Premium Bank Open Joint Stock Company

Financial Statements
For the year ended 31 December 2020

Premium Bank Open Joint Stock Company
Financial Statements

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Statement of management's responsibilities for the preparation and approval of the financial statements
For the year ended 31 December 2020

Management is responsible for the preparation of the financial statements that give a true and fair view of the financial position of **Premium Bank Open Joint Stock Company (the "Bank")** as at 31 December 2020, 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 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 Bank's financial position and financial performance; and
- Making an assessment of the Bank'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 Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

These financial statements for the year ended 31 December 2020 were approved by the Management Board on 30 April 2021 and were signed on their behalf by:

Mahir Najafov
Chairman of Management Board

Baku, Azerbaijan Republic

Elshan Safarov
Chief Financial Officer

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Independent auditors' report
To the Shareholders of
Premium Bank Open Joint Stock Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Premium Bank Open Joint Stock Company** (the "Bank"), which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and its financial performance and its 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 Financial Statements section of our report. We are independent of the Bank 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 Financial Statements

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

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

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

Independent auditors' report (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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
Baku, Republic of Azerbaijan
Date: 30 April 2021

Statement of financial position

As at 31 December 2020

(in thousands of Azerbaijan Manats)

	Notes	2020	2019
		AZN	AZN
Assets			
Cash and balances with Central Bank	5	**37,352**	35,302
Balances with other banks	7	**43,596**	38,472
Loans and advances to customers	8	**539,186**	533,964
Property, equipment and right-of-use assets	9	**8,462**	7,107
Intangible assets		**1,589**	1,287
Other assets	10	**6,946**	6,787
Total assets		**637,131**	622,919
Liabilities			
Loans and deposits from banks and financial institutions	11	**39,627**	37,585
Deposits from customers	12	**431,252**	471,451
Other liabilities	13	**6,761**	7,805
Total liabilities		**477,640**	516,841
Equity			
Share capital	14	**154,601**	104,601
Retained earnings		**4,890**	1,477
Total equity		**159,491**	106,078
Total equity and liabilities		**637,131**	622,919

These financial statements for the year ended 31 December 2020 were approved by the Management Board on 30 April 2021 and were signed on their behalf by:

Mahir Najafov
Chairman of Management Board

Elshan Safarov
Chief Financial Officer

Baku, Azerbaijan Republic

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

Statement of comprehensive income

For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

	Notes	2020 AZN	2019 AZN
Interest income	15	**34,770**	38,234
Interest expense	15	**(19,686)**	(12,866)
Net interest income	15	**15,084**	25,368
Reversal/(Allowance) for impairment losses on loans and advances to customers	8.1	**2,628**	(1,528)
Net interest income after allowance for impairment losses		**17,712**	23,840
Gains from foreign exchange operations - net	16	**4,276**	5,054
Fees and commission income	17	**9,753**	16,117
Fees and commission expense	18	**(3,865)**	(4,872)
Operating profit		**27,876**	40,139
Other income - net	19	**34**	20
Depreciation and amortization expense	20	**(2,414)**	(1,628)
Administrative and general expenses	21	**(20,633)**	(27,384)
Profit for the year before tax		**4,863**	11,147
Income tax expense	22	**(1,450)**	(2,339)
Profit for the year		**3,413**	8,808
Other comprehensive income		**-**	-
Total comprehensive income for the year		**3,413**	8,808
Earnings per share attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	29	**3.40**	12.97

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

Statement of changes in equity
For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

	Share Capital AZN	Retained earnings AZN	Total equity AZN
Balance at 31 December 2018	104,601	8,669	113,270
Dividend paid	-	(16,000)	(16,000)
Transactions with owners	-	(16,000)	(16,000)
Profit for the year	-	8,808	8,808
Total comprehensive income	-	8,808	8,808
Balance at 31 December 2019	104,601	1,477	106,078
Addition in share capital	**50,000**	**-**	**50,000**
Transactions with owners	**50,000**	**-**	**50,000**
Profit for the year	**-**	**3,413**	**3,413**
Total comprehensive income	**-**	**3,413**	**3,413**
Balance at 31 December 2020	**154,601**	**4,890**	**159,491**

Statement of cash flows
For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

	Notes	2020 AZN	2019 AZN
OPERATING ACTIVITIES			
Profit before tax		**4,863**	11,147
Adjustments for non-cash and non-operating items:			
Depreciation and amortisation expense	20	**2,414**	1,628
Gain on disposal of property and equipment		**(5)**	(7)
Allowance for impairment losses on balances with other banks	7	**51**	263
Reversal of/(Allowance for) impairment losses on loans and advances to customers	8.1	**(2,628)**	1,528
		4,695	14,559
Changes in operating assets and liabilities:			
Mandatory minimum reserve deposits with Central Bank		**(191)**	486
Loans and advances to customers		**(2,594)**	16,635
Other assets		**511**	(1,659)
Deposits from customers		**(40,199)**	5,340
Other liabilities		**(4,402)**	1,530
Cash from operations		**(42,180)**	36,891
Income tax paid		**(2,120)**	(4,750)
Net cash (used in)/generated from operating activities		**(44,300)**	32,141
INVESTING ACTIVITIES			
Purchase of property and equipment excluding right-of-use assets		**(268)**	(1,742)
Purchase of intangible assets		**(452)**	(678)
Sales proceed from disposal of property and equipment		**12**	11
Net cash used in investing activities		**(708)**	(2,409)
FINANCING ACTIVITIES			
Loans and deposits from banks and financial institutions		**2,042**	(3,225)
Increase in share capital		**50,000**	-
Dividend paid		**-**	(16,000)
Net cash generated from/(used in) financing activities		**52,042**	(19,225)
Net change in cash and cash equivalents		**7,034**	10,507
Cash and cash equivalents, beginning of year		**70,299**	59,792
Cash and cash equivalents, end of year	6	**77,333**	70,299

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

(in thousands of Azerbaijan Manats)

1 Introduction

1.1 Legal status and nature of operations

Premium Bank Open Joint Stock Company (the "Bank") was established on 6 January 1994 and held license no. 175 for commercial banking issued Central Bank of Azerbaijan Republic (CBAR or Central Bank). The activities of the Bank are regulated by the Central Bank of Azerbaijan Republic. As at 31 December 2020 the registered address of the Bank is located Hasan Aliyev Street 131A, AZ 1110, Baku, Azerbaijan Republic.

The principal activity of the Bank is providing commercial banking services to legal entities and physical persons. The Bank has five branches and one service point. The Bank operates a network of 54 (2019: 53) automatic teller machines. The Bank has 172 employees (2019: 176 employees) as at 31 December 2020.

As at 31 December 2020 and 2019, the following shareholders owned the issued share capital of the bank.

	2020	2019
	%	%
VIP Aviation Service Company LLC	**15.217**	15.217
Hamzayeva Zaria Kamil qızı	**84.466**	84.466
Ahmadov Elvira İsmayil qızı	**0.3170**	0.3170
	100.00	100.00

2 Statement of compliance with International Financial Reporting Standards (IFRS)

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Additional information required by CBAR Regulations is included where appropriate. Further the accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements for the year ended 31 December 2019.

3 Standards, interpretations and amendments to existing standards

3.1 Standards, interpretations and amendments to existing standards that are effective in 2020

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2020 and have been adopted by the Bank. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current year but may affect the accounting for the Bank's future transactions or arrangements.

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Definition of a Business – Amendments to IFRS 3 Business Combinations	January 1, 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 1, 2020
Covid-19-Related Rent Concessions (Amendment to IFRS 16)	January 1, 2020

(in thousands of Azerbaijan Manats)

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 Bank

At the date of authorisation of these 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 Bank. Information on the relevant new standards, amendments and interpretations that are not yet effective has been given below.

