“ZIRAAT BANK AZERBAIJAN” OPEN JOINT STOCK COMPANY

International Financial Reporting Standards Financial Statements and Independent Auditors’ Report
December 31, 2019

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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 and Management Board of "Ziraat Bank Azerbaijan" Open Joint Stock Company:

Opinion

We have audited the financial statements of "Ziraat Bank Azerbaijan" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2019, and the 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 a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 the 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.

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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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 the 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

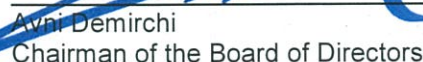
March 6, 2020
Baku, the Republic of Azerbaijan

"ZIRAAT BANK AZERBAIJAN" OJSC

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

In thousands of Azerbaijani Manats	Notes	December 31, 2019	December 31, 2018
ASSETS			
Cash and cash equivalents and mandatory cash balances with CBAR	7, 27	62,739	64,757
Due from banks	8, 27	7,337	33,206
Investment securities	9	9,472	4,326
Loans and advances to customers	10	146,800	103,513
Premises and equipment	11	18,328	15,838
Intangible assets	11	2,679	2,801
Other financial assets	12	115	36
Other non-financial assets	12	986	1,161
TOTAL ASSETS		**248,456**	**225,638**
LIABILITIES			
Due to banks	13	52,595	50,951
Customer accounts	14	124,866	108,721
Lease liability	15	1,280	-
Deferred income tax liability	22	271	136
Other financial liabilities	16	179	137
Other non-financial liabilities	16	1,359	1,120
TOTAL LIABILITIES		**180,550**	**161,065**
EQUITY			
Share capital	17	50,000	50,000
Retained earnings		17,906	14,573
TOTAL EQUITY		**67,906**	**64,573**
TOTAL LIABILITIES AND EQUITY		**248,456**	**225,638**

Approved for issue and signed on behalf of the Board of Directors on March 6, 2020.



Avni Demirchi
Chairman of the Board of Directors

Vugar Rafiyev
Finance Director

“ZIRAAT BANK AZERBAIJAN” OJSC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2019

In thousands of Azerbaijani Manats	**Notes**	**2019**	**2018**
Interest income	18, 28	16,464	16,414
Interest expense	18, 28	(4,808)	(4,280)
Net interest income		**11,656**	**12,134**
Expected credit loss expense on financial assets	19	(1,412)	(167)
Net interest income		**10,244**	**11,967**
Fee and commission income	20	1,908	1,609
Fee and commission expense	20	(967)	(931)
Gains less losses from trading in foreign currencies		1,153	719
Foreign exchange translation losses, net		(29)	(89)
(Charge)/reversal of expected credit losses for credit related commitments	16	(182)	135
Administrative and operating expenses	21, 28	(7,910)	(7,070)
Other income, net		2	24
Profit before tax		**4,219**	**6,364**
Income tax expense	22	(886)	(1,321)
PROFIT FOR THE YEAR		**3,333**	**5,043**
Total comprehensive income for the year		**3,333**	**5,043**
Earnings per share for profit attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	23	**66.66**	**100.86**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Attributable to equity holders of the Bank		
In thousands of Azerbaijani Manats	**Share Capital**	**Retained earnings**	**Total**
Balance at January 1, 2018	**50,000**	**9,530**	**59,530**
Profit and other comprehensive income for the year	-	5,043	5,043
Balance at December 31, 2018	**50,000**	**14,573**	**64,573**
Profit and other comprehensive income for the year	-	3,333	3,333
Balance at December 31, 2019	**50,000**	**17,906**	**67,906**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

In thousands of Azerbaijani Manats	**Notes**	**2019**	**2018**
Cash flows from operating activities			
Interest received		13,661	14,500
Interest paid		(4,714)	(3,457)
Fees and commissions received		1,908	1,609
Fees and commissions paid		(967)	(931)
Income received from trading in foreign currencies		939	719
Income received from swap operations		214	-
Staff costs paid		(2,735)	(2,549)
Administrative and operating expenses paid		(4,002)	(2,867)
Taxes paid		(273)	-
Other income received, net		2	24
Cash flows from operating activities before changes in operating assets and liabilities		**4,033**	**7,048**
Net (increase)/decrease in:			
- mandatory cash balances with CBAR		(160)	(61)
- due from banks		25,398	(8,016)
- loans and advances to customers		(41,543)	(39,583)
- other assets		(83)	(9)
Net increase/(decrease) in:			
- due to banks		1,801	21,497
- customer accounts		16,002	17,825
- other liabilities		151	(225)
Net cash generated by/(used in) operating activities		**5,599**	**(1,524)**
Cash flows from investing activities			
Purchase of investment securities		(5,061)	(249)
Acquisition of premises and equipment		(2,371)	(1,567)
Acquisition of intangible assets		(207)	(383)
Net cash used in investing activities		**(7,639)**	**(2,199)**
Cash from financing activities		(114)	-
Net cash used in financing activities		**(114)**	**-**
Effect of exchange rate changes on cash and cash equivalents		(24)	(169)
Net decrease in cash and cash equivalents		**(2,178)**	**(3,892)**
Cash and cash equivalents at the beginning of the year	7	64,158	68,050
Cash and cash equivalents at the end of the year	7	**61,980**	**64,158**

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended December 31, 2019 for “Ziraat Bank Azerbaijan” OJSC (the “Bank”).

The Bank was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is an open joint stock company limited by shares and was set up in accordance with Azerbaijani regulations. As of December 31, 2019 and 2018 the Bank’s immediate parent company was T.C. Ziraat Bankasi A.Ş.

Principal activity. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has been granted a full banking licence #255 issued by the Central Bank of the Republic of Azerbaijan (“CBAR”) on December 30, 2014, but the effective operations of the Bank has started from the beginning of 2015. The Bank participates in the state deposit insurance scheme, which was introduced by Azerbaijani Law, “Deposits of individuals’ insurance in the Republic of Azerbaijan” dated December 29, 2006. The Azerbaijan Deposit Insurance Fund guarantees full repayment of individual deposits in AZN with interest rates up to 10% and foreign currency deposits with interest rates up to 2.5%.

The Bank has a head office and 3 (2018: 2) branches within the Republic of Azerbaijan. The Bank had 86 employees at December 31, 2019 (2018: 66).

Registered address and place of business. The Bank’s registered address is: 191, Hasan bey Zardabi Avenue, Yasamal district, Baku AZ1122, the Republic of Azerbaijan.

Presentation currency. These financial statements are presented in thousands of Azerbaijani Manats (“AZN”).

2 Operating Environment of the Bank

Republic of Azerbaijan. The Bank’s operations are conducted in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan’s economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat.

The Azerbaijan’s economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani Manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth. In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On December 6, 2016 President of the Republic of Azerbaijan approved “Strategic road maps for the national economy and main economic sectors of Azerbaijan”. The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

Furthermore, during 2018 the government continued its monetary policy with respect to stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2019 with the aim of maintaining macroeconomic stability.

The Bank’s management is monitoring changes in macroeconomic environment and taking precautionary measures it considers necessary in order to support the sustainability and development of the Bank’s business in the foreseeable future.

International credit rating agencies regularly evaluate credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated rating of the Republic of Azerbaijan as “BB+”. Moody’s Investors Service set “Ba2” credit rating for the country.

The future economic growth of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank’s operations and consequently what effect, if any, they could have on the financial position of the Bank. The management is currently performing sensitivity analyses under different oil prices scenarios and elaborating relevant action plans for mainlining sustainability of the business.

3 Summary of Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorized at fair value through profit or loss (“FVPL”) and at fair value through other comprehensive income (“FVOCI”). These financial statements have been prepared assuming that the Bank is a going concern and will continue in operation for the foreseeable future. The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from January 1, 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

This is the first set of the Bank’s annual financial statements in which IFRS 16 “Leases” have been applied. Changes to significant accounting policies are described in Note 3.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market’s normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 27.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date on which the Bank commits to deliver a financial asset. All other purchases are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments. A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVPL”).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVPL:

- 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 right 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 at FVPL:

- 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 right 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 FVPL.

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 at FVPL 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 managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio management as well as compliance with those policies and practice. In particular, whether management's strategy focuses on earning contractual interest income, 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 realising 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 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 realised.

Assessment 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. 'Interest' 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 lending 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 rates, which is not consistent with the interest payment period.

