“Yapi Kredi Bank Azerbaijan” CJSC

International Financial Reporting Standards
Financial Statements and
Independent Auditor’s Report

31 December 2023

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Independent Auditor's Report

To the Shareholders and Management Board of Yapi Kredi Bank Azerbaijan CJSC:

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of CJSC "Yapi Kredi Bank Azerbaijan" (the "Bank") as at 31 December 2023, and the Bank's financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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 financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the 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.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan

31 May 2024

Yapi Kredi Bank Azerbaijan CJSC
Statement of Financial Position
(Amounts expressed in thousands of Azerbaijani Manats)

	Notes	31 December 2023	31 December 2022
ASSETS			
Cash and cash equivalents	7	93,562	152,454
Investments in debt and equity securities	10	85,842	89,390
Amounts due from credit institutions	8	47,906	19,492
Loans to customers	9	273,063	214,395
Property and equipment	11	4,479	3,341
Intangible assets	12	7,244	7,472
Right of use assets	13	10,744	10,014
Other assets	15	10,139	10,020
TOTAL ASSETS		**532,979**	**506,578**
LIABILITIES			
Amounts due to credit institutions	16	31,871	23,629
Amounts due to customers	17	371,376	366,099
Current income tax liabilities		2,997	1,257
Deferred income tax liabilities	14	868	2,695
Other liabilities	15	23,192	17,347
TOTAL LIABILITIES		**430,304**	**411,027**
EQUITY			
Share capital	18	55,381	55,381
Retained earnings		47,114	39,990
Other reserves		180	180
TOTAL EQUITY		**102,675**	**95,551**
TOTAL LIABILITIES AND EQUITY		**532,979**	**506,578**

Signed and authorized for release on behalf of the Management Board of the Bank on 31 May 2024:

Cenk Yuksel
Chairman of the Executive Board / General Manager

Serkan Gunal
Chief Financial Officer Assistant

Ramin Saftarov
Manager of Financial Reports and Development Department

Elshan Babayev
Chief Accountant

Closed Joint Stock Company Yapi Kredi Bank Azerbaijan • YAPI KREDI BANK AZƏRBAYCAN • Yapi Kredi Bank Azərbaycan Qapalı Səhmdar Cəmiyyəti

The accompanying notes on pages 5 to 61 are an integral part of these financial statements.

(Amounts expressed in thousands of Azerbaijani Manats)

	Notes	2023	2022
Interest income calculated using the effective interest method	20	31,899	21,541
Interest and other similar expense	20	(2,873)	(2,446)
Net margin on interest and similar income		**29,026**	**19,095**
Credit loss allowance recovery, net	7, 8, 9,10	2,417	2,296
Net margin on interest and similar income after credit loss allowance		**31,443**	**21,391**
Fee and commission income	21	13,104	10,693
Fee and commission expense	21	(9,595)	(6,755)
Gains less losses from modification of financial assets		10	4
Gains less losses from trading in foreign currencies		6,315	6,430
Net losses from currency translation differences		(18)	(92)
Other income		76	74
Payroll, general and administrative expenses	22	(30,120)	(25,262)
Other impairment and provisions, net		(842)	(99)
Profit before tax		**10,373**	**6,384**
Income tax expense	14	(3,249)	(2,362)
PROFIT FOR THE YEAR		**7,124**	**4,022**
Other comprehensive income for the year:			
Items that will not be reclassified to profit or loss:			
Gains less losses on investments in equity securities at fair value through other comprehensive income		-	-
Other comprehensive income for the year		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**7,124**	**4,022**

(Amounts expressed in thousands of Azerbaijani Manats)

	Share Capital	Retained earnings	Other reserves	Total
Balance at 1 January 2022	**55,381**	**35,968**	**180**	**91,529**
Profit for the year	-	4,022	-	4,022
Total comprehensive income for the year	-	4,022	-	4,022
Balance at 31 December 2022	**55,381**	**39,990**	**180**	**95,551**
Profit for the year	-	7,124	-	7,124
Total comprehensive income for the year	-	7,124	-	7,124
Balance at 31 December 2023	**55,381**	**47,114**	**180**	**102,675**

(Amounts expressed in thousands of Azerbaijani Manats)

	Notes	2023	2022
Cash flows from operating activities			
Interest received		29,551	19,885
Interest paid		(3,089)	(2,180)
Fees and commissions received		12,973	10,598
Fees and commissions paid		(9,595)	(6,755)
Income received from trading in foreign currencies		6,315	6,430
Other income received		76	74
Personnel expenses paid		(14,250)	(10,813)
Other operating expenses paid		(9,515)	(7,702)
Cash flows from operating activities before changes in operating assets and liabilities		**12,466**	**9,537**
Net (increase)/decrease in operating assets:			
Amounts due from credit institutions		(28,360)	2,976
Loans to customers		(54,486)	(61,772)
Other assets		(663)	(1,643)
Net increase/(decrease) in operating liabilities:			
Amounts due to credit institutions		8,237	3,422
Amounts due to customers		5,498	79,409
Other liabilities		3,555	485
Net cash (used in) / from operating activities before income tax		**(53,753)**	**32,414**
Income tax paid		(2,817)	(393)
Net cash (used in) / from operating activities		**(56,570)**	**32,021**
Cash flows from investing activities			
Acquisition of investments in debt securities carried at amortised cost		(96,212)	(73,606)
Proceeds from redemption of debt securities carried at amortised cost		79,276	16,538
Purchase of property and equipment	11	(2,508)	(1,962)
Purchase of intangible assets	12	(2,321)	(2,588)
Net cash used in investing activities		**(21,765)**	**(61,618)**
Cash flows from financing activities			
Repayment of principal of lease liabilities		(2,307)	(2,306)
Net cash used in financing activities		**(2,307)**	**(2,306)**
Effect of exchange rates changes on cash and cash equivalents		(18)	(92)
Net decrease in cash and cash equivalents		**(80,660)**	**(31,995)**
Cash and cash equivalents, at the beginning of the year		**184,194**	**216,189**
Cash and cash equivalents, at the end of the year	7,10	**103,534**	**184,194**

As per Bank policy cash and cash equivalents include notes issued by Central Bank of Azerbaijan Republic (below 90 days original maturity date) amounted AZN 9,972 (2022: AZN 31,740).

(Amounts expressed in thousands of Azerbaijani Manats)

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2023 for Yapi Kredi Bank Azerbaijan (the "Bank").

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. Yapi Kredi Bank Azerbaijan is a closed joint-stock company limited by shares and was set up in accordance with Azerbaijani regulations.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has operated under a full banking license issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") since 11 January 2000 under registration number 243. The Bank participates in the state deposit insurance scheme, which was introduced by the Azeri Law, "Insurance of individual deposits in the Republic of Azerbaijan" dated 29 December 2006. Azerbaijan Deposit Insurance Fund fully guarantees deposits up to AZN 100 for a period of three years in local currency with an interest rate up to 12%, as well as deposits up to AZN 100 equivalent in foreign currency with an interest rate up to 2.5%.

Registered address and place of business. The Bank's registered address and principal place of business is 73G Jalil Mammadguluzadeh street Baku, AZ1078, Azerbaijan.

The Bank has 8 branches (2022: 8 branches), 1 customer services unit (2022: 1 unit) within the Republic of Azerbaijan. The Bank had 270 employees at 31 December 2023 (31 December 2022: 254).

As at 31 December 2023 and 31 December 2022 the following shareholders owned the outstanding shares of the Bank:

Shareholder	**%**
Yapı ve Kredi Bankası A.Ş.	99.8
YK Yatirim Menkul Degerler A.Ş.	0.1
YK Lease A.Ş.	0.1
Total	**100.0**

Yapı ve Kredi Bankası A.Ş. ("YKB"), an entity established in Turkey, is the direct parent of the Bank. YKB's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of 31 December 2023, 32.03% of the shares of the "YKB" are publicly traded (2022: 32.03%).

40.95% of the shares out of the remaining 67.97% is owned by Koç Finansal Hizmetler A.Ş. ("KFS") which is owned by Koç Group, and 27.02% is owned by Koç Holding A.Ş..

As of 31 December 2023 and 31 December 2022 no individual shareholder exerts ultimate control over the Bank.

2 Operating Environment of the Bank

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil and natural gas prices and stability of Azerbaijani manat.

The rebound in economic activity in 2022 continued in 2023, fuelled by strong activity in non-energy sectors. Real GDP increased by 1.1 percent in 2023. Economic growth in the non-oil sector continued to be the main driver of the economy, increasing by 3.7 percent in real terms and accounting for 56 percent of GDP.

The year of 2023 is marked with higher geo-political tension, rise in global commodity prices and inflation in trade partners, lingering problems in the global value chain and impact of these developments on the global economy at the time when the world is gradually leaving the pandemic behind. Global demand recovering faster than supply, sharp volatility of global commodity prices and inflation in trade partners, as well as higher transportation-logistic costs weighed on inflation in Azerbaijan. The annual inflation in December 2023 totalled 8.8%. To counter inflation, the Central Bank of Azerbaijan Republic (CBAR) increased the policy rate three times, raising it by 75 basis points in total up to 9.0% and then decreased twice by 100 basis points in total down to 8.0% during 2023. The refinancing rate has reached 8.0% by the end of 2023.

Although uncertainties related to the global geopolitical and geoeconomic situation, and a high global inflation rate remain a risk, foreign trade surplus and the rise in strategic foreign exchange reserves allow to safeguard macroeconomic stability. So, the adequate monetary and fiscal policy reduces macroeconomic stability risks. As a result of the correct policy pursued by the Azerbaijani state, the Azerbaijani Manat (AZN) remained stable throughout 2023.

During 2023 global rating agencies have reaffirmed their previous positive foreign and local currency sovereign credit ratings on Azerbaijan. In February 2024, Fitch Ratings has affirmed Azerbaijan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB+' with a Positive Outlook. The rating is supported by a very strong external balance sheet, the lowest public debt in the peer group, and financing flexibility from large sovereign wealth fund assets.

The Banking Sector has remained resilient as the lending activity of the Banking Sector has risen by 19% in 2023 (2022: 18%), providing support to the economic growth. Consumer and mortgage loans to individuals rose 21% (2022: 26%) and deposits portfolio of the Banking sector recorded 2% (2022: 25%) growth.

The ongoing effects of the political and economic situation are difficult to predict, but they may have further effects on the economy of Azerbaijan, which may lead to a deterioration of the State finances, volatility of financial markets, illiquidity on capital markets, higher inflation and a depreciation of the national currency against major foreign currencies.

The Bank’s Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Bank’s business in the foreseeable future.

The Bank’s Management is taking necessary measures to ensure sustainability of the Bank’s operations and support its customers and employees consider listing the measures taken, for example:

- The bank re-examined the processes that affect the customers and took important steps towards the optimization of these processes;
- The Bank continued to increase penetration of clients in e-banking and had a chance to optimise products/services offered via this channel;
- As a result of the actions taken, the bank increased its loan portfolio by 27%, mainly consumer loans by 57% and mortgage loans to individuals by 59%;
- The total deposit portfolio of the bank has increased by 1%, including 29% increase in time deposits and 2% decrease in demand deposits.