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 17 Insurance Contracts	January 1, 2023

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

4 Summary of significant accounting policies

4.1 Overall considerations

These financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. There has been no significant reclassification or adjustments in the comparatives. 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 financial statements are consistent with those applied in the annual financial statements for the year ended 31 December 2019.

The preparation of the 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 recognised 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 financial statements are described in note 4.19 and 4.20.

4.3 Foreign currency translation

Functional and presentation currency

These financial statements are presented in Azerbaijan Manat (AZN), which is also Bank's functional currency.

(in thousands of Azerbaijan Manats)

4 Summary of significant accounting policies (continued)

4.3 Foreign currency translation (continued)

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in statement of comprehensive income.

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. For the purpose of translation of financial assets and financial liabilities denominated in foreign currencies the following year-end exchange rates have been used:

	2020	2019
AZN/1 USD	**1.7000**	1.7000
AZN/1 Euro	**2.0890**	1.9035
AZN/1 GBP	**2.3021**	2.2284
AZN/1 RUB	**0.0231**	0.0274

4.4 Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value plus transactions costs. Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset.

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)

4.4 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 Bank 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 Bank 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 Bank 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 being 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 Bank'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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

Classification and measurement (continued)

Financial assets (continued)

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.

In assessing whether the contractual cash flows are solely payments of principal and profit, the Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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 Bank changes its business model for managing financial assets.

Classification and subsequent measurement of financial liabilities

The Bank's financial liabilities include loans and deposits from banks and financial institutions, deposits from customers and certain other liabilities. Financial liabilities are measured subsequently at amortised cost using the effective interest method.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment

The Bank calculates provision as per IFRS and CBAR regulations and record the higher of both. The Bank 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.

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

Impairment (continued)

The Bank 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.

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 Bank 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 Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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 Bank 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;

4 Summary of significant accounting policies (continued)

4.4 Financial instruments (continued)

Impairment (continued)

Credit-impaired financial assets (continued):

- the restructuring of a loan or advance by the Bank on terms that the Bank 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 Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities at a short notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

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 Bank 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 Bank'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.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank 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.

4 Summary of significant accounting policies (continued)

Loans and advances to customers

'Loans and advances to customers' captions in the statement of financial position include loans and advances measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents are items, which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and balances with Central Bank and balances with other banks with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

4.5 Property, equipment and right-of-use assets

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 Bank's management. These assets are subsequently measured using the cost model and are stated at cost less subsequent depreciation and impairment losses, except for building.

Depreciation is recognised on reducing balance method, except for depreciation of right-of-use assets which is recognised using straight-line method over the period of respective lease liabilities, to write down the cost less estimated residual value of property and equipment. The following estimated useful lives are applied:

- Furniture 4 years
- Equipment 5 years
- Computers 4 years
- Motor vehicles 4 years
- Other assets 5 years

Material residual value estimates and estimates of useful life are updated as required, but at least annually, whether or not the asset is revalued.

Gains or losses arising on the disposal of property and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in profit or loss within 'other income'.

4.6 Repossessed collaterals

Repossessed collateral represents non-financial assets acquired by the Bank in settlement of overdue loans. These assets are initially recognized at lower of their previous carrying amount or fair value less costs to sell and are included in other assets. These assets are subsequently measured and accounted for in accordance with the accounting policies for these categories of assets.

4 Summary of significant accounting policies (continued)

4.7 Intangible assets

Intangible assets include acquired software used in operations. They are accounted for using the cost model whereby capitalised costs are amortised on a reducing balance method over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing. The useful life of software is 10 years.

Costs associated with maintaining computer software, i.e. expenditure relating to patches and other minor updates as well as their installation, is expensed as incurred.

The gain or loss arising on the disposal of an intangible asset is determined as the difference between the proceeds and the carrying amount of the asset, and is recognised in profit or loss within 'other income'.

4.8 Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, 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.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

4.9 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.

4.10 Loans and deposits from banks and financial institutions and deposits from customers

These are recognised initially at fair value, net of transaction costs incurred. Loans and deposits are subsequently stated at amortised cost, any difference between proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the loans and deposit using the effective interest method.

4.11 Other liabilities

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

4 Summary of significant accounting policies (continued)

4.12 Equity and reserves

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

Retained earnings include all current and prior period retained profits.

All transactions with owners are recorded separately within equity.

4.13 Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Bank and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to profit and loss account is stated net of expected recoveries. Provisions are not recognised for future operating losses.

Provisions are discounted to their present values, where the time value of money is material.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

4.14 Employees' benefits

Short-term employee benefits

The Bank grants compensated absences to all its regular employees. The expected cost of compensated absences is recognized as an expense when the employee renders services that increase their entitlement or, in the case of non-accumulating absences, when the absences occur. Outstanding balance of such absences is paid to employees at the end of each financial year hence no liability has been booked in the financial statements.

Defined contribution plan

The Bank contributes to the Social Security Fund constituted by Government as per the Azerbaijan Republic legislation. These contributions are made at 22% and 3% of gross salary by the Bank and employees respectively. Further, in accordance with amendments in the Tax Code of the Republic of Azerbaijan during the prior year, these rates have been set as 15% and 10% for the Bank and employees respectively which were applicable from 1 January 2019. Upon retirement all retirement benefit payments are made by the state pension fund.

4 Summary of significant accounting policies (continued)

4.15 Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability 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 payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. Once a loan has been written down or partly written down as a result of impairment loss, interest income is recognized on receipt basis in compliance with applicable Prudential Regulations.

Fee and commission income

Fees and commission income are generally recognised on accrual basis when the services have been provided.

4.16 Operating expenses

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

4.17 Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Current

The current tax expense 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 Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted during the reporting period.

4 Summary of significant accounting policies (continued)

4.17 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 liability 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 the initial recognition 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 liabilities are offset and reported net on the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities: and
- Deferred tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Azerbaijan Republic also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

4.18 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.

4.19 Significant management judgement in applying accounting policies

The preparation of the 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. 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.

4 Summary of significant accounting policies (continued)

4.19 Significant management judgement in applying accounting policies (continued)

The following are significant management judgements in applying the accounting policies of the Bank that have the most significant effect on the financial statements. Critical estimation uncertainties are described in note 4.20.

Judgement and estimates related to Financial instruments

Judgements made in applying accounting policies that have most significant effects on the amount recognized in the financial statements of the period ended 31 December 2020 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 2020 and 2019 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 Bank 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 Bank 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 Bank'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 stablished 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.

4 Summary of significant accounting policies (continued)

4.19 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:

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. 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.

Management of the Bank is closely observing the development of situation around outbreak of COVID-19 (Corona virus) and is taking all necessary precautions. Management believes that this will have no significant effect on Bank's operations as its customer base has the capacity to pay back on due dates. In view of the wide spread of COVID-19 on customer's change in credit profile and overall impact of forward-looking macroeconomic indicators, any change in ECL model and estimates will be subject to high degree of uncertainty. The impact of such uncertain economic environment is judgmental, and the Bank will continue to reassess its position and the related impact on a regular basis. The Bank has reviewed the potential impact of COVID-19 on inputs and assumptions for IFRS 9 ECL measurement on the basis of available information.

In view of the very fluid and developing considerations, ascertaining the reliability and reasonableness of any forward-looking information is challenging. Notwithstanding this, the Bank continues to recognise the likely impact of this crisis on market credit environment and will continue to monitor the changes, including macrocosmic forecast and consider adjustments to ECL appropriately.

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 Bank must consider the maximum contractual period over which the Bank 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 Bank is exposed to credit risk

Governance:

In addition to the existing risk management framework, the Bank 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

4 Summary of significant accounting policies (continued)

4.19 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):

and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements. Along with the ECL Model of IFRS 9, prudential regulations of CBAR are also the primary factors that the Bank 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 realisable 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 Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation; or
- the adverse change in the payment status of the borrower as a result of changes in the international or local economic conditions that impact the borrower.

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 Bank'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.

