“PREMIUM BANK”
OPEN JOINT STOCK COMPANY

International Financial Reporting Standards
Financial Statements and
Independent Auditors’ Report
For the Year Ended December 31, 2022

“PREMIUM BANK” OPEN JOINT STOCK COMPANY

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Premium Bank" OJSC (the "Bank").

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

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

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.

The financial statements for the year ended December 31, 2022 were authorized for issue on April 10, 2023 by the Management Board of the Bank.

On behalf of the Management Board:

Mahir Najafov
Chairman of the Management Board

April 10, 2023
Baku, the Republic of Azerbaijan

Ulvi Novruzov
Chief Accountant

April 10, 2023
Baku, the Republic of Azerbaijan

City Point Baku, 9th floor
J. Mammadguluzadeh str., 102A
Baku, AZ1022, Azerbaijan

T: +994 (12) 404 7 666
F: +994 (12) 404 7 667

office@bakertilly.az
www.bakertilly.az

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Supervisory Board and Management of "Premium Bank" Open Joint Stock Company:

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 December 31, 2022, statement of profit or loss and other comprehensive income, statement of changes in equity and 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 present fairly, in all material respects, the statement of financial position as at December 31, 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the 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 Audit Committee 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 have no realistic alternative but to do so.

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

bakertilly

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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Baker Tilly Azerbaijan

April 10, 2023
Baku, the Republic of Azerbaijan

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2022
(In thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2022	December 31, 2021
ASSETS:			
Cash and balances with Central Bank	6	85,912	134,091
Balances with other banks	7	165,351	109,118
Loans and advances to customers	8, 23	411,779	486,879
Property, equipment and right-of-use assets	9, 23	5,632	6,565
Intangible assets	9	1,812	1,660
Deferred income tax asset	22	2,085	899
Other assets	10	7,378	5,301
Total assets		**679,949**	**744,513**
LIABILITIES AND EQUITY			
LIABILITIES:			
Loans and deposits from banks and financial institutions	11, 23	42,633	37,520
Deposits from customers	12, 23	460,799	533,528
Other liabilities	13, 23	11,796	10,796
Total liabilities		**515,228**	**581,844**
EQUITY:			
Share capital	14	154,601	154,601
Retained earnings		10,120	8,068
Total equity		**164,721**	**162,669**
TOTAL LIABILITIES AND EQUITY		**679,949**	**744,513**

On behalf of the Management Board:

Mahir Najafov
Chairman of the Management Board

April 10, 2023
Baku, the Republic of Azerbaijan

Ulvi Novruzov
Chief Accountant

April 10, 2023
Baku, the Republic of Azerbaijan

The notes on pages 9-61 form an integral part of these financial statements.

"PREMIUM BANK" OPEN JOINT STOCK COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022

(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Interest income	15, 23	30,679	32,298
Interest expense	15, 23	(10,574)	(15,262)
Net interest income	15, 23	**20,105**	**17,036**
(Charge)/recovery of expected credit losses on financial assets	21	(1,777)	6,466
Net interest income after (charge)/recovery of expected credit losses		**18,328**	**23,502**
Fee and commission income	17	14,886	11,962
Fee and commission expense	18	(7,171)	(9,630)
Net gain on foreign exchange operations	16	3,118	2,725
Operating profit		**29,161**	**28,559**
Administrative and general expenses	20, 23	(18,071)	(21,487)
Depreciation and amortization expense	19, 23	(2,240)	(2,305)
Other income, net		82	8
Profit before income tax		**8,932**	**4,775**
Income tax expense	22	(1,990)	(1,597)
Net profit for the year		**6,942**	**3,178**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**6,942**	**3,178**
Earnings per share attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	28	**6.91**	**3.17**

On behalf of the Management Board:

Mahir Najafov
Chairman of the Management Board

April 10, 2023
Baku, the Republic of Azerbaijan

Ulvi Novruzov
Chief Accountant

April 10, 2023
Baku, the Republic of Azerbaijan

The notes on pages 9-61 form an integral part of these financial statements.

"PREMIUM BANK" OPEN JOINT STOCK COMPANY

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022
(In thousands of AZN, unless otherwise indicated)

	Share capital	Retained earnings	Total equity
January 1, 2021	**154,601**	**4,890**	**159,491**
Total comprehensive income for the year	-	3,178	3,178
December 31, 2021	**154,601**	**8,068**	**162,669**
Total comprehensive income for the year	-	6,942	6,942
Dividends declared	-	(4,890)	(4,890)
December 31, 2022	**154,601**	**10,120**	**164,721**

On behalf of the Management Board:

Mahir Najafov
Chairman of the Management Board

April 10, 2023
Baku, the Republic of Azerbaijan

Ulvi Novruzov
Chief Accountant

April 10, 2023
Baku, the Republic of Azerbaijan

The notes on pages 9-61 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
OPERATING ACTIVITIES			
Profit before income tax		8,932	4,775
Adjustments for non-cash and non-operating items:			
Depreciation and amortization expense	19	2,240	2,305
(Recovery)/charge of expected credit losses on balances with other banks	7	(926)	674
Recovery of expected credit loss on guarantees issued	13	(989)	(4,594)
Charge/(recovery) of expected credit losses on loans and advances to customers	8	3,692	(2,546)
Net change in accrued interest		97	(184)
Foreign currency translation (gain)/loss, net		(32)	32
Gain on sale of property and equipment		(15)	-
Changes in operating assets and liabilities:			
Mandatory minimum reserve deposit with the CBAR		(22,536)	35
Restricted balances with the CBAR		(641)	-
Amounts due from financial institutions		(1,373)	(1,158)
Loans and advances to customers		71,171	61,521
Other assets		(2,057)	63
Deposits from customers		(67,265)	104,561
Other liabilities		1,880	2,505
Cash (used in)/generated from operating activities		**(7,822)**	**167,989**
Income tax paid		(3,228)	(646)
Net cash (used in)/generated from operating activities		**(11,050)**	**167,343**
INVESTING ACTIVITIES			
Purchase of property and equipment		(843)	(174)
Purchase of intangible assets		(470)	(391)
Proceeds from sale of property and equipment		69	-
Net cash used in investing activities		**(1,244)**	**(565)**
FINANCING ACTIVITIES			
Proceeds from loans and deposits from banks and other financial institutions	11	36,437	85,437
Repayment of loans and deposits from banks and other financial institutions	11	(30,856)	(87,611)
Repayment of principal portion of lease liability	13	(1,325)	(1,048)
Dividends paid		(4,890)	-
Amounts received from/(paid to) shareholders		200	(200)
Net cash used in financing activities		**(434)**	**(3,422)**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022 (Continued)
(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Effect of exchange rate changes on cash and cash equivalents		(4,636)	(1,544)
Effect of net change in accrued interest on cash and cash equivalents		52	-
Net (decrease)/increase in cash and cash equivalents		**(17,312)**	**161,812**
CASH AND CASH EQUIVALENTS, *beginning of the year*	5	237,014	75,202
CASH AND CASH EQUIVALENTS, *end of the year*	5	219,702	237,014

Interest paid and received by the Bank during the year ended December 31, 2022 amounted to AZN 11,070 thousand and AZN 31,367 thousand, respectively (December 31, 2021: AZN 14,960 thousand and AZN 32,282 thousand, respectively).

On behalf of the Management Board:

Mahir Najafov
Chairman of the Management Board

April 10, 2023
Baku, the Republic of Azerbaijan

Ulvi Novruzov
Chief Accountant

April 10, 2023
Baku, the Republic of Azerbaijan

The notes on pages 9-61 form an integral part of these financial statements.

1 INTRODUCTION

Legal status and nature of operations

“Premium Bank” Open Joint Stock Company (the “Bank”) was established on January 6, 1994 and held license no. 175 for commercial banking issued by the 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 December 31, 2022 the registered address of the Bank is Hasan Aliyev Street 131A, AZ 1110, Baku, the Republic of Azerbaijan.

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 (2021: 54) automatic teller machines. The Bank has 165 employees as at December 31, 2022 (December 31, 2021: 166 employees).

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

	December 31, 2022, %	December 31, 2021, %
“VIP Aviation Services Company” LLC	15.22	15.22
Ms. Zarifa Hamzayeva	84.47	84.47
Ms. Elvira Ahmadova	0.31	0.31
	100.00	**100.00**

2 STATEMENT OF COMPLIANCE

These financial statements for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Going concern

These financial statements have been prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future.

Management views the Bank as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan. Accordingly, assets and liabilities are recorded on the basis that the Bank will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Bank’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management’s assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

Other basis of presentation criteria

These financial statements are presented in thousands of Azerbaijani Manat (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at fair value of certain financial instruments.