Reclassification of financial assets. 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. The reclassification has a prospective effect.

Financial assets impairment – credit loss allowance for ECL. The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 months ECL"). If the Bank identifies SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 24 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank's definition of credit impaired assets and definition of default is explained in Note 24. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 24 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Presentation of allowance for ECL in the statement of financial position. Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognised as part of fair value reserve.

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

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

Derivative financial instruments. In the normal course of business, the Bank enters into various derivative financial instruments including foreign currency forwards and cross currency swaps (back-to-back loans) in the foreign exchange and capital markets. The counterparties are mostly local banks. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss within net gains less losses from trading in foreign currencies.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Republic of Azerbaijan (the "CBAR") with original maturity of less or equal to 90 days, notes issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") up to 90 days and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances. Funds restricted for a period of more than 1 business day on origination are excluded from cash and cash equivalents, both in the statement of financial position and for the purposes of the statement of cash flows. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVPL.

Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan. Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan represent the amount of obligatory reserves deposited with the Central Bank of the Republic of Azerbaijan in accordance with requirements established by the Central Bank of the Republic of Azerbaijan, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan is not included as a cash equivalent in statement of cash flows.

Due from banks. Amounts due from banks are recorded when the Bank advances money to counterparty banks. Amounts due from banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the

cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories:

(i) AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
(ii) FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Impairment allowances are determined based on the forward-looking ECL models. Note 24 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

Credit related commitments. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

Equity instuments at FVOCI. 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 other comprehensive income. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss. Dividends are recognized in profit or loss as other income when the right of the payment has been established, except the Bank benefits from such proceeds as recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal of these instruments, the accumulated revaluation reserve is transferred to retained earnings.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognised in profit or loss. An impairment allowance estimated using the expected credit loss model is recognised in profit or loss for the year. All other changes in the carrying value are recognised in OCI. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognised or measured on different accounting bases.

Premises and equipment. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

Construction in progress is carried at cost, less any recognized impairment loss. Cost includes professional fees. Such construction in progress is classified to the appropriate categories of property and equipment when completed and ready for intended use. Construction in progress is not depreciated.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset’s fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognized in profit or loss for the year. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset’s value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other operating income or expenses).

Depreciation. Land and construction in progress are not depreciated. Depreciation on items of premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

Useful lives in years	*2019*
Buildings	50
Office and computer equipment	4
Motor vehicles	4
Right of use asset	depends on lease term
Leasehold improvements	lower of useful life or the term of the underlying lease

Intangible assets. The Bank’s intangible assets have definite useful life and primarily include capitalised computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalised computer software is amortized on a straight line basis over expected useful lives of 10 years.

IFRS 16 “Leases”. IFRS 16 “Leases” replaces IAS 17 “Leases” along with three Interpretations (IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases-Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”). The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition. Prior periods have not been restated.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as Lease liabilitys, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 7.5%.

The Bank has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The management of the Bank utilized certain judgement in determination of lease terms, based on past history.

Operating leases. Before January 1, 2019 where the Bank was a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Bank, the total lease payments were charged to profit or loss for the year (rental expense) on a straight-line basis over the period of the lease.

Leases embedded in other agreements are separated if (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset.

Due to banks. Amounts due to banks 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.

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

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognized in profit or loss for the year, except if it is recognized in other comprehensive income or directly in equity because it relates to transactions that are also recognized, in the same or a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

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

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

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- Financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (net of the expected credit loss ("ECL") provision); and
- Financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the amortized cost.

Fee and commission income and expense. All other fees, commissions and other income and expense items are generally recorded on an accrual basis over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned when the Bank satisfies the performance obligation are recorded upon the completion of the transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis. Asset management fees relating to investment funds are recognised over the period in which services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Foreign currency translation. The functional currency of the Bank is the currency of the primary economic environment in which the Bank operates. The functional and the presentation currency of the Bank, is the national currency of the Republic of Azerbaijan, Azerbaijani Manats ("AZN").

Monetary assets and liabilities are translated into the Bank's functional currency at the official exchange rate of the CBAR at the end of the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the Bank's functional currency at year-end official exchange rates of the CBAR, are recognized in profit or loss for the year (as foreign exchange translation gains less losses). Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

The exchange rates used by the Bank in the preparation of the financial statements as at year-end are as follows:

	December 31, 2019	**December 31, 2018**
AZN/1 US Dollar	1.7000	1.7000
AZN/1 Euro	1.9035	1.9468

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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.

Staff costs and related contributions. Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Measurement of ECL allowance. Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 24. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refer to Note 24.

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

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

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

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Bank identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 24.

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

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

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

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

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

The Bank’s loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change

as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

Initial recognition of related party transactions. In the normal course of business the Bank enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 28.

Useful life of premises and equipment. The Bank assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit or loss.

Valuation of lease liabilities and right of use assets. The application of IFRS 16 requires to make judgements of right of use assets and lease liabilities. In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

5 Adoption of New or Revised Standards and Interpretations

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 in December 31, 2019.

IFRIC 23 "Uncertainty over Income Tax Treatments" addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- whether tax treatments should be considered collectively;
- assumptions for taxation authorities' examinations;
- the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- the effect of changes in facts and circumstances.

Annual Improvements to IFRS Standards 2015-2017 Cycle contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

Standard	Subject of amendment
IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements"	The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
IAS 12 "Income Taxes"	The amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises.
IAS 23 "Borrowing Costs"	The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

Amendments to IAS 19 "Employee Benefits Plan Amendment, Curtailment or Settlement" – The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

Amendments to IAS 28 "Investments in Associations and Joint Ventures" – The IASB has published amendments to IAS 28 regarding the long-term interest in associates and joint Ventures. According to the amendment the entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendment is effective for annual periods beginning on or after January 1, 2019.

Amendments to IFRS 9 "Financial Instruments" – The IASB has published amendments to IFRS 9 regarding prepayment features with negative compensation and modifications of financial liabilities.

Prepayment Features with Negative Compensation amends the existing requirement of IFRS 9 regarding termination rights in order to allow measurement at amortized cost even in the case of negative compensation payments. The IASB also clarifies that the entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of modification or exchange.

IFRS 16 "Leases", which specifies how and IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 was issued on January 13, 2016 and applies to an annual reporting period beginning on or after January 1, 2019.

The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. The Bank was effected by application of new standard as a Lessee.

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Bank will:

a) Recognize right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments;

b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) are recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company opts to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Bank has evaluated the effects of application of this standard and made changes on its financial statements.

The following is a reconciliation of total operating lease commitments at January 1, 2019 to the lease liabilities recognized at January 1, 2019:

	December 31, 2019
Total operating lease commitments disclosed at January 1, 2019	1,856
Discounted using incremental borrowing rate	(462)
Total lease liabilities recognized under IFRS 16 at January 1, 2019	**1,394**

The effect of adoption IFRS 16 on the financial statements as at January 1, 2019 was as follows:

	Carrying value as at January 1, 2019 under previous GAAP	**Re-measurement**	**Carrying value per IFRS 16 as at January 1, 2019**
Property and equipment	18,639	1,394	20,033
Lease liability	-	(1,394)	(1,394)

6 Standard and Interpretations Issued but not Yet Adopted

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.

IFRS 3 *Business Combinations. Amendment of the definition of "Business"* – The amendments will help companies determine whether an acquisition made is of a business or a group of assets.

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. According to the amendment new definition a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing *goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities*.

Companies are required to apply the amended definition of a business to acquisitions that occur on or after January 1, 2020. Earlier application is permitted.

New definition of "Material" – The IASB has issued amendments to its definition of material to make it easier for companies to make materiality judgements. The updated definition amends IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The changes are effective from January 1, 2020. Earlier application is permitted.

IASB has published **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** as a first reaction to the potential effects the IBOR reform could have on financial reporting. The changes in Interest Rate Benchmark Reform will:

- modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform;
- are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform;
- are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required); and
- require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The amendments are be effective for annual periods beginning on or after January 1, 2020 and must be applied retrospectively. Early application is permitted.

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, 2021. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

Amendments to IAS 1 to clarify the classification of liabilities – In January 2020 the IASB has issued **"Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)"** providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and are to be applied retrospectively. Earlier application is permitted.

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 re-measurement 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.

