Ziraat Bank Azerbaijan Open Joint-Stock Company

Financial Statements and
Independent Auditor's Report
For the year ended December 31, 2023

Ziraat Bank Azerbaijan Open Joint-Stock Company

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Independent auditor's report
To the Shareholders 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, 2023, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Responsibilities of Management and Audit Committee for the Financial Statements

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

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

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

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.

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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 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.

Grant Thornton

GRANT THORNTON
Baku, Republic of Azerbaijan

Date: March 19, 2024

Statement of financial position
As at December 31, 2023

In thousands of Azerbaijani Manats	Notes	December 31, 2023	December 31, 2022
ASSETS			
Cash and cash equivalents and mandatory cash balances with CBAR	7	**146,828**	142,285
Due from other banks and financial institutions	8	**25,881**	19,273
Investment securities	9	**49,048**	31,749
Loans and advances to customers	10	**381,933**	306,319
Premises, equipment and right-of-use assets	11.1	**22,182**	22,569
Intangible assets	11.2	**3,907**	3,331
Deferred tax asset	22	**90**	25
Other financial assets	12	**1,710**	1,046
Other non-financial assets	12	**1,700**	1,093
TOTAL ASSETS		**633,279**	527,690
LIABILITIES			
Due to banks	13	**76,459**	80,090
Customer accounts	14	**441,561**	340,649
Lease liabilities	15	**4,371**	4,092
Other financial liabilities	16	**1,155**	923
Other non-financial liabilities	16	**1,407**	1,837
TOTAL LIABILITIES		**524,953**	427,591
EQUITY			
Share capital	17	**65,500**	65,500
Surplus on revaluation of financial assets at fair value through other comprehensive income - net		**1,046**	674
Retained earnings		**41,780**	33,925
TOTAL EQUITY		**108,326**	100,099
TOTAL LIABILITIES AND EQUITY		**633,279**	527,690

Approved for the issue and signed on behalf of the Management Board on March 19, 2024.

Demir Selcuk
Chairman of the Board of Directors

«Ziraat Bank Azərbaycan» ASC
Ziraat Bank Azərbaycan ASC
«Ziraat Bank Azerbaijan» OJSC

Elmir Hasanli
Finance Director

The notes set out on pages 9 to 59 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income
For the year ended December 31, 2023

In thousands of Azerbaijani Manats	**Notes**	**2023**	2022
Interest income	18	**48,779**	33,263
Interest expense	18	**(12,635)**	(7,450)
Net interest income		**36,144**	25,813
Expected credit loss expense on financial assets	19	**(19,047)**	(11,512)
Net interest income		**17,097**	14,301
Fees and commission income	20	**8,151**	6,389
Fees and commission expense	20	**(4,265)**	(3,563)
Net gains from trading in foreign currencies		**4,669**	4,871
Foreign exchange translation losses, net		**(213)**	(230)
Reversal of expected credit losses for credit related commitments		**163**	191
Administrative and operating expenses	21	**(16,259)**	(12,873)
Charged of repossessed assets		**(28)**	(235)
Dividend income		**450**	281
Other income, net		**60**	36
Profit before tax		**9,825**	9,168
Taxation	22	**(1,970)**	(1,585)
NET PROFIT FOR THE YEAR		**7,855**	7,583
Other comprehensive income for the year:			
Surplus on revaluation of financial assets at fair value through other comprehensive income		**465**	842
Related deferred tax effect		**(93)**	(168)
Total other comprehensive income for the year		**372**	674
Total comprehensive income for the year		**8,227**	8,257
Earnings per share attributable to the owners of the Bank, basic and diluted (expressed in AZN per share)	23	**119.92**	115.77

The notes set out on pages 9 to 59 form an integral part of these financial statements.

Statement of changes in equity
For the year ended December 31, 2023

	Attributable to equity holders of the Bank			
In thousands of Azerbaijani Manats	**Share capital**	**Surplus on revaluation of financial assets at fair value through other comprehensive income- net**	**Retained earnings**	**Total**
Balance at 01 January 2022	50,000	-	26,342	76,342
Issue of shares	15,500	-	-	15,500
Net profit for the year	-	-	7,583	7,583
Other comprehensive income for the year	-	674	-	674
Total comprehensive income for the year	-	674	7,583	8,257
Balance at 31 December 2022	65,500	674	33,925	100,099
Net profit for the year	**-**	**-**	**7,855**	**7,855**
Other comprehensive income for the year	**-**	**372**	**-**	**372**
Total comprehensive income for the year	**-**	**372**	**7,855**	**8,227**
Balance at 31 December 2023	**65,500**	**1,046**	**41,780**	**108,326**

The notes set out on pages 9 to 59 form an integral part of these financial statements.

