Azerbaijan Industry Bank OJSC

Consolidated Financial Statements and Independent Auditors' Report For the year ended 31 December 2022

Azerbaijan Industry Bank OJSC
Consolidated financial statements and independent auditors report

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Statement of management's responsibilities for the preparation and approval of the consolidated financial statements

For the year ended 31 December 2022

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of "Azerbaijan Industry Bank" Open Joint Stock Company (the "Bank") and its subsidiary (collectively referred to as the "Group").

The management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group as at 31 December 2022, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining proper accounting records with reasonable accuracy at any time to ensure that these records enable them to prepare the consolidated financial statement of the Group in compliance with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud, errors and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2022 were authorized for issue on 31 March 2023 by the management of the Group:

On behalf of the Management Board:

Kanan Orujov
Chairman of the Board

Baku, Republic of Azerbaijan
Date: 31 March 2023

Sarvan Mikayılov
Chief Accountant/Finance Director

Baku, Republic of Azerbaijan
Date: 31 March 2023

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Independent auditors' report
To the Shareholders of Azerbaijan Industry Bank OJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Azerbaijan Industry Bank Open Joint Stock Company (the "Bank") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 consolidated financial statements.

Independent auditors' report (continued)

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

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

Grant Thornton

GRANT THORNTON
Baku, Republic of Azerbaijan

Date: 31 March 2023

Consolidated statement of financial position
As at 31 December 2022

	Notes	31 December 2022 AZN	31 December 2021 AZN
ASSETS			
Cash and balances with the Central Bank of the Republic of Azerbaijan	5	**30,692,689**	28,111,212
Due from banks	6	**458,589,001**	526,924,520
Loan and advances to customers	7	**235,322,032**	236,287,470
Financial assets at fair value through other comprehensive income	8	**1,957,004**	2,323,071
Property, equipment and right-of-use assets	9	**2,103,521**	2,437,154
Intangible assets	10	**1,948,220**	2,360,960
Deferred tax assets	23	**555,810**	419,669
Other assets	11	**10,283,345**	6,548,147
TOTAL ASSETS		**741,451,622**	805,412,203
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to Central Bank of the Republic of Azerbaijan	12	**68,939**	103,409
Amounts due to banks and government agencies	13	**167,044,587**	171,114,560
Deposits by customers	14	**462,159,836**	531,919,490
Other liabilities	15	**9,039,190**	3,938,681
TOTAL LIABILITIES		**638,312,552**	707,076,140
EQUITY:			
Equity attributable to owners of the Bank:			
Share capital	16	**60,000,000**	60,000,000
Treasury shares	16	**(344,900)**	(344,900)
Surplus on revaluation of financial assets at fair value through other comprehensive income - net	8	**402,291**	695,145
Retained earnings		**43,081,679**	37,985,818
TOTAL EQUITY		**103,139,070**	98,336,063
TOTAL LIABILITIES AND EQUITY		**741,451,622**	805,412,203

On behalf of the Management Board:

Kanan Orujov
Chairman of the Board
Date: 31 March 2023
Baku, Azerbaijan Republic

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 31 March 2023
Baku, Azerbaijan Republic

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2022

	Notes	31 December 2022 AZN	31 December 2021 AZN
Interest income	17	**25,074,951**	27,081,240
Interest expense	17	**(11,624,584)**	(14,357,297)
Net interest income before reversal of impairment losses on interest bearing assets		**13,450,367**	12,723,943
Reversal of impairment losses on loan and advances to customers, deposit placed in banks and other guarantees, net	18	**1,736,858**	172,083
Net interest income		**15,187,225**	12,896,026
Net gain on foreign exchange operations	19	**1,466,577**	874,182
Fee and commission income	20	**8,824,497**	4,328,411
Fee and commission expense	21	**(7,885,630)**	(4,655,548)
Other income		**230,471**	268,134
Other expenses		**-**	(195,443)
Net non-interest income		**2,635,915**	619,736
Operating income		**17,823,140**	13,515,762
Operating expenses	22	**(10,887,489)**	(11,023,894)
Profit before income tax		**6,935,651**	2,491,868
Income tax expense	23	**(1,902,718)**	(1,762,874)
Deferred tax income	23	**62,928**	285,848
Net profit for the year		**5,095,861**	1,014,842
Other comprehensive (loss)/income			
(Deficit)/Surplus on revaluation of financial assets at fair value through other comprehensive income		**(366,067)**	868,931
Related defered tax effect	23	**73,213**	(173,786)
		(292,854)	695,145
TOTAL COMPREHENSIVE INCOME		**4,803,007**	1,709,987
EARNINGS PER SHARE	24	**0.085**	0.017

On behalf of the Management Board:

Kanan Orujov
Chairman of the Board
Date: 31 March 2023
Baku, Azerbaijan Republic

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 31 March 2023
Baku, Azerbaijan Republic

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2022

	Share Capital	Treasury Shares	Surplus on revaluation of financial assets at fair value through other comprehensive income	Retained earnings	Total equity
	AZN	AZN	AZN	AZN	AZN
1 January 2021	60,000,000	(344,900)	-	36,970,976	96,626,076
Net profit for the year	-	-	-	1,014,842	1,014,842
Other comprehensive income	-	-	695,145	-	695,145
Total comprehensive income	-	-	695,145	1,014,842	1,709,987
31 December 2021	60,000,000	(344,900)	695,145	37,985,818	98,336,063
Net profit for the year	**-**	**-**	**-**	**5,095,861**	**5,095,861**
Other comprehensive loss	**-**	**-**	**(292,854)**	**-**	**(292,854)**
Total comprehensive income	**-**	**-**	**(292,854)**	**5,095,861**	**4,803,007**
31 December 2022	**60,000,000**	**(344,900)**	**402,291**	**43,081,679**	**103,139,070**

On behalf of the Management Board:

Kanan Orujov
Chairman of the Board
Date: 31 March 2023
Baku, Azerbaijan Republic

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 31 March 2023
Baku, Azerbaijan Republic

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 December 2022

	Notes	31 December 2022 AZN	31 December 2021 AZN
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before income tax		**6,935,651**	2,491,868
Adjustments for non-cash and non-operating items:			
(Reversal)/Provision of impairment losses on loans and advances to customers	18	**(1,021,737)**	1,751
Charge for/(Reversal of) provision of guarantees	18	**171,297**	(23,039)
Reversal of provision of due from banks	18	**(886,418)**	(150,795)
Concession on rent due to COVID-19		**-**	(56,564)
Deprecation of repossessed assets		**-**	167,665
Dividend income		**(130,000)**	(180,450)
Depreciation on property, equipment and right-of-use assets	9	**1,259,825**	1,053,842
Amortization of intangible assets	10	**515,311**	556,717
Intangible assets written off		**1,011**	-
Gain on termination of lease contract		**(5,992)**	-
(Gain)/Loss on disposal of property and equipment		**(56,665)**	9,896
Cash inflow from operating activities before changes in operating assets and liabilities		**6,782,283**	3,870,891
Changes in operating assets and liabilities			
Decrease/(Increase) in operating assets:			
Mandatory reserve deposits with the Central Bank of Azerbaijan Republic		**(4,170,622)**	(825,500)
Due from banks with original maturity within 90 days		**33,680,609**	(205,523,338)
Time deposits and overnight and blocked account		**65,008,745**	(24,307,374)
Loans and advances to customers		**1,987,175**	74,452,811
Other assets		**(3,879,763)**	(103,167)
(Decrease)/Increase in operating liabilities:			
Due to Central Bank of the Republic of Azerbaijan		**(34,470)**	(34,469)
Deposits by banks and government agencies		**(4,069,973)**	19,175,724
Deposits by customers		**(69,759,654)**	(119,870,205)
Other liabilities		**2,890,780**	380,081
Cash flows generated from/(used in) operating activities before taxation		**28,435,110**	(252,784,546)
Income tax paid	23	**(342,752)**	(1,836,709)
Net cash generated from/(used in) operating activities		**28,092,358**	(254,621,255)

Consolidated statement of cash flows (continued)
For the year ended 31 December 2022

	Notes	31 December 2022 AZN	31 December 2021 AZN
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for purchase of property and equipment excluding right-of-use assets	9	**(299,240)**	(1,090,159)
Sale proceed from disposal of property and equipment		**58,736**	-
Payments for purchase of intangible assets	10	**(103,582)**	(335,124)
Dividend income received		**130,000**	180,450
Net cash used in investing activities		**(214,086)**	(1,244,833)
Net increase/(decrease) in cash and cash equivalents		**27,878,272**	(255,866,088)
Cash and cash equivalents, at the beginning of the year		**200,040,444**	455,906,532
Cash and cash equivalents, at the end of the year	5.1	**227,918,716**	200,040,444

On behalf of the Management Board:

Kanan Orujov
Chairman of the Board
Date: 31 March 2023
Baku, Azerbaijan Republic

Sarvan Mikayılov
Chief Accountant/Finance Director
Date: 31 March 2023
Baku, Azerbaijan Republic

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

1 Introduction

1.1 Legal status and nature of operations

Azerbaijan Industry Bank Open Joint Stock Company (the "Bank") was established in the Republic of Azerbaijan in 1996. The Bank is registered in the Republic of Azerbaijan to provide commercial banking services and has been operating under a full banking license number 241 from 28 September 1996. It was formed as Caspian Investment Bank and was renamed to Capital Investment Bank ('CI Bank') on 2 June 1998 and on 28 March 2006 the Bank changed its legal status to Open Joint Stock Company. On 30 November 2006, the Bank changed its name to "Azerbaijan Industry Bank" OJSC. The Bank's primary business consists of commercial activities, originating loans and guarantees, trading with securities, acceptance of deposits, transfers, settlement and cash operations and foreign currencies. As at 31 December 2022 the Bank had 6 branches in the Republic of Azerbaijan (31 December 2021: 6 branches). The registered office of the Bank is located at 3, Zarifa Aliyeva Street, Baku AZ 1005, Azerbaijan. During the year, the head office of the Bank has shifted to "Dreamland" Residential Complex, AZ1045, Baku city, Surakhani district.

As at 31 December 2022 and 2021, the following shareholders owned the issued shares of the Bank:

	2022	2021	**2022**	2021
Shareholder:			**AZN**	AZN
Anadolu Investment Company LLC	**98.4252%**	98.4252%	**59,055,100**	59,055,100
Gozal Kurt Leyla	**1.0000%**	1.0000%	**600,000**	600,000
Azerbaijan Industry Leasing LLC	**0.5748%**	0.5748%	**344,900**	344,900

Mr Ahmad Abdolbari Gozal become the ultimate controlling party of the Group.