4.20 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 Bank. Actual results, however, may vary due to technical obsolescence, particularly relating to software and IT equipment.

4 Summary of significant accounting policies (continued)

4.20 Estimation uncertainty (continued)

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 Bank'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 Bank 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 Bank'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 Bank’s reported net income and understates its liabilities.

Contingent liability arising from litigations

Due to the nature of its operations, the Bank 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.

(in thousands of Azerbaijan Manats)

5 Cash and balances with Central Bank

	2020	2019
	AZN	AZN
Cash in hand	**21,011**	20,545
Balances with Central Bank other than mandatory minimum reserve deposits	**12,286**	10,893
Included in cash and cash equivalents (note 6)	**33,297**	31,438
Mandatory minimum reserve deposits with Central Bank	**4,055**	3,864
Cash and cash equivalents	**37,352**	35,302

Mandatory minimum reserve deposits are not available for use in the Bank's day-to-day operations. Cash in hand, balances with Central Bank and mandatory minimum reserve deposits are non-interest-bearing.

At the reporting date, this includes blocked correspondent accounts of Nil (2019: AZN Nil).

6 Cash and cash equivalent

Cash and cash equivalents for the purpose of the statement of cash flows include the following components:

	2020	2019
	AZN	AZN
Cash and balances with Central Bank (note 5)	**33,297**	31,438
Balances with other banks (note 7)	**44,036**	38,861
	77,333	70,299

7 Balances with other banks

Correspondent accounts	**44,036**	38,861
Less: Allowance for impairment losses (note 7.1)	**(440)**	(389)
	43,596	38,472

7.1 Allowance for impairment losses

Balance at 1 January,	**389**	126
Allowance for impairment loss for the year	**51**	263
Balance at 31 December	**440**	389

8 Loans and advances to customers

	2020	2019
	AZN	AZN
Loans and advances	**570,103**	567,573
Accrued interest income	**2,281**	2,271
	572,384	569,844
Less: allowance for impairment losses (note 8.1)	**(33,198)**	(35,880)
	539,186	533,964

(in thousands of Azerbaijan Manats)

8 Loans and advances to customers (continued)

Loans and advances to customers carry interest rates ranging from 3.88% to 26% per annum (2019: 3.88% to 25% per annum).

For lending limits breach please refer note 24.1

Analysis by industry for loans and advances to customers – gross excluding accrued interest

	2020	2019
	AZN	AZN
Transportation	**526,038**	545,791
Individuals	**32,979**	16,038
Trading and service	**10,368**	5,291
Construction	**718**	453
	570,103	567,573

Analysis by currency for loans and advances to customers – gross excluding accrued interest

	2020	2019
	AZN	AZN
AZN	**132,159**	174,304
USD	**430,951**	382,662
EUR	**6,993**	10,607
	570,103	567,573

8.1 Allowance for impairment losses

The following table show reconciliations from the opening to the closing balance of the allowance for impairment losş.

	2020	2019
	AZN	AZN
Balance at 1 January	**35,880**	34,352
Written off	**(54)**	-
(Reversal)/Charge for the year	**(2,628)**	1,528
Balance at 31 December	**33,198**	35,880

The movement in the expected credit loss (ECL) for loan to customers as at 31 December 2020 is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	AZN	**AZN**	**AZN**	**AZN**
ECL allowance				
Balance at January 1,	**19,712**	**13,992**	**2,176**	**35,880**
Written off	**(54)**	**-**	**-**	**(54)**
Net remeasurement of loss allowance	**4,197**	**(6,838)**	**13**	**(2,628)**
Total	**23,855**	**7,154**	**2,189**	**33,198**

Notes to the financial statements (continued)
For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

8 Loans and advances to customers (continued)

8.1 Allowance for impairment losses (continued)

The movement in the expected credit loss (ECL) for loan to customers as at 31 December 2019 is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	AZN	**AZN**	**AZN**	**AZN**
ECL allowance				
Balance at January 1,	32,371	1	1,980	34,352
Net remeasurement of loss allowance	(12,659)	13,991	196	1,528
Total	19,712	13,992	2,176	35,880

	Loans and advances to customers			**Guarantees issued**			
	12-month ECL	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**12-month ECL**	**Life time ECL not credit impaired**	**Life time ECL credit impaired**	**Total**
	AZN	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
31 December 2020							
Gross amount	**564,707**	**3,021**	**2,375**	**991**	**1,290**	**-**	**572,384**
Allowance for impairment loss as per IFRS 9	**(22,820)**	**(383)**	**(2,189)**	**(1,035)**	**(6,771)**	**-**	**(33,198)**
	541,887	**2,638**	**186**	**(44)**	**(5,481)**	**-**	**539,186**

	Loans and advances to customers			Guarantees issued			
	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	12-month ECL	Life time ECL not credit impaired	Life time ECL credit impaired	Total
	AZN	AZN	AZN	AZN	AZN	AZN	AZN
31 December 2019							
Gross amount	560,357	6,548	2,939	-	-	-	569,844
Allowance for impairment loss as per IFRS 9	(18,149)	(99)	(2,077)	(1,563)	(13,992)	-	(35,880)
	542,208	6,449	862	(1,563)	(13,992)	-	533,964

The provision against loans and advances has been provided based on bank's internal policies in compliance with IFRS requirements of AZN 33.2 million as at 31 December 2020. However, management reported provision against loans and advance of AZN 25.65 million in their prudential returns as at 31 December 2020 in compliance with the requirements. of Central Bank of Azerbaijan (CBAR).

Notes to the financial statements (continued)
For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

9 Property, equipment and right-of-use assets

2020	**Furniture and equipment AZN**	**Computers AZN**	**Motor vehicles AZN**	**Other assets AZN**	**Leasehold improvements AZN**	**Right-of-use assets AZN**	**Total AZN**
Gross carrying amount							
Balance at 1 January 2020	**3,956**	**1,821**	**781**	**1,086**	**1,469**	**2,698**	**11,811**
Additions	**176**	**35**	**53**	**4**	**-**	**3,358**	**3,626**
Disposals	**-**	**(73)**	**(33)**	**-**	**-**	**-**	**(106)**
Balance at 31 December 2020	**4,132**	**1,783**	**801**	**1,090**	**1,469**	**6,056**	**15,331**
Accumulated depreciation							
Balance at 1 January 2020	**2,260**	**796**	**433**	**321**	**354**	**540**	**4,704**
Depreciation charge	**436**	**292**	**94**	**153**	**78**	**1,211**	**2,264**
Disposals	**-**	**(73)**	**(26)**	**-**	**-**	**-**	**(99)**
Balance at 31 December 2020	**2,696**	**1,015**	**501**	**474**	**432**	**1,751**	**6,869**
Net carrying amount at 31 December 2020	**1,436**	**768**	**300**	**616**	**1,037**	**4,305**	**8,462**

The Bank has recorded lease liabilities as per IFRS 16 'Leases' at the present value of remaining lease payments in respect of buildings obtained on rent. The Bank has recorded right-of-use assets equal to the lease liabilities. For further detail please refer to note 13.

Notes to the financial statements (continued)
For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

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

2019	Furniture and equipment AZN	Computers AZN	Motor vehicles AZN	Other assets AZN	Leasehold improvements AZN	Right-of-use assets AZN	Total AZN
Gross carrying amount							
Balance at 1 January 2019	3,760	1,139	826	308	1,469	-	7,502
Additions	271	693	-	778	-	2,698	4,440
Disposals	(75)	(11)	(45)	-	-	-	(131)
Balance at 31 December 2019	3,956	1,821	781	1,086	1,469	2,698	11,811
Accumulated depreciation							
Balance at 1 January 2019	1,937	579	359	173	270	-	3,318
Depreciation charge	398	228	115	148	84	540	1,513
Disposals	(75)	(11)	(41)	-	-	-	(127)
Balance at 31 December 2019	2,260	796	433	321	354	540	4,704
Net carrying amount at 31 December 2019	1,696	1,025	348	765	1,115	2,158	7,107

In the opinion of the management, there has been no impairment in the carrying amount of property and equipment as at 31 December 2020 (2019: Nil). No property and equipment have been pledged as security for liabilities.