In the following years, the Bank will continue its growth by taking steps in the direction of efficiency and digitalization.

3 Material Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss ("FVTPL") and at fair value through other comprehensive income ("FVOCI"). The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

These financial statements are directed to primary users, being investors who lend or provide equity capital to the reporting entity. These financial statements assume that the primary users have a reasonable knowledge of business and economic activities and review and analyse the information diligently.

These financial statements aim disclosing only information that management considers is material for the primary users. Management seeks not to reduce the understandability of these financial statements by obscuring material information with immaterial information. Hence, only material accounting policy information is disclosed, where relevant, in the related disclosure notes.

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

Financial assets – classification and subsequent measurement – measurement categories. The Bank classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Bank's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Bank undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Bank in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed. Refer to Note 4 for critical judgements applied by the Bank in determining the business models for its financial assets.

Financial assets – classification and subsequent measurement – cash flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Bank assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset, and it is not subsequently reassessed. Refer to Note 4 for critical judgements applied by the Bank in performing the SPPI test for its financial assets.

Financial assets impairment – credit loss allowance for ECL. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

All debt instruments of the Bank are measured at AC as of the reporting date and are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Bank identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 23 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The

3 Material Accounting Policies (Continued)

Bank's definition of credit impaired assets and definition of default is explained in Note 23.

As an exception, for certain financial instruments, such as credit cards, that may include both a loan and an undrawn commitment component, the Bank measures expected credit losses over the period that the Bank is exposed to credit risk, that is, until the expected credit losses would be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. This is because contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to such contractual notice period.

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

Financial assets – derecognition and modification. The Bank derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

The Bank sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Bank assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: any new contractual terms that substantially affect the risk profile of the asset (e.g. profit share or equity-based return), significant change in interest rate, change in the currency denomination, new collateral or credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Bank derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Bank also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Bank compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Bank recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognises a modification gain or loss in profit or loss. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial asset.

Financial liabilities – measurement categories. All financial liabilities of the Bank are measured at AC as of the reporting date.

Financial liabilities – derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

3 Material Accounting Policies (Continued)

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

Cash and cash equivalents. Cash and cash equivalents include cash on hand, amounts due from the CBAR, excluding obligatory reserves and unrestricted balances on correspondent accounts, including overnight deposits and deposits with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at AC. Notes from CBAR with maturity less than three months on origination represent cash and cash equivalents for the purposes of the statement of cash flows.

Mandatory cash balances with the CBAR. Mandatory cash balances with the CBAR are carried at AC and represent no interest-bearing mandatory reserve deposits, which are not available to finance the Bank's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Amounts due from credit institutions. Amounts due from credit institutions are recorded when the Bank advances money to counterparty banks. Amounts due from credit institutions are carried at AC.

Investments in debt securities. The Bank measures all of its debt securities at AC as of the reporting date.

Investments in equity securities. The Bank's policy is to designate equity investments as FVOCI when those investments are held for strategic purposes other than solely to generate investment returns.

Loans to customers. Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans to customers into AC measurement category, i.e. loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 23 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Repossessed collateral. Repossessed collateral represents financial and non-financial assets acquired by the Bank in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, other financial assets, investment properties or inventories within other assets depending on their nature and the Bank's intention in respect of recovery of these assets. The Bank measures a repossessed collateral at the lower of its carrying amount and fair value less costs to sell.

Loan commitments. The Bank issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at (i) the remaining unamortised balance of the amount at initial recognition, plus (ii) the amount of the loss allowance determined based on the expected credit loss model, unless the commitment is to provide a loan at a below market interest rate, in which case the measurement is at the higher of these two amounts. The carrying amount of the loan commitments represents a liability. For contracts that include both a loan and an undrawn commitment and where the Bank cannot separately distinguish the ECL on the undrawn loan component from the loan component, the ECL on the undrawn commitment is recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, they are recognised as a liability.

3 Material Accounting Policies (Continued)

Financial guarantees. Financial guarantees require the Bank to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Financial guarantees are initially recognised in "Other liabilities" at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight-line basis over the life of the guarantee. At the end of each reporting period, the guarantees are measured at the higher of (i) the amount of the loss allowance for the guaranteed exposure determined based on the expected loss model and (ii) the remaining unamortised balance of the amount at initial recognition. In addition, an ECL loss allowance is recognised for fees receivable that are recognised in the statement of financial position as an asset.

Taxation. The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

In addition, there are various operating taxes in Azerbaijan such as VAT, property tax, withholding tax and others which become relevant as a result of the Bank's operations. These taxes are included as a component of general and administrative expenses.

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.

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

Depreciation. Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Leasehold improvements	4-15
Furniture and fixtures	4-5
Computers and office equipment	4
Motor vehicles	4

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Intangible assets. Intangible assets include computer software and licenses.

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of 1 to 10 years.

Accounting for leases by the Bank as a lessee. The Bank leases office premises, apartments, cars and ATMs.

3 Material Accounting Policies (Continued)

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

In determining the lease term, management of the Bank considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Amounts due to credit institutions. Amounts due to credit institutions are recorded when money or other assets are advanced to the Bank by counterparty credit institutions, which include Azerbaijan Mortgage and Credit Guarantee Fund ("AMCGF"), Entrepreneurship Development Fund of the Republic of Azerbaijan ("EDF"), and banks. The non-derivative liability is carried at AC.

Amounts due to customers. Amounts due to customers are non-derivative liabilities to individuals, state or corporate customers and are carried at AC.

Provision. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

Share Capital. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Presentation of statement of financial position in order of liquidity. The Bank does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 23 for analysis of financial instruments by expected maturity.

Contingencies. Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision.

If the credit risk on the financial asset classified in Stage 3 subsequently improves so that the asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the asset had been determined as credit-impaired (ie the asset becomes cured), the asset is reclassified from stage 3 and the interest revenue is calculated by applying the EIR to the gross carrying amount. The additional interest income, which was previously not recognised in the statement of profit and loss due to the asset being in stage 3 but it is now expected to be received following the asset's curing, is recognised as a reversal of impairment.

(Amounts expressed in thousands of Azerbaijani Manats)

3 Material Accounting Policies (Continued)

Fees and commissions. The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- *Fee income earned from services that are provided over a certain period of time*

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- *Fee income from providing transaction services*

Fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

Sales and purchases of foreign currencies and currency conversion. The Bank sells and purchases foreign currencies in the cash offices and through the bank accounts, as well as exchanges foreign currencies. The transactions are performed at the exchange rates established by the Bank, which are different from the official spot exchange rates at the particular dates. The differences between the official rates and Bank rates are recognised as gains less losses from trading in foreign currencies at a point in time when a particular performance obligation is satisfied.

Foreign currency translation. The financial statements are presented in Azerbaijani Manat, which is the Bank's functional and presentation currency.

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

	2023	**2022**
1 USD	AZN 1.7000	AZN 1.7000
1 EUR	AZN 1.8766	AZN 1.8114

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Going concern. The Bank prepared these financial statements on a going concern basis. In making this judgement management considered the Bank's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of recent macro-economic developments on future operations of the Bank.

ECL measurement. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 23. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

A 15% increase or decrease in PD estimates would result in an increase or decrease in total expected credit loss allowances of AZN 223 as at 31 December 2023 (31 December 2022: increase or decrease of AZN 193). A 15% increase or decrease in LGD estimates would result in an increase or decrease in total expected credit loss allowances of AZN 223 as at 31 December 2023 (31 December 2022: increase or decrease of AZN 221).

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts). For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (e.g. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 23.

Should ECL on all loans to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by AZN 31,651 as of 31 December 2023 (31 December 2022: higher by AZN 34,469).

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

The "hold to collect and sell" business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model's objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

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

The Bank's debt securities are classified as held to collect based on the assumption that these securities would only be sold in a stress case scenario.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement.

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

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgment or independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 25.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Write-off policy. Financial assets are written-off, in whole or in part, when the Bank exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Determining the cash flows for which there is no reasonable expectation of recovery requires judgement. Management considered the following indicators that there is no reasonable expectation of recovery: liquidation or bankruptcy proceedings as well as decision of the court.

Determining lease term. The Bank leases office buildings from third parties under contracts which do not have contractual maturity dates or are automatically renewed unless either party submits a termination notice of one month. The Bank determines non-cancellable lease period for such leases, taking into consideration penalties that would be incurred upon termination, including economic disincentives such as leasehold improvements, cost of relocating or the importance of the premises to the Bank's operations. As a result, the lease term for most significant office buildings has been determined as a period of 5-10 years.

5 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2023:

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers are now recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity is recognising the loss immediately.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

5 Adoption New or Revised Standards and Interpretations (Continued)

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services*: Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Bank issues financial guarantee contracts which are initially recognised and subsequently measured under IFRS 9 (Note 3). The Bank applies the IFRS 17 scope exclusion relating to financial guarantees. The Bank does not issue performance guarantees, combined contracts with insurance companies, or other instruments that meet the definition of insurance contract under IFRS 17.

Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17. The transition requirements in IFRS 17 and IFRS 9 apply at different dates and result in the following one-time classification differences in the comparative information presented on initial application of IFRS 17: accounting mismatches between insurance contract liabilities measured at current value and any related financial assets measured at amortised cost; and if an entity chooses to restate comparative information for IFRS 9, classification differences between financial assets derecognised in the comparative period (to which IFRS 9 will not apply) and other financial assets (to which IFRS 9 will apply). The amendment helps insurers to avoid these temporary accounting mismatches and, therefore, will improve the usefulness of comparative information for investors. It does this by providing insurers with an option for the presentation of comparative information about financial assets. When initially applying IFRS 17, entities are, for the purpose of presenting comparative information, permitted to apply a classification overlay to a financial asset for which the entity does not restate IFRS 9 comparative information.

5 Adoption New or Revised Standards and Interpretations (Continued)

The transition option is available, on an instrument-by-instrument basis; allows an entity to present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of IFRS 9; and require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how that financial asset is to be classified applying IFRS 9.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments resulted in changes in presentation of these financial statements, primarily by removing significant accounting policies that do not represent material accounting policy information.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendment had an impact on presentation of deferred tax asset/ liability by asset /liability class (Note 14).

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. Companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

Unless otherwise stated, the application of the amendments had no significant impact on the Bank's financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Bank has not early adopted.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained.

6 New Accounting Pronouncements (Continued)

This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). In response to concerns of the users of financial statements about inadequate or misleading disclosure of financing arrangements, in May 2023, the IASB issued amendments to IAS 7 and IFRS 7 to require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The amendments do not affect recognition or measurement principles but only disclosure requirements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

IFRS 18 Presentation and Disclosure in Financial Statements (Issued on 9 April 2024 and effective for annual periods beginning on or after 1 January 2027). In April 2024, the IASB issued IFRS 18, the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:

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

IFRS 18 will replace IAS 1; many of the other existing principles in IAS 1 are retained, with limited changes.