The Bank maintains its accounting records in accordance with the laws of the Republic of Azerbaijan.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The Bank currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Bank and all counterparties.

3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO EXISTING STANDARDS

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

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2022.

In May 2020, the IASB issued **Amendments to IFRS 3 “Business Combinations” – Reference to the Conceptual Framework**. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16. In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 1 “First-time Adoption of International Financial Reporting Standards”. The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1.

IFRS 9 Financial Instruments – Fees in the “10 percent” test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

“IAS 41 Agriculture” – Taxation in fair value measurements. As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

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 authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 “Insurance contracts” – was issued in May 2017 and replaced IFRS 4 “Insurance contracts”. The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. An entity shall apply IFRS 17 “Insurance Contracts” to insurance contracts, including reinsurance contracts, it issues; reinsurance contracts it holds; and investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. This standard is not applicable to the Bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 - In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

Definition of Accounting Estimates - Amendments to IAS 8 - In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates’. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12 - In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

IASB has issued **"Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)" with amendments** that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gain or loss relating to the partial or full termination of a lease. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. Earlier application is permitted.

On October 2022, IASB has published **"Non-current Liabilities with Covenants (Amendments to IAS 1)"** to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. According to the amendment, only covenants with which an entity is required to comply on or before the reporting date affect the classification of a liability as current or non-current. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024.

IFRS 10 "Consolidated Financial Statements" and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture.

Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

Unless otherwise disclosed, the new standards are not expected to have a material effect on the financial statements of the Bank.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 December 31, 2021, except for the effect of new adopted standards, if any.

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 recognized in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical management judgments in applying accounting policies and changes in estimation uncertainty and critical management judgments that have the most significant effect on the amounts recognized in the financial statements are described in Note 4.

(In thousands of AZN, unless otherwise indicated)

Foreign currency translation

Functional and presentation currency

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

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 recognized 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:

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

Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized 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 recognized on the trade-date – the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognized 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 derecognized 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 amortized cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL).

A financial asset is measured at amortized 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 interest on the principal amount outstanding.

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 interest 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 amortized 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.

Assessment of whether contractual cash flows are solely payments of principal and interest

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 interest, 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 amortized cost using the effective interest method.

Measurement of ECL

ECL is a 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 loan 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.

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 amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit- impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the 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 amortized 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 recognized, the excess is written back by reducing the loan impairment allowance account accordingly. The write back is recognized 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 amortized 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 amortized over the life of the guarantee or the commitment.

Subsequently, they are measured at the higher of this amortized amount and the amount of loss allowance.

Loans and advances to customers

Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank measures loans to customers at amortized cost. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Impairment allowances are determined based on the forward-looking ECL models.

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.

Property, equipment, and right-of-use assets

Property and equipment are initially recognized 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 recognized on reducing balance method, except for depreciation of right-of-use assets which is recognized 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 and equipment	5 years
Computers	4 years
Motor vehicles	4 years
Other assets	5 years
Leasehold improvements	over the term of the underlying lease
Right-of-use assets	over the term of the underlying lease

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 recognized in profit or loss within "other income".

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term.

If the ownership of the leased asset transfers to the Bank at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

Leasehold improvements

Leasehold improvements are amortized over the life of the related leased asset. Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

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.

Intangible assets

Intangible assets include acquired software used in operations. They are accounted for using the cost model whereby capitalized costs are amortized 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 recognized in profit or loss within 'other income'.

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 recognized 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 recognized may no longer exist. An impairment charge is reversed if the cash-generating unit’s recoverable amount exceeds its carrying amount.

Other assets

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

Loans and deposits from banks and financial institutions

Loans and deposits from banks and financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, the liability is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Deposits from customers

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

Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Other liabilities

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

The ability of the Bank to declare and pay dividends is subject to the rules and regulations of Azerbaijan legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Provisions and contingent liabilities

Provisions are recognized 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 recognized 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 recognized, unless it was assumed in the course of a business combination.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest method. The “effective interest rate” is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortized to interest income over the estimated life of the financial instrument using the effective interest method.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognized on a straight-line basis over the commitment period.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

<table>
<tr><th>Type of service</th><th>Nature and timing of satisfaction of performance obligations, including significant payment terms</th><th>Revenue recognition under IFRS 15</th></tr>
<tr><td rowspan="2">Retail and corporate banking service</td><td>The Bank provides banking services to retail and corporate customers, foreign currency transactions, cash operations, settlements and credit card transactions.

Transaction-based fees for interchange, foreign currency transactions are charged to the customer's account when transaction takes place.</td><td>Revenue related to transactions is recognized at the point in time when the transaction takes place.</td></tr>
<tr><td>The Bank charges a commission fee to the customers for the guarantee letters issued.</td><td>Since, the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, Bank recognized revenue over time.</td></tr>
</table>

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Operating expenses

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

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.

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.

Earnings per share

Earnings 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.

Significant management judgements 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.

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.

Judgements 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 December 31, 2022 are as follows:

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

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

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the 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.

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 Stage 1 and Stage 2 is a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

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 recognize the likely impact of this crisis on market credit environment and will continue to monitor the changes, including macroeconomic 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 comprises of senior representatives from Finance, Risk Management and Economics and is responsible for reviewing and approving key inputs and assumptions used in our expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements. 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 income tax assets

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

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 amortizable 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.

(In thousands of AZN, unless otherwise indicated)

Impairment of property and equipment and intangible assets

An impairment loss is recognized 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.

Allowance for ECL on loans and advances to customers

Loans and advances to customers are measured at amortized cost less allowance for ECL. The estimation of allowances for ECL involves the exercise of significant judgment and estimates. The Bank estimates allowances for ECL 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.

5 CASH AND CASH EQUIVALENTS

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

	December 31, 2022	December 31, 2021
Cash and balances with the CBAR (Note 6)	58,715	130,071
Balances with other banks (Note 7)	160,987	106,943
Total cash and cash equivalents	**219,702**	**237,014**

(In thousands of AZN, unless otherwise indicated)

6 CASH AND BALANCES WITH THE CBAR

	December 31, 2022	December 31, 2021
Cash in hand	16,585	31,564
Short-term deposits with the CBAR with original maturities of less than 90 days	25,000	-
Accrued interest income on short-term deposits with the CBAR	4	-
Other balances with the CBAR	17,126	98,507
Included in cash and cash equivalents (Note 5)	**58,715**	**130,071**
Mandatory minimum reserve deposit with the CBAR	26,556	4,020
Restricted balances with the CBAR	641	-
Total cash and balances with the CBAR	**85,912**	**134,091**

The mandatory minimum reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBAR and whose withdrawal ability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and equal to 4% and 5% (December 31, 2021: 0.5% and 1%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

Balances with the CBAR carry 6.25% interest rate per annum (December 31, 2021: Nil).

All cash and balances with the CBAR are in Stage 1 and their ECL is not material as at December 31, 2022 and 2021.

7 BALANCES WITH OTHER BANKS

	December 31, 2022	December 31, 2021
Correspondent accounts	145,939	106,943
Short-term deposits with other banks with original maturities of less than 90 days	15,000	-
Accrued interest income on short-term deposits with other banks	48	-
Included in cash and cash equivalents (Note 5)	**160,987**	**106,943**
Amounts due from financial institutions	4,540	3,277
Less: Allowance for expected credit losses	(176)	(1,102)
Total balances with other banks	**165,351**	**109,118**

Balances with other banks carry interest rates ranging from 2% to 4% per annum (December 31, 2021: Nil).

As at December 31, 2022, the Bank had balances with two banks exceeding 10% of equity (December 31, 2021: three banks). The gross value of these balances as at December 31, 2022 was AZN 148,061 thousand (December 31, 2021: AZN 92,251 thousand).

All balances with other banks are in Stage 1 and their ECL is not material as at December 31, 2022 and 2021.

(In thousands of AZN, unless otherwise indicated)

Allowance for expected credit losses

	December 31, 2022	December 31, 2021
As at January 1	**(1,102)**	**(440)**
Recovery/(charge) for the year	926	(674)
Write-off	-	12
As at December 31	**(176)**	**(1,102)**

8 LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2022	December 31, 2021
Loans and advances	436,968	508,076
Accrued interest income	1,546	1,755
Gross carrying amount	**438,514**	**509,831**
Less: allowance for expected credit losses	(26,735)	(22,952)
Net carrying amount	**411,779**	**486,879**

Loans and advances to customers carry interest rates ranging from 4% to 25% per annum (December 31, 2021: 4% to 25%).