7 Cash and Cash Equivalents and Mandatory Cash Balances with CBAR

In thousands of Azerbaijani Manats	2019	2018
Cash on hand	5,244	6,069
Cash balances with CBAR (other than mandatory reserve deposits)	19,725	12,406
Mandatory cash balances with CBAR	759	599
Correspondent accounts and overnight placements with other banks:		
- Republic of Azerbaijan	69	166
- Republic of Turkey and OECD countries	36,897	21,331
- Non-OECD countries	45	24,186
Total cash and cash equivalents and mandatory cash balances with CBAR	**62,739**	**64,757**

For the purpose of ECL measurement cash and cash equivalents and mandatory cash balances with CBAR are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognize any credit loss allowance for cash and cash equivalents and mandatory cash balances with CBAR. Refer to Note 24 for the ECL measurement approach.

Credit institutions are required to maintain a non-interest earning cash deposit (mandatory cash balances) with the CBAR at 0.5% of the previous month average balances in AZN and 1% of the previous month average balances in foreign currencies respectively, attracted from customers by the credit institution. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

At December 31, 2019 the Bank had 4 counterparty banks (2018: 4) with aggregated cash and cash equivalent balances above AZN 1,000 thousand. The total aggregate amount of these balances was AZN 57,377 thousand (2018: AZN 57,869 thousand) or 91% of the cash and cash equivalents and mandatory cash balances with CBAR (2018: 89%).

The published international rating (by Standard & Poor's) of the Republic of Azerbaijan is BB+ (2018: BB+).

8 Due from Banks

In thousands of Azerbaijani Manats	2019	2018
Placements with other banks with original maturities of more than three months	6,097	9,415
Blocked correspondent accounts with banks and other financial institutions	1,275	1,275
Restricted deposits	-	13,697
Short term placements with other banks	-	8,941
Less: Allowance for expected credit loss	(35)	(122)
Total due from banks	**7,337**	**33,206**

Amounts due from banks are not collateralised. Analysis by credit quality of amounts due from banks outstanding at December 31, 2019 and 2018 is as follows:

In thousands of Azerbaijani Manats	2019	2018
- BB- (Fitch)	-	8,554
- BBB+ (Fitch)	-	5,142

In thousands of Azerbaijani Manats	2019	2018
- Unrated foreign banks	7,372	9,873
- Unrated Azerbaijani Banks	-	9,759
Less: Allowance for expected credit loss	(35)	(122)
Total due from banks	**7,337**	**33,206**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the year ended December 31, 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2019	**33,328**	**-**	**-**	**33,328**
New assets originated or purchased	5,950	-	-	5,950
Assets repaid	(31,906)	-	-	(31,906)
As at December 31, 2019	**7,372**	**-**	**-**	**7,372**

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2019	**(122)**	**-**	**-**	**(122)**
Net remeasurement	87	-	-	87
As at December 31, 2019	**(35)**	**-**	**-**	**(35)**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks during the year ended December 31, 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2018	**24,601**	**-**	**-**	**24,601**
New assets originated or purchased	31,405	-	-	31,405
Assets repaid	(23,261)	-	-	(23,261)
Other movements	583	-	-	583
As at December 31, 2018	**33,328**	**-**	**-**	**33,328**

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2018	-	-	-	-
Net remeasurement	(122)	-	-	(122)
As at December 31, 2018	**(122)**	**-**	**-**	**(122)**

There were no transfers between stages during the years ended December 31, 2019 and 2018.

At December 31, 2019 the Bank had balances with 1 counterparty banks (2018: 4) with aggregated amount above AZN 5,000 thousands. The total aggregate amount of these deposits was AZN 5,950 thousand (2018: AZN 31,235 thousand) or 81% of the total amount due from banks (2018: 94%).

Unrated banks in which the Bank had deposit balances are among top 25 banks in the Republic of Azerbaijan based on their total assets.

9 Investment securities

Investment securities comprises:

In thousands of Azerbaijani Manats	2019 Carrying value	2019 Nominal value	2018 Carrying value	2018 Nominal value
Debt securities at FVOCI				
Eurobonds of "Turkiye Halk Bankasi" AS	5,146	5,146	-	-
Bonds of State Oil Company of the Republic of Azerbaijan	4,076	4,076	4,076	4,076
Equity securities at FVOCI				
Corporate shares	250	250	250	250
Total investment securities	**9,472**	**9,472**	**4,326**	**4,326**

Currencies of investment securities are presented below:

	2019	2018
Eurobonds of Halk Bank Turkey	USD	-
Bonds of State Oil Company of the Republic of Azerbaijan	USD	USD
Corporate shares	AZN	AZN

Bonds of State Oil Company of the Republic of Azerbaijan represent 2,375 bonds with nominal value of USD 1 thousand each. These bonds are traded on Baku Stock Exchange and can be sold at any time by market value.

Included in investment securities AZN 124 thousand and AZN 39 thousand as at December 31, 2019 and 2018, respectively, represent accrued interest receivable.

10 Loans and Advances to Customers

In thousands of Azerbaijani Manats	December 31, 2019	December 31, 2018
Corporate loans	125,710	79,708
Loans to individuals – entrepreneurs	23,303	20,878
Loans to individuals - consumer loans	8,094	9,326
Less: Allowance for expected credit loss	(10,307)	(6,399)
Total loans and advances to customers	**146,800**	**103,513**

Included in loans and advances to customers AZN 6,748 thousand and AZN 3,191 thousand as at December 31, 2019 and 2018, respectively, represent accrued interest receivable.

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers during the year ended December 31, 2019.

	2019			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2019	**51,643**	**12,675**	**45,594**	**109,912**
New assets originated or purchased	27,903	-	-	27,903
Other movements (asset repayment, modification of assets, etc.)	2,414	12,988	3,528	18,930
Transfer to Stage 1	55,080	(25,663)	(29,417)	-
Transfer to Stage 2	(1,377)	3,570	(2,193)	-
Transfer to Stage 3	(1,105)	-	1,105	-
Recoveries of amounts previously written off	-	-	362	362
At December 31, 2019	**134,558**	**3,570**	**18,979**	**157,107**

	2019			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2019	**(704)**	**(471)**	**(5,224)**	**(6,399)**
New assets originated or purchased	(122)	-	-	(122)
Net remeasurement	(534)	288	(1,131)	(1,377)
Transfer to Stage 1	(224)	183	41	-
Transfer to Stage 2	-	(376)	376	-
Transfer to Stage 3	915	-	(915)	-
Other changes	-	-	(2,047)	(2,047)
Recoveries of amounts previously written off	-	-	(362)	(362)
At December 31, 2019	**(669)**	**(376)**	**(9,262)**	**(10,307)**

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers during the year ended December 31, 2018.

	2018			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2018	**31,005**	**7,510**	**30,692**	**69,207**
New assets originated or purchased	61,082	-	-	61,082
Other movements (asset repayment, modification of assets, etc.)	(12,895)	2,317	(9,437)	(20,015)
Transfer to Stage 1	324	(1)	(323)	-
Transfer to Stage 2	(10,906)	10,974	(68)	-
Transfer to Stage 3	(16,967)	(8,125)	25,092	-
Amounts written off	-	-	(362)	(362)
At December 31, 2018	**51,643**	**12,675**	**45,594**	**109,912**

	2018			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2018	**(1,115)**	**(301)**	**(5,300)**	**(6,716)**
New assets originated or purchased	(718)	-	-	(718)
Net remeasurement	(4,194)	(703)	5,570	673
Transfer to Stage 1	(1)	-	1	-
Transfer to Stage 2	471	(473)	2	-
Transfer to Stage 3	4,853	1,006	(5,859)	-
Amounts written off	-	-	362	362
At December 31, 2018	**(704)**	**(471)**	**(5,224)**	**(6,399)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2019 is as follows:

	2019			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2019	**40,622**	**12,335**	**26,751**	**79,708**
New assets originated or purchased	23,415	-	-	23,415
Other movements (asset repayment, modification of assets, etc.)	5,433	13,075	4,079	22,587
Transfer to Stage 1	52,710	(25,410)	(27,300)	-
Transfer to Stage 2	(1,377)	1,377	-	-
Transfer to Stage 3	(1,076)	-	1,076	-
At December 31, 2019	**119,727**	**1,377**	**4,606**	**125,710**

