)/reversal	(14,240)	(13,650)	12,215	-	(15,675)
Fee and commission income	32,018	32,866	-	-	64,884
Fee and commission expense	(26,139)	(3,290)	(3,000)	-	(32,429)
Other non-interest gains net of losses	7,225	23,523	5,746	1,361	37,855
Net loss arising on initial recognition of financial instruments and loan modification	(234)	-	-	-	(234)
Loss on repurchase of debt	-	-	(199)	-	(199)
Impairment of property, equipment and intangible assets	-	-	-	-	-
Operating expense	(64,641)	(43,702)	(24,208)	(17,028)	(149,579)
Segment profit/(loss)	55,063	35,700	129,596	(15,667)	204,692
Income tax (expense)/benefit	(11,160)	(7,236)	(26,267)	3,175	(41,488)
Profit/(Loss) for the period	43,903	28,464	103,329	(12,492)	163,204

*(Figures in tables are in thousands of Azerbaijani manats)***3. Segment information (continued)**

Segment assets	Retail banking	Corporate banking	Treasury	Unallocated	Total
At 30 June 2024 (unaudited)	3,051,058	2,955,640	7,662,307	15,763	13,684,768
At 31 December 2023	2,793,469	2,484,412	8,631,759	19,689	13,929,329
Segment liabilities	Retail banking	Corporate banking	Treasury	Unallocated	Total
At 30 June 2024 (unaudited)	2,480,115	7,466,191	1,609,770	66,008	11,622,084
At 31 December 2023	2,374,715	8,281,786	1,162,619	63,318	11,882,438

4. Cash and cash equivalents

Cash and cash equivalents comprise:

	30 June 2024 (unaudited)	31 December 2023
Cash on hand	531,699	444,220
Current accounts with central banks	100,927	834,738
Cash in transit	–	6,764
Correspondent accounts and time deposits with original maturity up to 90 days	<u>1,357,857</u>	<u>1,531,077</u>
Cash and cash equivalents	<u>1,990,483</u>	<u>2,816,799</u>

As at 30 June 2024, the Group had a concentration of correspondent accounts and time deposits with original maturity up to 90 days with credit institutions represented by AZN 1,306,040 thousand (31 December 2023: AZN 1,507,281 thousand) in nineteen (31 December 2023: fourteen) largest banks.

Cash equivalents in the amount of AZN 1,316,293 thousand are allocated to Stage 1 and cash equivalents in the amount of AZN 41,564 are allocated to Stage 2 (31 December 2023: AZN 2,312,246 thousand to Stage 1 and AZN 53,569 thousand to Stage 2). The ECL relating to cash equivalents of the Group rounds to zero in both periods reported.

5. Due from banks and other financial institutions

Amounts due from credit institutions comprise:

	30 June 2024 (unaudited)	31 December 2023
Time deposits with the CBAR	612,680	1,508,289
Time deposits with resident banks	69,120	16,151
Loans to credit institutions	25,554	25,198
Time deposits with non-resident banks	20,276	22,760
Blocked accounts with non-resident banks	2,382	2,382
Less: allowance for impairment	<u>(4,233)</u>	<u>(3,495)</u>
Amounts due from banks and other financial institutions	<u>725,779</u>	<u>1,571,285</u>

As at 30 June 2024, the Group had one time deposit (31 December 2023: one) with the CBAR maturing on 9 January 2025 with interest rate 3% p.a.

The movements in ECL allowance were not significant during the both periods reported.

(Figures in tables are in thousands of Azerbaijani manats)

6. Mandatory cash balances with central banks

As at 31 December 2023 and 30 June 2024, 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 according to the following differentiation criteria:

- ▶ 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 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 30 June 2024 (31 December 2023: 20%).

7. Investment securities

Investment securities comprise:

	30 June 2024 (unaudited)	31 December 2023
Debt securities at amortized cost		
Corporate bonds	1,155,911	442,088
Government bonds	750,869	382,110
Notes issued by the CBAR	–	76,986
Government bonds pledged under repurchase agreements	169,303	19,210
Less: allowance for impairment	(2,714)	(2,161)
	2,073,369	918,233
Debt securities at FVOCI		
Government bonds	303,559	787,073
Corporate bonds	161,116	203,056
Government bonds pledged under repurchase agreements	75,154	40,804
	539,829	1,030,933
Debt securities at FVPL		
Corporate bonds	3,601	3,415
	3,601	3,415
Equity securities at FVOCI		
Corporate shares	101,393	99,688
	101,393	99,688
Investment securities	2,718,192	2,052,269

Debt securities in amount of AZN 2,601,791 thousand (31 December 2023: AZN 1,921,068 thousand), or 99% (31 December 2023: 99%) of the total debt securities balance of the Group, are allocated to Stage 1. The remaining balance of debt securities in the amount of AZN 17,722 thousand is allocated to Stage 2 (31 December 2023: AZN 27,852 thousand and AZN 2,407 thousand to Stage 2 and Stage 3, respectively). ECL in amount of AZN 3,672 thousand (31 December 2023: 4,195) is allocated to Stage 1, AZN 3,329 thousand is allocated to Stage 2 (31 December 2023: AZN 4,764 thousand and AZN 1,786 thousand to Stage 2 and Stage 3, respectively). These are mainly debt securities carried at FVOCI which were issued by entities operating in the Russian Federation and held by "IBA-Moscow" LLC.