As at December 31, 2022, the Bank had four borrowers or groups of connected borrowers (December 31, 2021: four borrowers) with gross loan balances exceeding 10% of equity. The gross value of these loans as at December 31, 2022 was AZN 374,779 thousand (December 31, 2021: AZN 462,463 thousand).

	December 31, 2022		December 31, 2021	
	Amount	% of total gross loans	Amount	% of total gross loans
Loans to corporate customers				
Transportation	377,183	86.02	463,747	90.96
Construction	12,634	2.88	2,622	0.51
Trading and service	6,661	1.52	8,395	1.65
Agriculture	720	0.16	683	0.13
Total loans to corporate customers	**397,198**	**90.58**	**475,447**	**93.25**
Loans to individuals				
Mortgage loans	29,090	6.63	24,662	4.84
Consumer loans	12,226	2.79	9,722	1.91
Total loans to individuals	**41,316**	**9.42**	**34,384**	**6.75**
Gross loans to customers	**438,514**	**100.00**	**509,831**	**100.00**
Less: allowance for expected credit losses	(26,735)		(22,952)	
Net loans to customers	**411,779**		**486,879**	

(In thousands of AZN, unless otherwise indicated)

Gross carrying amount

The following tables show reconciliations from the opening to the closing balances of gross carrying amount of loans and advances to customers.

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
As at January 1, 2022	**490,333**	**16,027**	**3,471**	**509,831**
Transfer to Stage 1	1,002	(851)	(151)	-
Transfer to Stage 2	(23,578)	23,578	-	-
Transfer to Stage 3	(72)	(60)	132	-
New financial assets originated or purchased	79,042	-	-	79,042
Other movements	(149,525)	(92)	(738)	(150,355)
Write-offs	-	-	(4)	(4)
As at December 31, 2022	**397,202**	**38,602**	**2,710**	**438,514**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
As at January 1, 2021	**565,438**	**3,972**	**2,375**	**571,785**
Transfer to Stage 1	2,377	(1,296)	(1,081)	-
Transfer to Stage 2	(15,973)	15,973	-	-
Transfer to Stage 3	(177)	-	177	-
New financial assets originated or purchased	42,783	-	-	42,783
Other movements	(104,115)	(2,622)	2,013	(104,724)
Write-offs	-	-	(13)	(13)
As at December 31, 2021	**490,333**	**16,027**	**3,471**	**509,831**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to corporate customers				
As at January 1, 2022	**459,712**	**15,736**	**-**	**475,448**
Transfer to Stage 1	720	(720)	-	-
Transfer to Stage 2	(23,290)	23,290	-	-
New financial assets originated or purchased	67,287	-	-	67,287
Other movements	(145,479)	(58)	-	(145,537)
As at December 31, 2022	**358,950**	**38,248**	**-**	**397,198**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to corporate customers				
As at January 1, 2021	**537,729**	**-**	**-**	**537,729**
Transfer to Stage 2	(15,736)	15,736	-	-
New financial assets originated or purchased	37,659	-	-	37,659
Other movements	(99,940)	-	-	(99,940)
As at December 31, 2021	**459,712**	**15,736**	**-**	**475,448**

(In thousands of AZN, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to individuals				
As at January 1, 2022	**30,621**	**291**	**3,471**	**34,383**
Transfer to Stage 1	282	(131)	(151)	-
Transfer to Stage 2	(288)	288	-	-
Transfer to Stage 3	(72)	(60)	132	-
New financial assets originated or purchased	11,755	-	-	11,755
Other movements	(4,046)	(34)	(738)	(4,818)
Write-offs	-	-	(4)	(4)
As at December 31, 2022	**38,252**	**354**	**2,710**	**41,316**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to individuals				
As at January 1, 2021	**27,709**	**3,972**	**2,375**	**34,056**
Transfer to Stage 1	2,377	(1,296)	(1,081)	-
Transfer to Stage 2	(237)	237	-	-
Transfer to Stage 3	(177)	-	177	-
New financial assets originated or purchased	5,124	-	-	5,124
Other movements	(4,175)	(2,622)	2,013	(4,784)
Write-offs	-	-	(13)	(13)
As at December 31, 2021	**30,621**	**291**	**3,471**	**34,383**

Allowance for expected credit losses

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit losses of loans and advances to customers.

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
As at January 1, 2022	**(19,121)**	**(381)**	**(3,450)**	**(22,952)**
Transfer to Stage 1	(3)	1	2	-
Transfer to Stage 2	797	(797)	-	-
Transfer to Stage 3	-	60	(60)	-
Assets repaid or derecognized	7,123	-	59	7,182
New financial assets originated or purchased	(5,174)	-	-	(5,174)
Net remeasurement of allowance for expected credit losses	(6,623)	21	902	(5,700)
Write-offs	-	-	4	4
Unwinding of discount on present value of ECLs	-	-	(95)	(95)
As at December 31, 2022	**(23,001)**	**(1,096)**	**(2,638)**	**(26,735)**

(In thousands of AZN, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
As at January 1, 2021	**(22,820)**	**(383)**	**(2,189)**	**(25,392)**
Transfer to Stage 1	(2)	1	1	-
Transfer to Stage 2	381	(381)	-	-
Transfer to Stage 3	158	-	(158)	-
Assets repaid or derecognized	4,827	-	104	4,931
New financial assets originated or purchased	(2,852)	-	-	(2,852)
Net remeasurement of allowance for expected credit losses	1,187	382	(1,102)	467
Write-offs	-	-	13	13
Unwinding of discount on present value of ECLs	-	-	(119)	(119)
As at December 31, 2021	**(19,121)**	**(381)**	**(3,450)**	**(22,952)**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to corporate customers				
As at January 1, 2022	**(18,995)**	**(373)**	**-**	**(19,368)**
Transfer to Stage 2	797	(797)	-	-
Assets repaid or derecognized	7,106	-	-	7,106
New financial assets originated or purchased	(5,144)	-	-	(5,144)
Net remeasurement of allowance for expected credit losses	(6,697)	74	-	(6,623)
As at December 31, 2022	**(22,933)**	**(1,096)**	**-**	**(24,029)**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to corporate customers				
As at January 1, 2021	**(22,323)**	**-**	**-**	**(22,323)**
Transfer to Stage 2	373	(373)	-	-
Assets repaid or derecognized	4,807	-	-	4,807
New financial assets originated or purchased	(2,832)	-	-	(2,832)
Net remeasurement of allowance for expected credit losses	980	-	-	980
As at December 31, 2021	**(18,995)**	**(373)**	**-**	**(19,368)**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to individuals				
As at January 1, 2022	**(126)**	**(8)**	**(3,450)**	**(3,584)**
Transfer to Stage 1	(3)	1	2	-
Transfer to Stage 3	-	60	(60)	-
Assets repaid or derecognized	17	-	59	76
New financial assets originated or purchased	(30)	-	-	(30)
Net remeasurement of allowance for expected credit losses	74	(53)	902	923
Write-offs	-	-	4	4
Unwinding of discount on present value of ECLs	-	-	(95)	(95)
As at December 31, 2022	**(68)**	**-**	**(2,638)**	**(2,706)**

(In thousands of AZN, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to individuals				
As at January 1, 2021	**(497)**	**(383)**	**(2,189)**	**(3,069)**
Transfer to Stage 1	(2)	1	1	-
Transfer to Stage 2	8	(8)	-	-
Transfer to Stage 3	158	-	(158)	-
Assets repaid or derecognized	20	-	104	124
New financial assets originated or purchased	(20)	-	-	(20)
Net remeasurement of allowance for expected credit losses	207	382	(1,102)	(513)
Write-offs	-	-	13	13
Unwinding of discount on present value of ECLs	-	-	(119)	(119)
As at December 31, 2021	**(126)**	**(8)**	**(3,450)**	**(3,584)**

Credit quality analysis

The following tables set out information about the credit quality of loans and advances to customers as at December 31, 2022 and 2021. Unless specially indicated, the amounts in the tables represent gross carrying amounts.