	2019			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2019	**(698)**	**(446)**	**(2,550)**	**(3,694)**
New assets originated or purchased	(110)	-	-	(110)
Net remeasurement	(534)	263	876	605
Transfer to Stage 1	(219)	183	36	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	902	-	(902)	-
Other changes	-	-	(271)	(271)
At December 31, 2019	**(659)**	**-**	**(2,811)**	**(3,470)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2018 is as follows:

	2018			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2018	**30,589**	**5,098**	**23,550**	**59,237**
New assets originated or purchased	41,700	-	-	41,700
Other movements (asset repayment, modification of assets, etc.)	(12,895)	2,575	(10,909)	(21,229)
Transfer to Stage 1	311	-	(311)	-
Transfer to Stage 2	(10,643)	10,643	-	-
Transfer to Stage 3	(8,440)	(5,981)	14,421	-
At December 31, 2018	**40,622**	**12,335**	**26,751**	**79,708**

	2018			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2018	(1,113)	(40)	(3,010)	**(4,163)**
New assets originated or purchased	(698)	-	-	(698)
Net remeasurement	(1,882)	(115)	3,164	1,167
Transfer to Stage 1	(1)	-	1	**-**
Transfer to Stage 2	446	(446)	-	-
Transfer to Stage 3	2,550	155	(2,705)	-
At December 31, 2018	**(698)**	**(446)**	**(2,550)**	**(3,694)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals - entrepreneurship loans during the year ended December 31, 2019 is as follows:

		2019		
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2019	**3,965**	**9**	**16,904**	**20,878**
New assets originated or purchased	3,824	-	-	3,824
Other movements (asset repayment, modification of assets, etc.)	(1,878)	46	71	(1,761)
Transfer to Stage 1	2,060	(55)	(2,005)	-
Transfer to Stage 2	-	986	(986)	-
Transfer to Stage 3	(21)	-	21	-
Recoveries of amounts previously written off	-	-	362	362
At December 31, 2019	**7,950**	**986**	**14,367**	**23,303**

		2019		
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2019	**-**	**-**	**(2,303)**	**(2,303)**
New assets originated or purchased	(9)	-	-	(9)
Net remeasurement	(1)	-	(2,205)	(2,206)
Transfer to Stage 1	(5)	-	5	-
Transfer to Stage 2	-	(203)	203	-
Transfer to Stage 3	9	-	(9)	-
Other changes	-	-	(1,776)	(1,776)
Recoveries of amounts previously written off	-	-	(362)	(362)
At December 31, 2019	**(6)**	**(203)**	**(6,447)**	**(6,656)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals - entrepreneurship loans during the year ended December 31, 2018 is as follows:

	2018			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2018	203	1,065	6,687	**7,955**
New assets originated or purchased	11,758	-	-	11,758
Other movements (asset repayment, modification of assets, etc.)	-	(104)	1,631	1,527
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	(7,996)	(952)	8,948	-
Amounts written off	-	-	(362)	(362)
At December 31, 2018	**3,965**	**9**	**16,904**	**20,878**

	2018			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2018	-	(130)	(2,120)	**(2,250)**
New assets originated or purchased	-	-	-	-
Net remeasurement	(2,303)	(83)	1,971	(415)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	2,303	213	(2,516)	-
Amounts written off	-	-	362	362
At December 31, 2018	**-**	**-**	**(2,303)**	**(2,303)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals - consumer loans during the year ended December 31, 2019 is as follows:

	2019			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2019	**7,056**	**331**	**1,939**	**9,326**
New assets originated or purchased	664	-	-	664
Other movements (asset repayment, modification of assets, etc.)	(1,141)	(133)	(622)	(1,896)
Transfer to Stage 1	310	(198)	(112)	-
Transfer to Stage 2	-	1,207	(1,207)	-
Transfer to Stage 3	(8)	-	8	-
At December 31, 2019	**6,881**	**1,207**	**6**	**8,094**

	2019			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2019	**(6)**	**(25)**	**(371)**	**(402)**
New assets originated or purchased	(3)	-	-	(3)
Net remeasurement	1	25	198	224
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	(173)	173	-
Transfer to Stage 3	4	-	(4)	-
At December 31, 2019	**(4)**	**(173)**	**(4)**	**(181)**

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals - consumer loans during the year ended December 31, 2018 is as follows:

	2018			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2018	213	1,347	455	**2,015**
New assets originated or purchased	7,624	-	-	7,624
Other movements (asset repayment, modification of assets, etc.)	-	(154)	(159)	(313)
Transfer to Stage 1	13	(1)	(12)	-
Transfer to Stage 2	(263)	331	(68)	-
Transfer to Stage 3	(531)	(1,192)	1,723	-
At December 31, 2018	**7,056**	**331**	**1,939**	**9,326**

	2018			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
At January 1, 2018	(2)	(131)	(170)	**(303)**
New assets originated or purchased	(23)	-	-	(23)
Net remeasurement	(6)	(505)	435	(76)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	25	(27)	2	-
Transfer to Stage 3	-	638	(638)	-
At December 31, 2018	**(6)**	**(25)**	**(371)**	**(402)**

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2019		**2018**	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Trade	49,109	31.3	28,666	26.1
Construction	36,753	23.4	25,877	23.5
Manufacturing	23,889	15.2	9,697	8.8
Service	15,231	9.7	18,309	16.7
Individuals	14,629	9.3	18,070	16.4
Agriculture	9,151	5.8	3,144	2.9
Financial Institutions	5,384	3.4	1,982	1.8
Healthcare	2,961	1.9	3,404	3.1
Transport	-	-	763	0.7
Total loans and advances to customers (before ECL)	**157,107**	**100.0**	**109,912**	**100.0**

As at December 31, 2019, the Bank had 33 borrowers (2018: 23) with aggregated granted loan amounts above AZN 1,000 thousand. The total aggregate amount of these loans was AZN 133,978 thousand or 85% of the gross loan portfolio (2018: AZN 79,376 thousand or 72%).

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

The effect of collateral at December 31, 2019:

	Over-collateralised Assets		**Under-collateralised Assets**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	72,902	122,986	49,340	22,700
Individuals - Consumer loans	6,178	9,408	1,731	1,009
Individuals - entrepreneurship loans	12,381	27,902	4,268	4,051

The effect of collateral at December 31, 2018:

	Over-collateralised Assets		**Under-collateralised Assets**	
	Carrying value of the assets	**Fair value of collateral**	**Carrying value of the assets**	**Fair value of collateral**
Corporate loans	31,913	110,049	44,104	6,834
Individuals - Consumer loans	414	1,036	8,509	1,068
Individuals - entrepreneurship loans	5,304	13,207	13,271	2,772

Refer to Note 0 for the estimated fair value of each class of loans and advances to customers. Interest rate, currency, maturity and geographical analysis of loans and advances to customers is disclosed in Note 24 . Information on related party balances is disclosed in Note 0.

11 Premises, Equipment and Intangible Assets

In thousands of Azerbaijani Manats	**Buildings**	**Office and computer equipment**	**Leasehold improvements**	**Motor vehicles**	**CIP**	**Total premises and equipment**	**Computer software licences**	**Intangible CIP**	**Total**
Carrying amount at January 1, 2018	**13,550**	**1,132**	**422**	**111**	**-**	**15,215**	**2,293**	**397**	**17,905**
Additions	352	235	861	38	81	**1,567**	230	153	**1,950**
Transfers	-	81	-	-	(81)	**-**	397	(397)	**-**
Depreciation/amortization charge	(288)	(501)	(100)	(55)	-	**(944)**	(272)	-	**(1,216)**
Carrying amount at December 31, 2018	**13,614**	**947**	**1,183**	**94**	**-**	**15,838**	**2,648**	**153**	**18,639**
Cost at December 31, 2018	14,428	2,082	1,528	228	-	**18,266**	3,109	153	**21,528**
Accumulated depreciation/amortization	(814)	(1,135)	(345)	(134)	-	**(2,428)**	(461)	-	**(2,889)**
Carrying amount at December 31, 2018	**13,614**	**947**	**1,183**	**94**	**-**	**15,838**	**2,648**	**153**	**18,639**
Adjustment on application of IFRS 16	1,394	-	-	-	-	1,394	-	-	1,394
Carrying amount at January 1, 2019	**15,008**	**947**	**1,183**	**94**	**-**	**17,232**	**2,648**	**153**	**20,033**
Additions	404	329	1,311	327	-	**2,371**	207	-	**2,578**
Transfers	-	-	-	-	-	**-**	153	(153)	**-**
Depreciation/amortization charge	(470)	(464)	(262)	(79)	-	**(1,275)**	(329)	-	**(1,604)**
Carrying amount at December 31, 2019	**14,942**	**812**	**2,232**	**342**	**-**	**18,328**	**2,679**	**-**	**21,007**
Cost at December 31, 2019	16,226	2,411	2,839	555	-	**22,031**	3,469	-	**25,500**
Accumulated depreciation/amortization	(1,284)	(1,599)	(607)	(213)	-	**(3,703)**	(790)	-	**(4,493)**
Carrying amount at December 31, 2019	**14,942**	**812**	**2,232**	**342**	**-**	**18,328**	**2,679**	**-**	**21,007**

As at December 31, 2019 and 2018, included in property and equipment were fully depreciated assets in the amount of AZN 960 thousands and AZN nil, respectively. As at December 31, 2019 and 2018, premises, equipment and intangible assets were not pledged as collateral.