IFRS 18 will not impact the recognition or measurement of items in the financial statements, but it might change what an entity reports as its 'operating profit or loss'. IFRS 18 will apply for reporting periods beginning on or after 1 January 2027 and also applies to comparative information. The Bank considers it is too early to determine the impact of the amendment on its financial statements as the release date is recent. Relevant assessment is to be carried out at a later date.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

(Amounts expressed in thousands of Azerbaijani Manats)

7 Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2023	31 December 2022
Cash on hand	14,681	22,966
Current accounts with the CBAR	328	36,693
Short-term deposits placed in the CBAR	46,017	25,009
Current accounts and overnight placements with other credit institutions	32,740	67,962
Less credit loss allowance	(204)	(176)
Cash and cash equivalents	**93,562**	**152,454**

As at 31 December 2023, the short-term deposits placed in the CBAR is AZN 46,000 maturing until 7 January 2024 with the interest rate 6.50% p.a. (31 December 2022: AZN 25,000 with 6.25% interest rate p.a.).

Current accounts and overnight placements with other credit institutions consist of interest-bearing correspondent account balances with non-resident banks in amount of AZN 23,051 (31 December 2022: AZN 55,272) and overnight placement with the non-resident bank in amount of AZN 5,165 (31 December 2022: AZN 1,653).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2023. Refer to Note 23 for the description of the Bank's credit risk grading system.

	Cash balances with the CBAR, excluding mandatory reserves	Current accounts and overnight placements with other credit institutions	Total
- Excellent	46,345	26,446	72,791
- Good	-	1,714	1,714
- Satisfactory	-	732	732
- Unrated	-	3,848	3,848
Less credit loss allowance	(134)	(70)	(204)
Total cash and cash equivalents, excluding cash on hand	**46,211**	**32,670**	**78,881**

For the purpose of ECL measurement cash and cash equivalents balances are included in Stage 1. Refer to Note 23 for the ECL measurement approach.

The credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022 is as follows:

	Cash balances with the CBAR, excluding mandatory reserves	Current accounts and overnight placements with other credit institutions	Total
- Excellent	61,702	64,387	126,089
- Good	-	3,575	3,575
Less credit loss allowance	(135)	(41)	(176)
Total cash and cash equivalents, excluding cash on hand	**61,567**	**67,921**	**129,488**

As of 31 December 2023, the Bank had AZN 23,461 or 72% (31 December 2022: AZN 55,700 or 82%) of total amounts with other credit institutions placed with one counterparty (31 December 2022: one).

Information on related party balances is disclosed in Note 25.

(Amounts expressed in thousands of Azerbaijani Manats)

8 Amounts Due from Credit Institutions

Amounts due from credit institutions comprise:

	31 December 2023	31 December 2022
Obligatory reserve with the CBAR	16,480	13,352
Short-term loans to banks	24,679	-
Short-term deposits placed in banks	7,135	6,169
Amounts due from credit institutions (gross)	**48,294**	**19,521**
Less: allowance for impairment	(388)	(29)
Amounts due from credit institutions (net)	**47,906**	**19,492**

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR, the amount of which depends on the level of funds (amounts due to customers) attracted by the credit institution. The Bank's ability to withdraw such deposit is significantly restricted by the statutory legislation.

The significant increase in obligatory reserve is due to the change made by the CBAR being effective since November 2023. The normative was increased to 5% from 4% for local currency and to 6% from 5% for foreign currency.

As at 31 December 2023, the Bank had short-term loans to four banks (31 December 2022: nil) amounting to AZN 24,552 (31 December 2022: nil) maturing in November and December 2024, with the annual interest rate of 7.97%-9.79% p.a.

As at 31 December 2023, the Bank had short-term deposits placed in banks amounting to AZN 6,800 (31 December 2022: AZN 6,120) maturing in February 2024 (31 December 2022: February 2023), with the annual interest rate of 5.8% p.a. (2022: 4.7% p.a.).

Analysis by credit quality of amounts due from credit institutions outstanding at 31 December 2023, is as follows:

	Stage 1 (12-months ECL)	Total
Placements with credit institutions		
- Excellent	16,480	16,480
- Satisfactory	31,814	31,814
Gross carrying amount	**48,294**	**48,294**
Credit loss allowance	(388)	(388)
Total due from credit institutions (carrying amount)	**47,906**	**47,906**

Analysis by credit quality of amounts due from credit institutions outstanding at 31 December 2022 is as follows:

	Stage 1 (12-months ECL)	Total
Placements with credit institutions		
- Excellent	13,352	13,352
- Satisfactory	6,169	6,169
Gross carrying amount	**19,521**	**19,521**
Credit loss allowance	(29)	(29)
Total due from credit institutions (carrying amount)	**19,492**	**19,492**

(Amounts expressed in thousands of Azerbaijani Manats)

8 Amounts Due from Credit Institutions (Continued)

Refer to Note 24 for the estimated fair value of each class of amounts due from credit institutions. Interest rate analysis of due from credit institutions is disclosed in Note 23. Information on related party balances is disclosed in Note 25.

9 Loans to Customers

Loans to customers comprise:

	31 December 2023	31 December 2022
Gross carrying amount of loans to customers at AC	302,042	253,663
Less credit loss allowance	(28,979)	(39,268)
Total carrying amount of loans to customers at AC	**273,063**	**214,395**
Total loans to customers (carrying amount)	**273,063**	**214,395**

As at 31 December 2023, out of the total amount of loans 33.2% (31 December 2022: 36.3%) are denominated in foreign currencies.

Gross carrying amount and credit loss allowance amount for loans to customers at AC by classes at 31 December 2023 and 31 December 2022 are disclosed in the table below:

	31 December 2023			31 December 2022		
	Gross carrying amount	**Credit loss allowance**	**Carrying amount**	**Gross carrying amount**	**Credit loss allowance**	**Carrying amount**
Loans to corporate / commercial customers	183,256	14,266	168,990	168,185	21,551	146,634
Loans to SME	14,349	6,370	7,979	14,945	7,882	7,063
Consumer Loans	69,309	7,041	62,268	47,533	8,053	39,480
Residential Mortgage loans	35,128	1,302	33,826	23,000	1,782	21,218
Total loans to customers at AC	**302,042**	**28,979**	**273,063**	**253,663**	**39,268**	**214,395**

More detailed explanation of classes of loans to legal entities is provided below:

- Loans to corporate / commercial customers – loans issued to commercial entities;
- Loans to SME – loans issued to small and medium-sized enterprises;
- Consumer Loans – loans issued to individuals for personal needs;
- Residential Mortgage loans - loans issued to individuals for mortgage purposes.

The following table discloses the changes in the credit loss allowance and gross carrying amount for loans to customers carried at amortised cost between the beginning and the end of the reporting period and comparative periods.

9 Loans to Customers (Continued)

(Amounts expressed in thousands of Azerbaijani Manats)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to corporate / commercial customers								
At 31 December 2022	**620**	**77**	**20,854**	**21,551**	**133,787**	**560**	**33,838**	**168,185**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(28)	137	-	109	(2,824)	2,824	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(1)	921	920	-	(1,057)	1,057	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	-	(227)	(226)	535	-	(535)	-
New originated or purchased	1,094	-	-	1,094	250,034	-	-	250,034
Fully repaid during the period	(897)	-	(1,521)	(2,418)	(204,948)	-	(3,263)	(208,211)
Changes in accrued interest	-	-	(918)	(918)	96	(13)	(1,508)	(1,425)
Partially repaid during the period	(64)	(48)	(814)	(926)	(16,965)	(264)	(3,143)	(20,372)
Other movements	-	-	35	35	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**106**	**88**	**(2,524)**	**(2,330)**	**25,928**	**1,490**	**(7,392)**	**20,026**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(4,955)	(4,955)	-	-	(4,955)	(4,955)
At 31 December 2023	**726**	**165**	**13,375**	**14,266**	**159,715**	**2,050**	**21,491**	**183,256**

The Bank incurred AZN 675 losses on sale of repossessed collateral, which is recognised within “Credit loss allowance recovery, net” in the statement of profit or loss and other comprehensive income.

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to corporate / commercial customers								
At 31 December 2021	**407**	**119**	**21,972**	**22,498**	**74,281**	**5,662**	**37,168**	**117,111**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(3)	74	-	71	(621)	621	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	-	48	48	-	(67)	67	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	3	(85)	-	(82)	5,425	(5,425)	-	-
New originated or purchased	694	-	-	694	147,002	-	-	147,002
Fully repaid during the period	(435)	(29)	-	(464)	(87,346)	(126)	-	(87,472)
Changes in accrued interest	-	-	-	-	165	(16)	552	701
Partially repaid during the period	(46)	(2)	(1,528)	(1,576)	(5,119)	(89)	(3,827)	(9,035)
Other movements	-	-	484	484	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**213**	**(42)**	**(996)**	**(825)**	**59,506**	**(5,102)**	**(3,208)**	**51,196**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(122)	(122)	-	-	(122)	(122)
At 31 December 2022	**620**	**77**	**20,854**	**21,551**	**133,787**	**560**	**33,838**	**168,185**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to SME								
At 31 December 2022	**39**	**-**	**7,843**	**7,882**	**3,644**	**-**	**11,301**	**14,945**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	4	-	4	(19)	19	-	-
New originated or purchased	46	-	-	46	9,098	-	-	9,098
Fully repaid during the period	(6)	-	(142)	(148)	(6,436)	-	(397)	(6,833)
Changes in accrued interest	-	-	(231)	(231)	2	-	(339)	(337)
Partially repaid during the period	(10)	-	(368)	(378)	(1,160)	(5)	(184)	(1,349)
Other movements	-	-	370	370	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**30**	**4**	**(371)**	**(337)**	**1,485**	**14**	**(920)**	**579**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(1,175)	(1,175)	-	-	(1,175)	(1,175)
At 31 December 2023	**69**	**4**	**6,297**	**6,370**	**5,129**	**14**	**9,206**	**14,349**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Loans to SME								
At 31 December 2021	**19**	**-**	**8,540**	**8,559**	**1,641**	**-**	**13,118**	**14,759**
Movements with impact on credit loss allowance charge for the period:								
New originated or purchased	25	-	-	25	3,302	-	-	3,302
Fully repaid during the period	-	-	-	-	(806)	-	-	(806)
Changes in accrued interest	-	-	-	-	5	-	(20)	(15)
Partially repaid during the period	(5)	-	(759)	(764)	(498)	-	(1,519)	(2,017)
Other movements	-	-	340	340	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**20**	**-**	**(419)**	**(399)**	**2,003**	**-**	**(1,539)**	**464**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(278)	(278)	-	-	(278)	(278)
At 31 December 2022	**39**	**-**	**7,843**	**7,882**	**3,644**	**-**	**11,301**	**14,945**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 31 December 2022	**231**	**241**	**7,581**	**8,053**	**35,552**	**1,746**	**10,235**	**47,533**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(57)	156	-	99	(1,364)	1,364	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	(46)	378	332	-	(537)	537	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(44)	(1)	(44)	208	(207)	(1)	-
New originated or purchased	456	-	-	456	63,849	-	-	63,849
Fully repaid during the period	(151)	(34)	(345)	(530)	(30,573)	(269)	(976)	(31,818)
Changes in accrued interest	-	-	57	57	104	(2)	82	184
Partially repaid during the period	(59)	(39)	(737)	(835)	(8,507)	(418)	(889)	(9,814)
Other movements	-	-	78	78	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	**190**	**(7)**	**(570)**	**(387)**	**23,717**	**(69)**	**(1,247)**	**22,401**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(625)	(625)	-	-	(625)	(625)
At 31 December 2023	**421**	**234**	**6,386**	**7,041**	**59,269**	**1,677**	**8,363**	**69,309**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Consumer loans								
At 31 December 2021	**218**	**259**	**8,375**	**8,852**	**28,338**	**1,835**	**11,478**	**41,651**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	(24)	159	-	135	(1,344)	1,344	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2)	(73)	318	243	-	(433)	433	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	2	(68)	(17)	(83)	389	(376)	(13)	-
New originated or purchased	175	-	-	175	25,475	-	-	25,475
Fully repaid during the period	(73)	-	(435)	(508)	(10,510)	-	(677)	(11,187)
Changes in accrued interest	-	-	-	-	(11)	(13)	(65)	(89)
Partially repaid during the period	(65)	(36)	(495)	(596)	(6,785)	(611)	(756)	(8,152)
Total movements with impact on credit loss allowance charge for the period	**13**	**(18)**	**(629)**	**(634)**	**7,214**	**(89)**	**(1,078)**	**6,047**
Movements without impact on credit loss allowance charge for the period:								
Write-offs	-	-	(165)	(165)	-	-	(165)	(165)
At 31 December 2022	**231**	**241**	**7,581**	**8,053**	**35,552**	**1,746**	**10,235**	**47,533**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Residential mortgage loans								
At 31 December 2022	**167**	**266**	**1,349**	**1,782**	**20,810**	**463**	**1,727**	**23,000**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1	(107)	-	(106)	177	(177)	-	-
New originated or purchased	61	-	-	61	15,851	-	-	15,851
Fully repaid during the period	(9)	(32)	(7)	(48)	(1,980)	(86)	(8)	(2,074)
Changes in accrued interest	-	-	-	-	58	(1)	-	57
Partially repaid during the period	(92)	(69)	(43)	(204)	(1,349)	(7)	(59)	(1,415)
Other movements	-	-	(183)	(183)	-	-	(291)	(291)
Total movements with impact on credit loss allowance charge for the period	**(39)**	**(208)**	**(233)**	**(480)**	**12,757**	**(271)**	**(358)**	**12,128**
At 31 December 2023	**128**	**58**	**1,116**	**1,302**	**33,567**	**192**	**1,369**	**35,128**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