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Not overdue	396,094	38,248	-	434,342
Overdue less than 30 days	1,108	-	-	1,108
Overdue 30-89 days	-	354	-	354
Overdue 90-179 days	-	-	72	72
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	2,638	2,638
Total gross loans to customers	**397,202**	**38,602**	**2,710**	**438,514**
Less: allowance for expected credit losses	(23,001)	(1,096)	(2,638)	(26,735)
Carrying amount as at December 31, 2022	**374,201**	**37,506**	**72**	**411,779**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers				
Not overdue	466,564	-	-	466,564
Overdue less than 30 days	23,769	-	-	23,769
Overdue 30-89 days	-	16,027	-	16,027
Overdue 90-179 days	-	-	15	15
Overdue 180-360 days	-	-	162	162
Overdue more than 360 days	-	-	3,294	3,294
Total gross loans to customers	**490,333**	**16,027**	**3,471**	**509,831**
Less: allowance for expected credit losses	(19,121)	(381)	(3,450)	(22,952)
Carrying amount as at December 31, 2021	**471,212**	**15,646**	**21**	**486,879**

(In thousands of AZN, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to corporate customers				
Not overdue	358,950	38,248	-	397,198
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Total gross loans to customers	**358,950**	**38,248**	**-**	**397,198**
Less: allowance for expected credit losses	(22,933)	(1,096)	-	(24,029)
Carrying amount as at December 31, 2022	**336,017**	**37,152**	**-**	**373,169**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to corporate customers				
Not overdue	436,257	-	-	436,257
Overdue less than 30 days	23,455	-	-	23,455
Overdue 30-89 days	-	15,736	-	15,736
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	-	-
Total gross loans to customers	**459,712**	**15,736**	**-**	**475,448**
Less: allowance for expected credit losses	(18,995)	(373)	-	(19,368)
Carrying amount as at December 31, 2021	**440,717**	**15,363**	**-**	**456,080**

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to individuals				
Not overdue	37,144	-	-	37,144
Overdue less than 30 days	1,108	-	-	1,108
Overdue 30-89 days	-	354	-	354
Overdue 90-179 days	-	-	72	72
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	2,638	2,638
Total gross loans to customers	**38,252**	**354**	**2,710**	**41,316**
Less: allowance for expected credit losses	(68)	-	(2,638)	(2,706)
Carrying amount as at December 31, 2022	**38,184**	**354**	**72**	**38,610**

(In thousands of AZN, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to individuals				
Not overdue	30,307	-	-	30,307
Overdue less than 30 days	314	-	-	314
Overdue 30-89 days	-	291	-	291
Overdue 90-179 days	-	-	15	15
Overdue 180-360 days	-	-	162	162
Overdue more than 360 days	-	-	3,294	3,294
Total gross loans to customers	**30,621**	**291**	**3,471**	**34,383**
Less: allowance for expected credit losses	(126)	(8)	(3,450)	(3,584)
Carrying amount as at December 31, 2021	**30,495**	**283**	**21**	**30,799**

(In thousands of AZN, unless otherwise indicated)

Collateral analysis

The following table provides information on collateral securing loans and advances to customers, net of impairment, by types of collateral as at December 31, 2022.

				Value of collateral held			
	Gross carrying amount	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Movable property**	**Immovable property**	**Total**
Loans to corporate customers							
Transportation	377,183	(23,902)	353,281	-	69,000	99,491	168,491
Construction	12,634	(127)	12,507	-	-	-	-
Trading and service	6,661	-	6,661	15,271	-	46	15,317
Agriculture	720	-	720	1,571	-	-	1,571
Loans to individuals							
Mortgage loans	29,090	(5)	29,085	-	-	46,997	46,997
Consumer loans	12,226	(2,701)	9,525	42,435	-	2,902	45,337
Total loans to customers	**438,514**	**(26,735)**	**411,779**	**59,277**	**69,000**	**149,436**	**277,713**

The following table provides information on collateral securing loans and advances to customers, net of impairment, by types of collateral as at December 31, 2021.

				Value of collateral held			
	Gross carrying amount	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Movable property**	**Immovable property**	**Total**
Loans to corporate customers							
Transportation	463,747	(19,113)	444,634	-	69,000	109,517	178,517
Construction	2,622	(45)	2,577	-	-	-	-
Trading and service	8,395	(186)	8,209	-	-	-	-
Agriculture	683	(23)	660	-	-	-	-
Loans to individuals							
Mortgage loans	24,662	(36)	24,626	-	-	40,387	40,387
Consumer loans	9,722	(3,549)	6,173	72,508	-	2,988	75,496
Total loans to customers	**509,831**	**(22,952)**	**486,879**	**72,508**	**69,000**	**152,892**	**294,400**

(In thousands of AZN, unless otherwise indicated)

9 PROPERTY, EQUIPMENT, RIGHT-OF-USE AND INTANGIBLE ASSETS

	Furniture and equipment	Computers	Motor vehicles	Other assets	Leasehold improvements	Right-of-use assets	Intangible assets	Total
Gross carrying amount								
As at January 1, 2022	**4,218**	**1,824**	**801**	**1,090**	**1,469**	**6,056**	**2,387**	**17,845**
Additions	57	496	153	42	-	112	470	1,330
Disposals	(164)	(112)	(196)	-	-	-	-	(472)
Modifications	-	-	-	-	-	183	-	183
As at December 31, 2022	**4,111**	**2,208**	**758**	**1,132**	**1,469**	**6,351**	**2,857**	**18,886**
Accumulated depreciation								
As at January 1, 2022	**3,028**	**1,224**	**577**	**597**	**505**	**2,962**	**727**	**9,620**
Depreciation charge	246	179	61	104	68	1,264	318	2,240
Disposals	(164)	(112)	(142)	-	-	-	-	(418)
As at December 31, 2022	**3,110**	**1,291**	**496**	**701**	**573**	**4,226**	**1,045**	**11,442**
Net carrying amount as at December 31, 2022	**1,001**	**917**	**262**	**431**	**896**	**2,125**	**1,812**	**7,444**

	Furniture and equipment	Computers	Motor vehicles	Other assets	Leasehold improvements	Right-of-use assets	Intangible assets	Total
Gross carrying amount								
As at January 1, 2021	**4,132**	**1,783**	**801**	**1,090**	**1,469**	**6,056**	**2,035**	**17,366**
Additions	86	41	-	-	-	-	352	479
As at December 31, 2021	**4,218**	**1,824**	**801**	**1,090**	**1,469**	**6,056**	**2,387**	**17,845**
Accumulated depreciation								
As at January 1, 2021	**2,696**	**1,015**	**501**	**474**	**432**	**1,751**	**446**	**7,315**
Depreciation charge	332	209	76	123	73	1,211	281	2,305
As at December 31, 2021	**3,028**	**1,224**	**577**	**597**	**505**	**2,962**	**727**	**9,620**
Net carrying amount as at December 31, 2021	**1,190**	**600**	**224**	**493**	**964**	**3,094**	**1,660**	**8,225**

(In thousands of AZN, unless otherwise indicated)

As at December 31, 2022 and 2021, included in property and equipment were fully depreciated assets in the amount of AZN 1,177 thousand and AZN 1,387 thousand, respectively.

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. For further detail, please refer to Note 13.

There has been no impairment in the carrying amount of property and equipment as at December 31, 2022 (December 31, 2021: nil). No property and equipment have been pledged as security for liabilities.

10 OTHER ASSETS

	December 31, 2022	December 31, 2021
Other financial assets:		
Items in the course of settlement	5,726	3,903
Receivables from payment services/agents	311	716
Receivables from shareholders	-	200
Others	18	18
Total other financial assets	**6,055**	**4,837**
Other non-financial assets:		
Prepayments for taxes	937	170
Prepayments for property and equipment	151	56
Prepayments for intangible assets	116	116
Prepayments for services	44	103
Others	75	19
Total other non-financial assets	**1,323**	**464**
Total other assets	**7,378**	**5,301**

11 LOANS AND DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

	December 31, 2022	December 31, 2021
Due to Azerbaijan Mortgage and Credit Guarantee Fund	28,068	24,534
Deposits from other banks and financial institutions	12,209	9,977
Loans from the CBAR	2,356	3,009
Total loans and deposits from banks and financial institutions	**42,633**	**37,520**

As at December 31, 2022, AZN 28,068 thousand (December 31, 2021: AZN 24,534 thousand) out of loans from financial institutions represented funds borrowed from the Azerbaijan Mortgage and Credit Guarantee Fund, a program under the auspices of the CBAR, for granting long-term mortgage loans to individuals. Under this program, funds made available to the Bank at an interest rate of 1-4% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 8% p.a. These borrowings mature between 2023 and 2049.

Deposits from other banks and financial institutions carry 3% interest rate per annum as at December 31, 2022 (December 31, 2021: 3% per annum).

(In thousands of AZN, unless otherwise indicated)

The loans from the CBAR carry 3.7% interest rate per annum as at December 31, 2022 (December 31, 2021: 3.7% per annum), are secured, and payable up to demand. When repayment is due, the CBAR has the right to deduct the borrowed amount from the Bank's correspondent account in the CBAR without informing the Bank.