Statement of cash flows
For the year ended December 31, 2023

In thousands of Azerbaijani Manats	**Notes**	**2023**	2022
OPERATING ACTIVITIES			
Interest received		**50,769**	31,795
Interest paid		**(11,444)**	(5,971)
Fees and commissions received		**8,131**	6,438
Fees and commissions paid		**(4,265)**	(3,563)
Income received from trading in foreign currencies		**4,669**	4,871
Staff costs paid		**(7,380)**	(5,624)
Administrative and operating expenses paid		**(7,251)**	(4,634)
Taxes paid		**(2,126)**	(3,110)
Cash flows from operating activities before changes in operating assets and liabilities		**31,103**	20,202
Net increase in:			
-Mandatory minimum cash balance with Central Bank		**(31,069)**	(8,335)
-Due from banks and other financial institutions		**(6,425)**	(8,642)
-Loans and advances to customers		**(76,851)**	(86,510)
-Other assets		**(1,062)**	(180)
Net increase/(decrease) in:			
-due to banks		**(4,155)**	23,121
-customer accounts		**100,547**	94,378
- other liabilities		**(1,038)**	(1,089)
Net cash generated from operating activities		**11,050**	32,945
INVESTING ACTIVITIES			
Purchase of investment securities		**(17,390)**	(850)
Proceeds from sale and redemption of investment securities		**997**	-
Proceeds from disposal of property and equipment		**59**	-
Acquisition of premises and equipment excluding right-of-use assets		**(1,796)**	(1,864)
Acquisition of intangible assets		**(1,352)**	(612)
Dividend received		**450**	281
Net cash used in investing activities		**(19,032)**	(3,045)
FINANCING ACTIVITIES			
Principal payment for lease liability	15	**(705)**	(693)
Issue of share capital		**-**	15,500
Net cash (used in)/generated from financing activities		**(705)**	14,807
Effect of exchange rate changes on cash and cash equivalents		**(213)**	(230)
Net (decrease)/ increase in cash and cash equivalents		**(8,900)**	44,477
Cash and cash equivalents at the beginning of the year		**132,338**	87,861
Cash and cash equivalents at the end of the year	7	**123,438**	132,338

The notes set out on pages 9 to 59 form an integral part of these financial statements.

1 Introduction

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. The Bank's immediate parent company is T.C. Ziraat Bankasi A.Ş. The ultimate owner is Government Wealth Fund of Turkiya.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank was granted a full banking license #255 issued by the Central Bank of the Republic of Azerbaijan ("CBAR") on December 30, 2014, but the effective operations of the Bank were started from the beginning of 2015. The Bank participates in the state deposit insurance Fund, which was introduced by Azerbaijani Law, "Deposits of Individuals' insurance in the Republic of Azerbaijan" dated December 29, 2006. The Deposit Insurance Fund guarantees the payment of compensation to each participant in the amount of 100 percent of the insured deposit not more than 100 (one hundred) thousand Manats in the bank. Compensation for funds in bank accounts opened by natural persons in connection with entrepreneurial activity shall not exceed 20 (twenty) thousand Manats, and compensation for funds belonging to natural persons in the deposit accounts of notaries shall be paid in the amount of 100 percent of those funds. The Bank has a head office and 8 (2022: 7) branches within the Republic of Azerbaijan. The Bank has 176 personnel in employment as at December 31, 2023 (2022: 154).

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"). The Azerbaijani Manats have been rounded to nearest thousands.

Statement of compliance with International Financial Reporting Standards. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). Further the accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements for the year ended December 31, 2022 except for changes as disclosed in note 5.

2 Operating environment

The Bank's main operations are conducted in the Azerbaijan Republic. Azerbaijan continues economic reforms and development of its legal, tax, and regulatory framework to strengthen and diversify the economy. In this respect, Azerbaijan endorsed strategic road maps for development of national economy and main economic sectors in 2016. Legislation including tax, currency fluctuation and customs legislations within the Azerbaijan Republic is changing rapidly. The future economic direction of the Azerbaijan Republic is largely dependent upon the implementation of economic, financial, legislative and monetary measures undertaken by the government. The Bank's financial position will continue to be affected by developments in Azerbaijan, however; the Bank does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in the Azerbaijan Republic. The Bank's management is closely watching these developments in current environment and taking appropriate necessary actions to support the sustainability and development of Bank's business in foreseeable future. These financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable. Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed for additional taxes, penalties and interest. Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Management believes that its interpretation of the relevant legislation as at December 31, 2023 is appropriate and that the Bank's tax, and currency positions will be sustained.