As at December 31, 2019 and 2018, included in premises, equipment and intangible assets insured in the amount of AZN 15,197 thousand and AZN 14,466 thousand, respectively.

Included in the carrying amount of the buildings category of property and equipment the amount of AZN 1,280 thousand is the right-of-use assets for 3 branches area as at December 31, 2019 (January 1, 2019: AZN 1,394 thousand).

12 Other Assets

In thousands of Azerbaijani Manats	2019	2018
Other financial assets:		
Settlements receivable	110	35
Accrued commission receivable	5	1
Total other financial assets:	**115**	**36**
Other non- financial assets:		
Prepayment for services	850	176
Prepaid taxes	136	985
Total other non-financial assets:	**986**	**1,161**
Total other assets	**1,102**	**1,197**

All of the above assets are expected to be recovered within twelve months after the year-end.

13 Due to Banks

In thousands of Azerbaijani Manats	2019	2018
Short-term placements of banks	25,974	20,338
Due to Entrepreneurship Development Fund of the Republic of Azerbaijan	13,400	-
Correspondent accounts of banks and financial institutions	7,127	8,711
Restricted deposits of local banks	4,411	12,856
Restricted correspondent accounts of local banks	1,683	9,046
Total due to banks	**52,595**	**50,951**

Included in due to banks AZN 424 thousand and AZN 577 thousand as at December 31, 2019 and 2018, respectively, represent accrued interest payable.

14 Customer Accounts

In thousands of Azerbaijani Manats	2019	2018
State and public organisations		
Time deposits	362	579
Current/settlement accounts	296	254
Other legal entities		
Term deposits	44,763	36,139
Current/settlement accounts	24,814	22,378
Individuals		
Term deposits	41,295	39,504
Current/settlement accounts	13,336	9,867
Total customer accounts	**124,866**	**108,721**

Economic sector concentrations within customer accounts are as follows:

	2019		2018	
In thousands of Azerbaijani Manats	**Amount**	**%**	**Amount**	**%**
Individuals	54,632	44	49,371	45
Insurance	39,911	32	27,729	26
Construction	11,170	9	1,832	2
Trade and other services	9,735	8	18,491	17
Manufacturing	8,052	6	1,467	1
State and public organisations	658	1	833	1
Transportation and communications	646	-	8,973	8
Agriculture	48	-	9	-
Oil and gas sector	14	-	16	-
Others	-	-	-	-
Total customer accounts	**124,866**	**100**	**108,721**	**100**

At December 31, 2019, the Bank had 37 customers (2018: 34) with balances above AZN 500 thousand. The aggregate balance of these customers was AZN 87,634 thousand or 70% of total customer accounts (2018: AZN 81,416 thousand or 75%).

Included in customer accounts in the amount of AZN 971 thousand and AZN 601 thousand as at December 31, 2019 and 2018, respectively is accrued interest payable.

Included in customer accounts in the amount of AZN 17,311 thousand and AZN 13,530 thousand as at December 31, 2019 and 2018, respectively are deposits blocked as collateral for loans issued.

Included in customer accounts in the amount of AZN 52,252 thousand and AZN 48,462 thousand as at December 31, 2019 and 2018, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

15 Lease Liabilities

In thousands of Azerbaijani Manats	**December 31, 2019**	**January 1, 2019**	**December 31, 2018**
Lease liabilities (current)	125	116	-
Lease liabilities (non-current)	1,155	1,278	-
Total lease liabilities	**1,280**	**1,394**	**-**

Future minimum lease payments as at December 31, 2019 were as follows:

	Minimum lease payments due		
In thousands of Azerbaijani Manats	**Within one year**	**One to ten years**	**Total**
Lease payments	213	1,430	1,643
Finance charges	(88)	(275)	(363)
Net present value as at December 31, 2019	**125**	**1,155**	**1,280**

Future minimum lease payments as at January 1, 2019 were as follows:

	Minimum lease payments due		
In thousands of Azerbaijani Manats	**Within one year**	**One to ten years**	**Total**
Lease payments	213	1,643	1,856
Finance charges	(97)	(365)	(462)
Net present value as at January 1, 2019	**116**	**1,278**	**1,394**

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

	As at January 1, 2019	**Cash flow**	**Non-cash changes**	**As at December 31, 2019**
In thousands of Azerbaijani Manats		*Principal and interest*	*Interest expense*	
Lease liability	1,394	(211)	97	1,280

16 Other Liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	**2019**	**2018**
Other financial liabilities:		
Settlements payable	179	111
Others	-	26
Total other financial liabilities	**179**	**137**
Other non-financial liabilities:		
Provision for possible guarantees and other commitments*	693	511
Taxes payable	397	26
Payables for unused vacation rights of staff	201	213
Advances received	58	364
Others	10	6
Total other non-financial liabilities	**1,359**	**1,120**
Total other liabilities	**1,538**	**1,257**

All of the above liabilities balances are expected to be settled within twelve months after the year-end.

*An analysis of changes in the ECL allowance on commitment and contingencies during the year ended December 31, 2019 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2019	**(314)**	**(185)**	**(12)**	**(511)**
New exposures recognized	(568)	-	-	(568)
Exposures derecognized or matured	188	185	12	385
As at December 31, 2019	**(694)**	**-**	**-**	**(694)**

There were no transfers between stages during the years ended December 31, 2019.

*An analysis of changes in the ECL allowance on commitment and contingencies during the year ended December 31, 2018 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2018	**(646)**	**-**	**-**	**(646)**
New exposures recognized	(219)	-	-	(219)
Exposures derecognized or matured	354	-	-	354
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	185	(185)	-	-
Transfers to Stage 3	12	-	(12)	-
As at December 31, 2018	**(314)**	**(185)**	**(12)**	**(511)**

17 Share Capital

In thousands of Azerbaijani Manats except for number of shares	Number of outstanding shares	Ordinary shares	Total
At January 1, 2018	**50,000**	**50,000**	**50,000**
At December 31, 2018	**50,000**	**50,000**	**50,000**
At December 31, 2019	**50,000**	**50,000**	**50,000**

All ordinary shares have a nominal value of AZN 1,000 per share and rank equally. Each share carries one vote.

As a result of capital contribution, T.C. Ziraat Bank Inc. (Republic of Turkey), Ziraat Insurance Inc. (Republic of Turkey) and Ziraat Investment Securities Inc. (Republic of Turkey) owned 99.98%, 0.01% and 0.01% of Bank's share capital respectively.

18 Interest Income and Expense

In thousands of Azerbaijani Manats	2019	2018
Interest income		
Loans and advances to customers	13,483	10,961
Guarantees	1,135	1,165
Due from banks	905	1,934
Cash and cash equivalents and mandatory cash balances with CBAR	590	1,331
Investment securities	351	1,023
Total interest income	**16,464**	**16,414**
Interest expense		
Term deposits of legal entities/customer accounts	(2,278)	(1,771)
Term deposits of individuals/customer accounts	(1,344)	(1,446)
Due to banks	(1,089)	(1,063)
Lease liabilities	(97)	-
Total interest expense	**(4,808)**	**(4,280)**
Net interest income	**11,656**	**12,134**

19 Expected Credit Loss Expense on Financial Assets

The following table provides a reconciliation between loss allowance roll-forward and the impairment losses in the statement of profit or loss and other comprehensive income per class of financial instrument.