As at December 31, 2022 and 2021, accrued interest expense included in loans and deposits from banks and financial institutions amounted to AZN 145 thousand and AZN 613 thousand, respectively.

A reconciliation of the opening and closing amounts of loans and deposits from banks and financial institutions with relevant cash and non-cash changes from financing activities is stated below:

	2022	2021
January 1	**37,520**	**39,627**
Cash flows		
Proceeds	36,437	85,437
Repayment	(30,856)	(87,611)
Interest paid	(1,845)	(1,246)
Non-cash changes		
Interest expense	1,377	1,313
December 31	**42,633**	**37,520**

12 DEPOSITS FROM CUSTOMERS

	December 31, 2022	December 31, 2021
Term deposits	251,366	253,811
Current accounts	208,820	279,076
Accrued interest expense on term deposits	613	641
Total deposits from customers	**460,799**	**533,528**

Term deposits

Term deposits are unsecured and carry interest rates ranging from 1% to 10% per annum as at December 31, 2022 (December 31, 2021: 1% to 8% per annum).

As at December 31, 2022, the Bank has 5 customers (December 31, 2021: 5 customers), whose balances exceeded 10% of equity. The total amount of these balances as at December 31, 2022 and 2021 was AZN 353,076 thousand and AZN 352,496 thousand.

Included in amounts due to customers in the amount of AZN 43,480 thousand and AZN 36,952 thousand as at December 31, 2022 and 2021, respectively are deposits and current accounts secured by the Azerbaijan Deposit Insurance Fund.

(In thousands of AZN, unless otherwise indicated)

Analysis by industry for deposits from customers

	December, 31, 2022	December 31, 2021
Individuals	339,256	326,875
Transport and communication	111,245	184,304
Trade	9,772	21,936
Others	526	413
Total deposits from customers	**460,799**	**533,528**

13 OTHER LIABILITIES

	December 31, 2022	December 31, 2021
Other financial liabilities:		
Items in the course of settlement	6,239	3,365
Lease liabilities	2,769	3,799
Guarantee liabilities	2,044	2,597
Others	500	700
Total other financial liabilities	**11,552**	**10,461**
Other non-financial liabilities		
Payable to state-owned organizations	244	335
Total other non-financial liabilities	**244**	**335**
Total other liabilities	**11,796**	**10,796**

Lease liabilities

	December 31, 2022	December 31, 2021
Current portion	1,717	1,279
Non-current portion	1,052	2,520
Total lease liabilities	**2,769**	**3,799**

	Within 1 year	Between 1 and 5 years	Total
December 31, 2022			
Minimum lease payments	2,078	1,162	3,240
Finance charges	(176)	(295)	(471)
Net present value	**1,902**	**867**	**2,769**

	Within 1 year	Between 1 and 5 years	Total
December 31, 2021			
Minimum lease payments	1,895	2,945	4,840
Finance charges	(616)	(425)	(1,041)
Net present value	**1,279**	**2,520**	**3,799**

(In thousands of AZN, unless otherwise indicated)

A reconciliation of the opening and closing amounts of lease liabilities with relevant cash and non-cash changes from financing activities is stated below:

	2022	2021
January 1	**3,799**	**4,847**
Cash flows		
Repayment of principal	(1,325)	(1,048)
Interest paid	(631)	(847)
Non-cash changes		
Interest expense	631	847
New lease	112	-
Modification	183	-
December 31	**2,769**	**3,799**

Guarantee liabilities

Guarantee liabilities are measured at the higher of their amortized amount and the amount of allowance for expected credit loss.

	Guarantee liabilities			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Accrued interest on guarantees	106	-	-	106
Allowance for ECL on guarantees	(2,150)	-	-	(2,150)
Carrying amount as at December 31, 2022	**(2,044)**	-	-	**(2,044)**

	Guarantee liabilities			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Accrued interest on guarantees	542	-	-	542
Allowance for ECL on guarantees	(3,139)	-	-	(3,139)
Carrying amount as at December 31, 2021	**(2,597)**	-	-	**(2,597)**

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

	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	**(3,139)**	**-**	**-**	**(3,139)**
Guarantees derecognized	1,596	-	-	1,596
New guarantees originated or purchased	(127)	-	-	(127)
Net remeasurement of allowance for expected credit losses	(480)	-	-	(480)
As at December 31, 2022	**(2,150)**	**-**	**-**	**(2,150)**

(In thousands of AZN, unless otherwise indicated)

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

	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2021	**(1,035)**	**(6,771)**	**-**	**(7,806)**
Transfer to Stage 1	(6,628)	6,628	-	-
Guarantees derecognized	61	143	-	204
New guarantees originated or purchased	(11)	-	-	(11)
Net remeasurement of allowance for expected credit losses	4,474	-	(73)	4,401
Write-offs	-	-	73	73
As at December 31, 2021	**(3,139)**	**-**	**-**	**(3,139)**

The following table provides information on collateral securing guarantee liabilities by types of collateral as at December 31, 2022.

	Accrued interest	Allowance for ECL	Carrying amount	Cash and deposits	Immovable property	Total
Transportation	-	(1,213)	(1,213)	-	-	-
Construction	106	(774)	(668)	200	-	200
Trading and service	-	(163)	(163)	-	250	250
	106	**(2,150)**	**(2,044)**	**200**	**250**	**450**

The following table provides information on collateral securing guarantee liabilities by types of collateral as at December 31, 2021.

	Accrued interest	Allowance for ECL	Carrying amount	Cash and deposits	Immovable property	Total
Transportation	7	(2,043)	(2,036)	7	-	7
Construction	535	(1,079)	(544)	-	-	-
Trading and service	-	(17)	(17)	-	250	250
	542	**(3,139)**	**(2,597)**	**7**	**250**	**257**

14 SHARE CAPITAL

The authorized, issued and outstanding share capital comprises 1,003,905 ordinary shares as at December 31, 2022 (December 31, 2021: 1,003,905). All shares have a nominal value of AZN 154 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Bank.

During the year ended December 31, 2022, dividends in the amount of AZN 4,890 thousand were declared and paid (December 31, 2021: Nil).

(In thousands of AZN, unless otherwise indicated)

15 NET INTEREST INCOME

	December 31, 2022	December 31, 2021
Interest income		
Interest on loans and advances to customers	28,553	30,794
Interest on guarantees issued	1,194	1,499
Interest on cash and cash equivalents	932	5
Total interest income	**30,679**	**32,298**
Interest expense		
Interest on deposits from customers	(8,566)	(13,102)
Interest on loans and deposits from banks and financial institutions	(1,377)	(1,313)
Interest on lease liabilities	(631)	(847)
Total interest expense	**(10,574)**	**(15,262)**
Total net interest income	**20,105**	**17,036**

16 NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	December 31, 2022	December 31, 2021
Dealing, net	3,086	2,757
Translation differences, net	32	(32)
Total net gain on foreign exchange operations	**3,118**	**2,725**

17 FEE AND COMMISSION INCOME

	December 31, 2022	December 31, 2021
Plastic card operations	8,371	7,439
Transactions with foreign currencies	2,060	1,539
Settlements	1,980	1,456
Cash operations	1,416	1,167
Tax free operations	616	167
Guarantee commission	112	54
Others	331	140
Total fee and commission income	**14,886**	**11,962**

18 FEE AND COMMISSION EXPENSE

	December 31, 2022	December 31, 2021
Plastic card operations	(5,893)	(8,653)
Settlements	(862)	(582)
Guarantee commission	(97)	(38)
Cash operations	-	(10)
Others	(319)	(347)
Total fee and commission expense	**(7,171)**	**(9,630)**

(In thousands of AZN, unless otherwise indicated)

19 DEPRECIATION AND AMORTIZATION EXPENSE

	December 31, 2022	December 31, 2021
Depreciation of property, equipment and right-of-use assets	(1,922)	(2,024)
Amortization of intangible assets	(318)	(281)
Total depreciation and amortization expense	**(2,240)**	**(2,305)**

20 ADMINISTRATIVE AND GENERAL EXPENSES

	December 31, 2022	December 31, 2021
Advertising and marketing expenses	(8,029)	(10,800)
Personnel expenses	(6,324)	(5,388)
Software costs	(760)	(467)
Business travel and related expenses	(703)	(2,950)
Security expenses	(449)	(379)
Office supplies	(399)	(214)
Insurance expenses	(396)	(425)
Communication expenses	(270)	(239)
Repairs and maintenance expenses	(226)	(167)
Legal and professional fees	(176)	(144)
Taxes other than income tax	(95)	(80)
Vehicle running costs	(94)	(78)
Rent expenses	(78)	(86)
Utility expenses	(48)	(42)
Others	(24)	(28)
Total administrative and general expenses	**(18,071)**	**(21,487)**

21 (CHARGE)/RECOVERY OF EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS

	December 31, 2022	December 31, 2021
(Charge)/recovery of expected credit losses on loans and advances to customers	(3,692)	2,546
Recovery of expected credit losses on guarantees issued	989	4,594
Recovery/(charge) of expected credit losses on balances with other banks	926	(674)
Total (charge)/recovery of expected credit losses on financial assets	**(1,777)**	**6,466**

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.