The Bank is a parent company of a subsidiary (the "Subsidiary") collectively (the "Group"):

Subsidiary Name	**Country of operation**	**Proportion or ownership interest/voting rights**		**Share capital (AZN)**	**Share capital (AZN)**	**Type of operation**
		2022	2021	**2022**	2021	
Azerbaijan Industry Leasing LLC	The Republic of Azerbaijan	**100%**	100%	**1,000,000**	1,000,000	Leasing

Azerbaijan Industry Leasing LLC is a limited liability company registered in the Republic of Azerbaijan on 20 April 2004. It was formed as CI Leasing LLC and was renamed to Azerbaijan Industry Leasing LLC on 6 February 2007. The company's primary business consists of leasing operations however there were no business during the year. The address of its registered office is as follows: 3, Zarifa Aliyeva Street, Baku AZ 1005, the Republic of Azerbaijan.

1.2 Operating environment

The Republic of Azerbaijan. As an oil exporting country the economy of Azerbaijan is heavily dependent on oil being the largest contributor to the state budget both in volume and value terms, therefore the price of oil is of critical importance for the economy and abrupt changes in the price of oil have wide ranging effects on the macro economic factors of the economy like depreciation in currency, slower economic and industrial expansions and instability of monetary ramifications. From the mid of June 2014 the oil prices fell instantaneously and this sharp decline had a direct impact on the oil producing countries i.e. Azerbaijan and their effects robust resulted in decrease in revenue of oil industry, reduction in fiscal revenues, reduction in production of oil and shutting of their progressive operations. For the purposes of remaining competitive in international market the Central Bank of Azerbaijan (CBAR) changed their foreign exchange policy by depreciating Manat against US Dollar by 34% through a press release on February 21, 2015 and 48% on December 21, 2015. The smooth depreciation of manat against US Dollar continued throughout 2016 and as a whole was approximately equal to 23% for the year.

1 Introduction (continued)

1.2 Operating environment (continued)

During 2017, the rate of Manat to US dollar remained stable at the equilibrium point. Since January 12, 2017 Azerbaijan's central bank has dropped the 4% exchange rate corridor it imposed on commercial banks in order to allow the currency to float freely. As of 01 January 2017, the exchange rate of manat to USD was AZN 1.7707 and its value increased to AZN 1.7001 as of 31 December 2017. During 2018, 2019, 2020, 2021 and 2022 the value of manat remained stable and on 31 December 2022 and 31 December 2021 was equal to AZN 1.7000.

The volatility in oil prices is significantly effecting the financial and liquidity position of companies in oil or energy sector and lending exposure to this sector may also be adversely affected by the financial and economic environment which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has reflected revised estimates of expected future cash flows in their impairment assessments.

Management is unable to reliably estimate the effects on the Group's operations due to the expected changes in macro-economic factors and response of corollary measure thereon. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

In order to further improve the entrepreneurship and develop the business environment in the country, in 2018 and in 2019 the tax legislation project was drafted in several directions and the amendments were adopted by Milli Majlis. These include business support, reducing tax evasion and the scale of shadow economy, expansion of tax base, improving tax administration, and improving the effectiveness of existing, also new tax incentives.

The most important change to tax legislation is the tax deduction for the ones levied on wages of citizens working in the private non-oil sector. According to the amendment, a monthly salary of up to 8,000 manats has been deducted for a seven-year income tax benefit of 100 percent, and for individuals earning more than 8,000 manats, income tax is set at 14 percent, which is a very big fiscal concession introduced by government.

Management believes that other changes in tax legislation will not have a material effect on the Group's financial statements.

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine as well as rising consumer demand for goods lead to significant inflationary pressures to the global economy in 2022, including soaring commodity prices. During recent years, the Azerbaijani Government has continued reforms to accelerate transition to a more balanced economy and reduce dependence on the oil and gas sector. During 2022, oil and gas prices reached multi-year highs, contributing to significant trade surplus, and increased foreign currency inflows into the Azerbaijani economy, At the same time, these global trends contributed to high inflationary pressures in the country.

During 2021 and 2022, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During the first half of 2022, the CBAR increased refinancing rate due to the increased inflation, and, as a result, refinancing rate reached 8.25% per annum as at 31 Decmber 2022 (31 2021: 7.25% per annum). During 2022, global rating agencies have revised up growth forecast for Azerbaijan and upgraded Azerbaijani Government's credit rating by one notch. The upgrade reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future disruptions during the post pandemic period. Fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices. However, with inflation at multi-decade highs in many countries, policymakers in advanced economies have pivoted toward tightening of their monetary policies through reduction of their balance sheets and aggressive interest rate hikes, In the event of global recession, which might be triggered by such tightening, demand for hydrocarbons will fall, which would negatively impact Azerbaijan economy.

2 Statement of compliance with International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). Further the accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the consolidated financial statements for the year ended 31 December 2021.

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2022

In the current year the Group has applied the amendments to IFRS 3, IAS 16, IAS 37 and annual improvements to IFRS Standards 2018–2020 issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2022. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements. Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2022.

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these consolidated financial statements, the following relevant new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Group. Information on the relevant new standards, amendments and interpretations that are not yet effective has been given below.

New and revised IFRS	**Effective for annual period beginning on or after**
Amendments to IAS 1 'Presentation of Financial Statements' to address the classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	1 January 2023
IFRS 17 'Insurance Contracts' which requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.	1 January 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges identified after IFRS 17 was published in 2017.	1 January 2023
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.	1 January 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) which require that an entity discloses its material accounting policies, instead of its significant accounting policies.	1 January 2023
The IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023
The amendments replace the definition of Accounting Estimates (Amendments to IAS 8) - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".	1 January 2023

3 Standards, interpretations and amendments to existing standards (continued)

3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Group (continued)

Management anticipates that all the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. The Group's management has yet to assess the impact of these changes on the Group's consolidated financial statements.

4 Summary of significant accounting policies

4.1 Overall considerations

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

4.2 Basis of preparation

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied in the annual consolidated financial statements for the year ended December 31, 2021.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical management judgments in applying accounting policies and changes in estimation uncertainty and critical management judgments that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4.22 and note 4.23. The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 29.

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

4.3 Basis for consolidation

The Group consolidated financial statements consolidate the parent company and its subsidiary as of 31 December 2022. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. Consolidation is done on line by line basis and all intra-group transactions, balances, income and expenses are eliminated in full.

4 Summary of significant accounting policies (continued)

4.4 Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The presentation currency is Azerbaijan Manat "AZN". The exchange rates used by the Group in the preparation of the consolidated financial statements as at year-end are as follows:

	31 December 2022	31 December 2021
AZN/1 USD	**1.7000**	1.7000
AZN/1 Euro	**1.8114**	1.9265
AZN/1 GBP	**2.0477**	2.2925
AZN/1 RUB	**0.0230**	0.0229

4.5 Financial instruments

Recognition, initial measurement and derecognition

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit and loss accounts.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

Financial assets and financial liabilities are measured subsequently as described below.

Classification and measurement

Financial assets

On initial recognition, a financial asset is classified as measured: at Amortised Cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Classification and measurement (continued)

Financial assets (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment:

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

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realized.

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Classification and measurement (continued)

Financial assets (continued)

Assessment whether contractual cash flows are solely payments of principal and profit:

In assessing whether the contractual cash flows are solely payments of principal and profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Impairment

The Group recognises allowance for impairment for expected credit losses (ECL) on financial assets measured at amortised cost, loan commitments issued, and financial guarantee contracts issued. Impairment losses are recognized in the profit or loss. The Group measures allowance for impairment at an amount equal to lifetime ECL, except for those financial instruments on which credit risk has not increased significantly since their initial recognition, in which case 12-month ECL is measured. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date. Stage of any financial asset is determined based on the policy approved by the board of the Group.

Measurement of ECL:

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

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

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Impairment (continued)

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets:

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit- impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

Purchased or originated credit impaired assets (POCI)

POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. Life time ECLs are only recognized or released to the extent that there is a subsequent change in the ECL.

Revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behavior, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Write-off:
Assets carried at amortised cost and debt securities at FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Reversals of impairment loss

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write back is recognised in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on correspondent and time deposit accounts and advances to banks with original maturities within 90 days. For the purposes of determining cash flows, the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan ("CBAR") and blocked accounts are not included as a cash equivalent due to restrictions on their availability.

Due from banks

In the normal course of business, the Group maintains advances or deposits for various periods of time with other banks. Due from banks are initially recognized at a fair value. Due from banks with a fixed maturity term are subsequently measured at amortized cost using the effective interest method and are carried net of any allowance for impairment losses. Those that do not have fixed maturities are carried at amortized cost based on expected maturities. Amounts due from financial institutions are carried net of any allowance for impairment losses.

Loans and advances to customers

Loans and advances to customers are non-derivative assets with fixed or determinable payments that are not quoted in an active market, other than those classified in other categories of financial assets. Loans granted by the Group are initially recognized at a fair value plus related transaction costs. Where the fair value of consideration given does not equal the fair value of the loan, for example where the loan is issued at lower than market rates, the difference between the fair value of consideration given and the fair value of the loan is recognized as a loss on initial recognition of the loan and included in the consolidated statement of comprehensive income according to nature of these losses. Subsequently, loans are carried at amortized cost using the effective interest method. Loans and advances to customers are carried net of any allowance for impairment losses. Gains and losses are recognized in profit and loss accounts when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial assets at fair value through profit and loss

At initial recognition, the Group has designated certain financial assets as FVTPL. Financial assets as FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. These are measured at fair value with gains or losses recognised in profit and loss.

Financial assets at fair value through other comprehensive income

Investments at fair value through other comprehensive income financial assets are those non-derivative financial assets that, based on the business model, are classified as investments at fair value through other comprehensive income. The Group elects to present in OCI changes in the fair value of these investments in equity instruments until the investment is derecognized or until the investment is determined to be impaired at which time the accumulative gain or loss previously reported in other comprehensive income is reclassified to the profit and loss account.

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Determination of fair value

The fair value for financial instruments traded in active market at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, value to book and other relevant valuation models

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable. 'Loans commitments' are firm irrevocable commitments to provide credit under pre-specified terms and conditions. Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognized as per IFRS 16 'Leases'.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit and loss accounts.

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Derecognition of financial assets (continued)

On derecognition of a financial asset other than in its entirety (for example, when the Group retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit and loss accounts. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Amounts due to banks and government agencies

Amounts due to banks and government agencies are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost.

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

Deposits by customers

Deposits by customers are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

4 Summary of significant accounting policies (continued)

4.5 Financial instruments (continued)

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

4.6 Investment in an associate

The Group's investment in its associate, an entity in which the Group has significant influence, is accounted for using the equity method. Under the equity method, the investment in the associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate since the acquisition date.

The statement of comprehensive income reflects the Group's share of the results of operations of the associate. When there has been, a change recognized directly in the equity of the associate, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity.