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	(656)	288	(1,131)	**(1,499)**
Due from banks	87	-	-	**87**
Expected credit loss expense on financial assets	**(569)**	**288**	**(1,131)**	**(1,412)**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	(4,912)	(703)	5,570	**(45)**
Due from banks	(122)	-	-	**(122)**
Expected credit loss expense on financial assets	**(5,034)**	**(703)**	**5,570**	**(167)**

20 Fee and Commission Income and Expense

In thousands of Azerbaijani Manats	**2019**	**2018**
Fee and commission income		
- Settlement transactions	1,374	1,199
- Plastic card operations	250	102
- Cash transactions	212	234
- Others	72	74
Total fee and commission income	**1,908**	**1,609**

In thousands of Azerbaijani Manats	**2019**	**2018**
Fee and commission expense		
- Plastic card operations	(427)	(316)
- Settlement transactions	(334)	(409)
- Letters of credit and guarantee letters	(157)	(156)
- Cash transactions	(12)	(13)
- Others	(37)	(37)
Total fee and commission expense	**(967)**	**(931)**
Net fee and commission income	**941**	**678**

21 Administrative and Operating Expenses

In thousands of Azerbaijani Manats	**Note**	**2019**	**2018**
Staff costs and related contribution		2,723	2,619
Depreciation of premises and equipment	11	1,275	944
Software expenses		725	350
Advertising and marketing expenses		435	571
Professional fees		352	250
Amortization of intangible assets	11	329	272
Payments to the Financial Markets Supervisory Authority		300	339
Payments to the Deposit Insurance Fund		266	238
Representation expenses		230	96
Communication expenses		224	209
Office expenses		180	180
Security expenses		160	125
Taxes, other than income tax		136	109
Insurance expenses		123	114
Cleaning expenses		94	101
Business trip expenses		79	47
Repair and maintenance		59	62
Utility expenses		58	45
Fuel expenses		43	36
Membership fees		41	31
Sponsorship expenses		8	57
Operating lease expenses		-	173
Others		70	102
Total administrative and operating expenses		**7,910**	**7,070**

Included in staff costs are statutory pension contributions of AZN 351 thousand (2018: 303 thousand).

22 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss for the year comprises the following:

In thousands of Azerbaijani Manats	**2019**	**2018**
Current income tax expense	(751)	(282)
Deferred income tax expense	(135)	(1,039)
Income tax expense for the year	**(886)**	**(1,321)**

(b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Bank’s 2019 and 2018 income is 20%. Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	**2019**	**2018**
Profit before tax	**4,219**	**6,364**
Theoretical tax charge at statutory rate (20%)	(844)	(1,273)
- Non-deductible expenses	(42)	(48)
Income tax expense for the year	**(886)**	**(1,321)**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In thousands of Azerbaijani Manats	**January 1, 2019**	**Credited/(debited) to profit or loss**	**December 31, 2019**
Tax effect of deductible temporary differences			
Lease liability	-	256	256
Tax effect of taxable temporary differences			
Right of use asset	-	(279)	(279)
Premises and equipment	(204)	(25)	(229)
Other assets	12	(24)	(12)
Loans and advances to customers	(22)	15	(7)
Other liabilities	78	(78)	-
Net deferred income tax liability	**(136)**	**(135)**	**(271)**

In thousands of Azerbaijani Manats	**January 1, 2018**	**Credited/(debited) to profit or loss**	**December 31, 2018**
Tax effect of deductible temporary differences			
Other liabilities	-	78	78
Other assets	-	12	12
Tax effect of taxable temporary differences			
Loans and advances to customers	1,030	(1,052)	(22)
Premises and equipment	(127)	(77)	(204)
Net deferred income tax liability	**903**	**(1,039)**	**(136)**

23 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

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

Earnings per share are calculated as follows:

In thousands of Azerbaijani Manats	**Note**	**2019**	**2018**
Profit for the year attributable to ordinary shareholders (thousand)		3,333	5,043
Weighted average number of ordinary shares in issue (thousand)	17	50	50
Earnings per ordinary share (expressed in AZN per share)		**66.66**	**100.86**

24 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Bank exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties, giving rise to financial assets and off-balance sheet credit-related commitments.

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

Credit risk management. Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

The estimation of credit risk for risk management purposes is complex and involves the use of models, as the risk varies depending on market conditions, expected cash flows and the passage of time. The assessment of credit risk for a portfolio of assets entails further estimations of the likelihood of defaults occurring, the associated loss ratios and credit conversion factors.

Limits. 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 to geographical and industry segments.

Limits on the level of credit risk by product and industry sector are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

The Bank established a number of credit committees that are responsible for approving credit limits for individual borrowers. Depending on the magnitude of credit risk, the decisions on transactions with corporate clients are approved either by the Main Credit Committee or the Small Credit Committee. These committees convene weekly. In certain circumstances (for example, based on tenor or size) loans are approved by the Executive Board Director or the Board of Directors.

Loan applications originated by the relevant client relationship managers are passed on to the relevant credit committee for the approval of the credit limit. Exposure to credit risk is also managed, in part, by obtaining collateral as well as corporate and personal guarantees. In order to monitor exposure to credit risk, regular reports are produced by the officers based on a structured analysis focusing on the customer's business and financial performance. Any significant interaction with customers with deteriorating creditworthiness are reported to and reviewed by the Executive Board or the Board of Directors.

Expected credit loss (ECL) measurement – definitions

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and determined by evaluating a range of possible outcomes.

Discount Rate – a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

Lifetime period – the maximum period over which ECL should be measured. For loans with fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Forward looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Bank considers that 12-month and lifetime CCFs are the same.

Purchased or originated credit impaired (POCI) financial assets – financial assets that are credit-impaired upon initial recognition.

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by Azerbaijan Republic and nominated in AZN, loans to companies owned by Azerbaijan Republic and nominated in AZN. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaning fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the Bank consider to sell the borrower's debt with significant losses (more than 5% of the debt principal balance and accrued interest);
- the borrower has the external rating below Caa2;
- the Bank has classified the borrower in the default rating class according to the master scale;

The Main Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikeliness-to-pay criteria listed below:

- the borrower is insolvent;
- it is becoming likely that the borrower will enter bankruptcy;
- Other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Bank's Risk Management Department.

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

For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:

- 31-90 days past due;
- Monitoring suggests borrower has financial difficulties.

For loans to Individuals:

- 31-90 days past due;
- Refinanced loan – a special type of loan when all loans of the borrower are refinanced into one;
- Inclusion of loan into a watch list zone by NPL department;

If there is evidence that the SICR criteria are no longer met and this has lasted at least 6 month, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 Based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarized in a three-stage model for ECL measurement:

Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition; loss allowance is based on 12-month ECLs.
Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired; loss allowance is based on lifetime ECLs.
Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Bank only recognizes the cumulative changes in lifetime expected credit losses.

The Bank can carry out three separate approaches for ECL measurement:

- assessment on an individual basis;
- assessment on a portfolio basis;
- assessment based on external ratings.

The Bank performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Bank performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialized lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to SMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Bank performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks, legal entities and sovereigns, loans issued to sovereigns.

Principles of assessment on individual basis – ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Bank combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a Bank are homogeneous.

Examples of shared characteristics include: type of customer (such as income producing real estate or trading companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of Bankings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below. It could be applied for products assessed on a portfolio basis and for products for which the bank has credit risk ratings assessment based on borrower-specific information.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for the next 12 months or instrument lifetime. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier period).

The brief principles of calculating the credit risk parameters are as following.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortizing products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a credit conversion factor that accounts for the expected drawdown of the remaining limit by the time of default.

Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for forward-looking information when appropriate.

- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 exposures. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward looking information when appropriate.

To calculate Lifetime PD, the Bank uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Bank uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by the product, stage and the availability of collateral or other credit support.
The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

The approach to LGD measurement can be divided into three possible approaches:

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

For loans secured by real estate the Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds LGD is calculated on a collective basis based on the latest available recovery statistics.

ECL measurement for off-balance sheet financial instruments

CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees is defined based on statistical analysis of exposure at default.