(In thousands of AZN, unless otherwise indicated)

	December 31, 2022	December 31, 2021
Current income tax expense	(3,176)	(2,496)
Deferred income tax benefit recognized in the current year	1,186	899
Income tax expense	**(1,990)**	**(1,597)**

Relationship between tax expense and accounting profit

	December 31, 2022	December 31, 2021
Profit before income tax	**8,932**	**4,775**
Theoretical tax charge at the statutory tax rate 20%	(1,786)	(955)
Tax effect of permanent differences	(204)	(642)
Income tax expense	**(1,990)**	**(1,597)**

Deferred income tax assets and liabilities

Movements in temporary differences during the years ended December 31, 2022 and 2021 are presented as follows:

	January 1, 2022	Credited to profit or loss	December 31, 2022
Loans and advances to customers	496	1,578	2,074
Property, equipment and right-of-use assets	242	253	495
Balances with other banks	-	(296)	(296)
Other liabilities	161	(349)	(188)
Net deferred income tax asset	**899**	**1,186**	**2,085**

	January 1, 2021	Credited to profit or loss	December 31, 2021
Loans and advances to customers	-	496	496
Property, equipment and right-of-use assets	-	242	242
Other liabilities	-	161	161
Net deferred income tax asset	**-**	**899**	**899**

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.

(In thousands of AZN, unless otherwise indicated)

Amounts included in the statement of financial position

Loans and advances to customers

	December 31, 2022	December 31, 2021
Outstanding principal		
(a) Shareholders	4,109	485
(b) Entities under common control	7,293	9,048
(c) Key management personnel	22	23
(d) Other related parties	1,588	986
	13,012	**10,542**
Accrued interest income		
(a) Shareholders	9	1
(b) Entities under common control	58	21
(d) Other related parties	6	5
	73	**27**
Allowance for expected credit losses		
(a) Shareholders	-	(5)
(b) Entities under common control	-	(187)
(d) Other related parties	(2)	(4)
	(2)	**(196)**
Total	**13,083**	**10,373**

Property, equipment and right-of-use assets

	December 31, 2022	December 31, 2021
Right-of-use assets		
(a) Shareholders	1,940	2,980
Total	**1,940**	**2,980**

Loans and deposits from banks and financial institutions

	December 31, 2022	December 31, 2021
Outstanding principal		
(d) Other related parties	1,269	-
	1,269	**-**
Accrued interest expense		
(d) Other related parties	3	-
	3	**-**
Total	**1,272**	**-**

(In thousands of AZN, unless otherwise indicated)

Deposits from customers

	December 31, 2022	December 31, 2021
Term deposits		
(a) Shareholders	219,329	219,329
(d) Other related parties	2,074	2,295
	221,403	**221,624**
Current accounts		
(a) Shareholders	38,550	33,848
(b) Entities under common control	568	542
(c) Key management personnel	46	97
(d) Other related parties	171	200
	39,335	**34,687**
Accrued interest expense on term deposits		
(a) Shareholders	577	598
(d) Other related parties	2	3
	579	**601**
Total	**261,317**	**256,912**

Other liabilities

	December 31, 2022	December 31, 2021
Guarantee liabilities		
(b) Entities under common control	124	11
	124	**11**
Lease liabilities		
(a) Shareholders	2,559	3,664
	2,559	**3,664**
Total	**2,683**	**3,675**

Amounts included in the statement of comprehensive income

	December 31, 2022	December 31, 2021
Interest income		
(a) Shareholders	127	41
(b) Entities under common control	712	815
(c) Key management personnel	3	2
(d) Other related parties	97	56
Total	**939**	**914**
Interest expense		
(a) Shareholders	(8,263)	(11,536)
(c) Key management personnel	-	(4)
(d) Other related parties	(100)	(64)
Total	**(8,363)**	**(11,604)**

(In thousands of AZN, unless otherwise indicated)

	December 31, 2022	December 31, 2021
Administrative and general expenses		
(a) Shareholders	(8,384)	(10,576)
(b) Entities under common control	(387)	(364)
(c) Key management personnel	(845)	(692)
Total	**(9,616)**	**(11,632)**
Depreciation and amortization expense		
(a) Shareholders	(1,217)	(817)
Total	**(1,217)**	**(817)**

Off-balance

	December 31, 2022	December 31, 2021
Guarantees issued		
(b) Entities under common control	3,495	4,716
Total	**3,495**	**4,716**
Unused credit lines		
(a) Shareholders	1,257	1,449
(b) Entities under common control	3,727	3,858
(c) Key management personnel	14	20
(d) Other related parties	192	64
Total	**5,190**	**5,391**

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.

	December 31, 2022	December 31, 2021
Guarantees issued	43,732	68,180
Unused credit lines	10,600	12,728
Total	**54,332**	**80,908**

ECL for guarantees issued is disclosed in Note 13. At the reporting date, the Bank has no major capital commitments (December 31, 2021: nil).

Operating environment

The Bank's operations are conducted in the Republic of Azerbaijan. The Bank is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan.

Azerbaijan economy also has a significant exposure to level of international energy prices. Crude oil prices increased in the first half of the year because of supply concerns however starting from the second half of the year oil prices generally decreased as concerns about a possible economic recession reduced demand. The Brent crude oil spot price averaged USD 100 per barrel in 2022. Strong oil prices supported economic growth of the country.

The depreciation of Azerbaijani Manat in 2015-2016 years has led to significant uncertainties in business environment, therefore government took all required actions to keep the exchange rate stable over the past 5 years. As a result, continuous fluctuation in global oil prices did not affect the local currency and therefore did not increase the uncertainty in the business environment. The COVID-19 coronavirus pandemic has affected businesses significantly in 2020, however, after a successful vaccination campaign of the government majority of businesses steadily returned to their normal activities during 2021 and the first half of 2022. The sustainability of the cease-fire arrangement over the Karabakh region also improves the business environment as there are number of government-led projects to attract investment and develop the territories released from occupation.

GDP reached AZN 133.8 billion (USD 78.7 billion) in 2022 with 4.6% growth compared to 2021. During 2022 foreign trade turnover of the Republic of Azerbaijan reached about USD 52.69 billion of which export equaled to USD 38.15 billion and import equaled to USD 14.54 billion according to the statistics of State Custom Committee.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in nine months of 2022 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the period and the range was between 7.25% - 8.25% with a steady increase in rates.

On June 6, 2022 the Central Bank has increased minimum reserve deposit rates to 4% and 5% for national and foreign currencies, respectively.

Inflation rate increased from 6.7% in December 2021 to 13.9% in December 2022.

By the end of December 2022 number of active plastic cards increased to a historic high of 13,257 thousand compared to 11,040 thousand in 2021.

During 2022 proportion of foreign currency deposits of individuals dropped to 39.2% from 41% in 2021.

International credit rating agencies regularly evaluate the credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated the rating of the Republic of Azerbaijan as "BB+". Moody's Investors Service set a "Ba1" credit rating for the country.

Compliance with regulatory ratios

The CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at December 31, 2022, the Bank was in compliance with these ratios except for the below:

- ratio of maximum credit limit for aggregate loan demands of a single borrower or group of related borrowers to total Tier 1 Capital – maximum 25%.
- ratio of maximum credit limit for unsecured or partially secured loan demands of a single borrower or group of related borrowers to total Tier 1 Capital – maximum 10%.

Management believes that this incompliance with regulatory ratios will not result in any sanction from the CBAR.

(In thousands of AZN, unless otherwise indicated)

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.