Unrealized gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate. The Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as "Share of losses of an associate" in the statement of comprehensive income. Any gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the investment and is recognized in profit or loss. During the year there is no associate of the Group.

4.7 Investment property

Investment property, comprising building, is held for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation was calculated on a straight-line basis over the useful life of the assets, which is 14 years. An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

4 Summary of significant accounting policies (continued)

4.8 Property, equipment and right-of-use assets (continued)

Property and equipment are initially recognised at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

These assets are subsequently measured using the cost model and are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates mentioned below:

Furniture and equipment	25%
Computers	25%
Vehicles	25%
Leasehold improvements	20%
Other equipment	20%

Depreciation of right-of-use assets is recognized to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method over the period of respective lease liabilities.

Freehold land is not depreciated.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Right-of-use assets and lease liabilities

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the Group for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assess whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physical distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
    - the Group has the right to operate the asset; or
    - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone process. However, where the contract is not separable into lease and non-lease component then the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

4 Summary of significant accounting policies (continued)

4.8 Property, equipment and right-of-use assets (continued)

Right-of-use assets and lease liabilities (continued)

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which is located, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is yearly reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this manner, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The related changes in judgements and estimation uncertainties pertaining to IFRS 16 are given below:

In determining the lease term, management 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 lease payments are discounted using the Group's incremental borrowing rate ("IBR").

4.9 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis at the following annual rates.

License and certificates	33.33%
Other intangible assets	10%

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

4 Summary of significant accounting policies (continued)

4.10 Repossessed assets

The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future customer liabilities.

In certain circumstances, collateral is repossessed following the foreclosure on loans that are in default. Repossessed collateral is measured at the lower of their previous carrying amount and fair value less costs to sell.

4.11 Impairment of non-financial assets

On an ongoing basis, the Group reviews the carrying amounts of its tangible and definitely-lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than it's carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.12 Other assets

Other assets are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

4.13 Taxation

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4 Summary of significant accounting policies (continued)

4.13 Taxation (continued)

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liability are offset and reported net on the statement of financial position if Group has a legally enforceable right to set off current income tax assets against current income tax liabilities; and deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity. The Republic of Azerbaijan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

4.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) because of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material). When some or all the economic benefits required to settle, a provision is expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4.15 Other liabilities

Other liabilities are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

4.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Own equity instruments which have been subsequently reacquired (treasury shares) are recognized at cost and deducted from equity.

No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

4 Summary of significant accounting policies (continued)

4.17 Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability or group of financial assets or financial liabilities and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments.

Once a financial asset or a group of similar financial assets has been written down (partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest earned on assets at fair value is classified within interest income.

4.18 Recognition of fee and commission income and expense

Loan origination fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

4.19 Recognition of dividend income

Dividend income is recognized on the ex-dividend date, if it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

4.20 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

4.21 Earnings/Losses per share

Earnings/Losses per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

4.22 Significant management judgement in applying accounting policies

The preparation of the consolidated financial statements requires management to make certain judgements, estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans to customers and allowances for impairment provision for unquoted investment securities. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively. The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the consolidated financial statements. Critical estimation uncertainties are described in note 4.23.

4 Summary of significant accounting policies (continued)

4.22 Significant management judgement in applying accounting policies (continued)

Judgement and estimates related to Financial instruments

Judgements made in applying accounting policies that have most significant effects on the amount recognized in the consolidated financial statements of the year ended 31 December 2022 are as follows:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2022 and 2021 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

Assessment of significant increase in credit risk:

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on below mentioned factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. The Bank has established thresholds for significant increases in credit risk relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit-impairment under IFRS 9 is similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios:

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Management overlay is also used to align the macroeconomics factors with the current condition of portfolio based on best management estimate and information.

4 Summary of significant accounting policies (continued)

4.22 Significant management judgement in applying accounting policies (continued)

Judgement and estimates related to Financial instruments (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios (continued):

The estimation of expected credit losses in Stage1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Definition of default:

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk

Governance:

In addition to the existing risk management framework, the Group has established an Internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the consolidated financial statements.

Along with the ECL Model for IFRS 9, prudential regulations of CBAR are also the primary factors that the Group considers whether a financial asset is impaired are its overdue status and realizability of related collateral, if any.

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the realizable value of security (or other credit mitigations) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- the adverse change in the payment status of the borrower because of changes in the international or local economic conditions that impact the borrower.

4 Summary of significant accounting policies (continued)

4.22 Significant management judgement in applying accounting policies (continued)

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deductible temporary differences can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions.

4.23 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

Useful lives of depreciable and amortisable assets

Management reviews the useful lives of depreciable and amortisable assets which include property and equipment, and intangible assets at each reporting date, based on the expected utility of the assets to the Group. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

Impairment of property and equipment and intangible assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Group's assets within the next financial year. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Provision for impairment of loans and advances to customers

Loans and advances to customers are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairment involves the exercise of significant judgment and estimates. The Group estimates allowances for impairment with the objective of maintaining provisions at a level believed by management to be sufficient to absorb losses incurred in the Group's loan portfolio. The calculation of provisions is mainly made using ECL model and also time base criteria determined by the applicable prudential regulations.

Provisions

Provisions are raised based on management's estimates from information available surrounding particular transactions. Prudence is exercised when estimating provisions so as not to materially overstate the Group's reported net income and understates its liabilities.

Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

5 Cash and balances with the Central Bank of the Republic of Azerbaijan

	31 December 2022 AZN	31 December 2021 AZN
Cash in hand	**17,681,050**	12,053,657
Balances with CBAR	**13,011,639**	16,057,555
	30,692,689	28,111,212

Balance with CBAR includes the obligatory mandatory reserve deposits (restricted balances) of AZN 7,189,051 and AZN 3,018,429 respectively, as at 31 December 2022 and 2021. The Bank is entitled to use all funds on its correspondent account if average daily balance for 30 days' period will be eventually higher than required mandatory reserve.

5.1 Cash and cash equivalents for the purposes of statements of cash flows

Cash and cash equivalents for the purposes of the consolidated statement of cash flows comprise the following:

	31 December 2022 AZN	31 December 2021 AZN
Cash and balances with the CBAR (note 5)	**30,692,689**	28,111,212
Due from banks with original maturity within 90 days	**149,076,598**	115,395,989
Correspondent accounts (note 6)	**55,508,480**	59,721,672
	235,277,767	203,228,873
Less: Mandatory reserve deposits with CBAR	**(7,189,051)**	(3,018,429)
Less: blocked account	**(170,000)**	(170,000)
Total cash and cash equivalents	**227,918,716**	200,040,444

Mandatory reserve deposits and blocked account are not available for use in the Bank's day-to-day operations. Balances with CBAR and mandatory reserve deposits are non-interest-bearing.

6 Due from banks

Due from banks comprise:

	31 December 2022 AZN	31 December 2021 AZN
Time deposits and overnight	**407,723,376**	472,732,121
Correspondent accounts	**55,508,480**	59,721,672
	463,231,856	532,453,793
Less: allowance for impairment losses	**(4,642,855)**	(5,529,273)
	458,589,001	526,924,520

As at 31 December 2022 and 2021 accrued interest income included in due from banks amounted to AZN 3,965,376 and AZN 5,437,121 respectively. The interest rates ranging from 1.5% to 6.25% (2021: 0.01% to 4.25%) per annum.

6 Due from banks (continued)

Movement of provision is as follows:

	31 December 2022	31 December 2021
	AZN	AZN
Balance as at 1 January	**5,529,273**	5,680,068
Reversal for the year	**(886,418)**	(150,795)
Balance as at 31 December	**4,642,855**	5,529,273

	31 December 2022			
	12-months ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total carrying value**
	AZN	**AZN**	**AZN**	**AZN**
Gross amount	**463,029,228**	**-**	**202,628**	**463,231,856**
Allowance for impairment loss	**(4,440,227)**	**-**	**(202,628)**	**(4,642,855)**
	458,589,001	**-**	**-**	**458,589,001**

	31 December 2021			
	12-months ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total carrying value
	AZN	AZN	AZN	AZN
Gross amount	532,246,990	-	206,803	532,453,793
Allowance for impairment loss	(5,322,470)	-	(206,803)	(5,529,273)
	526,924,520	-	-	526,924,520

7 Loans and advances to customers

Loans and advances to customers comprise:

	31 December 2022	31 December 2021
	AZN	AZN
Loans and advances to customers	**244,646,981**	246,890,346
Less: allowance for impairment losses	**(9,324,949)**	(10,602,876)
Total loans and advances to customers	**235,322,032**	236,287,470

Movements in the allowance for impairment losses for the years ended 31 December 2022 and 2021 are disclosed in note 18. As at 31 December 2022 and 2021 accrued interest income included in loans and advances to customers amounted to AZN 3,099,722 and AZN 3,269,349 respectively. Weighted average interet rate is 6.02% (2021: 5.30%) per annum.

The table below summarizes carrying value of loans and advances to customers analyzed by type of collateral, rather than the fair value of collateral itself:

7 Loans and advances to customers (continued)

	31 December 2022 AZN	31 December 2021 AZN
Loans collateralized by deposits and blocked cash	**198,763,973**	197,047,411
Loans collateralized by immovable property	**13,176,114**	10,109,562
Loans collateralized by equipment	**10,113,302**	16,551,811
Loans collateralized by guarantees	**7,138,104**	6,533,710
Others	**6,906,994**	7,203,526
Unsecured loans	**8,548,494**	9,444,326
	244,646,981	246,890,346
Less: allowance for impairment losses	**(9,324,949)**	(10,602,876)
Total loans and advances to customers	**235,322,032**	236,287,470

The table below summarizes the carrying value of loans and advances to customers analyzed by industry sector:

Analysis by sector:	31 December 2022 AZN	31 December 2021 AZN
Manufacturing	**21,973,535**	25,418,102
Trade and services	**143,283,356**	119,642,983
Agriculture	**22,674,674**	30,388,910
Individuals	**18,884,628**	17,027,768
Construction	**2,725,470**	3,347,118
Others	**35,105,318**	51,065,465
	244,646,981	246,890,346
Less: allowance for impairment losses	**(9,324,949)**	(10,602,876)
Total loans and advances to customers	**235,322,032**	236,287,470

Loans and advances to individuals comprise the following products:

	31 December 2022 AZN	31 December 2021 AZN
Consumer loans	**5,157,385**	6,311,719
Plastic cards	**1,410,808**	1,434,351
Mortgage loans	**11,985,193**	8,945,459
Car loans	**331,242**	336,239
	18,884,628	17,027,768
Less: allowance for impairment losses	**(2,642,368)**	(2,634,223)
Total loans and advances to individuals	**16,242,260**	14,393,545

As at 31 December 2022 and 2021, the entire loan portfolio (100% of total portfolio) is granted to customers operating in the Republic of Azerbaijan, which represents a significant geographical concentration in one country.