(in thousands of Azerbaijan Manats)

10 Other assets

	2020 AZN	2019 AZN
Financial assets		
Amounts in course of settlements	**4,621**	5,148
Other assets	**181**	15
Total financial assets	**4,802**	5,163
Non-financial assets		
Prepayments & advances	**103**	267
Other assets	**2,041**	1,357
Total non-financial assets	**2,144**	1,624
Total other assets	**6,946**	6,787

11 Loans and deposits from banks and financial institutions

	2020 AZN	2019 AZN
Loans from Central Bank	**2,916**	22,824
Deposits from other banks and financial institutions	**14,613**	9,952
Due to Azerbaijan Mortgage Fund	**22,098**	4,809
	39,627	37,585

The loans from CBAR carry interest rates ranging from 3.7% per annum (2019: 3.7% to 8% per annum), secured and are payable within one year.

Deposits from other banks and financial institutions carry interest rates ranging from 3% to 4.5% per annum (2019: 1% to 3% per annum).

The loans from Azerbaijan Mortgage Fund carry interest rates of 1% to 4% per annum (2019: 1% to 4% per annum) and are unsecured and loans are repayable within 3 to 29 years.

12 Deposits from customers

	2020 AZN	2019 AZN
Term deposits	**321,887**	348,908
Current accounts	**108,959**	121,916
Accrued interest expense on term deposits	**406**	627
	431,252	471,451

Term deposits

These are unsecured and carry interest rates ranging from 1% to 10% per annum (2019: 1% to 12% per annum).

(in thousands of Azerbaijan Manats)

12 Deposits from customers (continued)

Analysis by industry for deposits from customers

	2020	2019
	AZN	AZN
Individuals	**319,963**	370,555
Transport and communication	**48,450**	38,297
Trade	**61,929**	62,290
Agriculture	**694**	31
Construction	**14**	56
Other	**202**	222
	431,252	471,451

13 Other liabilities

	2020	2019
	AZN	AZN
Financial liabilities		
Accruals and other payables	**1,653**	5,292
Lease liabilities	**4,847**	2,349
Total financial liabilities	**6,500**	7,641
Non-financial liabilities		
Payable to state-owned organisation	**261**	164
	261	164
Total other liabilities	**6,761**	7,805

Lease liabilities

	2020	2019
	AZN	AZN
Non-current portion		
Lease liabilities	**3,852**	1,924
	3,852	1,924
Current portion		
Lease liabilities	**995**	425
	995	425
Total lease liabilities	**4,847**	2,349

(in thousands of Azerbaijan Manats)

13 Other liabilities (continued)

Lease liabilities (continued)

	Within 1 year	Between 1 to 5 years	After 5	Total
	AZN	AZN	AZN	AZN
31 December 2020				
Minimum lease payments	**1,842**	**4,893**	**-**	**6,735**
Finance charges	**(847)**	**(1,041)**	**-**	**(1,888)**
Net present value	**995**	**3,852**	**-**	**4,847**
31 December 2019				
Minimum lease payments	844	2,533	-	3,377
Finance charges	(419)	(609)	-	(1,028)
Net present value	425	1,924	-	2,349

14 Share Capital

The share capital of the Bank consists only of fully paid ordinary shares with a par value of AZN 154 (2019: AZN 154) each. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Bank.

Number of shares	**2020**	2019
Shares issued and fully paid: at 31 December	**1,004**	679
Total shares authorised at 31 December	**1,004**	679
Total shares authorised, issued and fully paid at 31 December (in AZN)	**154,601**	104,601

During the year, the share capital of the Bank has increased by AZN 50 million. However, there is no change in the shareholders and shareholding percentages.

15 Net interest income

	2020	2019
Interest income	**AZN**	AZN
Interest on loans and advances to customers	**32,798**	35,785
Interest on guarantees	**1,947**	2,101
Interest on balances with other banks	**25**	348
	34,770	38,234
Interest expense		
Interest on loans and deposits from banks and financial institutions	**2,149**	2,722
Interest on deposits from customers	**17,537**	10,144
	19,686	12,866
Net interest income	**15,084**	25,368

(in thousands of Azerbaijan Manats)

15 Gains from foreign exchange operations - net

	2020	2019
	AZN	AZN
Translation differences – net	**95**	(412)
Dealing - net	**4,181**	5,466
Total	**4,276**	5,054

17 Fees and commission income

	2020	2019
	AZN	AZN
Plastic card operations	**6,627**	11,252
Settlements	**1,365**	2,427
Cash operations	**1,400**	1,526
Guarantee commission	**47**	47
Other	**314**	865
Total	**9,753**	16,117

18 Fees and commission expense

	2020	2019
	AZN	AZN
Plastic card operations	**3,141**	3,962
Settlements	**408**	609
Guarantee commission	**36**	31
Other	**280**	270
Total	**3,865**	4,872

19 Other income - net

	2020	2019
	AZN	AZN
Gain on disposal of property and equipment	**5**	7
Other income	**29**	13
	34	20

20 Depreciation and amortization expense

	2020	2019
	AZN	AZN
Depreciation of property, equipment and right-of-use assets	**2,264**	1,513
Amortization of intangible assets	**150**	115
Total	**2,414**	1,628

(in thousands of Azerbaijan Manats)

21 Administrative and general expenses

	2020	2019
	AZN	AZN
Advertising and marketing	**9,682**	15,501
Salaries and benefits	**5,342**	5,167
Finance cost on lease liability	**1,035**	495
Travelling, entertainment & other services	**779**	496
Insurance expense	**521**	1,045
Office supplies	**394**	665
Security expense	**379**	368
Repairs and maintenance	**298**	204
Legal and professional fee	**288**	581
Communications expense	**265**	243
Taxes other than income tax	**90**	78
Rent expense	**80**	1,898
Vehicle running expenses	**63**	65
Utilities	**40**	39
Fines, penalties and forfeits	**1**	1
Other expenses	**1,376**	538
Total	**20,633**	27,384

22 Taxation

Azerbaijan commercial and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transaction may be challenged by the tax authorities, and as a result the Bank may be assessed for additional tax, penalties and interest. The management believes that the Bank is in substantial compliance of tax legislation. Deferred tax asset has not been recognised based on the management assumption that the effect is immaterial.

	2020	2019
	AZN	AZN
Current tax	**1,450**	2,339
	1,450	2,339

Relationship between tax expense and accounting profit

	2020	2019
	AZN	AZN
Accounting profit before tax	**4,863**	11,147
Tax calculated at the rate of 20% (2019: 20%) on:		
- Accounting profit	**973**	2,229
- Tax effect of expenses not deductible for tax purposes	**477**	110
Income tax expense for the year	**1,450**	2,339

(in thousands of Azerbaijan Manats)

23 Related parties

The Bank in the normal course of business carries on business with other entities that fall within the definition of related party contained in IFRS as issued by the IASB. These transactions are carried out in the normal course of business and are measured at exchange amounts, being the amounts agreed by both the parties.

For the purpose of these financial statements, entities are considered to be related to the Bank if it has the ability, directly or indirectly, to exercise significant influence over the entities in making financial and operating decisions, or vice versa, or where the Bank and other entity is subject to common control or significant influence, key management personnel and other related parties. Details of related party transactions entered into during the year are set out below.