	December 31, 2022 (unaudited)	December 31, 2021 (unaudited)
Tier 1 capital before deductions		
Share capital	154,601	154,601
Retained earnings – as per prudential regulation	10,029	12,984
Deductions		
Intangible assets	(1,812)	(1,660)
Total tier 1 capital	**162,818**	**165,925**
Tier 2 capital		
Reserves	7,434	7,303
Current year profit	5,466	1,935
Total tier 2 capital	**12,900**	**9,238**
Total regulatory capital held	**175,718**	**175,163**
Total risk-weighted assets	**615,080**	**603,812**
Tier 1 capital ratio (%)	**26.47%**	**27.48%**
Capital adequacy ratio (%)	**28.57%**	**29.01%**

The minimum requirement is 5% for tier 1 capital ratio (December 31, 2021: 5%) and 10% for capital adequacy ratio (December 31, 2021: 10%).

(In thousands of AZN, unless otherwise indicated)

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:

	December 31, 2022	December 31, 2021
Financial assets:		
Cash and balances with the CBAR (amortized cost)	85,912	134,091
Balances with other banks (amortized cost)	165,351	109,118
Loans and advances to customers (amortized cost)	411,779	486,879
Other financial assets (amortized cost)	6,055	4,837
Total financial assets	**669,097**	**734,925**
Financial liabilities:		
Loans and deposits from banks and financial institutions (amortized cost)	42,633	37,520
Deposits from customers (amortized cost)	460,799	533,528
Other financial liabilities (amortized cost)	11,552	10,461
Total financial liabilities	**514,984**	**581,509**

27 FINANCIAL INSTRUMENT RISK

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:

	December 31, 2022		December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Cash and balances with the CBAR	85,912	85,912	134,091	134,091
Balances with other banks	165,351	165,351	109,118	109,118
Loans and advances to customers	411,779	411,779	486,879	486,879
Other financial assets	6,055	6,055	4,837	4,837
Total financial assets	**669,097**	**669,097**	**734,925**	**734,925**
Financial liabilities:				
Loans and deposits from banks and financial institutions	42,633	42,633	37,520	37,520
Deposits from customers	460,799	460,799	533,528	533,528
Other liabilities	11,552	11,552	10,461	10,461
Total financial liabilities	**514,984**	**514,984**	**581,509**	**581,509**

Sufficient financial assets are available to meet the financial liabilities.

(In thousands of AZN, unless otherwise indicated)

Assets and liabilities in the statement of financial position measured at fair value are grouped 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 December 31, 2022 and December 31, 2021:

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Assets for which fair values are disclosed:				
Cash and balances with the CBAR	85,912	-	-	85,912
Balances with other banks	-	-	165,351	165,351
Loans and advances to customers	-	-	411,779	411,779
Other financial assets	-	-	6,055	6,055
Liabilities for which fair values are disclosed:				
Loans and deposits from banks and financial institutions	-	-	42,633	42,633
Deposits from customers	-	-	460,799	460,799
Other financial liabilities	-	-	11,552	11,552

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Assets for which fair values are disclosed:				
Cash and balances with the CBAR	134,091	-	-	134,091
Balances with other banks	-	-	109,118	109,118
Loans and advances to customers	-	-	486,879	486,879
Other financial assets	-	-	4,837	4,837
Liabilities for which fair values are disclosed:				
Loans and deposits from banks and financial institutions	-	-	37,520	37,520
Deposits from customers	-	-	533,528	533,528
Other financial liabilities	-	-	10,461	10,461

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.

(In thousands of AZN, unless otherwise indicated)

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 summarized in Note 26. The main types of risks are market risk, credit risk, liquidity risk and operational risk.

Market risk

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 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:

	AZN	USD	EUR	Other	Total
December 31, 2022					
Financial assets:					
Cash and balances with the CBAR	58,246	23,274	3,505	887	85,912
Balances with other banks	15,022	105,545	37,794	6,990	165,351
Loans and advances to customers	187,277	224,502	-	-	411,779
Other financial assets	4,238	1,431	379	7	6,055
Total financial assets	**264,783**	**354,752**	**41,678**	**7,884**	**669,097**
Financial liabilities:					
Loans and deposits from banks and financial institutions	36,532	6,098	2	1	42,633
Deposits from customers	78,305	333,706	40,644	8,144	460,799
Other financial liabilities	5,661	4,488	1,403	-	11,552
Total financial liabilities	**120,498**	**344,292**	**42,049**	**8,145**	**514,984**
Open currency position	**144,285**	**10,460**	**(371)**	**(261)**	**154,113**

(In thousands of AZN, unless otherwise indicated)

	AZN	USD	EUR	Other	Total
December 31, 2021					
Financial assets:					
Cash and balances with the CBAR	72,802	54,551	6,158	580	134,091
Balances with other banks	-	87,199	14,185	7,734	109,118
Loans and advances to customers	137,137	343,791	5,951	-	486,879
Other financial assets	3,429	1,185	199	24	4,837
Total financial assets	**213,368**	**486,726**	**26,493**	**8,338**	**734,925**
Financial liabilities:					
Loans and deposits from banks and financial institutions	32,483	5,033	3	1	37,520
Deposits from customers	90,065	408,244	26,965	8,254	533,528
Other financial liabilities	5,887	4,312	262	-	10,461
Total financial liabilities	**128,435**	**417,589**	**27,230**	**8,255**	**581,509**
Open currency position	**84,933**	**69,137**	**(737)**	**83**	**153,416**

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 December 31, 2022 (December 31, 2021: ±10%). A ±10% change is considered for the EUR/AZN exchange rate (December 31, 2021: ±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% (December 31, 2021: 10%) and EUR by 10% (December 31, 2021: 10%) respectively then this would have had the following impact:

	Profit before income tax			**Equity**		
	USD	**EUR**	**Other**	**USD**	**EUR**	**Other**
December 31, 2022	1,046	(37)	(26)	837	(30)	(21)
December 31, 2021	6,914	(74)	8	5,531	(59)	6

If the AZN had strengthened against the USD by 10% (December 31, 2021: 10%) and EUR by 10% (December 31, 2021: 10%) respectively then this would have had the following impact:

	Profit before income tax			**Equity**		
	USD	**EUR**	**Other**	**USD**	**EUR**	**Other**
December 31, 2022	(1,046)	37	26	(837)	30	21
December 31, 2021	(6,914)	74	(8)	(5,531)	59	(6)

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.

(In thousands of AZN, unless otherwise indicated)

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% (December 31, 2021: ±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.

	Profit before income tax		**Equity**	
December 31, 2022				
Financial assets:				
Cash and balances with the CBAR	250	(250)	200	(200)
Balances with other banks	1,609	(1,609)	1,287	(1,287)
Loans and advances to customers	4,118	(4,118)	3,294	(3,294)
Financial liabilities:				
Loans and deposits from banks and financial institutions	(383)	383	(306)	306
Deposits from customers	(2,520)	2,520	(2,016)	2,016
Other liabilities	(48)	48	(38)	38
	3,026	**(3,026)**	**2,421**	**(2,421)**

	Profit before income tax		**Equity**	
December 31, 2021				
Financial assets:				
Loans and advances to customers	4,869	(4,869)	3,895	(3,895)
Financial liabilities:				
Loans and deposits from banks and financial institutions	(355)	355	(284)	284
Deposits from customers	(2,545)	2,545	(2,036)	2,036
Other liabilities	(64)	64	(51)	51
	1,905	**(1,905)**	**1,524**	**(1,524)**

(In thousands of AZN, unless otherwise indicated)

The following tables illustrate the level of mismatch of interest rate re-pricing:

	Effective average interest rate	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	More than 5 years	Non-interest bearing	Total
December 31, 2022								
Financial assets:								
Cash and balances with the CBAR	6.25%	25,004	-	-	-	-	60,908	85,912
Balances with other banks	2.47%	160,856	-	-	-	-	4,495	165,351
Loans and advances to customers	9.34%	3,714	6,094	78,352	53,363	270,256	-	411,779
Other financial assets	-	-	-	-	-	-	6,055	6,055
		189,574	**6,094**	**78,352**	**53,363**	**270,256**	**71,458**	**669,097**
Financial liabilities:								
Loans and deposits from banks and financial institutions	3.39%	3,705	5,367	636	3,391	25,250	4,284	42,633
Deposits from customers	3.82%	681	3,511	247,219	568	-	208,820	460,799
Other financial liabilities	12.26%	27	275	2,095	1,211	1,205	6,739	11,552
		4,413	**9,153**	**249,950**	**5,170**	**26,455**	**219,843**	**514,984**
Net interest gap		**185,161**	**(3,059)**	**(171,598)**	**48,193**	**243,801**	**(148,385)**	**154,113**
Cumulative interest gap		**185,161**	**182,102**	**10,504**	**58,697**	**302,498**	**154,113**	

	Effective average interest rate	Within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 year	More than 5 years	Non-interest bearing	Total
December 31, 2021								
Financial assets:								
Cash and balances with the CBAR	-	-	-	-	-	-	134,091	134,091
Balances with other banks	-	-	-	-	-	-	109,118	109,118
Loans and advances to customers	8.93%	2,141	6,052	131,564	29,568	317,554	-	486,879
Other financial assets	-	-	-	-	-	-	4,837	4,837
		2,141	**6,052**	**131,564**	**29,568**	**317,554**	**248,046**	**734,925**
Financial liabilities:								
Loans and deposits from banks and financial institutions	3.30%	4,352	5,362	613	3,377	21,766	2,050	37,520
Deposits from customers	3.82%	1,088	2,785	246,078	4,501	-	279,076	533,528
Other financial liabilities	12.76%	98	202	1,001	3,060	2,035	4,065	10,461
		5,538	**8,349**	**247,692**	**10,938**	**23,801**	**285,191**	**581,509**
Net interest gap		**(3,397)**	**(2,297)**	**(116,128)**	**18,630**	**293,753**	**(37,145)**	**153,416**
Cumulative interest gap		**(3,397)**	**(5,694)**	**(121,822)**	**(103,192)**	**190,561**	**153,416**	

(In thousands of AZN, unless otherwise indicated)

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.