7 Loans and advances to customers (continued)

	31 December 2022			
	12-month ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total carrying value**
	AZN	**AZN**	**AZN**	**AZN**
Gross amount of loans and advances to customers	**236,703,329**	**28,472**	**7,915,180**	**244,646,981**
Allowance for impairment loss	**(1,502,212)**	**(1,210)**	**(7,821,527)**	**(9,324,949)**
	235,201,117	**27,262**	**93,653**	**235,322,032**

	31 December 2021			
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total carrying value
	AZN	AZN	AZN	AZN
Gross amount of loans and advances to customers	238,348,700	44,264	8,497,382	246,890,346
Allowance for impairment loss	(2,179,736)	(3,252)	(8,419,888)	(10,602,876)
	236,168,964	41,012	77,494	236,287,470

The movement in the expected credit loss (ECL) for loan to customers as at December 31, 2022 is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	AZN	**AZN**	**AZN**	**AZN**
ECL allowance				
Balance at January 1,	**2,179,736**	**3,252**	**8,419,888**	**10,602,876**
Write off	**-**	**-**	**(256,190)**	**(256,190)**
Net remeasurement of loss allowance to profit and loss	**(677,524)**	**(2,042)**	**(342,171)**	**(1,021,737)**
Total	**1,502,212**	**1,210**	**7,821,527**	**9,324,949**

The movement in the expected credit loss (ECL) for loan to customers as at December 31, 2021 is as follows:

	Stage 1	Stage 2	Stage 3	Total
	AZN	AZN	AZN	AZN
ECL allowance				
Balance at January 1,	1,972,730	3,734	8,832,314	10,808,778
Write off	-	-	(207,653)	(207,653)
Net remeasurement of loss allowance to profit and loss	207,006	(482)	(204,773)	1,751
Total	2,179,736	3,252	8,419,888	10,602,876

8 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise:

Equity investments	Ownership %		December 31	December 31
	2022	2021	**2022**	2021
			AZN	AZN
Azerbaijan Industrial Insurance OJSC	**5.00**	5.00	**834,140**	834,140
MilliKart LLC	**8.33**	8.33	**500,000**	500,000
Baku Stock Exchange CJSC	**9.52**	9.52	**120,000**	120,000
			1,454,140	1,454,140
Surplus on revaluation of financial assets at fair value through other comprehensive income			**502,864**	868,931
Total			**1,957,004**	2,323,071

Management assert that there is no impairment in the carrying value of these investments as these are active companies. The fair value has been determined after considering the financial results of the investees and certain valuation techniques.

	December 31	December 31
	2022	2021
	AZN	AZN
Surplus on revaluation of financial assets at fair value through other comprehensive	**502,864**	868,931
Related deferred tax liability	**(100,573)**	(173,786)
	402,291	695,145

9 Property, equipment and right-of-use assets

	Land	Furniture and equipment	Computers	Vehicles	Leasehold improvements	Other equipment	Leasing assets	Right-of-use assets	Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN	AZN	AZN
At cost									
1 January 2022	**320**	**3,805,769**	**3,288,959**	**554,679**	**102,527**	**25,881**	**67,099**	**674,610**	**8,519,844**
Additions	**-**	**9,180**	**290,060**	**-**	**-**	**-**	**-**	**678,802**	**978,042**
Disposals	**-**	**(264,103)**	**(113,026)**	**(144,400)**	**-**	**(16,526)**	**-**	**(67,880)**	**(605,935)**
31 December 2022	**320**	**3,550,846**	**3,465,993**	**410,279**	**102,527**	**9,355**	**67,099**	**1,285,532**	**8,891,951**
Accumulated depreciation									
1 January 2022	**-**	**(2,538,205)**	**(2,462,678)**	**(513,562)**	**(102,527)**	**(23,141)**	**(67,099)**	**(375,478)**	**(6,082,690)**
Charge for the year	**-**	**(565,838)**	**(387,507)**	**(40,571)**	**-**	**(1,402)**	**-**	**(264,507)**	**(1,259,825)**
Disposal	**-**	**264,080**	**111,571**	**143,854**	**-**	**16,479**	**-**	**18,101**	**554,085**
31 December 2022	**-**	**(2,839,963)**	**(2,738,614)**	**(410,279)**	**(102,527)**	**(8,064)**	**(67,099)**	**(621,884)**	**(6,788,430)**
Net book value									
As at 31 December 2022	**320**	**710,883**	**727,379**	**-**	**-**	**1,291**	**-**	**663,648**	**2,103,521**

The Group has recorded lease liabilities as per IFRS 16 'Leases' at the present value of remaining lease payments in respect of office buildings obtained on rent. The Group has recorded right-of-use assets equal to the lease liabilities. For further detail please refer to note 15.

9 Property, equipment and right-of-use assets (continued)

	Land	Furniture and equipment	Computers	Vehicles	Leasehold improvements	Other equipment	Leasing assets	Right-of-use assets	Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN	AZN	AZN
At cost									
1 January 2021	320	3,242,003	2,993,730	554,679	102,527	64,813	67,099	584,103	7,609,274
Additions	-	615,906	474,253	-	-	-	-	90,507	1,180,666
Disposals	-	(52,140)	(179,024)	-	-	(38,932)	-	-	(270,096)
31 December 2021	320	3,805,769	3,288,959	554,679	102,527	25,881	67,099	674,610	8,519,844
Accumulated depreciation									
1 January 2021	-	(2,072,567)	(2,288,199)	(465,948)	(102,527)	(54,753)	(67,099)	(237,955)	(5,289,048)
Charge for the year	-	(517,778)	(348,225)	(47,614)	-	(2,702)	-	(137,523)	(1,053,842)
Disposal	-	52,140	173,746	-	-	34,314	-	-	260,200
31 December 2021	-	(2,538,205)	(2,462,678)	(513,562)	(102,527)	(23,141)	(67,099)	(375,478)	(6,082,690)
Net book value									
As at 31 December 2021	320	1,267,564	826,281	41,117	-	2,740	-	299,132	2,437,154

In the opinion of management, there has been no impairment in the carrying value of the Group's property and equipment as at 31 December 2022 (2021: Nil).

10 Intangible assets

Intangible assets include software and licenses.

	31 December 2022 AZN	31 December 2021 AZN
At cost		
Cost as at 1 January	**4,765,036**	4,446,419
Additions	**103,582**	335,124
Disposal	**(294,703)**	(16,507)
Cost as at 31 December	**4,573,915**	4,765,036
Accumulated amortization		
Accumulated amortization as at 1 January	**(2,404,076)**	(1,863,866)
Charge for the year	**(515,311)**	(556,717)
Disposal	**293,692**	16,507
Accumulated amortization as at 31 December	**(2,625,695)**	(2,404,076)
Net book value as at 31 December	**1,948,220**	2,360,960

11 Other assets

	31 December 2022 AZN	31 December 2021 AZN
Financial assets		
Settlements on money transfers and plastic card operations	**5,242,118**	2,496,925
Other	**3,235,881**	3,125,364
Total financial assets	**8,477,999**	5,622,289
Non-financial assets		
Prepayments to suppliers for property and equipment	**955,827**	26,066
Prepaid expenses	**280,567**	180,468
Other	**568,952**	719,324
Total non-financial assets	**1,805,346**	925,858
Total other assets	**10,283,345**	6,548,147

12 Due to Central Bank of the Republic of Azerbaijan

	31 December 2022 AZN	31 December 2021 AZN
Borrowing from Central Bank of Azerbaijan Republic	**68,939**	103,409

The Group has two outstanding loans from CBAR amounting to AZN 52,929 (31 December 2021: AZN 79,397) and AZN 16,010 (31 December 2021: AZN 24,012) having maurity dates 18 December 2024 and 19 December 2024 respectively. The interest rate is 0.1% per annum on these loans.

13 Amount due to banks and government agencies

	31 December 2022	31 December 2021
	AZN	AZN
Deposits from banks	**136,120,266**	134,738,848
Amount due to the National Fund for Support of Entrepreneurship and Agricultural Development Agency	**19,108,156**	27,685,122
Amount due to Azerbaijan Mortgage Fund	**11,816,163**	8,690,588
Correspondent accounts of other banks	**2**	2
	167,044,587	171,114,560

As at 31 December 2022 and 2021 accrued interest expense included in deposits from banks and government agencies amounted to AZN 1,490,266 and AZN 608,848, respectively.

As at 31 December 2022 and 2021 the Group had loans and deposits from financial institutions totaling AZN 136,120,266 and AZN 134,738,848, respectively. These loans have maturity periods with in 1 year (2021: 1 year) and bear an annual interest rate of 1%-8% (2021: 1%-3.01%).

As at 31 December 2022 and 2021 included in amounts due to banks and government agencies are loans from the Entrepreneurship Development Fund of the Republic of Azerbaijan and Agrarian Credit and Development Agency amounting to AZN 19,108,156 and AZN 27,685,122, respectively. These loans have maturity periods from 1 year to 7 years and bear an annual interest rate of 1%-2.5% (2021: 1%-2%). The repayment of AZN 8,605,115 has been made during the year ended December 31, 2022.

As at 31 December 2022 and 2021 included in amounts due to banks and government agencies are loans from the Mortgage And Credıt Guarantee Fund of the Republıc of Azerbaıjan amounting to AZN 11,816,159 and AZN 8,690,588, respectively. These loans have maturity periods from 1 to 25 years (2021: 3 to 25 years) and bear an annual interest rate of 1%- 4% per annum (2021: 1%-4% per annum). 54 new loans of AZN 3,961,022 have been acquired during the current year while repayment of AZN 835,447 (31 December 2021: AZN 713,700) has been made during the current year.

14 Deposits by customers

Deposits by customers comprise of:

	31 December 2022	31 December 2021
	AZN	AZN
Time deposits	**373,084,710**	428,377,940
Deposits payable on demand	**89,075,126**	103,541,550
	462,159,836	531,919,490

As at 31 December 2022 and 2021 accrued interest expense included in deposits by customers amounted to AZN 5,605,379 and AZN 13,104,985, respectively.

As at 31 December 2022 and 2021 deposits by customer insured by the State Deposit Insurance Fund of the Republic of Azerbaijan amounted to AZN 17,280,775 and AZN 16,712,478 respectively. Weighted average interest rate on deposits by customers is disclosed in note 29.