8. Loans to customers

Loans to customers comprise:

	30 June 2024 (unaudited)	31 December 2023
Loans to legal entities	2,936,496	2,561,855
Loans to individuals	2,937,854	2,529,586
Total loans to customers, gross	5,874,350	5,091,441
Less: allowance for impairment losses	(207,915)	(181,438)
Total loans to customers	5,666,435	4,910,003

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(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

Allowance for impairment of loans to customers at amortised cost

An analysis of changes in the ECL in relation to Loans to legal entities and loans to individuals during the period ended 30 June 2024 is, as follows:

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(26,489)	(894)	(33,874)	(61,257)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(8,025)	–	–	(8,025)
Change in accrued interest balance	(113)	(2)	(654)	(769)
Assets repaid	4,279	130	854	5,263
Transfer to 12-month ECL	(30)	27	3	–
Transfer to lifetime ECL not credit-impaired	717	(3,754)	3,037	–
Transfer to lifetime ECL credit-impaired	712	184	(896)	–
Net remeasurement of ECL	3,506	1,924	(5,135)	295
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwind of discount	–	–	(1,796)	(1,796)
Write-offs	–	–	–	–
At 30 June 2024 (unaudited)	(25,443)	(2,385)	(38,461)	(66,289)
Loans to individuals	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(24,737)	(6,796)	(88,648)	(120,181)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(13,589)	–	–	(13,589)
Change in accrued interest balance	(206)	(70)	(82)	(358)
Assets repaid	5,141	1,021	6,966	13,128
Transfer to 12-month ECL	(4,176)	2,188	1,988	–
Transfer to lifetime ECL not credit-impaired	2,110	(3,647)	1,537	–
Transfer to lifetime ECL credit-impaired	1,428	2,625	(4,053)	–
Net remeasurement of ECL	4,642	(5,475)	(16,664)	(17,497)
Changes due to modifications not resulting in derecognition	(81)	–	–	(81)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Recoveries of amounts previously written off	–	–	(507)	(507)
Unwind of discount	–	–	(2,544)	(2,544)
Write-offs	–	–	3	3
At 30 June 2024 (unaudited)	(29,468)	(10,154)	(102,004)	(141,626)

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(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

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

An analysis of changes in the ECL in relation to Loans legal entities during the period ended 30 June 2023 is, as follows:

Loans to legal entities	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(16,905)	(1,333)	(31,750)	(49,988)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(13,633)	-	-	(13,633)
Change in accrued interest balance	(77)	(29)	(1,160)	(1,266)
Assets repaid	4,473	53	2,574	7,100
Transfer to 12-month ECL	-	-	-	-
Transfer to lifetime ECL not credit-impaired	18	(991)	973	-
Transfer to lifetime ECL credit-impaired	170	1,304	(1,474)	-
Net remeasurement of ECL	1,319	810	(8,834)	(6,705)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwind of discount	-	-	(1,902)	(1,902)
Write-offs	-	-	543	543
At 30 June 2023 (unaudited)	(24,635)	(186)	(41,030)	(65,851)
Loans to individuals	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(19,345)	(5,533)	(87,589)	(112,467)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(10,557)	-	-	(10,557)
Change in accrued interest balance	(94)	(80)	(73)	(247)
Assets repaid	2,980	716	5,429	9,125
Transfer to 12-month ECL	(7,558)	2,046	5,512	-
Transfer to lifetime ECL not credit-impaired	1,289	(3,096)	1,807	-
Transfer to lifetime ECL credit-impaired	1,045	1,955	(3,000)	-
Net remeasurement of ECL	4,596	(3,108)	(12,009)	(10,521)
Changes due to modifications not resulting in derecognition	27	-	-	27
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwind of discount	-	-	(2,980)	(2,980)
Write-offs	-	-	5,426	5,426
At 30 June 2023 (unaudited)	(27,617)	(7,100)	(87,477)	(122,194)

(Figures in tables are in thousands of Azerbaijani manats)

9. Other assets and liabilities

Other assets comprise:

	30 June 2024 (unaudited)	31 December 2023
Other financial assets		
Funds in settlement	69,023	96,269
Pledged funds with non-resident organizations	15,550	13,524
Amounts blocked in clearing house	15,036	11,312
Accrued commission and receivables from settlement of off-balance sheet commitments	8,764	9,367
Receivable from the Azerbaijan Deposit Insurance Fund ("The ADIF")	1,209	49,615
Allowance for impairment of other assets	(10,861)	(10,464)
	98,721	169,623
Other non-financial assets		
Prepayments	20,823	15,034
Right-of-use assets	19,059	18,567
Deferred expenses	7,371	5,688
Repossessed collateral	3,524	3,782
	50,777	43,071
Other assets	149,498	212,694

In 2023, the parent firm of the Group 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. As a result, the Group 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 the ADIF and the remaining AZN 49,615 thousand has been recognized as receivable from the ADIF as of 31 December 2023. In 2024, AZN 48,406 thousand has been received from the ADIF, leaving AZN 1,209 thousand receivable balance as of 30 June 2024.

Other liabilities comprise:

	30 June 2024 (unaudited)	31 December 2023
Other financial liabilities		
Funds in settlement	75,071	88,738
Lease liability	20,555	19,888
Credit loss allowance for credit-related commitments	12,855	12,734
Dividends payable to shareholders	112	58
	108,593	121,418
Other non-financial liabilities		
Payables to employees	32,898	40,005
Taxes other than income tax	15,287	10,120
Obligations for legal claims	12,106	6,700
Payables to local budget	11,167	11,774
Deferred revenue on plastic cards	6,446	6,109
Provision for other contingencies and commitments	1,620	1,971
	79,524	76,679
Other liabilities	188,117	198,097

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.

	30 June 2024			31 December 2023		
	Notional amount	Fair values		Notional amount	Fair value	
		Asset	Liability		Asset	Liability
Foreign exchange contracts						
Swaps – domestic	138,064	136	-	121,632	46	-
Total derivative assets		136	-		46	-

*(Figures in tables are in thousands of Azerbaijani manats)***10. Due to banks and other financial institutions**

Due to banks and other financial institutions comprise:

	30 June 2024 (unaudited)	31 December 2023
Time deposits of resident banks and other financial institutions	318,125	376,823
Correspondent accounts of non-resident banks	250,958	59,138
Payables under repurchase agreements	230,161	45,062
Correspondent accounts of resident banks	170,610	96,277
Time deposits of non-resident banks	70,829	-
Due to banks and other financial institutions	1,040,683	577,300

As at 30 June 2024, debt securities at FVOCI in total amount of AZN 60,229 thousand (31 December 2023: AZN 26,080 thousand) and debt securities at amortised cost in the amount of AZN 169,303 thousand (31 December 2023: AZN 19,210 thousand) are pledged as collateral for repurchase agreements with banks and other financial institutions.

11. Customer accounts

The amounts due to customers comprise:

	30 June 2024 (unaudited)	31 December 2023
Legal entities		
- Current/settlement accounts	5,826,656	6,506,142
- Term deposits	1,383,435	1,122,331
- Restricted customer deposits	132,645	407,307
Total legal entities	7,342,736	8,035,780
Individuals		
- Current/settlement accounts	1,332,335	1,484,988
- Term deposits	860,971	741,039
Total individuals	2,193,306	2,226,027
Total customer accounts	9,536,042	10,261,807

Customer accounts of government related entities, which account for the largest share (56%) of the total balance, amounted to AZN 5,306,593 thousand as of 30 June 2024 (31 December 2023: 62% and AZN 6,391,001).

12. Other borrowed funds

Other borrowed funds comprise:

	30 June 2024 (unaudited)	31 December 2023
National Fund for Support of Entrepreneurship and the Mortgage Fund (the Republic of Azerbaijan)	233,288	214,519
Payables under repurchase agreements	14,181	14,534
Total other borrowed funds	247,469	229,053

As at 30 June 2024, debt securities at FVOCI in total amount of AZN 14,925 thousand (31 December 2023: AZN 14,724 thousand) are pledged as collateral for repurchase agreements with legal entities other than banks and other financial institutions.

*(Figures in tables are in thousands of Azerbaijani manats)***13. Debt securities issued**

Debt securities issued comprise:

	30 June 2024 (unaudited)	31 December 2023
Eurobonds	491,944	484,758
Local bonds	–	12,210
Total debt securities issued	491,944	496,968

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

The Group also issued bonds in June 2022 with a total face value of AZN 20,000 thousand and a coupon rate of 6% p.a. These bonds reached maturity in June 2024 and have been fully repaid by the Group.

During the six months period ended 30 June 2024, no Eurobond repurchases have been made by the Group (2023 Repurchase amount: AZN 12,145 thousand, resulting in loss recognized in the amount of AZN 199 thousand).