23.1 Balances outstanding with related parties

Loans and advances to customers

	2020 AZN	2019 AZN
Loans and advances		
(a) Shareholders	**1,485**	3,068
(b) Entities under shareholding	**10,354**	5,283
(c) Key management personnel	**94**	146
(d) Other related parties	**859**	493
	12,792	8,990
Accrued interest income		
(a) Shareholders	**3**	8
(b) Entities under common control	**52**	55
(c) Key management personnel	**1**	1
(d) Other related parties	**4**	2
	60	66
Total	**12,852**	9,056

(in thousands of Azerbaijan Manats)

23 Related parties (continued)

23.1 Balances outstanding with related parties

Deposits from customers

	2020 AZN	2019 AZN
Term deposits		
(a) Shareholder	**224,429**	192,076
(b) Other related parties	**2,805**	51,000
	227,234	243,076
Current/demand accounts		
(a) Shareholders	**5,514**	14,100
(b) Entities under common control	**983**	520
(c) Key management personnel	**42**	37
(d) Other related parties	**157**	7,927
	6,696	22,584
Accrued interest expense on term deposits		
(a) Shareholder	**256**	294
(b) Other related parties	**3**	163
	259	457
Total	**234,189**	266,117

23.2 Amounts included in the statement of comprehensive income

Interest income	2020 AZN	2019 AZN
(a) Shareholders	**116**	392
(b) Entities under common control	**744**	495
(c) Key management personnel	**10**	-
(d) Other related parties	**37**	4
	907	891

Interest expense

	2020 AZN	2019 AZN
(a) Shareholder	**14,249**	7,987
(b) Other related parties	**106**	2,550
	14,355	10,537

(in thousands of Azerbaijan Manats)

23 Related parties (continued)

23.2 Amounts included in the statement of comprehensive income (continued)

Compensation to key management personnel

	2020	2019
	AZN	AZN
Compensation to key management personnel	**678**	460

Fees and commission income on settlements

Fees and commission income on settlements	**305**	1,234

Guarantees issued on behalf of related parties

Entity under common control	**2,615**	3,094

Operating expense – Advertisement expenses

(a) Shareholder	**8,449**	8,259
(b) Entities under common control	**376**	3,541
(c) Key management personnel	**6**	-
	8,831	11,800

24 Contingencies and commitments

In the normal course of business, the Bank is party to financial instruments with off-balance sheet risk in order to meet the need of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank uses the same credit control and management policies in undertaking off-balance sheet contingent liabilities and commitments as it does for on-balance sheet operations.

	2020	2019
	AZN	AZN
Guarantees issued on behalf of customer	**71,872**	102,581
Credit lines	**29,368**	48,977

At the reporting date, the Bank has no major capital commitments (2019: Nil).

Operating environment

Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Azerbaijan and the Azerbaijan's economy in general. Laws and regulations affecting businesses in Azerbaijan continue to change rapidly. Tax, currency and customs legislation within Azerbaijan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Azerbaijan. The future economic direction of Azerbaijan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

24 Contingencies and commitments (continued)

Operating environment (continued)

There has been major devaluation in Azerbaijan Mannats against US dollars since February 21, 2015. The government has introduced a floating exchange rate since December 21, 2015, which was previously pegged against US dollars. Furthermore, the Govt. remove the restriction on maximum and minimum margin deviation from regulator exchange rate and now banks can set their own exchange rate based on market supply and demand basis.

The global financial turmoil that has negatively affected Azerbaijan's financial and capital markets in 2009 and 2010 receded and Azerbaijan's economy returned to growth in 2011 and 2012. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Azerbaijan's economy. Because Azerbaijan produces and exports large volumes of oil and gas, Azerbaijan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during the year.

COVID-19 pandemic

Due to rapid spread of COVID-19 pandemic in the early of 2020 many governments, including the Government of the Republic of Azerbaijan, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity.

It is expected that pandemic itself as well as measures for its consequences' minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including decrease in crude oil prices and fluctuations in exchanges rates.

In order to prevent the widespread of COVID-19 pandemic, the Government of the Republic of Azerbaijan keeps taking comprehensive measures in all directions. As a response, in March 2020 the President of the Republic of Azerbaijan signed a decree for action plans to minimize the impact of the pandemic. In accordance with this decree, anti-crisis stimulus package of AZN 2,500,000 thousand is being developed to support individuals and various businesses in the country. Also, the CBAR continues its monetary policy to ensure stability of AZN exchange rates. The Bank continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

In the first half of 2020 the global economy was negatively impacted by coronavirus pandemic (COVID-19) spread. By June-July 2020 many countries have started to demonstrate signs of reduced spread of the pandemic. And the authorities started to gradually lift or ease restrictions. This tendency has supported a recovery in global financial and commodity markets. However, the peak of the pandemic in the countries was reached during the months of June-July 2020, and as a result the lock-down measures became even more stringent.

These measures resulted in gradual reduction of novel coronavirus cases, and by August 2020 many governments, including the Government of the Republic of Azerbaijan started easing restrictions. In December 2020, second wave of COVID-19 hit the country. The Government of the Republic of Azerbaijan has again implemented few measures to control the pandemic. The Banks also ceased recording of provision for certain time based on guidelines from Central Bank of Azerbaijan due to COVID-19. The Bank conducts all of its operations in the Republic of Azerbaijan. The economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices. During the recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on oil and gas sector.

24 Contingencies and commitments (continued)

Operating environment (continued)

In the year 2019 the CBAR continued easing monetary conditions while maintaining stability of the Azerbaijani manat. As a result, CBAR refinancing rate was reduced from 9.8% to 7.5% p.a. In addition, significant foreign currency sales were made to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During period of March-June 2020 the increasingly restrictive lock-down measures to combat COVID-19 in the country were significantly reducing economic activity and aggregate spending levels. Social distancing and quarantine measures were resulting in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses.
The activity of international trade was also significantly reduced. Finally, oil prices have tumbled to historical lows and moderately recovered by the end of the period. Support package was introduced by the Government of the Republic of Azerbaijan and the CBAR to counter the economic downturn caused by the COVID-19 pandemic. These measures include, but are not limited to, subsidized lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures. On 23 April 2020, the CBAR decided to reduce the minimum required capital adequacy ratio from 12.0% to 11.0% for banks of systematic importance and from 10.0% to 9.0% for all other banks which also include the Bank.

By June- July 2020, many countries started to demonstrate signs of reduced spread of the pandemic. Government started to gradually lift or cease restrictions. This tendency reported a recovery in global financial and commodity markets. However, the peak of the pandemic in Azerbaijan was reached during the months of October-December 2020, and as a result of lockdown measures become even more stringent. These measures resulted in a global reduction of coronavirus cases and elimination of most lockdown measures subsequently on 18 January 2021.

The Second Nagorno-Karabakh war

The Second Nagorno- Karabkh war started on 27 September 2020 and ended on 10 November 2020 with the signing of a ceasefire statement by the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation. According to this statement, Azerbaijan regains control over the territories that had previously been occupied by Armenia. As of the date of the approval of these financial statements there are no major violations of the ceasefire statement. Azerbaijan is getting ready to rebuild the liberated territories in accordance with modern urbanism and the region is entering a new period marked by construction, infrastructure work that is expected to reshape the outlook of the region. Management of the Bank expects increase in nominal GDP levels of Azerbaijan in the foreseeable future which will be caused by large infrastructure projects on liberated lands as well as due to unblocking of economic and transport communications in the region.

24.1 Compliance with regulatory ratios

The Central Bank of Azerbaijan require banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2020, the Bank was in compliance with these ratios except for below ratio of:

Maximum credit limit for single borrower or group of related borrowers:
- On secured loan 25 %
- On unsecured loan 10 %
- On secured and unsecured loan aggregate loan demand – 25%

As at December 31, 2020, the Bank has granted unsecured loan to Silkway west airline LLC which is in excess of 10% limit and also granted secured and unsecured loan which is in excess of 25% limit.