14 Deposits by customers (continued)

	31 December 2022	31 December 2021
Analysis by sector:	**AZN**	AZN
Individuals	**361,413,436**	408,372,566
Trade and services	**67,879,068**	63,818,901
Agriculture	**8,090,769**	49,817,460
Construction	**6,156,971**	1,580,150
Manufacturing	**9,728,306**	579,362
Transport and communication	**198,584**	290,136
Mining	**1,256**	1,256
Other	**8,691,446**	7,459,659
	462,159,836	531,919,490

15 Other liabilities

	31 December 2022	31 December 2021
	AZN	AZN
Financial liabilities		
Settlements on money transfers and plastic card operations	**5,224,605**	2,173,086
Accrued expenses	**536,139**	386,096
Payables to the employees	**197,848**	132,315
Lease liabilities	**760,678**	376,374
Total financial liabilities	**6,719,270**	3,067,871
Non-financial liabilities		
Taxes payable	**1,690,040**	357,880
Provision for guarantees and other commitments	**603,638**	432,341
Others	**26,242**	80,589
Total non-financial liabilities	**2,319,920**	870,810
Total other liabilities	**9,039,190**	3,938,681

15 Other liabilities (continued)

Lease liabilities

The Group has recorded lease liabilities as per IFRS 16 'Leases' at the present value of remaining lease payments in respect of office buildings obtained on rent.

	31 December 2022	31 December 2021
	AZN	AZN
Non-current portion		
Lease liabilities	**499,519**	214,375
	499,519	214,375
Current portion		
Lease liabilities	**261,159**	161,999
	261,159	161,999
Total lease liabilities	**760,678**	376,374

	Within 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Total**
	AZN	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
31 December 2022						
Minimum lease payments	**382,555**	**222,480**	**219,480**	**213,580**	**-**	**1,038,095**
Finance charges	**(121,396)**	**(83,868)**	**(53,976)**	**(18,177)**	**-**	**(277,417)**
Net present value	**261,159**	**138,612**	**165,504**	**195,403**	**-**	**760,678**

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Total
	AZN	AZN	AZN	AZN	AZN	AZN
31 December 2021						
Minimum lease payments	217,945	191,395	31,320	28,320	1,180	470,160
Finance charges	(55,946)	(27,076)	(7,680)	(3,055)	(29)	(93,786)
Net present value	161,999	164,319	23,640	25,265	1,151	376,374

16 Share capital

As at 31 December 2022 and 2021 the number of authorized, issued and fully paid ordinary shares were 60 million, of which treasury shares comprised 0.345 million. All ordinary shares have a nominal value of AZN 1 (2021: AZN 1) and rank equally and carry one vote each. As at 31 December 2022 and 2021 treasury shares represent shares held by the subsidiary of the Bank.

17 Net interest income

	31 December 2022	31 December 2021
	AZN	AZN
Interest income comprises:		
Interest income on financial assets recorded at amortized cost comprises:		
Interest on loans and advances to customers	**13,854,749**	14,997,029
Interest on due from banks	**11,220,202**	12,084,211
Total interest income	**25,074,951**	27,081,240
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost comprise:		
Interest on deposits by customers	**(8,284,271)**	(12,323,191)
Interest on amounts due to banks and government agencies	**(3,340,313)**	(2,034,106)
Total interest expense on financial liabilities recorded at amortized cost	**(11,624,584)**	(14,357,297)
Net interest income	**13,450,367**	12,723,943

18 Allowance for impairment losses

The following table show reconciliations from the opening to the closing balance of the allowance for impairment loss as a result of the adoption of IFRS 9: Financial instruments.

	Due from banks	**Loans and advance to customers**	**Guaranties reserve**	**Grand Total**
	AZN	**AZN**	**AZN**	**AZN**
1 January 2021	(5,680,068)	(10,808,778)	(455,380)	(16,944,226)
Written off against provision	-	207,653	-	207,653
Provision reversal for the year – net	150,795	(1,751)	23,039	172,083
31 December 2021	(5,529,273)	(10,602,876)	(432,341)	(16,564,490)
Written off against provision	**-**	**256,190**	**-**	**256,190**
Reversal/(Provision) for the year – net	**886,418**	**1,021,737**	**(171,297)**	**1,736,858**
31 December 2022	**(4,642,855)**	**(9,324,949)**	**(603,638)**	**(14,571,442)**

19 Net gain on foreign exchange operations

Net gain on foreign exchange operations comprises:

	31 December 2022	31 December 2021
	AZN	AZN
Exchange gain on dealing - net	1,463,992	875,195
Exchange gain/(loss) on position - net	2,585	(1,013)
	1,466,577	874,182

20 Fee and commission income

Fee and commission income comprise of:

	31 December 2022	31 December 2021
	AZN	AZN
Fee and commission income:		
Plastic card services	3,677,029	2,296,706
Documentary operations, settlements and others	4,919,839	1,780,872
Cash operations	227,629	250,833
	8,824,497	4,328,411

21 Fee and commission expense

Fee and commission expense comprise of:

	31 December 2022	31 December 2021
	AZN	AZN
Fee and commission expense:		
Plastic card services	4,650,775	2,608,118
Documentary operations, settlements and others	3,214,624	2,039,991
Cash operations	20,231	7,439
	7,885,630	4,655,548

22 Operating expenses

Operating expenses comprise of:

	31 December 2022	31 December 2021
	AZN	AZN
Salaries and other benefits	**4,989,822**	5,079,072
Depreciation and amortization	**1,775,136**	1,610,559
Software maintenance costs	**1,032,595**	992,325
Security costs	**768,358**	688,593
Rent expense*	**479,087**	900,548
Communication expenses	**287,439**	265,973
Repairs and maintenance expenses	**282,564**	289,445
Professional expenses	**196,983**	223,645
Insurance expenses	**188,923**	193,642
Office supplies	**184,604**	251,874
Interest expenses on lease liabilities	**177,459**	87,379
Transportation and travel	**136,299**	63,906
Advertising and marketing expenses	**121,840**	144,684
Donation	**102,232**	14,467
Utilities expenses	**86,745**	45,561
Taxes, other than income tax expense	**49,051**	57,986
Plastic card and cheques printing expenses	**11,674**	31,558
Other expenses	**16,678**	82,677
	10,887,489	11,023,894

*This represent the rent expense of short-term nature, therefore has not been capitalized as right-of-use asset as allowed by IFRS 16 'Leases'.

23 Income taxes

The Group measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Group operates, which may differ from IFRS. Effective profit tax rate for the years 2021 and 2022 remained 20%. The Group is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2022 and 2021 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax-book bases' differences for certain assets.

Tax legislation of the Republic of Azerbaijan may give rise to various interpretations and changes. If the interpretations of the management do not correspond to the interpretation of the tax authorities concerning tax legislation, additional taxes, penalties and interest may be assessed by the tax authorities on the Group's consolidated financial statements.

23 Income taxes (continued)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

		31 December 2022	31 December 2021
		AZN	AZN
Deferred tax assets	(a)	**641,211**	605,007
Deferred tax liabilities	(b)	**(85,401)**	(185,338)
Net deferred tax asset		**555,810**	419,669

The gross movement on the deferred tax balances is as follows:

	31 December 2022	31 December 2021
	AZN	AZN
At the beginning of the year	**419,669**	307,607
Charge to profit and loss account	**62,928**	285,848
Charge to OCI	**73,213**	(173,786)
Net deferred tax asset	**555,810**	419,669

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

a) Deferred tax assets

	31 December 2022	31 December 2021
	AZN	AZN
Deductible temporary differences:		
Loans and advances to customers	**774,401**	1,632,546
Other assets	**1,616,762**	1,204,709
Intangible assets	**275,124**	83,452
Property and equipment	**51,351**	104,326
Other liabilities	**488,419**	-
	3,206,057	3,025,033
Deferred tax asset 20% (2021: 20%)	**641,211**	605,007

b) Deferred tax liabilities

	31 December 2022	31 December 2021
	AZN	AZN
Taxable temporary differences:		
Investments	**(427,004)**	(793,071)
Other liabilities	**-**	(133,617)
	(427,004)	(926,688)
Deferred tax liability 20% (2021: 20%)	**(85,401)**	(185,338)

23 Income taxes (continued)

The effective tax rate reconciliation is as follows for the years ended 31 December 2022 and 2021:

	31 December 2022 AZN	31 December 2021 AZN
Profit before income tax	**6,935,651**	2,491,868
Tax at the statutory tax rate 20% (2021: 20%)	**(1,387,130)**	(498,374)
Prior year tax	**-**	(935,031)
Tax effect of permanent differences	**(515,588)**	(329,469)
	(1,902,718)	(1,762,874)
Tax effect of temporary differencesto profit & loss	**62,928**	285,848
Income tax expense	**(1,839,790)**	(1,477,026)
Current income tax expense	**(1,902,718)**	(1,762,874)
Deferred tax income	**62,928**	285,848
Charge to profit and loss account	**(1,839,790)**	(1,477,026)
Charge to OCI	**73,213**	(173,786)
Total	**(1,766,577)**	(1,650,812)

Income tax (payables)/receivable

	31 December 2022 AZN	31 December 2021 AZN
Balance at 1 January,	**144,565**	70,730
Charge for the year	**(1,902,718)**	(1,762,874)
Income tax paid during the year	**342,752**	1,836,709
Balance at 31 December	**(1,415,401)**	144,565

24 Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share is as follows:

	31 December 2022 AZN	31 December 2021 AZN
Net profit for the year attributable to owners of the Bank	**5,095,861**	1,014,842
Weighted average number of ordinary shares for basic and diluted earnings per share	**60,000,000**	60,000,000
Earnings per share - basic and diluted	**0.085**	0.017

25 Contingencies and commitments

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk to meet the needs of its customers. The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

As at 31 December 2022 and 2021 contingent liabilities comprise:

	31 December 2022	31 December 2021
	AZN	AZN
Contingent liabilities and credit commitments		
Guarantees issued and similar commitments	**88,114,609**	39,755,674
Commitments on loans and unused credit lines	**28,325,816**	8,383,496
Total	**116,440,425**	48,139,170

Extension of loans and advances to customers within credit line limits is approved by the Group on a case-by-case basis and depends on borrowers' financial performance, debt service and other conditions. As at 31 December 2022 and 2021 such unused credit lines come to AZN 28,325,816 and AZN 8,383,496 respectively.

Capital regulatory commitment

The Bank is fully complied with minimum capital requirements of the Regulator. For detail, refer to note 28 to the consolidated financial statements.

Further, the Bank submitted their periodical statutory returns to the Central Bank of Azerbaijan within the stipulated time frame and no adverse comments have been received till to the issuance of these consolidated financial statements.

Legal proceedings

From time to time and in the normal course of business the Group may receive certain claims from customers and counterparties. Management believes no material unaccrued losses will be incurred and accordingly no provision has been made in these consolidated financial statements. There was no claim pending against the Group at the reporting date.

Taxation

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a treatment, based on management's judgment of the Group's business activities, was to be challenged by the tax authorities, the Group may be assessed for additional taxes, penalties and interest.

Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans and advances to customers and receivables, as an underestimation of the taxable profit.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Management believes that its interpretation of the relevant legislation as at 31 December 2022 is appropriate and that the Group's tax, and currency positions will be sustained.

25 Contingencies and commitments (continued)

25.1 Compliance with regulatory ratios

The the Central Bank of Azerbaijan) require banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2022, the Group was in compliance with these ratios based on liquid securities in place.

26 Transactions with related parties

Transactions between the Bank and its subsidiary, which is a related party of the Bank, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below. Transactions have been entered on mutually agreed terms:

		31 December 2022		31 December 2021	
	Notes	**Related party balances**	**Total category as per the consolidated financial statements**	Related party balances	Total category as per the consolidated financial statements
		AZN	**AZN**	AZN	AZN
Loans and advances to customers (gross):	**7**		**244,646,981**		246,890,346
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		***12,718,239**		*12,815,388	
- key management personnel/ Associates of the Group		**1,412,189**		1,120,452	
Allowance for impairment losses:	**7**		**9,324,949**		10,602,876
shareholders and entities in which a ·ubstantial interest is owned by ·hareholders of the Group		**53,654**		101,313	
- key management personnel/ Associates of the Group		**16,831**		14,941	
Deposits by customers:	**14**		**462,159,836**		531,919,490
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**43,571,451**		23,735,860	
- key management personnel/ Associates of the Group		**340,067,367**		388,010,777	
Guarantees issued & similar commitments:	**25**		**88,114,609**		39,755,674
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**848,514**		671,519	
- key management personnel/ Associates of the Group		**292,676**		246,041	

* This amount includes AZN 9,931,813 (2021: AZN 11,758,400) which is pledged as security deposits.

26 Transactions with related parties (continued)

The remuneration of directors and other members of key management were as follows:

	Notes	31 December 2022 Related party balances	31 December 2022 Total category as per the consolidated financial statements	31 December 2021 Related party balances	31 December 2021 Total category as per the consolidated financial statements
Total employee benefits	22		**4,989,822**		5,079,072
Key management personnel compensation for four perons (2021: 4 persons):		**503,740**		530,688	

Included in the consolidated statement of comprehensive income for the years ended 31 December 2022 and 2021 are the following amounts which were recognized in transactions with related parties:

	Notes	31 December 2022 Related party balances	31 December 2022 Total category as per the consolidated financial statements	31 December 2021 Related party balances	31 December 2021 Total category as per the consolidated financial statements
		AZN	**AZN**	AZN	AZN
Interest income:	17		**25,074,951**		27,081,240
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**579,254**		671,411	
- key management personnel/ Associates of the Group		**81,262**		69,979	
Interest expense:	17		**11,624,584**		14,357,297
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**169,262**		298,582	
- key management personnel/ Associates of the Group		**7,400,554**		6,775,104	
Provision for impairment losses on interest bearing assets:	18		**1,736,858**		172,083
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**(47,659)**		100,474	
- key management personnel/ Associates of the Group		**1,890**		7,391	
Fee and commission income:	20		**8,824,497**		4,328,411
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**273,987**		245,718	
- key management personnel/ Associates of the Group		**15,154**		57,473	
Operating expenses:	22		**10,887,489**		11,023,894
- shareholders and entities in which a substantial interest is owned by shareholders of the Group		**139,922**		100,994	

Interest rates on related parties loan range from 2.5% to 24% per annum.

27 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets and liabilities for which fair value approximates carrying value

For financial assets and liabilities that have a short-term maturity (less than 3 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 maturity.

The following methods and significant assumptions have been applied to estimate the fair values of financial instruments:

- Cash and balances with the Central Bank of the Republic of Azerbaijan and minimum reserve deposit with the Central Bank of the Republic of Azerbaijan, due to the short-term environment and availability restrictions of these types of assets, the carrying amount is assumed to be reasonable estimate of their fair value.

- The fair value of loans and advances to banks and loans and advances to customers for loans provided during the period of month to the reporting date is assumed to be fair value amount for them. The fair value of the other loans is estimated by application of market interest rates when the loans were originated with the current market rates offered on similar deposits with the deduction of the allowances for credit losses from the calculated fair value amounts.

- Loans and advances to personal customers are made at fixed rates. As there is no active secondary market in the Republic of Azerbaijan for such loans and advances, there is no reliable market value available for this portfolio. Fixed rate - Certain of the loans secured are at a fixed rate. Fair value has been estimated by reference to the market rates available at the reporting date for similar loans of maturity equal to the remaining fixed period.

- Financial investments - Financial assets at fair value through profit and loss account and financial assets at fair value through other comprehensive income. Financial assets at fair value through other comprehensive income are usually valued using valuation techniques or pricing models consist of unquoted equities and prices quoted on stock exchanges, however in the absence of such data, value to book has been considered as a reasonable estimate specially where the investee's assets are mostly of financial nature.

- Other financial assets and liabilities are mainly represented by short-term receivables and payables, therefore the carrying amount is assumed to be a reasonable estimate of their fair value.

- The carrying value of term deposits (included in deposits by customers and amounts due to banks and government agencies) for term deposits placed during the period of one month to the reporting date is assumed to be the fair value amount for them. The fair value of the other term deposits is estimated by application of market interest rates when the deposits were placed with the current market rates offered on similar deposits.

27 Fair value of financial instruments (continued)

The following table compares the carrying amount of financial assets and liabilities to their estimated fair values:

	31 December 2022		31 December 2021	
	Carrying value	**Fair value**	Carrying value	Fair value
	AZN	**AZN**	AZN	AZN
Financial assets				
Cash and balance with the Central Bank of the Republic of Azerbaijan	**30,692,689**	**30,692,689**	28,111,212	28,111,212
Due from banks	**458,589,001**	**458,589,001**	526,924,520	526,924,520
Loans and advanced to customers	**235,322,032**	**235,322,032**	236,287,470	236,287,470
Financial assets at fair value through other comprehensive income	**1,957,004**	**1,957,004**	2,323,071	2,323,071
Other financial assets	**8,477,999**	**8,477,999**	5,622,289	5,622,289
	735,038,725	**735,038,725**	799,268,562	799,268,562
Financial liabilities				
Due to Central Bank of the Republic of Azerbaijan	**68,939**	**68,939**	103,409	103,409
Amounts due to banks and government agencies	**167,044,587**	**167,044,587**	171,114,560	171,114,560
Deposits by customers	**462,159,836**	**462,159,836**	531,919,490	531,919,490
Other financial liabilities	**6,719,270**	**6,719,270**	3,067,871	3,067,871
	635,992,632	**635,992,632**	706,205,330	706,205,330

28 Capital risk management

The Group's objectives when managing capital are to comply with the capital requirements set by CBAR to the Bank, to safeguard the Group's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10% (2021: 10%). Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Group's Chairman of Management Board, Chief Accountant, Chief of Internal Audit Department and the Chairman of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBAR, banks have to: (a) hold the minimum level of share capital of AZN 50,000,000 (2021: AZN 50,000,000); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (2021: 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% (2021: 5%); (d) Tier 2 capital should not exceed 50 percent of regulatory capital; (e) Tier 2 capital should not exceed the amount of tier 1 capital.

28 Capital risk management (continued)

CBAR sets and monitors capital requirements for the Bank. The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by CBAR, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. The Bank complies with the statutory capital ratio as at 31 December 2022 and 31 December 2021. The calculation of capital adequacy based on requirements set by the CBAR and reported in the statutory prudential regulations as at 31 December is as follows:

	31 December 2022	31 December 2021
	AZN	AZN
Tier 1 capital		
Share capital	**60,000,000**	60,000,000
Opening retained earnings	**39,427,233**	37,198,703
Total tier 1 capital	**99,427,233**	97,198,703
Deductions from tier 1 capital		
Deferred tax assets	**(927,417)**	(34,013)
Intangible assets	**(1,948,220)**	(2,360,960)
Total tier 1 capital after deductions	**96,551,596**	94,803,730
Tier 2 capital		
Total reserves	**5,346,301**	6,049,388
Current year gain	**5,285,907**	2,228,529
Total tier 2 capital	**10,632,208**	8,277,917
Total capital before deductions	**107,183,804**	103,081,647
Deductions	**(2,530,000)**	(2,530,000)
Total regulatory capital after deductions	**104,653,804**	100,551,647
Total risk-weighted assets:	**507,864,875**	599,861,461
Tier 1 capital adequacy ratio	**19.01%**	15.80%
Regulatory capital adequacy ratio	**20.61%**	16.76%

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

28 Capital risk management (continued)

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	31 December 2022 AZN	31 December 2021 AZN
Tier 1 capital		
Share capital	**60,000,000**	60,000,000
Retained earnings	**43,081,679**	37,985,818
Treasury shares	**(344,900)**	(344,900)
Total capital	**102,736,779**	97,640,918
Risk-weighted assets		
On-balance sheet	**507,864,875**	599,861,461
Off-balance sheet	**14,034,660**	3,796,777
Total risk weighted assets	**521,899,535**	603,658,238
Total capital expressed as a percentage of risk-weighted assets (total capital ratio and tier 1 capital)	**19.69%**	16.17%

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for unrecognized contractual commitments, with some adjustments to reflect the more contingent nature of the potential losses. The Bank is subject to minimum capital adequacy requirements calculated in accordance with the Basel Accord established by covenants under liabilities incurred by the Bank.

Reconciliation of total statutory capital to IFRS equity

The following information is intended to provide additional information to users of the consolidated financial statements of the Group for the year ended 31 December 2022 and is not required under International Financial Reporting Standards (IFRS). The following table provides an overview of the differences in composition of the net assets as at 31 December 2022 presented in the Group's consolidated financial statements prepared under IFRS and total regulatory capital determined under the rules and regulations of CBAR ("statutory capital").

	31 December 2022 AZN	31 December 2021 AZN
Statutory retained earnings	**44,713,140**	39,427,233
Differences between total statutory capital & IFRS equity:		
Prior years adjustments	**(1,441,415)**	(1,162,758)
Loans and advances and guarantee provision (ECL adjustment)	**674,519**	6,299
Fee and commission income	**(49,292)**	-
Operating expenses	**(25,780)**	(64,701)
Other income	**18,992**	(285,391)
Deferred tax (expense)/income	**(830,476)**	285,848
Income tax expense	**9,728**	(229,821)
Subsidiary retained earnings (group reporting)	**12,263**	9,109
IFRS retained earnings	**43,081,679**	37,985,818

29 Risk management policies

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk
- Liquidity risk
- Market risk

The Group recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives. Through the risk management framework, the Group manages the risks the following risks:

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by Credit Department specialists. Further the Bank has applied ECL model to monitor the credit risk.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantee. A small portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the contingent liabilities as it does to the consolidated statement of financial position financial instruments, i.e. the one based on the procedures for approving the grant of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet contingencies because longer term commitments generally have more credit risk than short-term commitments.