14. Taxation

The corporate income tax expense comprises:

	For the six months ended	
	30 June 2024 (unaudited)	30 June 2023 (unaudited)
Current tax charge	(44,645)	(46,104)
Changes in deferred tax	(5,000)	2,720
Less: deferred tax recognized directly in other comprehensive income	(670)	1,896
Income tax expense	(50,315)	(41,488)

15. Equity

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

Ordinary shares (par value of 0.27 AZN)	Number of paid-in shares (in thousands)	Share capital
As at 1 January 2023	4,539,437	1,225,648
As at 31 December 2023	4,539,437	1,225,648
As at 30 June 2024 (unaudited)	4,539,437	1,225,648

All ordinary shares have a nominal value of AZN 0.27 per share as at 30 June 2024 and 31 December 2023 and rank equally. Each share carries one vote.

On 27 May 2024, in accordance with a resolution of the Annual General Meeting of Shareholders, the Group declared a dividend of AZN 185,000 thousand (30 June 2023: AZN 0 thousand). The dividend per share is AZN 0.04 (30 June 2023: AZN 0).

Earnings per share

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

	30 June 2024 (unaudited)	30 June 2023 (unaudited)
Net profit for the period attributable to shareholders of the Group	196,801	163,204
Weighted average number of ordinary shares in issue	4,539,437	4,539,437
Earnings per share – basic and diluted (AZN)	0.04	0.04

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

(Figures in tables are in thousands of Azerbaijani manats)

16. Balances with CJSC “Agrarkredit”

During 2015–2019, the Government of Azerbaijan was taking a number of steps to strengthen the Group’s capital position and the quality of its assets. As a result of restructuring of Group’s assets, the Group received promissory notes of CJSC “Agrarkredit”, one of its shareholders, 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 interim condensed consolidated statement of financial position and held as security against defaults in certain guarantees and letters of credit (Note 17).

During 2024, the Group offset full amount of dividends payable to CJSC Agrarkredit in the amount of AZN 403 thousand (31 December 2023: 324 thousand) resulting from the dividend declaration of 10 June 2024, against promissory notes receivable from CJSC Agrarkredit.

At 30 June 2024, the gross balance of Receivables from CJSC “Agrarkredit” and Payables to “Agrarkredit” amounted to AZN 226,184 thousand and AZN 56,381 thousand, respectively (31 December 2023: AZN 296,462 thousand and AZN 61,950 thousand, respectively). As at 30 June 2024, the ECL related to Receivable from CJSC “Agrarkredit” of the Group is AZN 1,190 thousand (31 December 2023: AZN 1,560 thousand).

17. Commitments and contingencies

Operating environment

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine as well as rising consumer demand for goods led to significant inflationary pressures to the global economy in 2023, including soaring commodity prices. The effect on the economies in which the Group operates is presented as follows.

The Azerbaijan Republic

During the first half of 2024, the Azerbaijani economy continued to navigate through the challenges and opportunities posed by fluctuating oil and gas prices. The Government of Azerbaijan sustained its efforts in implementing major economic and social reforms aimed at diversifying the economy and reducing dependence on the oil and gas sector.

The overall economy expanded by 4.3% during the first half of the year, with oil sector output rising by 0.6% and non-oil sector output by 6.9%. Strategic foreign exchange reserves of Azerbaijan increased by 3% and amounted to USD 69.7 billion during the period. All these influxes contributed to the stability of the Azerbaijani manat and supported economic resilience.

According to the CBAR, the inflation level during the first half of 2024 was 0.7% which is below annual target inflation level of 4±2%. The CBAR continued its efforts to manage monetary conditions and maintain the stability of the Azerbaijani manat. The policy rate was adjusted in response to global inflation trends, with the refinancing rate set at 7.25% as of 30 June 2024 (31 December 2023: 8%).

Fitch Ratings upgraded credit rating of the Azerbaijan Republic to ‘BBB-’ in July 2024 due to effectiveness of economic policy in recent years, strong fiscal performance and high hydrocarbon prices.

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 solvency 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.

The Russian Federation

On 24 February 2022 a military conflict emerged between Russia and Ukraine. Following this, a number of western and other countries began applying sanctions towards Russia. The sanctions were wide-ranging, targeting banks, businesses, monetary exchanges, bank transfers, exports, and imports. Since the start of the conflict, there has been a significant decline in values of Russian equity and debt securities in markets.

Despite the severity of sanctions, the decline in Russian economy has so far been slower than initially expected, which was backed by increased oil and gas prices – a major revenue source for Russia, and by adjustments to global oil and gas delivery routes, which maintained, to a certain degree, the stability of hydrocarbon export volumes for Russia.