(in thousands of Azerbaijan Manats)

25 Capital adequacy and management

Capital management policies and procedures

Capital management objectives are to ensure that there is sufficient capital to meet the capital requirements of the Bank as determined by the underlying business strategy and the minimum requirements of the regulator. The capital management process is governed by the Supervisory Board. The Supervisory Board is responsible for managing the Bank's capital position in line with internal as well as regulatory requirements. The Supervisory Board also reviews the volume and mix of the Bank's assets, liabilities and funding sources in light of liquidity, capital, risk and profitability considerations.

The Bank's capital management seeks:

- to comply with the capital requirements set by the regulators and comparable to the peers;
- to actively manage the supply of capital costs and increase capital velocity;
- to increase strategic and tactical flexibility in the deployment of capital to allow for the timely reallocation of capital;
- to improve the liquidity of the Bank's assets to allow for an optimal deployment of the Bank's resources;
- to protect the Bank against unexpected events and maintain strong ratings;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide adequate return to shareholders;
- availability of adequate capital (including the quantum) at a reasonable cost so as to enable the Bank to expand; and
- to achieve low overall cost of capital with appropriate mix of capital elements.

Capital adequacy ratio

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios of total and tier 1 capital to risk weighted assets. The capital to risk weighted assets ratio was calculated in accordance with the guidelines issued by regulator on capital adequacy using the principles employed by the Basel Committee by applying following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses.

	2020	2019
	AZN	AZN
Share capital	**154,601**	104,601
Retained earnings – as per prudential regulation	**9,020**	152
	163,621	104,753
Deductions		
Intangible assets	**(1,589)**	(1,287)
Tier 1 capital	**162,032**	103,466
Reserves	**7,921**	8,013
Current year gain	**3,964**	8,868
Total regulatory capital held	**173,917**	120,347
Total risk weighted assets	**633,680**	641,073
Total regulatory capital ratio (minimum requirement 9% (2019: 10%)	**27.45%**	18.80%

(in thousands of Azerbaijan Manats)

Tier 1 capital ratio (minimum requirement 5% (2019: 5%))	**25.57%**	16.10%

26 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	Notes	**2020**	2019
Financial assets		**AZN**	AZN
Loans and receivables:			
- Cash and balances with Central Bank	5	**37,352**	35,302
- Balances with other banks	7	**43,596**	38,472
- Loans and advances to customers	8	**539,186**	533,964
- Other assets	10	**4,802**	5,163
Total		**624,936**	612,901
Financial liabilities			
Measured at amortised cost:			
- Loans and deposits from banks and financial	11	**39,627**	37,585
- Deposits from customers	12	**431,252**	471,451
- Other liabilities	13	**6,500**	7,641
Total		**477,379**	516,677

27 Financial instrument risk

27.1 Fair value measurement 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. Differences can therefore arise between the carrying values under the historical cost method and fair value estimates. Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. As per management's estimates fair value of the Bank's financial instruments that are not carried at fair value in the statement of financial position is stated on below:

	2020		2019	
	Carrying value	**Carrying value**	Fair value	Fair value
Financial assets:	**AZN**	**AZN**	AZN	AZN
- Cash and balances with Central Bank	**37,352**	**37,352**	35,302	35,302
- Balances with other banks	**43,596**	**43,596**	38,472	38,472
- Loans and advances to customers	**539,186**	**539,186**	533,964	533,964
- Other assets	**4,802**	**4,802**	5,163	5,163
Total	**624,936**	**624,936**	612,901	612,901

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.1 Fair value measurement of financial instruments (continued)

	2020		2019	
	Carrying value	**Carrying value**	Fair value	Fair value
Financial liabilities:	**AZN**	**AZN**	AZN	AZN
- Loans and deposits from banks and financial institutions	**39,627**	**39,627**	37,585	37,585
- Deposits from customers	**431,252**	**431,252**	471,451	471,451
- Other liabilities	**6,500**	**6,500**	7,641	7,641
Total	**477,379**	**477,379**	516,677	516,677

Sufficient financial assets are available to meet the financial liabilities.

Assets and liabilities in the statement of financial position measured at fair value are Banked into three levels of fair value hierarchy. This Banking is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows the Levels within the hierarchy of financial assets and liabilities as at 31 December 2020 and 31 December 2019:

31 December 2020	**Level 1 AZN**	**Level 2 AZN**	**Level 3 AZN**	**Total AZN**
Assets for which fair values are disclosed:				
- Cash and balances with Central Bank	**-**	**-**	**37,352**	**37,352**
- Balances with other banks	**-**	**-**	**43,596**	**43,596**
- Loans and advances to customers	**-**	**-**	**539,186**	**539,186**
- Other assets	**-**	**-**	**4,802**	**4,802**
Liabilities for which fair values are disclosed:				
- Loans and deposits from banks and financial institutions	**-**	**-**	**39,627**	**39,627**
- Deposits from customers	**-**	**-**	**431,252**	**431,252**

(in thousands of Azerbaijan Manats)

- Other liabilities	**-**	**-**	**6,500**	**6,500**

27 Financial instrument risk (continued)

27.1 Fair value measurement of financial instruments (continued)

31 December 2019	Level 1 AZN	Level 2 AZN	Level 3 AZN	Total AZN
Assets for which fair values are disclosed:				
- Cash and balances with Central Bank	-	-	35,302	35,302
- Balances with other banks	-	-	38,472	38,472
- Loans and advances to customers	-	-	533,964	533,964
- Other assets	-	-	5,163	5,163
Liabilities for which fair values are disclosed:				
- Loans and deposits from banks and financial institutions	-	-	37,585	37,585
- Deposits from customers	-	-	471,451	471,451
- Other liabilities	-	-	7,641	7,641

27.2 Risk management objectives and policies

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Bank's risk management is coordinated at its head office, in close cooperation with the Supervisory Board. The Supervisory Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments.

The Bank is exposed to various risks in relation to financial instruments. The Bank's financial assets and liabilities by category are summarised in note 26. The main types of risks are market risk, credit risk, liquidity risk and operational risk.

Market risk

(in thousands of Azerbaijan Manats)

Market risk is the risk that market prices and rates can change and this can have an adverse effect on profitability and/or capital. The Bank is exposed to number of market risks relating to its daily operations, arising from open positions in interest rates and currency, all of which are exposed to general and specific market movements. For the purpose of market risk, management identifies its main market risk factors as

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

equity position risk, interest rate risk and foreign currency risk. The predominant market risk is foreign currency risk and interest rate risk. The Bank is not exposed significantly to equity position risk as it has no capital market operations.

The Bank, as a matter of policy, seeks to identify, measure, monitor and control market risks in order to protect against adverse movement in market prices and rates and to optimize the risk / return profile of its open positions. The Supervisory Board mainly oversees development and implementation of market risk policy and risk measuring / monitoring methodology and review and reporting of market risks against limits.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk is the risk that the earnings and/or capital will fluctuate due to changes in foreign exchange rates. The Bank's foreign exchange exposure consists of foreign currency cash on hand, balances with other banks, loans and advances to customers, loans and deposits from banks and financial institutions and deposits from customers.

The Bank manages its foreign exchange exposures by matching foreign currency assets and liabilities. Net open position and counterparty limits have been established to limit risk concentration.

Foreign currency denominated financial assets and liabilities which expose the Bank to currency risk are disclosed below. The amounts shown are those reported to key management personnel translated into AZN at the closing rate:

	Foreign currency exposure			
	USD	**EUR**	**Other**	**Total**
31 December 2020				
- Financial assets	**441,505**	**24,307**	**2,588**	**468,400**
- Financial liabilities	**(383,262)**	**(25,379)**	**(2,807)**	**(411,448)**
Total exposure – net	**58,243**	**(1,072)**	**(219)**	**56,952**

	Foreign currency exposure			
	USD	EUR	Other	Total
31 December 2019	AZN	AZN	AZN	AZN
- Financial assets	412,701	19,535	4,327	436,563
- Financial liabilities	(411,275)	(19,461)	(6,502)	(437,238)
Total exposure – net	1,426	74	(2,175)	(675)

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

The following table illustrates the sensitivity of profit/(loss) before tax and equity in regard to the Bank's financial assets and financial liabilities and the USD/AZN exchange rate and EUR/AZN exchange rate 'all other things being equal'. It assumes a ±10% change of the USD/AZN exchange rate for the year ended at 31 December 2020 (2019: ±10%). A ±10% change is considered for the EUR/AZN exchange rate (2019: ±10%). The sensitivity analysis is based on the Bank's foreign currency financial instruments held at each reporting date.