Maximum exposure of credit risk

The Group’s maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

29 Risk management policies (continued)

Credit risk (continued)

Maximum exposure of credit risk (continued)

The following table presents the maximum exposure to credit risk of on-balance sheet and off-balance sheet financial assets. For financial assets in the consolidated statement of financial position, the maximum exposure is equal to the carrying amount of those assets prior to any offset or collateral. The Group's maximum exposure to credit risk under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	Maximum exposure	**Offset/deposit**	**Net exposure after offset**	**Collateralized loans**	**Net exposure**
Year ended 31 December 2022	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
Balances with the CBAR	**13,011,639**	**-**	**13,011,639**	**-**	**13,011,639**
Due from banks	**458,589,001**	**-**	**458,589,001**	**-**	**458,589,001**
Loans and advanced to customers	**235,322,032**	**(198,763,973)**	**36,558,059**	**(28,009,565)**	**8,548,494**
Financial assets at fair value through other comprehensive income	**1,957,004**	**-**	**1,957,004**	**-**	**1,957,004**
Other financial assets	**8,477,999**	**-**	**8,477,999**	**-**	**8,477,999**
Guarantees issued and similar commitments	**88,114,609**	**(35,500,255)**	**52,614,354**	**(52,614,354)**	**-**
Commitments on loans and unused credit lines	**28,325,816**	**-**	**28,325,816**	**(28,325,816)**	**-**
	833,798,100	**(234,264,228)**	**599,533,872**	**(108,949,735)**	**490,584,137**
Year ended 31 December 2021					
Balances with the CBAR	16,057,555	-	16,057,555	-	16,057,555
Due from banks	526,924,520	-	526,924,520	-	526,924,520
Loans and advanced to customers	236,287,470	(197,047,411)	39,240,059	(29,795,733)	9,444,326
Financial assets at fair value through other comprehensive income	2,323,071	-	2,323,071	-	2,323,071
Other financial assets	5,622,289	-	5,622,289	-	5,622,289
Guarantees issued and similar commitments	39,755,674	(30,000,900)	9,754,774	(9,754,774)	-
Commitments on loans and unused credit lines	8,383,496	-	8,383,496	(8,383,496)	-
	835,354,075	(227,048,311)	608,305,764	(47,934,003)	560,371,761

29 Risk management policies (continued)

Credit risk (continued)

Off-balance sheet risk

The Group applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Geographical concentration

The Risk Management Committee exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

The geographical concentration of Group's consolidated financial assets and liabilities is set out below:

As at 31 December 2022	The Republic of Azerbaijan	OECD countries	Non-OECD countries	31 December 2022 Total
Non-derivative financial assets	**AZN**	**AZN**	**AZN**	**AZN**
Cash and balances with the CBAR	**30,692,689**	**-**	**-**	**30,692,689**
Due from banks	**221,920,268**	**166,082,616**	**70,586,117**	**458,589,001**
Loans and advances to customers	**235,322,032**	**-**	**-**	**235,322,032**
Financial assets at fair value through other comprehensive income	**1,957,004**	**-**	**-**	**1,957,004**
Other financial assets	**8,477,999**	**-**	**-**	**8,477,999**
	498,369,992	**166,082,616**	**70,586,117**	**735,038,725**
Non-derivative financial Liabilities				
Due to Central Bank of the Republic of Azerbaijan	**68,939**	**-**	**-**	**68,939**
Amounts due to banks and government agencies	**56,947,738**	**110,096,849**	**-**	**167,044,587**
Deposits by customers	**436,064,318**	**-**	**26,095,518**	**462,159,836**
Other financial liabilities	**6,719,270**	**-**	**-**	**6,719,270**
	499,800,265	**110,096,849**	**26,095,518**	**635,992,632**
Net position on non-derivative financial instruments	**(1,430,273)**	**55,985,767**	**44,490,599**	**99,046,093**

29 Risk management policies (continued)

Credit risk (continued)

Geographical concentration (continued)

As at 31 December 2021	The Republic of Azerbaijan	OECD countries	Non-OECD countries	31 December 2021 Total
Non-derivative financial assets	AZN	AZN	AZN	AZN
Cash and balances with the CBAR	28,111,212	-	-	28,111,212
Due from banks	249,555,348	216,096,025	61,273,147	526,924,520
Loans and advances to customers	236,287,470	-	-	236,287,470
Financial assets at fair value through other comprehensive income	2,323,071	-	-	2,323,071
Other financial assets	5,622,289	-	-	5,622,289
	521,899,390	216,096,025	61,273,147	799,268,562
Non-derivative financial Liabilities				
Due to Central Bank of the Republic of Azerbaijan	103,409			103,409
Amounts due to banks and government agencies	61,937,542	109,177,018	-	171,114,560
Deposits by customers	503,230,699	-	28,688,791	531,919,490
Other financial liabilities	3,067,871	-	-	3,067,871
	568,339,521	109,177,018	28,688,791	706,205,330
Net position on non-derivative financial instruments	(46,440,131)	106,919,007	32,584,356	93,063,232

The Group does not deal with any derivatives.

Collateral

The amount and type of collaterals 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 collaterals obtained are as follows:

- For commercial lending, charges over equipment, movable and immovable property;
- For retail lending, mortgages over residential properties.

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 impairment losses.

Credit quality by class of financial asset

The Group enters into numerous transactions where the counterparties are not rated by international rating agencies. The Group has developed internal models, which allow it to determine the rating of counterparties, which are comparable to rating of international rating agencies. A methodology to determine credit ratings of borrowers has been developed in the Group to assess corporate borrowers. This method allows for calculation and assignment/confirmation of a borrower's rating and rating of collateral for a loan.

29 Risk management policies (continued)

Credit risk (continued)

Credit quality by class of financial asset

The system is based on a scoring model depending on key performance indicators of the borrower with the possibility of insignificant expert adjustments in case of insufficient objectivity of the benchmark. The method provides for the rating assignment based on the following criteria groups: market indicators of the borrower, goodwill, credit history, transparency and reliability of information, information on business and business environment, relations of the Group and the borrower, financial situation of the borrower, business activity, and collateral provided. The financial situation and business activity are the most important criteria. Therefore, the scoring model provides for overall assessment of the borrower and the loan.

A model of the borrower's scoring assessment has been developed in the Group to assess and decide on loans to small and medium-sized businesses. The scoring model is developed relating to standard loan products and includes key performance indicators of borrowers: financial situation, relations with the borrower, management quality, target use, business plan, location, credit history, collateral, etc.

The scoring assessment based on the borrower's parameters is one of the main factors for the decision-making process relating to loans.

A methodology of evaluation of borrowers-individuals is based on following criteria: education, occupancy, financial position, credit history, property owned by the borrower. Based on information obtained the maximum limit of a loan is calculated. The maximum limit of a loan is calculated using a ratio of debt burden on a borrower.

The Group applies internal methodologies to specific corporate loans and groups of retail loans. The scoring methodologies are tailor-made for specific products and are applied at various stages over the life of the loan. Thus, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the consolidated statement of financial position. As such, more detailed information is not presented.

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

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they fall due.

The Asset Liability Management Committee (“ALMC”) controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

To manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

29 Risk management policies (continued)

Liquidity risk (continued)

An analysis of the liquidity risk is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group.

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2022 Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Non-derivative financial assets							
Fixed interest rate instruments							
Due from banks	49,428,499	95,760,931	59,421,809	199,224,969	-	-	403,836,208
Loans and advances to customers	9,881,456	9,090,251	154,745,260	44,888,301	16,716,764	-	235,322,032
Total fixed interest bearing financial assets	**59,309,955**	**104,851,182**	**214,167,069**	**244,113,270**	**16,716,764**	**-**	**639,158,240**
Non-interest-bearing financial assets							
Cash and balances with the Central Bank of Azerbaijan Republic	30,692,689	-	-	-	-	-	30,692,689
Due from banks	54,752,793	-	-	-	-	-	54,752,793
Financial assets at fair value through other comprehensive income	1,957,004	-	-	-	-	-	1,957,004
Other financial assets	8,477,999	-	-	-	-	-	8,477,999
Total non-interest bearing financil assets	**95,880,485**	**-**	**-**	**-**	**-**	**-**	**95,880,485**
Total non-derivative financial assets	**155,190,440**	**104,851,182**	**214,167,069**	**244,113,270**	**16,716,764**	**-**	**735,038,725**

29 Risk management policies (continued)

Liquidity risk

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2022 Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Non-derivative financial liabilities							
Fixed interest rate instruments							
Due to Central Bank of the Republic of Azerbaijan	-	-	-	68,939	-	-	68,939
Amounts due to banks and government agencies	26,759,729	8,125,204	109,852,686	8,469,421	13,837,545	-	167,044,585
Deposits by customers	37,392,544	65,564,524	85,221,380	184,906,262	-	-	373,084,710
Other financial liabilities	34,165	44,297	182,697	499,519	-	-	760,678
Total fixed interest-bearing financial liabilities	64,186,438	73,734,025	195,256,763	193,944,141	13,837,545	-	540,958,912
Non-interest-bearing financial liabilities							
Amounts due to banks and government agencies	2	-	-	-	-	-	2
Deposits by customers	89,075,126	-	-	-	-	-	89,075,126
Other financial liabilities	5,958,592	-	-	-	-	-	5,958,592
Total non-interest-bearing financial liabilities	95,033,720	-	-	-	-	-	95,033,720
Total non-derivative financial liabilities	159,220,158	73,734,025	195,256,763	193,944,141	13,837,545	-	635,992,632
Interest sensitivity gap	(4,876,483)	31,117,157	18,910,306	50,169,129	2,879,219		
Cumulative interest sensitivity	(4,876,483)	26,240,674	45,150,980	95,320,109	98,199,328		
Liquidity gap	(4,029,718)	31,117,157	18,910,306	50,169,129	2,879,219		
Cumulative liquidity gap	(4,029,718)	27,087,439	45,997,745	96,166,874	99,046,093		

29 Risk management policies (continued)

Liquidity risk (continued)

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2021 Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Non-derivative financial assets							
Fixed interest rate instruments							
Due from banks	104,230,840	125,489,690	152,238,209	86,046,060	-	-	468,004,799
Loans and advances to customers	15,659,097	375	73,954,049	96,367,622	50,306,327	-	236,287,470
Total fixed interest bearing financial assets	119,889,937	125,490,065	226,192,258	182,413,682	50,306,327	-	704,292,269
Non-interest-bearing financial assets							
Cash and balances with the Central Bank of Azerbaijan Republic	28,111,212	-	-	-	-	-	28,111,212
Due from banks	58,919,721	-	-	-	-	-	58,919,721
Financial assets at fair value through other comprehensive income	2,323,071	-	-	-	-	-	2,323,071
Other financial assets	2,496,925	-	-	-	-	-	2,496,925
Total non-interest bearing financil assets	91,850,929	-	-	-	-	-	91,850,929
Total non-derivative financial assets	211,740,866	125,490,065	226,192,258	182,413,682	50,306,327	-	796,143,198