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)

Operating environment (continued)

Starting from mid-January 2024, the national currency of Russia – ruble, started to appreciate against US dollar and other currencies, including AZN. The official exchange rate of ruble to AZN was 0.0199 AZN for 1 ruble as at 30 June 2024 (31 December 2023: 0.0188 AZN for 1 ruble) This resulted in translation gain of AZN 6,672 thousand recognized in other comprehensive income upon consolidation of “IBA-Moscow LLC during the six months period ended 30 June 2024.

The Group has a fully owned subsidiary bank operating in Russia – “IBA-Moscow” LLC. As of 30 June 2024, “IBA Moscow” LLC had total assets in the amount of AZN 644,760 thousand (31 December 2023: AZN 437,609 thousand) and liabilities in the amount of AZN 468,288 thousand (31 December 2023: AZN 279,092 thousand), prior to intercompany eliminations, and the Bank had a correspondent account in the amount of AZN 20,463 thousand placed in “IBA Moscow” LLC (31 December 2023: AZN 19,083 thousand) and, in turn, “IBA Moscow” LLC had a correspondent account in the amount of AZN 35,819 thousand (31 December 2023: AZN 37,222 thousand) placed in the Bank. There were no restrictions preventing the Bank from using these correspondent accounts and deposits, including its withdrawal and conversion, both as at reporting date and as at the date of issuance of these interim condensed consolidated financial statements.

The sanctions imposed by the US and the EU on the largest companies of Russia, as well as the impact of the conflict on economic and operational activities resulted in significant disruption in trading activity on Moscow Stock Exchange during prior year. However, during the first half of 2024 the trading activity has been considerably higher than in 2023. As the conflict is still waging, it is impossible to reliably assess the impact this may have on the Group’s business as there is uncertainty over the magnitude of the impact on the economy in general.

The Group incorporated its best estimates of the effects related to the conflict to its expected credit loss and fair value assessments of investment securities as at 30 June 2024.

Legal

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

Taxation

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 30 June 2024 is appropriate and the Bank’s tax, currency and customs positions will be sustained.

Compliance with the CBAR ratios

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

Financial commitments and contingencies

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

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)

Credit related and other commitments

The Group's commitments and contingencies comprised the following:

Commitments and contingencies	30 June 2024 (unaudited)	31 December 2023
Guarantees	829,880	837,322
Letters of credit	128,197	493,786
Undrawn loan commitments	539,386	552,632
Less: allowance	(14,475)	(14,705)
Commitments and contingencies	1,482,988	1,869,035
Cash held as security against guarantees and letters of credit	(134,532)	(409,687)
Cash received from CJSC Agrarkredit held as security against guarantees and letters of credit*	(56,381)	(61,950)

* Promissory notes in the amount of AZN 56,381 thousand were pledged on behalf of CJSC Agrarkredit to the Group in case certain issued letters of credit or guarantees are defaulted on.

An analysis of changes in the ECLs during the six months of 2024 is as follows:

Financial guarantees	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(6,227)	(27)	-	(6,254)
New exposures originated or purchased	(2,477)	-	-	(2,477)
Exposures derecognised or matured (excluding write-offs)	1,175	-	-	1,175
Transfer to 12-month ECL	(27)	27	-	-
Transfer to lifetime ECL not credit-impaired	4	(4)	-	-
Transfer to lifetime ECL credit-impaired	1	-	(1)	-
Net remeasurement of ECL	736	(21)	(34)	681
At 30 June 2024 (unaudited)	(6,815)	(25)	(35)	(6,875)
Letters of credit	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(344)	-	-	(344)
New assets originated or purchased	(327)	-	-	(327)
Exposures derecognised or matured (excluding write-offs)	344	-	-	344
Net remeasurement of ECL	-	-	-	-
At 30 June 2024 (unaudited)	(327)	-	-	(327)
Undrawn commitments	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2024	(5,168)	(134)	(834)	(6,136)
New exposures originated or purchased	(1,514)	-	-	(1,514)
Exposures derecognised or matured (excluding write-offs)	1,698	35	408	2,141
Transfer to 12-month ECL	(666)	103	563	-
Transfer to lifetime ECL not credit-impaired	21	(37)	16	-
Transfer to lifetime ECL credit-impaired	1,204	46	(1,250)	-
Net remeasurement of ECL	517	(481)	(180)	(144)
At 30 June 2024 (unaudited)	(3,908)	(468)	(1,277)	(5,653)

(Figures in tables are in thousands of Azerbaijani manats)