If the AZN had weakened against the USD by 10% (2019: 10%) and EUR by 10% (2019: 10%) respectively then this would have had the following impact:

	Profit/(loss) before tax			**Equity**		
	USD	**EUR**	**Others**	**USD**	**EUR**	**Others**
	AZN	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
31 December 2020	**5,824**	**(107)**	**(22)**	**4,659**	**(86)**	**(18)**
31 December 2019	143	7	(218)	114	6	(174)

If the AZN had strengthened against the USD by 10% (2019: 10%) and EUR by 10% (2019: 10%) respectively then this would have had the following impact:

	Profit/(loss) before tax			**Equity**		
	USD	**EUR**	**Other**	**USD**	**EUR**	**Others**
	AZN	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
31 December 2020	**(5,824)**	**107**	**22**	**(4,659)**	**86**	**18**
31 December 2019	(143)	(7)	218	(114)	(6)	174

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Supervisory Board sets limits on the level of mismatch of interest rate re-pricing and value at risk that may be undertaken, which is monitored daily by Risk Management Specialist.

The table on below page illustrates the sensitivity of profit/(loss) before tax and equity to a reasonably possible change in interest rates of ±1% (2019: ±1%). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the interest-bearing financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant.

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Interest rate risk (continued)

	Profit/(loss) before tax		Equity	
	AZN	AZN	AZN	AZN
December 31, 2020				
Financial assets:				
- Loans and advances to customers	**5,392**	**(5,392)**	**4,314**	**(4,314)**
Financial liabilities:				
- Loans and deposits from banks and financial institutions	**(396)**	**396**	**(317)**	**317**
- Deposits from customers	**(3,223)**	**3,223**	**(2,578)**	**2,578**
	1,773	**(1,773)**	**1,419**	**(1,419)**

	Profit/(loss) before tax		Equity	
	AZN	AZN	AZN	AZN
December 31, 2019				
Financial assets:				
- Loans and advances to customers	5,340	(5,340)	4,272	(4,272)
Financial liabilities:				
- Loans and deposits from banks and financial institutions	(376)	376	(301)	301
- Deposits from customers	(3,495)	3,495	(2,796)	2,796
	1,469	(1,469)	1,175	(1,175)

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Interest rate risk (continued)

The following table illustrates level of mismatch of interest rate re-pricing:

	Effective average interest rate	Within 1 month	More than 1 month but within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
31 December 2020	**%**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
Financial assets:								
- Cash and balances with Central Bank	-	-	-	-	-	-	37,352	37,352
- Balances with other banks	-	-	-	-	-	-	43,596	43,596
- Loans and advances to customers	10.24%	3,528	3,413	117,253	45,132	369,860	-	539,186
- Other assets	-	-	-	-	-	-	4,802	4,802
		3,528	3,413	117,253	45,132	369,860	85,750	624,936
Financial liabilities:								
- Loans and deposits from banks and	3.34%	3,305	-	117	14,347	21,858	-	39,627
- Deposits from customers	3.63%	113,587	4,272	45,891	257,343	10,159	-	431,252
- Other liabilities	20.03%	1,810	161	792	3,737	-	-	6,500
	-	118,702	4,433	46,800	275,427	32,017	-	477,379
Total interest re-pricing gap		(115,174)	(1,020)	70,453	(230,295)	337,843	85,750	147,557

Notes to the financial statements (continued)
For the year ended 31 December 2020
(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Interest rate risk (continued)

The following table illustrates level of mismatch of interest rate re-pricing:

	Effective average interest rate	Within 1 month	More than 1 month but within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years	Non-interest bearing	Total
31 December 2019	%	AZN	AZN	AZN	AZN	AZN	AZN	AZN
Financial assets:								
- Cash and balances with Central Bank		-	-	-	-	-	35,302	35,302
- Balances with other banks		-	-	-	-	-	38,472	38,472
- Loans and advances to customers	6.76%	4,046	3,787	37,646	132,334	356,151	-	533,964
- Other assets		-	-	-	-	-	5,163	5,163
		4,046	3,787	37,646	132,334	356,151	78,937	612,901
Financial liabilities:								
- Loans and deposits from banks and	3.94%	1,175	5,765	22,924	2,912	4,809	-	37,585
- Deposits from customers	4.11%	4,314	16,267	184,379	126,059	18,516	121,916	471,451
- Other liabilities	20.03%	5,363	65	321	1,892	-	-	7,641
		10,852	22,097	207,624	130,863	23,325	121,916	516,677
Total interest re-pricing gap		(6,806)	(18,310)	(169,978)	1,471	332,826	(42,979)	96,224

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Credit risk

Credit risk is the risk that arises from the potential that an obligor is either unwilling to perform an obligation or its ability to perform such obligation is impaired resulting in economic loss to the Bank. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing the creditworthiness of counter parties.

The focus of the Bank's commercial lending continues to be short-term trade related financing on a secured and self liquidating basis. The Bank will also continue its emphasis on diversification of its assets to avert large single industry or Bank exposure. A significant portion of loans is extended to related parties and the management considered minimal credit risk for these financing.

The Bank has built and maintained a sound loan portfolio in terms of a well-defined credit policy. The Bank's credit evaluation system comprises of well-designed credit appraisal, sanctioning and review procedures for the purpose of emphasizing prudence in its lending activities and ensuring quality of asset portfolio. Special attention is paid to the management of non-performing loans. A "watch list" procedure is also functioning which identifies loans showing early warning signals of becoming non-performing.

The Bank is further diversifying its asset portfolio by offering, Consumer Banking Products (Personal Finance, Business Finance, Mortgage Finance and Auto Financing etc.) to its customers, as it provides better margins than traditional business lending opportunities, whilst spreading the risk over a large number of individual customers.

The Bank has developed an internal rating model, which allows it to determine the rating of counterparties. The rating of corporate borrowers is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

The Bank applies internal rating methodologies to specific corporate loans and Banks of retail and small business loans, which incorporate various underlying master scales that are different from those used by international rating agencies. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans to customers per the statement of financial position. As such, more detailed information is not being presented.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. The credit risk exposure of the Bank is concentrated within the Azerbaijan Republic. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Credit risk (continued)

The following table details the gross carrying value of financial assets and those that are impaired:

31 December 2020	Gross value AZN	Impaired AZN	Net carrying value AZN
Financial assets:			
- Cash and balances with Central Bank	**37,352**	**-**	**37,352**
- Balances with other banks	**44,036**	**(440)**	**43,596**
- Loans and advances to customers	**572,384**	**(33,198)**	**539,386**
- Other assets	**4,802**	**-**	**4,802**
	658,574	**(33,438)**	**625,136**
31 December 2019			
Financial assets:			
- Cash and balances with Central Bank	35,302	-	35,302
- Balances with other banks	38,861	(389)	38,472
- Loans and advances to customers	569,844	(35,880)	533,964
- Other assets	5,163	-	5,163
	649,170	(36,269)	612,901

Net exposure of credit risk

The Banks net exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the net exposure to credit risk of on-balance sheet and off-balance sheet financial assets. For financial assets in the statement of financial position, the net exposure is equal to the carrying amount of those assets prior to any collateral. The Bank's net 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.