	Credit loss allowance				Gross carrying amount			
	Stage 1 (12-months ECL)	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**	**Stage 1 (12-months ECL)**	**Stage 2 (lifetime ECL for SICR)**	**Stage 3 (lifetime ECL for credit im-paired)**	**Total**
Residential mortgage loans								
At 31 December 2021	**107**	**263**	**1,515**	**1,885**	**15,600**	**413**	**1,841**	**17,854**
Movements with impact on credit loss allowance charge for the period:								
Transfers:								
- to lifetime (from Stage 1 to Stage 2)	-	82	-	82	(132)	132	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	(36)	-	(36)	54	(54)	-	-
New originated or purchased	89	-	-	89	6,759	-	-	6,759
Fully repaid during the period	(27)	-	-	(27)	(690)	-	-	(690)
Changes in accrued interest	-	-	-	-	26	-	(33)	(7)
Partially repaid during the period	(2)	(43)	(166)	(211)	(807)	(28)	(81)	(916)
Total movements with impact on credit loss allowance charge for the period	**60**	**3**	**(166)**	**(103)**	**5,210**	**50**	**(114)**	**5,146**
At 31 December 2022	**167**	**266**	**1,349**	**1,782**	**20,810**	**463**	**1,727**	**23,000**

The credit loss allowance for loans to customers recognised in the period is impacted by a variety of factors. Details of ECL measurement are provided in Note 23. The main reasons for movements are as follows:

- Transfers between Stage 1, 2 and 3 due to balances experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- Write-offs of allowances related to assets that were written off during the period.

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

Allowance for impairment of loans to customers

Information about collateral at 31 December 2023 is as follows:

	Corporate lending	Small business lending	Consumer lending	Residential mortgages	Total
Unsecured loans	80,004	2,212	61,040	106	143,362
Loans collateralized by:					
Real estate	75,924	5,767	425	33,720	115,836
Cash deposits	12,468	-	703	-	13,171
Other assets	594	-	100	-	694
Total carrying value loans to customers at AC	**168,990**	**7,979**	**62,268**	**33,826**	**273,063**

Information about collateral at 31 December 2022 is as follows:

	Corporate lending	Small business lending	Consumer lending	Residential mortgages	Total
Unsecured loans	63,011	853	38,990	131	102,985
Loans collateralized by:					
Real estate	70,955	6,210	282	21,087	98,534
Cash deposits	12,065	-	44	-	12,109
Other assets	603	-	164	-	767
Total carrying value loans and advances to customers at AC	**146,634**	**7,063**	**39,480**	**21,218**	**214,395**

Other assets mainly include vehicles and equipment. The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank’s rating policy. The attributable risk ratings are assessed and updated regularly.

Loans to customers and other financial assets with good financial position and good debt service are included in the standard grade. Sub-standard grade comprises loans below standard grade that had changes in the terms and conditions of loan agreements, but not individually impaired.

The following tables contain analyses of the credit risk exposure of loans to customers measured at AC and for which ECL allowance is recognised. The carrying amount of loans to customers below also represents the Bank's maximum exposure to credit risk on these loans.

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2023 is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Corporate lending				
Less than 30 days	159,715	1,567	555	161,837
30 to 90 days overdue	-	483	-	483
91-180 days overdue	-	-	334	334
181 to 360 days overdue	-	-	426	426
Over 360 days overdue	-	-	20,176	20,176
Gross carrying amount	**159,715**	**2,050**	**21,491**	**183,256**
Credit loss allowance	(726)	(165)	(13,375)	(14,266)
Carrying amount	**158,989**	**1885**	**8,116**	**168,990**
Small business lending				
Less than 30 days	5,129	14	1	5,144
91-180 days overdue	-	-	324	324
Over 360 days overdue	-	-	8,881	8,881
Gross carrying amount	**5,129**	**14**	**9,206**	**14,349**
Credit loss allowance	(69)	(4)	(6,297)	(6,370)
Carrying amount	**5,060**	**10**	**2,909**	**7,979**
Consumer lending				
Less than 30 days	59,269	983	201	60,453
30 to 90 days overdue	-	694	40	734
91-180 days overdue	-	-	141	141
181 to 360 days overdue	-	-	357	357
Over 360 days overdue	-	-	7,624	7,624
Gross carrying amount	**59,269**	**1,677**	**8,363**	**69,309**
Credit loss allowance	(421)	(234)	(6,386)	(7,041)
Carrying amount	**58,848**	**1,443**	**1,977**	**62,268**
Residential mortgage loans				
Less than 30 days	33,567	192	90	33,849
30 to 90 days overdue	-	-	21	21
Over 360 days overdue	-	-	1,258	1,258
Gross carrying amount	**33,567**	**192**	**1,369**	**35,128**
Credit loss allowance	(128)	(58)	(1,116)	(1,302)
Carrying amount	**33,439**	**134**	**253**	**33,826**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

Analysis by credit quality of loans outstanding at 31 December 2022 is as follows:

	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit im-paired)	Total
Corporate lending				
Less than 30 days	133,787	192	546	134,525
30 to 90 days overdue	-	368	-	368
91-180 days overdue	-	-	2,891	2,891
181 to 360 days overdue	-	-	2,148	2,148
Over 360 days overdue	-	-	28,253	28,253
Gross carrying amount	**133,787**	**560**	**33,838**	**168,185**
Credit loss allowance	(620)	(77)	(20,854)	(21,551)
Carrying amount	**133,167**	**483**	**12,984**	**146,634**
Small business lending				
Less than 30 days	3,644	-	-	3,644
181-360 days overdue	-	-	2,638	2,638
Over 360 days overdue	-	-	8,663	8,663
Gross carrying amount	**3,644**	**-**	**11,301**	**14,945**
Credit loss allowance	(39)	-	(7,843)	(7,882)
Carrying amount	**3,605**	**-**	**3,458**	**7,063**
Consumer lending				
Less than 30 days	35,552	1,163	465	37,180
30 to 90 days overdue	-	583	106	689
91-180 days overdue	-	-	234	234
181 to 360 days overdue	-	-	278	278
Over 360 days overdue	-	-	9,152	9,152
Gross carrying amount	**35,552**	**1,746**	**10,235**	**47,533**
Credit loss allowance	(231)	(241)	(7,581)	(8,053)
Carrying amount	**35,321**	**1,505**	**2,654**	**39,480**
Residential mortgage loans				
Less than 30 days	20,810	396	96	21,302
30 to 90 days overdue	-	67	46	113
91-180 days overdue	-	-	2	2
Over 360 days overdue	-	-	1,583	1,583
Gross carrying amount	**20,810**	**463**	**1,727**	**23,000**
Credit loss allowance	(167)	(266)	(1,349)	(1,782)
Carrying amount	**20,643**	**197**	**378**	**21,218**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

Impairment assessment. The main considerations for the loan impairment assessment are based on the information provided by the roll-rate model, which measures the movement of the past due amounts balances in various time brackets. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances. The Bank determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, the timing of the expected cash flows and expected recoverability of unsecured portion based on management estimates. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances. Allowances are assessed collectively for losses on loans to customers that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review. The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment.

Impairment losses are estimated by taking into consideration the roll-rate model assessment. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for loans.

The primary factors that the Bank considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Bank presents above an ageing analysis of loans that are individually determined to be impaired.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2023:

	Over-collateralized Assets		**Under-collateralized Assets**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate lending	73,566	166,266	95,424	15,561
Small business lending	4,759	12,302	3,220	1,007
Consumer lending	461	2,716	61,807	112
Residential mortgages	33,719	59,125	107	-

The effect of collateral at 31 December 2022:

	Over-collateralised Assets		**Under-collateralised Assets**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate lending	77,029	151,041	69,605	6,690
Small business lending	5,612	13,158	1,451	604
Consumer lending	470	1,788	39,010	19
Residential mortgages	21,088	39,009	130	-

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

Individually impaired loans

As at 31 December 2023, loans in the amount of AZN 29,887 (2022: AZN 43,107) were assessed individually. An individual impairment allowance of AZN 18,695 (2022: AZN 27,324) was recognized for such loans.