17. Commitments and contingencies (continued)

An analysis of changes in the ECLs during the six months of 2023 (unaudited) 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	(2,755)	–	–	(2,755)
Exposures derecognised or matured (excluding write-offs)	2,213	–	700	2,913
Transfer to 12-month ECL	–	–	–	–
Transfer to lifetime ECL not credit-impaired	321	(321)	–	–
Transfer to lifetime ECL credit-impaired	256	–	(256)	–
Net remeasurement of ECL	1,415	(409)	(50)	956
At 30 June 2023 (unaudited)	(7,970)	(730)	(405)	(9,105)
Letters of credit	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(39)	–	–	(39)
New assets originated or purchased	–	–	–	–
Exposures derecognised or matured (excluding write-offs)	30	–	–	30
Net remeasurement of ECL	1	–	–	1
At 30 June 2023 (unaudited)	(8)	–	–	(8)
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	(4,758)	–	–	(4,758)
Exposures derecognised or matured (excluding write-offs)	1,799	47	1,261	3,107
Transfer to 12-month ECL	(952)	106	846	–
Transfer to lifetime ECL not credit-impaired	3,697	(3,718)	21	–
Transfer to lifetime ECL credit impaired	7	23	(30)	–
Net remeasurement of ECL	1,859	(166)	(323)	1,370
At 30 June 2023 (unaudited)	(4,816)	(3,898)	(850)	(9,564)

(Figures in tables are in thousands of Azerbaijani manats)

18. Credit loss expense and other impairment and provisions

The table below shows the ECL (charges)/reversals on financial instruments recorded in the interim condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2024 (unaudited):

	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers	7	(3,685)	(4,849)	(13,099)	(21,633)
Due from banks and other financial institutions	5	(738)	–	–	(738)
Debt securities at amortised cost		(553)	–	–	(553)
Debt securities at FVOCI		1,077	1,435	1,786	4,298
Receivables from CJSC “Agrarkredit”		370	–	–	370
Credit loss expense on interest bearing financial assets (unaudited)		(3,529)	(3,414)	(11,313)	(18,256)
Financial guarantees	16	(588)	2	(35)	(621)
Letters of credit	16	17	–	–	17
Undrawn loan commitments	16	1,260	(334)	(443)	483
Credit loss reversal on credit-related commitments (unaudited)		689	(332)	(478)	(121)
Other financial assets		–	–	(397)	(397)
Credit loss charge on credit-related commitments and other financial assets (unaudited)		689	(332)	(875)	(518)
Total credit loss charge (unaudited)		(2,840)	(3,746)	(12,188)	(18,774)

The table below shows the ECL charges on financial instruments recorded in the interim condensed consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2023 (unaudited):

	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers	7	(16,002)	(420)	(10,255)	(26,677)
Due from banks and other financial institutions	5	(2,397)	–	–	(2,397)
Debt securities at amortised cost		(1,291)	–	–	(1,291)
Debt securities at FVOCI		1,980	6,192	6,032	14,204
Receivables from CJSC “Agrarkredit”		486	–	–	486
Credit loss (expense)/reversal on interest bearing financial assets (unaudited)		(17,224)	5,772	(4,223)	(15,675)
Financial guarantees	16	1,450	(730)	394	1,114
Letters of credit	16	31	–	–	31
Undrawn loan commitments	16	1,652	(3,708)	1,775	(281)
Credit loss reversal/(charge) on credit-related commitments (unaudited)		3,133	(4,438)	2,169	864
Other financial assets		–	–	122	122
Credit loss reversal/(charge) on credit-related commitments and other financial assets (unaudited)		3,133	(4,438)	2,291	986
Total credit loss (charge)/reversal (unaudited)		(14,091)	1,334	(1,932)	(14,689)

*(Figures in tables are in thousands of Azerbaijani manats)***18. Credit loss expense and other impairment and provisions (continued)**

Provision for ECL for credit related commitments and provision on legal claims and performance guarantees are recorded within other non-financial liabilities for the period ended 30 June 2024 (Note 9):

	<i>Performance guarantees</i>	<i>Total</i>
31 December 2022	(1,838)	(1,838)
Charge	(143)	(143)
30 June 2023 (unaudited)	(1,981)	(1,981)
31 December 2023	(1,971)	(1,971)
Reversal	351	351
30 June 2024 (unaudited)	(1,620)	(1,620)

19. Net fee and commission income

Net fee and commission income comprise:

	<i>30 June 2024 (unaudited)</i>	<i>30 June 2023 (unaudited)</i>
Plastic cards operations	71,399	44,832
Settlement transactions	16,705	8,965
Servicing guarantees and letters of credit	6,044	5,584
Cash transactions	3,139	2,697
Others	4,412	2,806
Fee and commission income	101,699	64,884
Plastic cards operations	(52,539)	(19,559)
Settlement transactions	(5,953)	(2,772)
Cash transactions	(2,726)	(4,092)
Others	(4,853)	(6,006)
Fee and commission expense	(66,071)	(32,429)
Net fee and commission income	35,628	32,455

20. Operating expenses

Operating expenses comprise:

	<i>30 June 2024 (unaudited)</i>	<i>30 June 2023 (unaudited)</i>
Staff costs	(102,444)	(88,440)
Depreciation of premises and equipment	(13,472)	(10,236)
Fees paid to deposit insurance funds	(7,280)	(6,828)
Consultancy and other professional services	(5,422)	(5,999)
Legal claims	(5,406)	(6,700)
Software maintenance	(4,971)	(4,505)
Advertising and marketing services	(4,911)	(4,639)
Communication	(4,029)	(3,383)
Premises and property maintenance	(3,859)	(2,530)
Amortization of software and other intangible assets	(3,341)	(6,151)
Outsourcing and security	(2,802)	(1,984)
Customs duties and taxes other than on income	(1,346)	(1,492)
Stationary, books, printing, and other supplies	(920)	(817)
Insurance expense	(897)	(1,068)
Utility	(544)	(795)
Rent	(436)	(215)
Charity and financial aid	-	(1,000)
Other	(6,070)	(2,797)
Total operating expenses	(168,150)	(149,579)

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values of financial instruments

Fair value hierarchy

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

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

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

Assets measured at fair value	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investment securities at FVOCI	30 June 2024	572,048	69,174	–	641,222
Investment securities at FVPL	30 June 2024	3,601	–	–	3,601

Assets measured at fair value	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investment securities at FVOCI	31 December 2023	953,734	176,887	–	1,130,621
Investment securities at FVPL	31 December 2023	3,415	–	–	3,415

Transfers between Level 1 and Level 2

For the six month ended 30 June 2024	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1
Investment securities at FVOCI	11,770	11,314

Government bonds in the amount of AZN 11,770 thousand have been transferred to Level 2 during the first half of 2024, as active market prices for those securities were not available and consequently fair values have been estimated using discounted cash flow models with observable market inputs of similar instruments.

Corporate bonds in the amount of AZN 11,314 thousand have been transferred from Level 2 to Level 1, due to active trade of these securities during the first half of 2024, which was not observed during prior year. These are mainly debt securities which were issued by entities operating in the Russian Federation and held by "IBA-Moscow" LLC.

There have been no transfers of financial assets measured at fair value between Level 1 to Level 2 during the first half of 2023.

(Figures in tables are in thousands of Azerbaijani manats)

21. Fair values of financial instruments (continued)

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

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

	Carrying value 30 June 2024 (unaudited)	Fair value 30 June 2024 (unaudited)	Carrying value 31 December 2023	Fair value 31 December 2023
Financial assets				
Cash and cash equivalents	1,990,483	1,990,483	2,816,799	2,816,799
Mandatory cash balances with central banks	1,955,957	1,955,957	1,823,961	1,823,961
Due from banks and other financial institutions	725,779	725,779	1,571,285	1,571,285
Investment securities at amortized cost	2,073,369	2,073,461	918,233	920,388
Loans to customers	5,666,435	5,664,673	4,910,003	4,925,040
Receivables from CJSC "Agrarkredit"	224,994	224,994	294,902	294,902
Other financial assets	98,721	98,721	169,623	169,623
Financial liabilities				
Due to banks and other financial institutions	1,040,683	1,040,683	577,300	577,300
Customer accounts	9,536,042	9,531,976	10,261,807	10,264,739
Payables to CJSC "Agrarkredit"	56,381	56,381	61,950	61,950
Other borrowed funds	247,469	247,469	229,053	229,053
Debt securities issued	491,944	476,517	496,968	480,111
Other financial liabilities	108,593	108,593	121,418	121,418

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 Group'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.

The Group estimates a fair value of Russian investment securities using a two-step approach:

- ▶ Step One – direct observations which is focused on trades, executable levels and indicative quotes on the target investment security;
- ▶ Step Two – uses direct observations on comparable investment securities to derive a relative value price on the target investment security when direct market observations are insufficient.

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)

22. 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 at the year end, and related expense and income for the year are as follows:

	30 June 2024 <i>(unaudited)</i>		31 December 2023	
	Related party balances	Total category as per the financial statements item	Related party balances	Total category as per the financial statements item
Cash and cash equivalents		1,990,483		2,816,799
– Government bodies and state-owned entities	90,574		722,171	
Due from banks and other financial institutions		725,779		1,571,285
– Government bodies and state-owned entities	612,680		1,508,289	
Investment securities		2,718,192		2,052,269
– Government bodies and state-owned entities	1,933,085		1,824,854	
Loans to customers, gross		5,874,350		5,091,441
– Government bodies and state-owned entities	701,967		538,000	
– Key management personnel of the Group	3,299		3,496	
Allowance for impairment losses on loans to customers		(207,915)		(181,438)
– Government bodies and state-owned entities	(7,617)		(5,840)	
– Key management personnel of the Group	(17)		(32)	
Other assets		149,498		212,694
– Government bodies and state-owned entities	3,411		49,907	
Receivables from CJSC "Agrarkredit"		226,184		296,462
– Government bodies and state-owned entities	226,184		296,462	
Allowance for impairment on receivables from CJSC "Agrarkredit"		(1,190)		(1,560)
– Government bodies and state-owned entities	(1,190)		(1,560)	
Customer accounts		(9,536,042)		(10,261,807)
– Government bodies and state-owned entities	(5,306,593)		(6,391,001)	
– Key management personnel of the Group	(2,055)		(41)	
Payables to CJSC "Agrarkredit"		(56,381)		(61,950)
– Government bodies and state-owned entities	(56,381)		(61,950)	
Due to banks and other financial institutions		(1,040,683)		(577,300)
– Government bodies and state-owned entities	(10,747)		(42,305)	
Other borrowed funds		(247,469)		(229,053)
– Government bodies and state-owned entities	(233,288)		(214,519)	
– Key management personnel of the Group	-			
Undrawn loan commitments		539,386		552,632
– Government bodies and state-owned entities	106,724		49,141	
– Key management personnel of the Group	22		28	
Letters of credit and guarantees		958,077		1,331,108
– Government bodies and state owned entities	363,528		594,670	
Provision for off-balance sheet commitments		(14,475)		(14,705)
– Government bodies and state owned entities	(2,512)		(1,564)	
– Key management personnel of the Group	-		(3)	

(Figures in tables are in thousands of Azerbaijani manats)

22. Related party disclosures (continued)

Transactions with entities other than government-related

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

	30 June 2024 (unaudited)		30 June 2023 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Key management personnel compensation				
– Short-term employee benefits	(9,773)	(102,444)	(7,351)	(88,440)
Total	(9,773)		(7,351)	

Included in the interim condensed consolidated statement of profit or loss and other comprehensive income for the years ended 30 June 2024 and 30 June 2023 are the following amounts which were recognized in transactions with related parties:

The income and expense arising from related party transactions are as follows:

	30 June 2024 (unaudited)		30 June 2023 (unaudited)	
	Related party transactions	Total category as per the financial statements caption	Related party transactions	Total category as per the financial statements caption
Interest income		461,447		371,475
– Government bodies and state-owned entities	79,075		77,539	
– Key management personnel of the Group	142		99	
Interest expense		(109,969)		(72,249)
– Government bodies and state-owned entities	(52,142)		(43,282)	
– Key management personnel of the Group	(511)		(248)	
Impairment (losses)/reversal of impairment losses on interest bearing assets		(18,256)		(15,675)
– Government bodies and state-owned entities	(1,777)		532	
– Key management personnel of the Group	15		1	
Reversal of impairment losses / (impairment losses) on contingent liabilities and credit related commitments		(518)		986
– Government bodies and state-owned entities	(948)		(62)	
– Key management personnel of the Group	3		1	
Gains from operations in foreign currencies		45,930		40,734
– Government bodies and state-owned entities	10,937		12,651	
– Key management personnel of the Group	4		1	
Fee and commission income		101,699		64,884
– Government bodies and state-owned entities	21,696		19,447	
– Key management personnel of the Group	5		3	
Loss (gain) on repurchase of debt		-		(199)
– Government bodies and state-owned entities	-		(199)	
Fee and commission expense		(66,071)		(32,429)
– Government bodies and state-owned entities	(5,529)		(5,008)	
Operating expenses		(168,150)		(149,579)
– Government bodies and state-owned entities	(12,144)		(10,460)	
– Key management personnel of the Group	(9,773)		(7,351)	

(Figures in tables are in thousands of Azerbaijani manats)

23. Capital adequacy

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

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

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

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

The CBAR 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 30 June 2024, the Bank was in compliance with these requirements.

Capital adequacy ratio under Basel III

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

As at 30 June 2024 and 31 December 2023, the Bank's capital adequacy ratios on this basis were as follows:

	30 June 2024 (unaudited)	31 December 2023
Tier 1 capital	2,026,326	2,014,526
Tier 2 capital	189,799	182,533
Less: deductions from capital	(101,393)	(99,688)
Total capital	2,114,732	2,097,371
Risk weighted assets	7,461,201	6,665,500
Tier 1 capital ratio	27.16%	30.22%
Total capital ratio	28.34%	31.47%

24. Events after the end of the interim period

On 1 September 2024, Eurobonds issued by the Bank (Note 13) matured and have been fully repaid.

At the Annual General Meeting of Shareholders held in May 2024, a decision was made to increase the Bank's share capital through the issuance of 322,000,000 new ordinary shares via public offering. The issuance is being conducted in phases, with the first phase concluded on September 10, 2024. The allocation of shares to subscribers from this phase is currently in progress and is expected to be completed by the end of September 2024.