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Credit risk (continued)

Net exposure of credit risk (continued)

	Net exposure	Gross collateral pledged	Net exposure
	AZN	**AZN**	**AZN**
31 December 2020			
Cash and balances with Central Bank	**37,352**	**-**	**37,352**
Balances with other banks	**43,596**	**-**	**43,596**
Loans and advances to customers	**539,186**	**(304,043)**	**235,143**
Other assets	**4,802**	**-**	**4,802**
Financial guarantees extended on behalf of customers	**71,872**	**-**	**71,872**
Credit lines	**29,368**	**-**	**29,368**

	Net exposure	Gross collateral pledged	Net exposure
	AZN	**AZN**	**AZN**
31 December 2019			
Cash and balances with Central Bank	35,302	-	35,302
Balances with other banks	38,472	-	38,472
Loans and advances to customers	533,964	(255,052)	278,912
Other assets	5,163	-	5,163
Financial guarantees extended on behalf of customers	102,581	-	102,581
Credit lines	48,977	-	48,977

Off-balance sheet risk

The Bank 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.

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Credit risk (continued)

Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and Banks, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector are approved by the Board of Directors. Actual exposures against limits are monitored regularly. Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

Collateral

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

- For commercial lending, charges over real estate properties, moveable assets, deposits and guarantees; and
- For retail lending, mortgages over residential properties and moveable assets.

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.

Lending limits

The Bank maintains strict control limits over its lending to customers. This credit risk exposure is managed as part of the overall lending limits with customers and is approved by the Credit Committee and ultimately by the Supervisory Board of the Bank. Collateral or other security is not always obtained for credit risk exposures on loans to customers and therefore the Bank is exposed to settlement risk on the uncollateralized portion of the loans.

Financial covenants (for credit related commitments)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees carry the same credit risk as loans. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans or guarantees. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants). The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters. The Supervisory Board monitors the maintenance of statement of financial position liquidity ratios, depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits and liquidity contingency plans. Moreover, core retail deposits (current accounts and saving accounts) form a considerable part of the Bank's overall funding and significant importance is attached to the stability and growth of these deposits.

	Within 1 month	More than 1 month but within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years	Undefined maturity	Total
December 31, 2020	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
Financial assets:							
- Cash and balances with Central Bank	**33,297**	**-**	**-**	**-**	**-**	**4,055**	**37,352**
- Balances with other banks	**43,596**	**-**	**-**	**-**	**-**	**-**	**43,596**
- Loans and advances to customers	**3,528**	**3,413**	**117,253**	**45,132**	**369,860**	**-**	**539,186**
- Other assets	**-**	**4,802**					**4,802**
	80,421	**8,215**	**117,253**	**45,132**	**369,860**	**4,055**	**624,936**

Notes to the financial statements (continued)
For the year ended December 31, 2020
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27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Liquidity risk (continued)

	Within 1 month	More than 1 month but within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years	Undefined maturity	Total
December 31, 2020	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**	**AZN**
Financial liabilities:							
- Loans and deposits from banks and financial institutions	3,305	-	117	14,347	21,858	-	39,627
- Deposits from customers	113,587	4,272	45,891	257,343	10,159	-	431,252
- Other liabilities	1,810	161	792	3,737	-	-	6,500
	118,702	4,433	46,800	275,427	32,017		477,379
On-balance sheet liquidity gap	(38,281)	3,782	70,453	(230,295)	337,843	4,055	147,557

In order to cover the liquidity gap, the Bank has current account of AZN 108,959 thousand. Further, the Bank intends to negotiate with the term depositors for the renewal of term deposits to meet the liquidity gap.

Notes to the financial statements (continued)
For the year ended December 31, 2020
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27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Liquidity risk (continued)

31 December 2019	Within 1 month AZN	More than 1 month but within 3 months AZN	More than 3 months but within 1 year AZN	More than 1 year but within 5 years AZN	More than 5 years AZN	Undefined maturity AZN	Total AZN
Financial assets:							
- Cash and balances with Central Bank	31,438	-	-	-	-	3,864	35,302
- Balances with other banks	38,472	-	-	-	-	-	38,472
- Loans and advances to customers	4,046	3,787	37,646	132,334	356,151	-	533,964
- Other assets	5,163	-	-	-	-	-	5,163
	79,119	3,787	37,646	132,334	356,151	3,864	612,901
Financial liabilities:							
- Loans and deposits from banks and financial institutions	1,175	5,765	22,924	2,912	4,809	-	37,585
- Deposits from customers	126,230	16,267	184,379	126,059	18,516	-	471,451
- Other liabilities	5,363	65	321	1,892	-	-	7,641
	132,768	22,097	207,624	130,863	23,325	-	516,677
On-balance sheet liquidity gap	(53,649)	(18,310)	(169,978)	1,471	332,826	3,864	96,224

Notes to the financial statements (continued)
For the year ended December 31, 2020
(in thousands of Azerbaijan Manats)

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Operational risk

The Bank's operational risk is related to possible losses which may be incurred as a result of failures occurring in the Bank's day-to-day operations, such as breakdown in electronic and telecommunication, routines or other systems - additional factors being insufficient levels of professional skills or human errors. In order to keep the Bank's operational risks to a minimum level, various tools are used to manage operational risk using a common categorization of risk.

The Bank's approach to operational risk is not designed to eliminate risk, rather, to contain it within the acceptable levels, as determined by senior management, and to ensure that they have sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

28 Concentration of financial instruments

The majority of concentration of financial assets and liabilities related to banking activities is within the boundaries of Azerbaijan Republic. The following is the detail of geographical concentration of financial instruments:

31 December 2020	Azerbaijan Republic AZN	CIS countries AZN	Other countries AZN	Total AZN
Financial assets:				
- Cash and balances with Central Bank	**37,352**	**-**	**-**	**37,352**
- Balances with other banks-Gross	**3,236**	**10,898**	**29,462**	**43,596**
- Loans and advances to customers-Gross	**539,186**	**-**	**-**	**539,186**
- Other assets	**4,802**	**-**	**-**	**4,802**
	584,576	**10,898**	**29,462**	**624,936**
Financial liabilities:				
- Loans and deposits from banks and financial institutions	**39,627**	**-**	**-**	**39,627**
- Deposits from customers	**431,252**	**-**	**-**	**431,252**
- Other liabilities	**6,500**	**-**	**-**	**6,500**
	477,379	**-**	**-**	**477,379**
Net gap	**107,197**	**10,898**	**29,462**	**147,557**

(in thousands of Azerbaijan Manats)

28 Concentration of financial instruments (continued)

31 December 2019	Azerbaijan Republic AZN	CIS countries AZN	Other countries AZN	Total AZN
Financial assets:				
- Cash and balances with Central Bank	35,302	-	-	35,302
- Balances with other banks-Gross	2,573	2,460	33,828	38,861
- Loans and advances to customers-Gross	569,844	-	-	569,844
- Other assets	5,163	-	-	5,163
	612,882	2,460	33,828	649,170
Financial liabilities:				
- Loans and deposits from banks and financial institutions	37,585	-	-	37,585
- Deposits from customers	471,451	-	-	471,451
- Other liabilities	7,641	-	-	7,641
	516,677	-	-	516,677
Net gap	96,205	2,460	33,828	132,493

29 Earnings per share

	2020	2019
Net profit for the year attributable to the owners of the Bank – **AZN '000'**	**3,413**	8,808
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**1,004**	679
Earnings per share - basic and diluted (manat)	**3.40**	12.97

30 Post-reporting date events and impact of COVID-19

The strict special quarantine measures introduced by the Azerbaijani Government to combat the COVID-19 outbreak, such as travel restrictions, quarantines, closure of business and other avenue, lockdowns of certain areas throughout the country ceased on 18 January 2021.

Based on the order of Cabinet of Ministers on "Vaccination Strategy covering 2021-2022 years" dated 16 January 2021, gradual vaccination of Azerbaijani population has started.