For individually assessed loans, the Bank considers the following:

- Projected future cash flows are estimated and then discounted with effective interest rate of the loan. When estimating the cash flows, the Bank takes into account factors such as court stage, repayment agreements with customers, written statements by customers, ongoing negotiations, recent repayment trends and repayment capability.
- Realization of collateral via repossession through court and subsequent sale. For estimation of collateral realization, the Bank takes into account factors such as court stage, historical realization period after repossession, average historical haircut (difference between collateral realization price and value of collateral previously pledged to a loan). The average haircut was estimated at 20% (31 December 2022: 20%). An increase (to 30%) or decrease (to 10%) in the collateral haircut by 10% would result in an increase or decrease in total expected credit loss allowances of individually assessed loans by AZN 785 as at 31 December 2023 (31 December 2022: increase or decrease of AZN 1,060). An increase or decrease in the collateral realisation period by one year would result in an increase of AZN 645 or decrease of AZN 739, respectively, in total expected credit loss allowances of individually assessed loans as at 31 December 2023 (31 December 2022: increase of AZN 1,019 or decrease of AZN 1,090).

Write-offs

In accordance with the CBAR requirements, loans may only be written off with the approval of the Supervisory Board and, in certain cases, with the respective decision of the Court. During 2023, loans in a total amount of AZN 6,755 were written-off (2022: AZN 565).

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- for corporate lending − charges over real estate and trade receivables, third party guarantees;
- for consumer lending − cash, charges over credited consumer appliances and mortgages over residential properties;
- for auto lending − cash and liens over vehicles.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

Concentration of loans to customers

As of 31 December 2023, the Bank had a concentration of loans represented by AZN 39,637 or 13% of gross loan portfolio (31 December 2022: AZN 35,220 or 14%) due from four (31 December 2022: four) largest third-party borrowers.

Loans have been extended to the following types of customers (amounts are presented prior to allowance):

	31 December 2023	31 December 2022
Private companies	183,256	168,185
Individuals	118,786	85,478
Gross loans to customers	**302,042**	**253,663**

(Amounts expressed in thousands of Azerbaijani Manats)

9 Loans to Customers (Continued)

Loans are provided within Azerbaijan in the following industry sectors (amounts are presented prior to allowance):

	31 December 2023	31 December 2022
Individuals	118,786	85,478
Trading enterprises	104,003	89,185
Real estate construction	51,648	56,609
Manufacturing	27,605	22,391
Gross loans to customers	**302,042**	**253,663**

Refer to Note 24 for the estimated fair value of each class of loans to customers. Maturity analysis of loans to customers is disclosed in Note 23. Information on related party balances is disclosed in Note 25.

10 Investments in Debt and Equity Securities

	31 December 2023	31 December 2022
Notes issued by the Central Bank of the Republic of Azerbaijan (CBAR)	53,529	80,634
Bonds issued by the Ministry of Finance of Azerbaijan Republic (MFAR)	32,323	8,711
Total debt securities at AC	**85,852**	**89,345**
Less credit loss allowance	(250)	(195)
Total investments in debt securities (carrying value)	**85,602**	**89,150**
Equity securities at FVOCI	240	240
Total investments in equity securities (fair value)	**240**	**240**
Total investments in debt and equity securities	**85,842**	**89,390**

As of 31 December 2023, all notes issued by CBAR and bonds issued by MFAR were classified as Stage 1.

Nominal interest rates of debt securities are as follows:

	2023	2022
	Annual interest rate	**Annual interest rate**
Notes issued by the CBAR	7.0%-9.9%	2.9%-6.6%
Bonds issued by the MFAR	5.7%-9.9%	4.5%-9.6%

(Amounts expressed in thousands of Azerbaijani Manats)

10 Investments in debt and equity securities (Continued)

The maturity analysis of the total carrying value of debt securities is as follows:

	Less than 3 months	3 to 12 months	1 to 5 years	Total
At 31 December 2023				
Notes issued by the CBAR	33,834	19,540	-	**53,374**
Bonds issued by the MFAR	1,161	2,812	28,255	**32,228**
Total debt securities net of ECL as at 31 December 2023	**34,995**	**22,352**	**28,255**	**85,602**

	Less than 3 months	3 to 12 months	1 to 5 years	Total
At 31 December 2022				
Notes issued by the CBAR	47,539	32,919	-	**80,458**
Bonds issued by the MFAR	-	1,397	7,295	**8,692**
Total debt securities net of ECL as at 31 December 2022	**47,539**	**34,316**	**7,295**	**89,150**

Notes with original maturities less than 90 days as per Bank policy represents cash and cash equivalents for the purposes of the statement of cash flows. Notes from CBAR and bonds from MFAR are neither past due nor impaired.

All debt securities are measured at amortised cost. The following table contains an analysis of debt securities at AC by credit quality at 31 December 2023 based on credit risk grades and discloses the balances by stages for the purpose of ECL measurement. Refer to Note 23 for the description of credit risk grading system used by the Bank and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2023 below also represents the Bank's maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)	Total
Notes issued by CBAR		
- Excellent	53,529	53,529
Total AC gross carrying amount	53,529	53,529
Less credit loss allowance	(155)	(155)
Carrying value	**53,374**	**53,374**
Bonds issued by MFAR		
- Excellent	32,323	32,323
Total AC gross carrying amount	32,323	32,323
Less credit loss allowance	(95)	(95)
Carrying value	**32,228**	**32,228**

(Amounts expressed in thousands of Azerbaijani Manats)

10 Investments in debt and equity securities (Continued)

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2022.

	Stage 1 (12-months ECL)	**Total**
Notes issued by CBAR		
- Excellent	80,634	80,634
Total AC gross carrying amount	80,634	80,634
Less credit loss allowance	(176)	(176)
Carrying value	**80,458**	**80,458**
Bonds issued by MFAR		
- Excellent	8,711	8,711
Total AC gross carrying amount	8,711	8,711
Less credit loss allowance	(19)	(19)
Carrying value	**8,692**	**8,692**

Refer to Note 24 for the estimated fair value of notes issued by Central Bank of the Republic of Azerbaijan and bonds issued by the Ministry of Finance of Azerbaijan Republic.

(Amounts expressed in thousands of Azerbaijani Manats)

11 Property and Equipment

The movements in tangible assets were as follows:

	Leasehold improvements	Computers and office equipment	Furniture and fixtures	Motor vehicles	Total
Cost					
31 December 2022	**1,172**	**17,368**	**2,056**	**176**	**20,772**
Additions	85	2,284	139	-	2,508
Disposals	(547)	(246)	(10)	(20)	(823)
31 December 2023	**710**	**19,406**	**2,185**	**156**	**22,457**
Accumulated depreciation					
31 December 2022	**(995)**	**(14,514)**	**(1,843)**	**(79)**	**(17,431)**
Depreciation charge	(92)	(1,145)	(76)	(39)	(1,352)
Disposals	546	231	8	20	805
31 December 2023	**(541)**	**(15,428)**	**(1,911)**	**(98)**	**(17,978)**
Net book value					
31 December 2022	**177**	**2,854**	**213**	**97**	**3,341**
31 December 2023	**169**	**3,978**	**274**	**58**	**4,479**

	Leasehold improvements	Computers and office equipment	Furniture and fixtures	Motor vehicles	Total
Cost					
31 December 2021	**8,915**	**16,161**	**2,071**	**168**	**27,315**
Additions	55	1,757	142	8	1,962
Disposals	(7,798)	(550)	(157)	-	(8,505)
31 December 2022	**1,172**	**17,368**	**2,056**	**176**	**20,772**
Accumulated depreciation					
31 December 2021	**(8,576)**	**(13,841)**	**(1,937)**	**(40)**	**(24,394)**
Depreciation charge	(216)	(1,222)	(60)	(39)	(1,537)
Disposals	7,797	549	154	-	8,500
31 December 2022	**(995)**	**(14,514)**	**(1,843)**	**(79)**	**(17,431)**
Net book value					
31 December 2021	**339**	**2,320**	**134**	**128**	**2,921**
31 December 2022	**177**	**2,854**	**213**	**97**	**3,341**

(Amounts expressed in thousands of Azerbaijani Manats)

12 Intangible Assets

The movements in intangible assets were as follows:

	Licenses	Computer software	Total
Cost			
31 December 2022	**13,761**	**14,884**	**28,645**
Additions	1,005	1,316	2,321
31 December 2023	**14,766**	**16,200**	**30,966**
Accumulated amortization			
31 December 2022	**(12,873)**	**(8,300)**	**(21,173)**
Amortization charge	(1,218)	(1,331)	(2,549)
31 December 2023	**(14,091)**	**(9,631)**	**(23,722)**
Net book value			
31 December 2022	**888**	**6,584**	**7,472**
31 December 2023	**675**	**6,569**	**7,244**

	Licenses	Computer software	Total
Cost			
31 December 2021	**12,667**	**13,399**	**26,066**
Additions	1,103	1,485	2,588
Disposals	(9)	-	(9)
31 December 2022	**13,761**	**14,884**	**28,645**
Accumulated amortization			
31 December 2021	**(11,801)**	**(7,076)**	**(18,877)**
Amortization charge	(1,081)	(1,224)	(2,305)
Disposals	9	-	9
31 December 2022	**(12,873)**	**(8,300)**	**(21,173)**
Net book value			
31 December 2021	**866**	**6,323**	**7,189**
31 December 2022	**888**	**6,584**	**7,472**

(Amounts expressed in thousands of Azerbaijani Manats)

13 Right of Use Assets and Lease Liabilities

The Bank leases buildings, vehicles and other assets. Rental contracts are typically made for fixed periods but may have extension options.

Contracts may contain both lease and non-lease components. The Bank elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in a number of leases across the Bank. These are used to maximise operational flexibility in terms of managing the assets used in the Bank's operations. The majority of extension and termination options held are exercisable by both the Bank and the respective lessors.

Leases are recognised as a right-of-use asset and a corresponding liability from the date when the leased asset becomes available for use by the Bank.

The right of use assets by class of underlying items is analysed as follows:

	Buildings	Vehicles	Other	Total
Carrying amount at 31 December 2022	**9,837**	**128**	**49**	**10,014**
Additions	-	1,176	60	**1,236**
Depreciation charge	(2,014)	(248)	(159)	**(2,421)**
Modifications	1,705	85	125	**1,915**
Carrying amount at 31 December 2023	**9,528**	**1,141**	**75**	**10,744**

	Buildings	Vehicles	Other	Total
Carrying amount at 31 December 2021	**11,058**	**137**	**100**	**11,295**
Additions	-	10	-	**10**
Disposals	-	-	-	**-**
Depreciation charge	(2,017)	(207)	(132)	**(2,356)**
Modifications	796	188	81	**1,065**
Carrying amount at 31 December 2022	**9,837**	**128**	**49**	**10,014**

Interest expense on lease liabilities in 2023 was AZN 428 (2022: AZN 289). Total cash outflow for leases in 2023 was AZN 2,735 (2022: AZN 2,598). Total modifications lead to increase of AZN 1,915 (2022: AZN 1,065) in right of use assets and lease liabilities.

At the end of each reporting period, the expected residual values are reviewed to reflect actual residual values achieved on comparable assets and expectations about future prices. As at 31 December 2023, AZN 13,162 (2022: AZN 11,142) is expected to be payable and is included in calculating the lease liabilities.