29 Risk management policies (continued)

Liquidity risk (continued)

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2021 Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Non-derivative financial liabilities							
Fixed interest rate instruments							
Due to Central Bank of the Republic of Azerbaijan	-	-	-	103,409	-	-	103,409
Amounts due to banks and government agencies	26,319,742	8,207,336	109,306,716	17,005,571	10,275,193	-	171,114,558
Deposits by customers	134,925	57,214,600	281,720,027	89,308,388	-	-	428,377,940
Other financial liabilities	16,545	24,516	120,938	214,375	-	-	376,374
Total fixed interest-bearing financial liabilities	26,471,212	65,446,452	391,147,681	106,631,743	10,275,193	-	599,972,281
Non-interest-bearing financial liabilities							
Amounts due to banks and government agencies	2	-	-	-	-	-	2
Deposits by customers	103,541,550	-	-	-	-	-	103,541,550
Other financial liabilities	2,691,497	-	-	-	-	-	2,691,497
Total non-interest-bearing financial liabilities	106,233,049	-	-	-	-	-	106,233,049
Total non-derivative financial liabilities	132,704,261	65,446,452	391,147,681	106,631,743	10,275,193	-	706,205,330
Interest sensitivity gap	93,418,725	60,043,613	(164,955,423)	75,781,939	40,031,134		
Cumulative interest sensitivity	93,418,725	153,462,338	(11,493,085)	64,288,854	104,319,988		
Liquidity gap	79,036,605	60,043,613	(164,955,423)	75,781,939	40,031,134		
Cumulative liquidity gap	79,036,605	139,080,218	(25,875,205)	49,906,734	89,937,868		

29 Risk management policies (continued)

Liquidity risk (continued)

In the table, above, the terms to maturity correspond to the contractual terms. However, individuals are entitled to terminate the deposit agreement ahead of schedule according to effective laws.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted Average effective interest	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2022 Total
Non-derivative financial liabilities		AZN	AZN	AZN	AZN	AZN	AZN	AZN
Fixed interest rate instruments								
Due to Central Bank of the Republic of Azerbaijan	0.10%	-	-	-	68,939	-	-	68,939
Amounts due to banks and government agencies	3.08%	26,759,729	8,125,204	109,852,686	8,469,421	13,837,545	-	167,044,585
Deposits by customers	2.52%	37,392,544	65,564,524	85,221,380	184,906,262	-	-	373,084,710
Other financial liabilities	20.03%	34,165	44,297	182,697	499,519	-	-	760,678
Total fixed interest bearing financial liabilities		64,186,438	73,734,025	195,256,763	193,944,141	13,837,545	-	540,958,912
Non-interest-bearing instruments								
Amounts due to banks and government agencies		2	-	-	-	-	-	2
Deposits by customers		89,075,126	-	-	-	-	-	89,075,126
Other financial liabilities		5,958,592	-	-	-	-	-	5,958,592
Liabilities on financial guarantees		-	-	-	-	-	88,114,609	88,114,609
Commitments on loans and guarantees		-	-	-	-	-	28,325,816	28,325,816
Total non-interest bearing financial liabilities and commitments		95,033,720	-	-	-	-	116,440,425	211,474,145
Total financial liabilities and commitments		159,220,158	73,734,025	195,256,763	193,944,141	13,837,545	116,440,425	752,433,057

29 Risk management policies (continued)

Liquidity risk (continued)

	Weighted Average effective interest	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Maturity Undefined	31 December 2021 Total
Non-derivative financial liabilities		AZN	AZN	AZN	AZN	AZN	AZN	AZN
Fixed interest rate instruments								
Due to Central Bank of the Republic of Azerbaijan	0.10%	-	-	-	103,409	-	-	103,409
Amounts due to banks and government agencies	1.45%	26,319,742	8,207,336	109,306,716	17,005,571	10,275,193	-	171,114,558
Deposits by customers	2.15%	134,925	57,214,600	281,720,027	89,308,388	-	-	428,377,940
Other financial liabilities	20.03%	16,545	24,516	120,938	214,375	-		376,374
Total fixed interest bearing financial		26,471,212	65,446,452	391,147,681	106,631,743	10,275,193	-	599,972,281
Non-interest-bearing instruments								
Amounts due to banks and government agencies		2	-	-	-	-	-	2
Deposits by customers		103,541,550	-	-	-	-	-	103,541,550
Other financial liabilities		2,691,497	-	-	-	-	-	2,691,497
Liabilities on financial guarantees		-	-	-	-	-	39,755,674	39,755,674
Commitments on loans and guarantees		-	-	-	-	-	8,383,496	8,383,496
Total non-interest bearing financial liabilities and commitments		106,233,049	-	-	-	-	48,139,170	154,372,219
Total financial liabilities and commitments		132,704,261	65,446,452	391,147,681	106,631,743	10,275,193	48,139,170	754,344,500

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee.

29 Risk management policies (continued)

Market Risk

Market risk is that the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the way these risks are managed and measured.

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

The ALMC also manages interest rate and market risks by matching the Group's interest rate position, which provides the Group with a positive interest margin. The Treasury Department conducts monitoring of the Group's current financial performance, estimates the Group's sensitivity to changes in interest rates and its influence on the Group's profitability.

Most the Group's loan contracts and other financial assets and liabilities that bear interest are either fixed and contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated financial position and consolidated cash flows. Interest margins may increase because of such changes but may reduce or create losses if unexpected movements arise. Management monitors daily and sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on "reasonably possible changes in the risk variable". The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

Impact on profit before tax:

	31 December 2022		31 December 2021	
	Interest rate +1	**Interest rate -1**	Interest rate +1	Interest rate -1
	AZN	**AZN**	AZN	AZN
Financial assets:	**6,391,582**	**(6,391,582)**	7,042,923	(7,042,923)
Financial liabilities:	**(5,409,589)**	**5,409,589**	(5,999,723)	5,999,723
Net impact on profit before income tax	**981,993**	**(981,993)**	1,043,200	(1,043,200)

29 Risk management policies (continued)

Currency risk

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

The ALMC controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the Central Bank of the Republic of Azerbaijan.

The Group's open positions by the major currencies in which they hold the financial assets and liabilities presented are as below:

	AZN	USD USD 1= AZN 1.7000	EUR EUR 1= AZN 1.8114	GBP GBP 1= AZN 2.0477	Other currencies	31 December 2022 Total
Non-derivative financial assets						
Cash and balances with the CBAR	22,556,995	7,121,982	994,930	18,659	123	30,692,689
Due from banks	19,006,597	215,466,439	54,415,366	169,686,270	14,329	458,589,001
Loans and advances to customers	176,961,674	58,360,358	-	-	-	235,322,032
Financial assets at fair value through other comprehensive income	1,957,004		-	-	-	1,957,004
Other financial assets	8,098,940	341,869	37,190	-	-	8,477,999
Total non-derivative financial assets	228,581,210	281,290,648	55,447,486	169,704,929	14,452	735,038,725
Non-derivative financial liabilities						
Due to Central Bank of the Republic of Azerbaijan	68,939	-	-	-	-	68,939
Amounts due to banks and government agencies	56,947,736	110,096,849	2	-	-	167,044,587
Deposits by customers	70,193,402	164,835,926	55,941,423	171,177,173	11,912	462,159,836
Other financial liabilities	5,763,456	680,801	275,013	-	-	6,719,270
Total non-derivative financial liabilities	132,973,533	275,613,576	56,216,438	171,177,173	11,912	635,992,632
Open position	95,607,677	5,677,072	(768,952)	(1,472,244)	2,540	

29 Risk management policies (continued)

Currency risk (continued)

	AZN	USD USD 1= AZN 1.7000	EUR EUR 1= AZN 1.9265	GBP GBP 1= AZN 2.2925	Other currencies	31 December 2021 Total
Non-derivative financial assets						
Cash and balances with the CBAR	19,336,126	4,396,136	241,824	4,137,126	-	28,111,212
Due from banks	-	283,502,927	59,630,577	183,787,262	3,754	526,924,520
Loans and advances to customers	157,564,976	78,722,494	-	-	-	236,287,470
Financial assets at fair value through other comprehensive income	2,323,071	-	-	-	-	2,323,071
Other financial assets	5,357,160	225,576	39,553	-	-	5,622,289
Total non-derivative financial assets	184,581,333	366,847,133	59,911,954	187,924,388	3,754	799,268,562
Non-derivative financial liabilities						
Due to Central Bank of the Republic of Azerbaijan	103,409	-	-	-	-	103,409
Amounts due to banks and government agencies	61,937,540	109,177,018	2	-	-	171,114,560
Deposits by customers	33,430,382	248,270,791	60,427,343	189,789,155	1,819	531,919,490
Other financial liabilities	2,710,728	203,289	153,854	-	-	3,067,871
Total non-derivative financial liabilities	98,182,059	357,651,098	60,581,199	189,789,155	1,819	706,205,330
Open position	86,399,274	9,196,035	(669,245)	(1,864,767)	1,935	

Currency risk sensitivity

The following table details the Group's sensitivity to a 10% in 31 December 2022 and 10% 31 December 2021 increase and decrease in the AZN against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AZN strengthens 10% against the relevant currency. For a 10% weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

	Profit for the year		**Equity**	
	31 December 2022	31 December 2021	**31 December 2022**	31 December 2021
	AZN	AZN	**AZN**	AZN
USD	**567,707**	919,604	**454,166**	735,683
EUR	**(76,895)**	(66,925)	**(61,516)**	(53,540)
GBP	**(147,224)**	(186,477)	**(117,780)**	(149,181)
Other currencies	**254**	194	**203**	155

29 Risk management policies (continued)

Currency risk sensitivity (continued)

This is mainly attributable to the exposure outstanding on USD, EUR and GBP receivables and payables in the Group at the end of the reporting period. In management's opinion, the sensitivity analysis is not always a representative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. There is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

Price risk-own products

The Group is exposed to price risks of its products which are subject to general and specific market fluctuations. The Group manages price risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing and maintaining appropriate stop-loss limits and margin and collateral requirements. With respect to undrawn loan commitments the Group is potentially exposed to a loss of an amount equal to the total amount of such commitments. However, the likely amount of a loss is less than that, since most commitments are contingent upon certain conditions set out in the loan agreements.

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 Group cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

30 Post reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorization of these consolidated financial statements.