CCF for credit lines is defined as 50% since the limits can be used by the clients at any time.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (PD) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information incorporated in the ECL models. The assessment of the SICR and the calculation of ECLs both incorporate forward-looking information. The Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

These economic variables and their associated impact on the PD vary by financial instrument. These economic variables, such as consumer price index changes, nominal and real GDP growth, nominal and real effective exchange rates, USD exchange rate changes, changes in the budget expenditures have been tested by performing statistical regression analysis to understand the impact of changes in these variables has historically had on default rates.

Based on them the Bank's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Bank to define the next coming stage of economic cycle using not only statistical approach but also expert judgement of the management.

The assessment of SICR is performed using the Lifetime PD for retail borrowers and 12-month PD for other financial assets, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running the relevant ECL model.

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

Validation. The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation the ECL measurement methodology are communicated to the Bank management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

Assessment of loss allowance for credit related commitments. Assessment of loss allowance for credit related commitments is performed on a similar basis with balance sheet exposures by application of credit conversion factor (CCF) if the counterparty has current balance sheet exposure. Statistical information and Basel Committee values are used for calculation of CCF. If the counterparty does not have balance sheet exposure the assessment of expected credit loss allowance is performed on an individual or collective basis depending on the amount of exposure by applying CCF.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in (a) currency, (b) interest rates and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Currency risk. In respect of currency risk, management sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

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

In thousands of Azerbaijani Manats	**At December 31, 2019** Monetary financial assets	Monetary financial liabilities	The effect of derivatives	Net position	**At December 31, 2018** Monetary financial assets	Monetary financial liabilities	Net position
Azerbaijani Manats	109,625	68,897	3,400	44,128	64,786	23,527	41,259
US Dollars	102,146	95,656	(3,400)	3,090	119,981	126,720	(6,739)
Euro	14,223	14,086	-	137	20,149	8,973	11,176
Turkish Lira	166	33	-	133	390	46	344
Others	303	248	-	55	532	543	(11)
Total	**226,463**	**178,920**	**-**	**47,543**	**205,838**	**159,809**	**46,029**

The above analysis includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to the functional currency of the Bank, with all other variables held constant:

In thousands of Azerbaijani Manats	**At December 31, 2019** Impact on profit or loss	**At December 31, 2018** Impact on profit or loss
US Dollar strengthening by 30%	927	(2,022)
US Dollar weakening by 30%	(927)	2,022
Euro strengthening by 30%	41	3,353
Euro weakening by 30%	(41)	(3,353)
Turkish Lira strengthening by 30%	40	103
Turkish Lira weakening by 30%	(40)	(103)
Other strengthening by 30%	17	(3)
Other weakening 30%	(17)	3
Total	-	-

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Bank.

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

At December 31, 2019 and 2018, the Bank did not have financial instruments at variable interest rates.

The Bank monitors interest rates for its financial instruments. The table below summarises interest rates at the respective reporting date based on reports reviewed by key management personnel.

	2019			**2018**		
In % p.a.	**AZN**	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Assets						
Cash and cash equivalents	5.76%	-	-	8.72%	-	-
Due from banks	-	4.55%	-	11%	4.44%	-
Loans and advances to customers	12.09%	6.10%	5.20%	14.60%	6.93%	4.25%
Investment securities	-	4.71%	-	-	5.00%	-
Liabilities						
Due to banks	3.67%	2.83%	1.00%	-	3.13%	1.90%
Term deposits	9.00%	2.21%	1.00%	7.55%	1.87%	1.00%
Credit related commitments	9.76%	5.76%	7%	1.08%	2.37%	1.25%
Lease liability	7.50%	-	-	-	-	-

The sign "- "in the table above means that the Bank does not have the respective assets or liabilities in the corresponding currency.

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

Impact on profit before tax:

	As at December 31, 2019		**As at December 31, 2018**	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Financial assets				
Cash and cash equivalents	627	(627)	648	(648)
Due from banks	73	(73)	332	(332)
Loans to customers	1,468	(1,468)	1,035	(1,035)
Investment securities	95	(95)	43	(43)
Financial liabilities				
Due to banks	(526)	526	(510)	510
Customer accounts	(1,249)	1,249	(1,087)	1,087
Lease liabilities	(13)	13	-	-
Net impact on profit before tax	**475**	**(475)**	**461**	**(461)**

Geographical risk concentrations. The geographical concentration of the Bank’s financial assets and liabilities at December 31, 2019 and 2018 is set out below:

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	2019 Total
Financial assets				
Cash and cash equivalents and mandatory cash balances with CBAR	25,797	36,897	45	62,739
Due from banks	-	-	7,337	7,337
Investment securities	4,326	-	5,146	9,472
Loans and advances to customers	115,996	25,079	5,725	146,800
Other financial assets	115	-	-	115
Total financial assets	**146,234**	**61,976**	**18,253**	**226,463**
Financial liabilities				
Due to banks	52,143	452	-	52,595
Customer accounts	113,399	5,896	5,571	124,866
Lease liability	1,280	-	-	1,280
Other financial liabilities	179	-	-	179
Total financial liabilities	**167,001**	**6,348**	**5,571**	**178,920**
Net position in on-balance sheet financial instruments	**(20,767)**	**55,628**	**12,682**	**47,543**
Off-balance sheet commitments	**71,016**	**-**	**-**	**71,016**

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	2018 Total
Financial assets				
Cash and cash equivalents and mandatory cash balances with CBAR	19,240	21,331	24,186	64,757
Due from banks	9,515	13,818	9,873	33,206
Available-for-sale investments	4,326	-	-	4,326
Loans and advances to customers	65,844	14,145	23,524	103,513
Other financial assets	36	-	-	36
Total financial assets	**98,961**	**49,294**	**57,583**	**205,838**
Financial liabilities				
Due to banks	50,885	66	-	50,951
Customer accounts	98,604	4,851	5,266	108,721
Other financial liabilities	137	-	-	137
Total financial liabilities	**149,626**	**4,917**	**5,266**	**159,809**
Net position in on-balance sheet financial instruments	**(50,665)**	**44,377**	**52,317**	**46,029**
Off-balance sheet commitments	**66,474**	**-**	**-**	**66,474**

Liquidity risk. Liquidity risk is the risk that Bank will encounter difficulty in meeting obligations associated with financial liabilities. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw-downs, guarantees and from margin and other calls on cash-settled derivative instruments. The Bank does not maintain cash resources to meet all of these needs as

experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. Liquidity risk is managed by the Assets and Liabilities Committee of the Bank.

The Bank monitors and reports liquidity risk daily, paying particular attention to ensuring that there are optimal levels of cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimizing the cost of carrying any excess liquidity.

To manage liquidity risk, the Bank performs daily monitoring of future expected cash flows on clients’ and banking operations, which forms part of the asset and liability management process. The Bank also has to comply with minimum levels of liquidity required by the CBAR. This ratio is calculated as the ratio of highly-liquid assets to liabilities payable on demand. The ratio was 154% and 169% at December 31, 2019 and 2018 respectively, whereas the minimum percentage required by the CBAR is 30%.

The Bank seeks to maintain a stable funding base primarily consisting of the bank’s funds in CBAR. The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the CBAR.

The liquidity management of the Bank requires consideration of the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans; and monitoring liquidity ratios against regulatory requirements including minimum levels of liquidity required by the CBAR.

The Treasury Department receives information about the liquidity profile of the financial assets and liabilities. The Treasury Department then provides for an adequate portfolio of short-term liquid assets, largely made up of short-term liquid trading securities, deposits with banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The tables below show liabilities at December 31, 2019 and 2018 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, including financial guarantees. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in the statement of financial position is based on discounted cash flows.

The table below shows the maturity analysis of non-derivative financial assets at their carrying amounts and based on their contractual maturities, except for assets that are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of undiscounted financial liabilities at December 31, 2019 is as follows:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Due to banks	9,339	13,083	3,427	28,306	54,155
Customer accounts	47,346	39,042	35,240	5,594	127,222
Lease liability	18	89	106	1,430	1,643
Other financial liabilities	179	-	-	-	179
Unused loan commitments	3,365	-	-	-	3,365
Financial guarantees	67,651	-	-	-	67,651
Total potential future payments for financial obligations	**127,898**	**52,214**	**38,773**	**35,330**	**254,215**

The maturity analysis of undiscounted financial liabilities at December 31, 2018 is as follows:

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
Liabilities					
Due to banks	18,411	18,365	10,365	4,346	51,487
Customer accounts	35,651	36,257	24,870	15,204	111,982
Other financial liabilities	137	-	-	-	137
Unused loan commitments	2,076	-	-	-	2,076
Financial guarantees	64,398	-	-	-	64,398
Total potential future payments for financial obligations	**120,673**	**54,622**	**35,235**	**19,550**	**230,080**

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit as included in the above maturity table does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Customer accounts classified in the above analysis based on contractual maturities. However, in accordance with Civil Code of the Republic of Azerbaijan, individuals have a right to withdraw their deposits prior to maturity if they forfeit their right to accrued interest.