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

	Gross carrying amount	Allowance for ECL	Net carrying amount
December 31, 2022			
Cash and balances with the CBAR	85,912	-	85,912
Balances with other banks	165,527	(176)	165,351
Loans and advances to customers	438,514	(26,735)	411,779
Other financial assets	6,055	-	6,055
Total	**696,008**	**(26,911)**	**669,097**

(In thousands of AZN, unless otherwise indicated)

	Gross carrying amount	Allowance for ECL	Net carrying amount
December 31, 2021			
Cash and balances with the CBAR	134,091	-	134,091
Balances with other banks	110,220	(1,102)	109,118
Loans and advances to customers	509,831	(22,952)	486,879
Other financial assets	4,837	-	4,837
Total	**758,979**	**(24,054)**	**734,925**

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.

	Exposure before collateral	Gross collateral pledged	Net exposure
December 31, 2022			
Cash and balances with the CBAR	85,912	-	85,912
Balances with other banks	165,351	-	165,351
Loans and advances to customers	411,779	(277,713)	134,066
Other financial assets	6,055	-	6,055
Guarantees issued	43,732	(450)	43,282
Unused credit lines	10,600	-	10,600
Total	**723,429**	**(278,163)**	**445,266**

	Exposure before collateral	Gross collateral pledged	Net exposure
December 31, 2021			
Cash and balances with the CBAR	134,091	-	134,091
Balances with other banks	109,118	-	109,118
Loans and advances to customers	486,879	(294,400)	192,479
Other financial assets	4,837	-	4,837
Guarantees issued	68,180	(257)	67,923
Unused credit lines	12,728	-	12,728
Total	**815,833**	**(294,657)**	**521,176**

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.

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.

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.

(In thousands of AZN, unless otherwise indicated)

The undiscounted maturity analysis for financial liabilities as at December 31, 2022 is as follows:

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total gross amount outflow	Total carrying amount
December 31, 2022							
Financial liabilities:							
Loans and deposits from banks and financial institutions	8,089	5,545	1,397	7,265	40,047	62,343	42,633
Deposits from customers	210,301	5,097	248,899	574	-	464,871	460,799
Other financial liabilities	6,809	354	2,334	1,321	1,205	12,023	11,552
Total financial liabilities	**225,199**	**10,996**	**252,630**	**9,160**	**41,252**	**539,237**	**514,984**

The undiscounted maturity analysis for financial liabilities as at December 31, 2021 is as follows:

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total gross amount outflow	Total carrying amount
December 31, 2021							
Financial liabilities:							
Loans and deposits from banks and financial institutions	6,490	5,515	1,262	6,701	34,332	54,300	37,520
Deposits from customers	280,884	4,213	247,631	4,578	-	537,306	533,528
Other financial liabilities	4,224	319	1,440	3,484	2,035	11,502	10,461
Total financial liabilities	**291,598**	**10,047**	**250,333**	**14,763**	**36,367**	**603,108**	**581,509**

(In thousands of AZN, unless otherwise indicated)

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
December 31, 2022						
Financial assets:						
Cash and balances with the CBAR	85,912	-	-	-	-	85,912
Balances with other banks	165,351	-	-	-	-	165,351
Loans and advances to customers	3,714	6,094	78,352	53,363	270,256	411,779
Other financial assets	6,055	-	-	-	-	6,055
Total financial assets	**261,032**	**6,094**	**78,352**	**53,363**	**270,256**	**669,097**
Financial liabilities:						
Loans and deposits from banks and financial institutions	7,989	5,367	636	3,391	25,250	42,633
Deposits from customers	209,501	3,511	247,219	568	-	460,799
Other financial liabilities	6,766	275	2,095	1,211	1,205	11,552
Total financial liabilities	**224,256**	**9,153**	**249,950**	**5,170**	**26,455**	**514,984**
Net liquidity gap	**36,776**	**(3,059)**	**(171,598)**	**48,193**	**243,801**	**154,113**
Cumulative liquidity gap	**36,776**	**33,717**	**(137,881)**	**(89,688)**	**154,113**	

	Up to demand or within 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
December 31, 2021						
Financial assets:						
Cash and balances with the CBAR	134,091	-	-	-	-	134,091
Balances with other banks	109,118	-	-	-	-	109,118
Loans and advances to customers	2,141	6,052	131,564	29,568	317,554	486,879
Other financial assets	4,837	-	-	-	-	4,837
Total financial assets	**250,187**	**6,052**	**131,564**	**29,568**	**317,554**	**734,925**
Financial liabilities:						
Loans and deposits from banks and financial institutions	6,402	5,362	613	3,377	21,766	37,520
Deposits from customers	280,164	2,785	246,078	4,501	-	533,528
Other financial liabilities	4,163	202	1,001	3,060	2,035	10,461
Total financial liabilities	**290,729**	**8,349**	**247,692**	**10,938**	**23,801**	**581,509**
Net liquidity gap	**(40,542)**	**(2,297)**	**(116,128)**	**18,630**	**293,753**	**153,416**
Cumulative liquidity gap	**(40,542)**	**(42,839)**	**(158,967)**	**(140,337)**	**153,416**	

(In thousands of AZN, unless otherwise indicated)

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.

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:

	Azerbaijan Republic	CIS countries	Other countries	Total
December 31, 2022				
Financial assets:				
Cash and balances with the CBAR	85,912	-	-	85,912
Balances with other banks	156,201	6,531	2,619	165,351
Loans and advances to customers	374,627	37,152	-	411,779
Other financial assets	6,055	-	-	6,055
Total financial assets	**622,795**	**43,683**	**2,619**	**669,097**
Financial liabilities:				
Loans and deposits from banks and financial institutions	42,633	-	-	42,633
Deposits from customers	457,742	2,108	949	460,799
Other financial liabilities	11,552	-	-	11,552
Total financial liabilities	**511,927**	**2,108**	**949**	**514,984**
Net geographical gap	**110,868**	**41,575**	**1,670**	**154,113**

	Azerbaijan Republic	CIS countries	Other countries	Total
December 31, 2021				
Financial assets:				
Cash and balances with the CBAR	134,091	-	-	134,091
Balances with other banks	22,260	45,164	41,694	109,118
Loans and advances to customers	448,029	38,850	-	486,879
Other financial assets	4,837	-	-	4,837
Total financial assets	**609,217**	**84,014**	**41,694**	**734,925**
Financial liabilities:				
Loans and deposits from banks and financial institutions	37,520	-	-	37,520
Deposits from customers	518,272	2,992	12,264	533,528
Other financial liabilities	10,461	-	-	10,461
Total financial liabilities	**566,253**	**2,992**	**12,264**	**581,509**
Net geographical gap	**42,964**	**81,022**	**29,430**	**153,416**

(In thousands of AZN, unless otherwise indicated)

28 EARNINGS PER SHARE

	December 31, 2022	December 31. 2021
Net profit for the year attributable to the owners of the Bank	6,942	3,178
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,004	1,004
Earnings per share - basic and diluted	**6.91**	**3.17**

29 POST-REPORTING DATE EVENTS

On January 23, 2023, the Bank declared and paid dividends in the amount of AZN 8,000 thousand.

On February 2, 2023 and March 30, 2023, the Central Bank of the Republic of Azerbaijan increased the refinancing rate to 8.5% and 8.75%, respectively.