(Amounts expressed in thousands of Azerbaijani Manats)

14 Income Taxes

The corporate income tax expense comprises:

	2023	2022
Current tax charge	(5,076)	(1,857)
Deferred income tax expense	1,827	(505)
Income tax expense	**(3,249)**	**(2,362)**

Standard corporate income tax rate for companies (including banks) comprised 20% for 2023 and 2022. 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	**10,373**	**6,384**
Statutory tax rate	20%	20%
Theoretical tax charge at the statutory rate	(2,075)	(1,277)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Impact of non-deductible and other permanent expenses	(1,174)	(1,085)
Income tax expense	**(3,249)**	**(2,362)**

Deferred tax assets and liabilities as at 31 December and their movements for the respective years comprise:

	2021	Credited/ (charged) to profit or loss	2022	Adoption of amendments to IAS 12	Credited/ (charged) to profit or loss	2023
Tax effect of temporary differences						
Cash and cash equivalents	117	(69)	48	-	(25)	23
Investment in debt and equity securities	11	28	39	-	11	50
Amounts due from credit institutions	(51)	57	6	-	52	58
Loans to customers	(2,952)	(25)	(2,977)	-	1,235	(1,742)
Property and equipment	295	(55)	240	-	(63)	177
Intangible assets	(90)	(51)	(141)	-	20	(121)
Right of use assets	-	-	-	(2,003)	-	(2,003)
Lease liabilities	-	-	-	2,003	-	2,003
Other liabilities	483	201	684	-	233	917
Other assets	(3)	(591)	(594)		364	(230)
Deferred tax liability	**(2,190)**	**(505)**	**(2,695)**	**-**	**1,827**	**(868)**

(Amounts expressed in thousands of Azerbaijani Manats)

15 Other Assets and Liabilities

As at 31 December other assets comprise:

	2023	2022
Amounts in the course of settlement	5,950	4,291
Other financial assets	**5,950**	**4,291**
Repossessed collateral	2,807	4,496
Prepayments	1,208	1,224
Other	174	9
Other non-financial assets	**4,189**	**5,729**
Other assets	**10,139**	**10,020**

As of 31 December 2023, repossessed collateral in the amount of AZN 2,807 (31 December 2022: AZN 4,496) is represented by twenty (31 December 2022: twenty) properties, which the Bank took possession of, and is available for sale. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds will be used to reduce or repay the outstanding loans.

As at 31 December 2023, prepayments primarily comprise of advance payments for purchase of property and equipment and insurance services AZN 553 (31 December 2022: AZN 268).

As at 31 December other liabilities comprise:

	2023	2022
Lease Liabilities	10,871	9,954
Settlements on plastic cards	4,191	2,788
Other	32	29
Other financial liabilities	**15,094**	**12,771**
Accrued employee costs	2,197	1,626
Payables to social funds	716	350
Deferred income	548	416
Other	4,637	2,184
Other non-financial liabilities	**8,098**	**4,576**
Other liabilities	**23,192**	**17,347**

Accrued employee costs include bonuses for employees based on the financial performance of the Bank of AZN 1,466 (31 December 2022: AZN 948) and an accrual for unused vacations of AZN 731 (31 December 2022: AZN 678).

As at 31 December 2023 and 31 December 2022, deferred income represents deferred revenue which was primarily comprised of fee received for issuance of plastic cards, guarantees and letter of credits.

As at 31 December 2023, AZN 1,548 (31 December 2022: AZN 759) of other non-financial liabilities is tax liabilities other than on income.

(Amounts expressed in thousands of Azerbaijani Manats)

15 Other Assets and Liabilities (Continued)

Analysis by credit quality of other financial assets outstanding at 31 December is as follows:

Settlements on money transfers	**2023**	**2022**
Neither past due nor impaired		
Other financial assets		
- Good	5,950	4,291
Total other financial assets	**5,950**	**4,291**

16 Amounts Due to Credit Institutions

As at 31 December amounts due to credit institutions comprise:

	2023	**2022**
Amounts due to Azerbaijan Mortgage and Credit Guarantee Fund	25,485	19,620
Amounts due to the Entrepreneurship Development Fund of the Republic of Azerbaijan	3,518	4,004
Time deposits	2,820	-
Demand deposits	48	5
Amounts due to credit institutions	**31,871**	**23,629**

As at 31 December 2023, the Bank had loans financed by the Azerbaijan Mortgage and Credit Guarantee Fund and the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 25,485 (31 December 2022: AZN 19,620) and AZN 3,518 (31 December 2022: AZN 4,004) maturing till 2050 (31 December 2022: 2050) and 2026 (31 December 2022: 2026), with the annual interest rates of 1-4% p.a. (31 December 2022: 1-4% p.a.) and 1% p.a. (31 December 2022: 1% p.a.), respectively.

As at 31 December 2023 the Bank had time deposit financed by the Azer Turk Bank OJSC amounting to AZN 2,815 (2022: AZN nil) maturing in 9 January 2024, with the annual interest rates of 4.5% p.a.

17 Amounts Due to Customers

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

	2023	**2022**
Current accounts	316,350	323,581
Term deposits	55,026	42,518
Amounts due to customers	**371,376**	**366,099**

As at 31 December 2023, amounts due to customers of AZN 145,345 or 39% (31 December 2022: AZN 156,829 or 43%) of total amounts due to customers were due to ten (31 December 2022: ten) largest customers. The average annual interest rate on term deposits of individual customers outstanding at 31 December 2023 was 2.92% (31 December 2022: 2.19%), while the average annual interest rate on term deposits of legal entities outstanding at 31 December 2023 was 3.56% (31 December 2022: 3.84%).

(Amounts expressed in thousands of Azerbaijani Manats)

17 Amounts Due to Customers (Continued)

Amounts due to customers include accounts with the following types of customers as at 31 December:

	2023	**2022**
Private enterprises	271,760	277,556
Individuals	96,993	87,852
Public organizations	2,623	691
Amounts due to customers	**371,376**	**366,099**

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

	2023	**2022**
Trade	257,369	258,658
Individuals	96,993	87,853
Transport and communication	8,242	9,588
Insurance and other financial institutions	4,207	1,652
State and public organizations	2,623	1,891
Real estate constructions	1,942	6,457
Amounts due to customers	**371,376**	**366,099**

Refer to Note 24 for the disclosure of the fair value of each class of customer accounts. Information on related party balances is disclosed in Note 25.

18 Share Capital

As at 31 December 2023 number of ordinary shares are 2,769,035,194 (2022: 2,769,035,194). All ordinary shares have a nominal value of 0.02 per share denominated in Azerbaijani Manats and rank equally. Each share carries one vote.

The share capital of the Bank was contributed by the shareholders in Azerbaijani Manats and they are entitled to dividends and any capital distribution in Azerbaijani Manats.

At 31 December 2023 and 31 December 2022, the share capital of the Bank was, as follows:

	Number of outstanding ordinary shares	**Total nominal value of paid-in and registered ordinary shares**
31 December 2022	**2,769,035,194**	**55,381**
New shares issued	–	–
31 December 2023	**2,769,035,194**	**55,381**

(Amounts expressed in thousands of Azerbaijani Manats)

19 Commitments and Contingencies

Legal proceedings. 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.

Tax contingencies**.** Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which 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 Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

Management believes that as at 31 December 2023 its interpretation of the relevant legislation is appropriate and that the Bank's tax and social contribution position will be sustained.

Compliance with regulatory ratios. The regulator requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2023 and 31 December 2022, the Bank was in compliance with all prudential ratios.

Credit related commitments. The Bank provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer 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 a direct borrowing.

As at 31 December, the Bank's commitments and contingencies comprised the following:

	2023	**2022**
Undrawn loan commitments	132,762	106,420
Guarantees issued	28,081	20,036
Letters of credit	519	932
Total credit related commitments	**161,362**	**127,388**
Less − cash held as security against commitments	(11,126)	(4,481)
Total credit related commitments, net of provision and cash covered exposures	**150,236**	**122,907**

The ECL measurement for financial guarantees and loan commitments is described in Note 23. The total amount of ECL on guarantees is not material and therefore not recorded by the Bank. Should ECL on all letters of guarantee and letters of credit to customers be measured at lifetime ECL (that is, including those that are currently in Stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by AZN 1,951 as of 31 December 2023 (31 December 2022: higher by AZN 1,955).

(Amounts expressed in thousands of Azerbaijani Manats)

20 Interest Income and Expense

Interest income and expense comprises:

	2023	2022
Interest income calculated using the effective interest method		
Loans and advances to customers	22,245	18,655
Investment securities at AC	5,384	1,807
Amounts due from credit institutions	4,143	1,079
Amounts due from banks	127	-
Total interest income calculated using the effective interest method	**31,899**	**21,541**
Interest expense		
Amounts due to customers	(1,615)	(1,551)
Amounts due to credit institutions	(830)	(606)
Total interest expense	**(2,445)**	**(2,157)**
Other similar expense		
Lease liabilities	(428)	(289)
Total other similar expense	**(428)**	**(289)**
Total interest and other similar expense	**(2,873)**	**(2,446)**
Net margin on interest	**29,026**	**19,095**

21 Net Fee and Commission Income

Net fee and commission income comprises:

	2023	2022
Plastic card operations	5,446	4,105
Settlements operations	4,398	3,984
Cash operations	2,271	1,845
Guarantees and letters of credit	728	450
Agent activities	227	271
Other	34	38
Fee and commission income	**13,104**	**10,693**
Plastic card operations	(7,981)	(5,195)
Settlements operations	(1,338)	(1,227)
Agent activities	(76)	(127)
Guarantees and letters of credit	(3)	-
Other	(197)	(206)
Fee and commission expense	**(9,595)**	**(6,755)**
Net fee and commission income	**3,509**	**3,938**

(Amounts expressed in thousands of Azerbaijani Manats)

22 Payroll, General and Administrative Expenses

Payroll expenses comprise:

	2023	2022
Salaries and bonuses	11,979	8,973
Social security costs	1,772	1,353
Other employee benefits	1,161	1,022
Payroll expenses	**14,912**	**11,348**

General and administrative expenses comprise:

	2023	2022
Depreciation and amortization	3,901	3,842
Depreciation charge on right of use assets	2,421	2,356
Support expenses	1,687	1,549
Repairs and maintenance	1,307	1,099
Security	1,078	1,014
Legal and consulting	955	1,056
Communications	823	795
Insurance	664	545
Marketing and advertising	432	478
Entertainment	382	184
Utilities	333	325
Fines, penalties, and forfeits	238	-
Donations	234	38
Operating taxes other than income tax	205	228
Office supplies	136	154
Membership	42	37
Other expenses	370	214
General and administrative expenses	**15,208**	**13,914**

Audit fees in amount of AZN 170 (2022: AZN 156) are disclosed within legal and consulting expenses above.

23 Financial Risk Management

Risk is inherent in the Bank's activities and 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 sustainability and 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, market risk and operating risks.

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

Risk management structure. The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

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

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

Risk Controlling Unit. The Risk Controlling Unit is responsible for monitoring compliance with risk principles, policies and limits, across the Bank. Each business group has a decentralized unit which is responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This unit also ensures the complete capture of the risks in risk measurement and reporting systems.