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

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
December 31, 2019					
Total financial assets	87,017	57,451	25,918	56,327	226,713
Total financial liabilities	56,467	50,422	37,647	34,384	178,920
Net liquidity gap based on expected maturities	**30,550**	**7,029**	**(11,729)**	**21,943**	**47,793**

In thousands of Azerbaijani Manats	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
December 31, 2018					
Total financial assets	69,263	29,502	34,935	72,138	205,838
Total financial liabilities	53,869	53,347	34,147	18,446	159,809
Net liquidity gap based on expected maturities	**15,394**	**(23,845)**	**788**	**53,692**	**46,029**

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

25 Management of Capital

According to the Order of the President of the Republic of Azerbaijan "On improving management of the regulation and supervision of financial services market" issued on November 28, 2019 the Financial Market Supervisory Authority was liquidated. The authorities of the financial market supervisor stipulated by the applicable law, including rights and responsibilities in the areas of licensing of financial market services, regulation and supervision, protection of rights of investors and consumers of financial services, as well as FIMSA's property were handed over to the Central Bank of the Republic of Azerbaijan.

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The adequacy of the Bank's capital is monitored using, among other measures, the ratios established by the Basel Capital Accord 1988 and the ratios established by the CBAR in supervising the Bank.

During the past year, the Bank had complied in full with all its externally imposed capital requirements. The capital structure of the Bank consists of debt and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in statement of changes in equity.

Compliance with capital adequacy ratios set by the CBAR is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Financial Director, and the Head of Management Board. Other objectives of capital management are evaluated annually.

Under the current prudential capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (December 31, 2018: AZN 50,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (December 31, 2018: 10%) and (c) maintain a ratio of Tier 1 capital to the risk-weighted assets (the 'Tier 1 capital ratio') at or above the prescribed minimum of 5% (December 31, 2018: 5%).

The composition of the Bank's capital calculated in accordance with the CBAR capital requirements is as follows:

In thousands of Azerbaijani Manats	**2019**	**2018**
Tier 1 Capital		
Share capital	50,000	50,000
Add retained earnings	14,859	13,485
Less intangible assets	2,685	2,654
Total tier 1 capital	**62,174**	**60,831**
Current year profit	3,144	1,374
Plus: general provision for impairment	2,786	1,986
Total regulatory capital	**68,104**	**64,191**
Risk weighted assets	**222,874**	**249,039**
Capital adequacy ratio	31%	26%
Tier I Capital to risk weighted assets	28%	24%

26 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Bank may be received. On the basis of its own estimates and both internal professional advice, management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax legislation. Azerbaijani tax legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities.

The Bank's management believes that its interpretation of the relevant legislation is appropriate and the Bank's tax, currency and customs positions will be sustained. Accordingly, at December 31, 2018 no provision for potential tax liabilities was recorded.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Compliance with covenants. As at December 31, 2019 and 2018 the Bank was not in breach of any covenants set by CBAR.

Credit related commitments. As at December 31 the Bank's commitments and contingencies comprised the following:

In thousands of Azerbaijani Manats	**2019**	**2018**
Financial guarantees issued	67,651	64,398
Undrawn credit lines	3,365	2,076
Total credit related commitments	**71,016**	**66,474**

The total outstanding contractual amount of undrawn credit lines and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

In thousands of Azerbaijani Manats	**2019**	**2018**
Azerbaijani Manats	21,679	27,566
US Dollars	47,906	35,028
Euro	1,431	3,880
Total	**71,016**	**66,474**

27 Fair Value of Financial Instruments

(a) Fair values of financial instruments carried at amortized cost.

At December 31, 2019 and 2018, fair values of financial assets and financial liabilities carried at amortized cost approximated their carrying values.

(b) The methods and assumptions applied in determining fair values.

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. Where quoted market prices were not available, the Bank used valuation techniques. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Fair value of financial assets that are measured at fair value:

In thousands of Azerbaijani Manats	**December 31, 2019 Level 1 fair value**	**December 31, 2018 Level 1 fair value**
Investment securities measured at FVOCI	9,472	4,326

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

In thousands of Azerbaijani Manats	**December 31, 2019 Level 1 fair value**	**December 31, 2018 Level 1 fair value**
Cash and cash equivalents and mandatory cash balances with CBAR	62,739	64,757

In thousands of Azerbaijani Manats	**December 31, 2019 Level 3 fair value**	**December 31, 2018 Level 3 fair value**
FINANCIAL ASSETS		
Due from banks		
- Short-term placements with other banks	7,337	33,206
Loans and advances to customers		
- Corporate loans	125,710	79,708
- Loans to individuals – entrepreneurs	23,303	20,878
- Loans to individuals – consumer loans	8,094	9,326
Other financial assets	115	36
TOTAL	**164,559**	**143,154**

Fair values analysed by level in the fair value hierarchy and carrying value of liabilities not measured at fair value are as follows:

In thousands of Azerbaijani Manats	**December 31, 2019 Level 3 fair value**	**December 31, 2018 Level 3 fair value**
FINANCIAL LIABILITIES		
Due to banks		
- Short-term placements of banks	25,974	20,338
- Due to Entrepreneurship Development Fund of the Republic of Azerbaijan	13,400	-
- Correspondent accounts of banks	7,127	8,711
- Restricted deposits of local banks	4,411	12,856
- Restricted correspondent accounts of local banks	1,683	9,046
Customer accounts		
- Current/settlement accounts of state and public organisations	296	254
- Term deposits of state and other legal entities	362	579
- Current/settlement accounts of other legal entities	24,814	22,378
- Term deposits of other legal entities	44,763	36,139
- Current/demand accounts of individuals	13,336	9,867
- Term deposits of individuals	41,295	39,504
Lease liability	1,280	-
Other financial liabilities	179	137
TOTAL	**178,920**	**159,809**

28 Related Party Transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

At December 31, 2019, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Other related parties**	**Key management personnel**
Cash and cash equivalents	1,613	50	-
Due from banks	-	1,275	-
Loans and advances to customers	-	-	74
Customer accounts	-	-	297

At December 31, 2018, the outstanding balances with related parties were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Other related parties**	**Key management personnel**
Cash and cash equivalents	21,063	24,191	-
Due from banks	-	9,873	-
Loans and advances to customers	-	-	74
Customer accounts	-	-	4

The income and expense items with related parties for 2019 were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Other related parties**	**Key management personnel**
Interest income	-	-	4
Interest expense	-	-	6
Administrative and operating expenses	-	149	-

The income and expense items with related parties for 2018 were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Other related parties**	**Key management personnel**
Interest income	-	-	-
Administrative and operating expenses	-	25	-

At December 31, 2019, other rights and obligations with related parties were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Other related parties**	**Key management personnel**
Guarantees issued by the Bank	33,944	-	-
Guarantees received by the Bank	17,655	-	-

At December 31, 2018, other rights and obligations with related parties were as follows:

In thousands of Azerbaijani Manats	**Parent company**	**Other related parties**	**Key management personnel**
Guarantees issued by the Bank at the year end	21,250	-	-
Guarantees received by the Bank at the year end	17,655	-	-

There were no aggregate amounts lent to and repaid by related parties during 2019 and 2018.

Key management compensation is presented below:

	2019		**2018**	
In thousands of Azerbaijani Manats	**Expense**	**Accrued liability**	**Expense**	**Accrued liability**
Short-term benefits:				
- Salaries	496	44	551	32
Total	**496**	**44**	**551**	**32**

Compensation paid to thirteen members of execution management team is made up of a contractual salary and an annual bonus. The total compensation of executive management is included in operating expenses in the statement of profit or loss and other comprehensive income.

29 Events after the reporting date

On January 31, 2020 the Central Bank of the Republic of Azerbaijan decided to reduce the refinancing rate from 7.50% to 7.25%, the ceiling of the interest rate corridor from 9.25% to 9.00% and the floor from 5.75% to 5.50%