Bank Treasury. 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 that 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 worst 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 risks types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. On a regular basis detailed reporting of industry and customer risks takes place.

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.

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 risks are controlled and managed accordingly.

23 Financial Risk Management (Continued)

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets in the statement of financial position. For financial guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

Credit-related commitments risks. The Bank offers guarantees to its customers which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar 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, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Credit quality per class of financial assets. The credit quality of financial assets is managed by the Bank internal credit ratings. 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.

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 at initiation. The Bank actively uses collateral to reduce its credit risks.

Expected credit loss (ECL) is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and is determined by adjusting risk of default to the expectations on development of macroeconomic situation in future. ECL measurement is based on four components used by the Bank: Probability of Default ("PD"), Exposure at Default ("EAD"), Loss Given Default ("LGD") and Discount Rate.

Default definition and Stage 3 criteria. The Bank defines default as a situation when the exposure meets the following criteria:

- The loan was 90+ days overdue at any point within the considered time horizon
- The customer has a written-off loan;

Expected credit losses are modelled over instrument's *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any. For loan commitments and financial guarantee contracts, it is the contractual period over which an entity has a present contractual obligation to extend credit. As a matter of exception from determining the lifetime exposure based on contractual maturity, for credit cards issued to individuals, the lifetime exposure is measured over a period that is based on expected life of the credit card contracts, based on internal statistics, and it is equal on average to 1 to 5 years.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

The Bank has three approaches for ECL measurement: (i) assessment on an individual basis; (ii) assessment on a portfolio basis: internal ratings are estimated on an individual basis but the same credit risk parameters (e.g. PD, LGD) will be applied during the process of ECL calculations for the same credit risk ratings and homogeneous segments of the loan portfolio; and (iii) assessment based on external ratings.

23 Financial Risk Management (Continued)

The level of ECL that is recognised in these financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

Leaving default status depends on which defaulted triggers exposure experienced during its default. Number of scenarios can be limited to two:

- if exposure experienced only more than 90 days past due then it's no longer considered as default when it reaches 30 days delinquency for a consecutive period of six months;
- if exposure experienced also other default triggers then it leaves default status when it no longer meets any of the default criteria for a consecutive period of six months;
- Any other relevant management information on default situation of the customer.

This logic has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing by using different possible definitions of cures.

ECL measurement for financial guarantees and loan commitments. The ECL measurement for these instruments includes the same steps as described above for on-balance sheet exposures and differs with respect to EAD calculation. The EAD is a product of credit conversion factor ("CCF") and amount of the commitment ("$ExOff$"). CCF for undrawn credit lines of corporate customers, credit cards issued to individuals and for financial guarantees is defined based on statistical analysis of past exposures at default. CCF for overdrafts is defined as 100% since the limits can be used by the customers at any time.

Internal ratings. For purpose of PD modelling simplified behavioural scoring models were created and developed to differentiate the risk profile of an individual exposure.

Credit scoring is an instrument widely used by companies for the internal processes of portfolio risk measurement and management. Scoring can be defined in general as a statistical technique to predict, at a specific point in time with the available information, the probability of a future event. More specifically it allows banks to estimate the probability of default of a person requesting credit (then application scoring model is usually used) or a customer already in the portfolio (behavioural scoring model).

The main assumption for scoring model development is that the past behaviour is a good predictor for the future, thus models are developed based on historical data. In particular, behavioural models are leveraging the information regarding past delinquency, historical credit utilization, history of payments or collection actions. In practice, credit scoring results in the definition of a table listing the characteristics that provide the most predictive information together with the associated attributes and weightings. A total score is obtained as the sum of the points for each characteristic.

Ratings, which were created base on score values, gather exposures with similar risk profile. Therefore PDs are estimated on homogenies risk groups (i.e. per segment and rating).

External ratings. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available. Such ratings and the corresponding range of PD are applied for the following financial instruments: amounts due from the CBAR, balances on correspondent accounts including overnight deposits and deposits.

(Amounts expressed in thousands of Azerbaijani Manats)

23 Financial Risk Management (Continued)

Master scale credit risk grade	Corresponding ratings of external international rating agencies (S&P)	Corresponding PD interval
Excellent	AAA to BB+	0,01% - 0,5%
Good	BB to B+	0,51% - 3%
Satisfactory	B, B-	3% - 10%
Special monitoring	CCC+ to CC-	10% - 99,9%
Default	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

Probability of default (PD). PD is an estimate of the likelihood of default to occur over a given time period. For every exposure is estimated lifetime PD curve which is dependant from time, credit risk rating and segment. 12-month PD is calculated as part of lifetime PD curve. Two types of PDs are used for calculating ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated probability of a default occurring over the remaining life of the financial instrument and it is a sum of the 12 months PDs over the life of the instrument.

PDs for each segment were defined on a collective basis as the proportion of loans which defaulted within a year of the considered date. This proportion is measured for every month in the observation window for the regression. Default migration is identified on a customer basis. Stage 1 and Stage 2 assets are modelled together using intercept and slope dummy variables. The Bank normalizes stage1 and stage 2 default rates by dividing them with their respective averages to avoid overfit due to dummies and regress relative default rates on growth rates of macroeconomic variables and their lags over the horizon of the default rate. Bayesian Information Criteria (“BIC”) have been used for variable selection as Akaike's Information Criteria (“AIC”) tends to overfit in small samples.

Macro-economic factors. Internal bank forecasts provide the best estimate of the expected macro-economic development over the next 3 years. After 3 years, no macro-economic impact is used. The impact of the relevant economic variables on the PD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates.

As with any economic forecast, the projections are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

The Bank used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. The most significant forward-looking assumptions that correlate with ECL level were as follows at 31 December 2023:

Variable	Corporate / Commercial customers	SME	Consumer	Residential Mortgage
CPI (not inflation) and its lags	YES		YES	
USD AZN exchange rate		YES		
Budget expenditures			YES	YES

23 Financial Risk Management (Continued)

The goodness of fit has been measured based average Kolmogorov-Smirnov (KS) test p-values for all growth rates of the same macroeconomic variable.

For all macroeconomic variables the results of the calculation show highest average p-values with “Student’s t” distribution, therefore those results are used for scenario probability generation.

Based on estimated parameters, 1000 quantiles 0.1% apart have been calculated, their averages converted into scenarios for the variables. Joint probability tables calculated using Monte Carlo simulation to assign weight for each scenario.

Final PDs are reflective of these scenarios and represent probability weighted averages with the weights stated above.

Loss given default (LGD). LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive. It is usually expressed as a percentage of the gross book value. The expected losses are discounted to present value at the end of the reporting period.

LGD varies by the type of counterparty and product type. The LGDs are determined based on the factors that impact the expected recoveries after a default event. The calculation of LGD is based on recovery statistics.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the availability of collateral or other credit support.

The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event. The approach to LGD measurement can be divided into three possible approaches:

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

The Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors for loans secured by real estate, cash and liquid securities. LGD is calculated on a collective basis based on the latest available recovery statistics for the remainder of the corporate loan portfolio and for retail secured and unsecured products.

Exposure at default (EAD). EAD is an estimate of exposure at a future default date, taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities.

For revolving products EAD is estimated using Credit Conversion Factor (“CCF”). CCF is a coefficient that shows the probability of conversion of the off-balance amounts to an on-balance sheet exposure within a defined period. CCF is assumed as the maximum (arithmetic average) percentage of conversion of off-balance amount to balance amount at time of default compared to three-twelve-month prior state. CCF for financial guarantees is defined based on globally accepted Basel 3 standard.

The EADs are determined based on the expected payment profile that varies by product type. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products and bullet repayment loans. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation. For revolving products, the EAD is predicted by taking the current drawn balance and adding a "credit conversion factor" that accounts for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type, current limit utilisation and other borrower-specific behavioural characteristics.

23 Financial Risk Management (Continued)

Staging. The level of ECL that is recognised in these financial statements depends on which stage was assigned to exposure from a three stage model. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not deteriorated significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a stage 2 since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

Significant deterioration in credit risk (Stage 2). The assessment whether or not there has been a significant deterioration in credit risk (stage 2) since initial recognition is performed on whole portfolio. The criteria used to identify stage 2 are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department. The presumption, being that there have been significant deterioration in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

The Bank considers a financial instrument to have experienced a stage 2 when one or more of the following quantitative, qualitative or backstop criteria have been met:

- 31-90 days overdue
- Restructured overdue loans
- Non-cash loans returned to cash due to failure of customers to fulfil their commitments
- Any other relevant management information on financial situation deterioration on the customer.

If there is evidence that the stage 2 criteria are no longer met, the instrument is transferred back to Stage 1 if the borrower does not have any other amounts more than 10 days past due during the probation period, which is defined as six months. The probation period resets whenever loan overdue days exceed 10 days or loans are re-restructured.

If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to apply or it is no longer valid.

Forward-looking information incorporated in the ECL models. The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Bank identified certain key economic variables that correlate with developments in credit risk and ECLs. Forecasts of economic variables (the "base economic scenario") are provided by the Bank's and provide the best estimate of the expected macro-economic development over the next three years. The impact of the relevant economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact that the changes in these variables historically had on the default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Bank's Risk Department also provides other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking into account the range of possible outcomes of which each chosen scenario is representative. The assessment of SICR is performed using the Lifetime PD under each of the bases and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

(Amounts expressed in thousands of Azerbaijani Manats)

23 Financial Risk Management (Continued)

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

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such backtesting is performed at least once a year.

The results of backtesting the ECL measurement methodology are communicated to Bank Management and further steps for tuning models and assumptions are defined after discussions between authorised persons.

The geographical concentration of the Bank's monetary assets and liabilities is set out below:

	31 December 2023				31 December 2022			
	Azerbaijan	**OECD**	**CIS and other foreign countries**	**Total**	**Azerbaijan**	**OECD**	**CIS and other foreign countries**	**Total**
Assets								
Cash and cash equivalents	60,963	28,782	3,817	93,562	84,604	67,190	660	152,454
Amounts due from credit institutions	16,433	31,473	-	47,906	13,323	6,169	-	19,492
Loans to customers	267,417	5,646	-	273,063	208,943	5,452	-	214,395
Investment in debt and equity securities	85,842	-	-	85,842	89,390	-	-	89,390
Other financial assets	5,950	-	-	5,950	4,291	-	-	4,291
Total assets	**436,605**	**65,901**	**3,817**	**506,323**	**400,551**	**78,811**	**660**	**480,022**
Liabilities								
Amounts due to credit institutions	31,871	-	-	31,871	23,629	-	-	23,629
Amounts due to customers	371,376	-	-	371,376	366,099	-	-	366,099
Other financial liabilities	15,094	-	-	15,094	12,771	-	-	12,771
Total liabilities	**418,341**	-	-	**418,341**	**402,499**	-	-	**402,499**
Net assets/(liabilities)	**18,264**	**65,901**	**3,817**	**87,982**	**(1,948)**	**78,811**	**660**	**77,523**

Liquidity risk and funding management. Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has developed a sophisticated system for comprehensive assessment of expected cash flows. The methodology of the liquidity management tools and reports is approved by the Supervisory Board of the Bank, prepared by the Assets and Liabilities Management department and reviewed on the monthly basis by Asset Liabilities Committee.

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. Additionally, the Bank maintains obligatory reserve with the CBAR and utilizes a highly effective cash management system across all its branches, ATMs and balances of the correspondent accounts.

(Amounts expressed in thousands of Azerbaijani Manats)

23 Financial Risk Management (Continued)

The liquidity position is assessed and managed by the Bank primarily on a standalone basis, based on minimum liquidity ratio of 30% established by the CBAR. As at 31 December, these ratios were as follows:

	2023	**2022**
Instant Liquidity Ratio	61.32%	74.14%

The Bank closely monitors potential effects of the pandemic and lower oil price on the liquidity situation in an alert phase. The deposit rates are adjusted timely with respect to the changes in interest rates and overall Banking sector liquidity situation. Client transactions are carried out by considering possible liquidity effects, including the crediting process.

The Bank has not experienced a critical liquidity situation in 2023 due to actions taken by alert liquidity phase and expects that liquidity condition will improve further in 2024, thanks to the expected normalization of the economic and financial conditions in the country.

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

As at 31 December 2023	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Amounts due to credit institutions	3,458	1,673	5,167	22,938	**33,236**
Amounts due to customers	335,548	24,407	11,871	352	**372,178**
Other financial liabilities	4,872	1,763	7,431	3,319	**17,385**
Total undiscounted financial liabilities	**343,878**	**27,843**	**24,469**	**26,609**	**422,799**

As at 31 December 2022	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Financial liabilities					
Amounts due to credit institutions	877	2,286	8,003	19,943	**31,109**
Amounts due to customers	336,666	16,127	14,170	3	**366,966**
Other financial liabilities	3,474	1,759	5,256	3,471	**13,960**
Total undiscounted financial liabilities	**341,017**	**20,172**	**27,429**	**23,417**	**412,035**

The table below shows the contractual expiry by maturity of the Bank's financial commitments and contingencies (Note 19).

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
31 December 2023	9,246	22,113	79,238	50,765	**161,362**
31 December 2022	4,800	12,663	85,325	24,600	**127,388**

Undrawn loan commitments can be drawn down immediately, and issued financial guarantee contracts can be called at any time.

(Amounts expressed in thousands of Azerbaijani Manats)

23 Financial Risk Management (Continued)

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 realize an equivalent amount of assets within the same period of time.

The Bank does not receive any significant funds from any one organization or private individual.

Included in due to customers are term deposits of individuals. In accordance with the Azerbaijan legislation, the Bank is obliged to repay such deposits upon demand of a depositor. Refer to Note 17 .

The Bank does not use the above maturity analysis based on undiscounted contractual maturities of liabilities to manage liquidity. Instead, the Bank monitors expected maturities and the resulting expected liquidity gap as follows:

	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
At 31 December 2023					
Financial assets	242,788	171,006	73,879	18,650	506,323
Financial liabilities	343,722	27,027	22,887	24,705	418,341
Net liquidity gap based on expected maturities	**(100,934)**	**143,979**	**50,992**	**(6,055)**	**87,982**
At 31 December 2022					
Financial assets	307,951	128,463	31,982	11,626	480,022
Financial liabilities	340,759	19,258	25,071	17,411	402,499
Net liquidity gap based on expected maturities	**(32,808)**	**109,205**	**6,911**	**(5,785)**	**77,523**

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 and foreign exchanges. The Bank does not have any significant equity, corporate fixed income or derivatives holdings.

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. As at 31 December 2023 and 31 December 2022, the Bank did not have any instruments with floating interest rates.

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 financial position and cash flows.

(Amounts expressed in thousands of Azerbaijani Manats)

23 Financial Risk Management (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2023			At 31 December 2022		
	Monetary financial assets	**Monetary financial liabilities**	**Net position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**
AZN	332,896	(247,274)	85,622	312,172	(233,593)	78,579
USD	142,614	(141,412)	1,202	142,986	(144,352)	(1,366)
EUR	24,818	(23,858)	960	22,021	(21,802)	219
Other	5,995	(5,797)	198	2,843	(2,752)	91
Total	**506,323**	**(418,341)**	**87,982**	**480,022**	**(402,499)**	**77,523**

The tables below indicate the currencies to which the Bank had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against AZN, with all other variables held constant on the statement of profit or loss and other comprehensive income (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity and other comprehensive income, while a positive amount reflects a net potential increase.

Currency	**Increase in currency rate in % 2023**	**Effect on profit before tax 2023**	**Increase in currency rate in % 2022**	**Effect on profit before tax 2022**
USD	10.00	120	10.00	(137)
EUR	10.00	96	10.00	22

Currency	**Decrease in currency rate in % 2023**	**Effect on profit before tax 2023**	**Decrease in currency rate in % 2022**	**Effect on profit before tax 2022**
USD	(10.00)	(120)	(10.00)	137
EUR	(10.00)	(96)	(10.00)	(22)

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 a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(Amounts expressed in thousands of Azerbaijani Manats)

24 Fair Values of Financial Instruments

	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
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2023	14,681	78,881	-	93,562
Amounts due from credit institutions	31 December 2023	-	47,906	-	47,906
Loans to customers	31 December 2023	-	-	253,334	253,334
Investment in debt and equity securities	31 December 2023	9,971	76,073	240	86,284
Other financial assets	31 December 2023	-	5,950	-	5,950
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2023	-	31,871	-	31,871
Amounts due to customers	31 December 2023	-	360,581	-	360,581
Other financial liabilities	31 December 2023	-	15,094	-	15,094

	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
Assets for which fair values are disclosed					
Cash and cash equivalents	31 December 2022	22,966	129,488	-	152,454
Amounts due from credit institutions	31 December 2022	-	19,492	-	19,492
Loans to customers	31 December 2022	-	-	194,729	194,729
Investment in debt and equity securities	31 December 2022	31,740	57,410	240	89,390
Other financial assets	31 December 2022	-	4,291	-	4,291
Liabilities for which fair values are disclosed					
Amounts due to credit institutions	31 December 2022	-	23,629	-	23,629
Amounts due to customers	31 December 2022	-	357,822	-	357,822
Other financial liabilities	31 December 2022	-	12,771	-	12,771

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 Bank's financial instruments 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 and non-financial liabilities.

(Amounts expressed in thousands of Azerbaijani Manats)

24 Fair Values of Financial Instruments (Continued)

31 December 2023	Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets			
Cash and cash equivalents	93,562	93,562	-
Amounts due from credit institutions	47,906	47,906	-
Loans to customers	273,063	253,334	(19,729)
Investments in debt and equity securities	85,842	86,284	442
Other financial assets	5,950	5,950	-
Financial liabilities			
Amounts due to credit institutions	31,871	31,871	-
Amounts due to customers	371,376	360,581	10,795
Other financial liabilities	15,094	15,094	-

31 December 2022	Carrying value	Fair value	Unrecognized gain/(loss)
Financial assets			
Cash and cash equivalents	152,454	152,454	-
Amounts due from credit institutions	19,492	19,492	-
Loans to customers	214,395	194,729	(19,666)
Investments in debt and equity securities	89,390	89,390	-
Other financial assets	4,291	4,291	-
Financial liabilities			
Amounts due to credit institutions	23,629	23,629	-
Amounts due to customers	366,099	357,822	8,277
Other financial liabilities	12,771	12,771	-

Assets for which fair value approximates carrying value. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Financial assets and financial liabilities carried at amortized cost. Fair value of the quoted notes is based on price quotations at the reporting date. The fair value of unquoted instruments, loans to customers, amounts due from credit institutions, amounts due to credit institutions, amounts due to customers, and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

25 Related Party Disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

YKB and KFS directly and indirectly control and have significant influence over a significant number of entities. The Bank enters into banking transactions with these entities including but not limited to lending, deposit taking, and cash.

(Amounts expressed in thousands of Azerbaijani Manats)

25 Related Party Disclosures (Continued)

The outstanding balances of related party transactions are as follows:

	2023		2022	
	Parent	Entities under common control	Parent	Entities under common control
Loans outstanding at 1 January, gross	-	**4,931**	-	**2,559**
Loans issued during the year	-	2,627	-	5,305
Loan repayments during the year	-	(3,692)	-	(2,934)
Net movement in accrued interest	-	(3)	-	1
Loans outstanding at 31 December, gross	**-**	**3,863**	**-**	**4,931**
Less: allowance for impairment at 31 December	-	(18)	-	(17)
Loans outstanding at 31 December, net	-	**3,845**	-	**4,914**

	2023		2022	
	Parent	Entities under common control	Parent	Entities under common control
Current accounts (within Cash and cash equivalents) outstanding at 1 January	**1,826**	-	**736**	-
Net movement in current accounts	(1,140)	-	1,090	-
Current accounts (within Cash and cash equivalents) outstanding at 31 December	**686**	-	**1,826**	-

Total current accounts with the parent as at 31 December 2023 is AZN 686 (31 December 2022: AZN 1,826). There were not placements during the year with the parent (2022: AZN nil) or with entities under common control (2022: nil).

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

	2023		2022	
	Parent	Entities under common control	Parent	Entities under common control
Interest income	-	152	-	332
Interest expense	-	(33)	-	(19)
Fee and commission income	-	41	-	47
Fee and commission expense	(94)	-	(103)	-
General and administrative expenses	(257)	(652)	(242)	(500)

Compensation of key management personnel of 3 members (2022: 3 members) comprised the following:

	2023	2022
Salaries and short-term benefits	1,329	1,224
Other accrued employee costs	78	98
Total key management personnel compensation	**1,407**	**1,322**

(Amounts expressed in thousands of Azerbaijani Manats)

26 Capital Adequacy

The objectives of management when managing the Bank's capital are (i) to comply with the capital requirements set by Regulatory, (ii) to safeguard the Bank's ability to continue as a going concern and (iii) to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value. Compliance with capital adequacy ratios set by the Regulatory is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chief Executive Officer and Chief Accountant. The other objectives of capital management are evaluated annually.

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 payment to shareholders or return capital to shareholders. No changes were made in the objectives, policies and processes from the previous years.

The Regulatory requires each bank or banking group to: (a) hold the minimum level of total capital of AZN 50,000 (2022: AZN 50,000); (b) maintain a ratio of total regulatory capital to the risk-weighted assets (the "total capital ratio") at or above the prescribed minimum of 10% (2022: 10%) and (c) maintain a ratio of tier 1 capital to the risk-weighted assets (the "Tier 1 capital ratio") at or above the prescribed minimum of 5% (2022: 5%).

Management believes that the Bank was in compliance with the statutory capital adequacy ratio throughout 2023.

As at 31 December, the Bank's capital adequacy ratio based on the Regulatory requirements was as follows:

	2023	**2022**
Tier 1 capital	80,565	79,592
Tier 2 capital	16,793	4,256
Less: deductions from capital	(9,412)	(8,773)
Total regulatory capital	**87,946**	**75,075**
Risk-weighted assets	414,043	267,510
Tier 1 capital adequacy ratio	17.24%	26.56%
Total capital adequacy ratio	21.24%	28.06%