3 Summary of material accounting policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). Further the accounting policies applied in the preparation of these financial statements are consistent with those applied in the financial statements for the year ended December 31, 2022 except for changes as disclosed in note 5.

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.

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.

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortized 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.

Amortized 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 amortization 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 amortized 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 amortized 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 (AC), fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

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

• the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

• the contractual terms of the financial asset give 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 FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give 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 FVTPL.

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

Business model assessment. The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is 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 practices. 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 recognizes 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 recognized as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortized cost, net of allowance for ECL, are recognized in profit or loss and other changes in carrying value are recognized 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 significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 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 are 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 amortized 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 recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognized 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 derecognition event. The Bank may write off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derecognition of financial assets. The Bank derecognizes 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 an 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 an 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 amortized 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 amounts 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 are 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 the statement of cash flows.

Due from banks and other financial institutions. Amounts due from banks and other financial institutions are recorded when the Bank advances money to counterparty banks. Amounts due from banks and other financial institutions 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 instruments 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 a 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 recognized in profit or loss. An impairment allowance estimated using the expected credit loss model is recognized in profit or loss for the year. All other changes in the carrying value are recognized in OCI. When the debt security is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried out 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 recognized 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 capitalized, 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 the 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. Construction in progress is 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:

Description of assets	Useful lives in years
Buildings	**50**
Office and computer equipment	**4-5**
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 a definite useful life and primarily include capitalized computer software, trademark and licenses. Acquired intangible assets are capitalized 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. Capitalized 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. These intangible assets are amortized on a straight-line basis over the expected useful lives of 1-10 years.

Assets held for sale. Non-current assets that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale within another asset line of the statement of financial position. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Bank's accounting policies. Thereafter generally, the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

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

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

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

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

Lease liabilities. At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects the Bank exercising the option to terminate.

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

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

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 the 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 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 in 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 utilized.

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 the 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 FVTPL.

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 initially 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 recognized 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 recognized 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.

(in thousands of Azerbaijan Manats)

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 yearend 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, 2023	December 31, 2022
AZN/1 US Dollar	**1.7000**	1.7000
AZN/1 Euro	**1.8766**	1.8114

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. Actual results may differ from these estimates. The investment through OCI is carried at fair value. The fair value of this investment has been determined after considering the financial results of the investees. 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 the 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 the 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 the 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 a 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 the 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 the 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 assets 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 sales, 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 the 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 the 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 situations that can occur in financial markets. In the 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, i.e. 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 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 macroeconomic 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.

(in thousands of Azerbaijan Manats)

5 Standards, interpretations and amendments to existing standards that are effective in 2023

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

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

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB or IFRIC. None of these Standards or amendments to existing Standards have been adopted early by the Bank and no Interpretations have been issued that are applicable and need to be taken into consideration by the Bank at either reporting date.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year are not expected to have a material impact on the Bank's financial statements in the year of adoption.

7 Cash and cash equivalents and mandatory cash balances with CBAR

In thousands of Azerbaijani Manats	**2023**	2022
Cash in hand	**6,651**	7,535
Cash balances with CBAR (other than mandatory reserve deposits)	**71,814**	40,745
Mandatory cash balances with CBAR	**23,456**	9,964
Correspondent accounts and overnight placements with other banks:		
- Republic of Azerbaijan	**2,216**	-
- Republic of Turkey and OECD countries	**42,739**	84,053
- Non-OECD countries	**18**	5
Less: allowance for expected credit loss	**(66)**	(17)
Total cash and cash equivalents and mandatory cash balances with CBAR	**146,828**	142,285

Cash and cash equivalents for the purpose of the statement of cash flows are given below:

In thousands of Azerbaijani Manats	**2023**	2022
Cash in hand	**6,651**	7,535
Cash balances with CBAR (other than mandatory reserve deposits)	**71,814**	40,745
Correspondent accounts and overnight placements with other banks:		
- Republic of Azerbaijan	**2,216**	-
- Republic of Turkey and OECD countries	**42,739**	84,053
- Non-OECD countries	**18**	5
Total cash and cash equivalents and mandatory cash balances with CBAR	**123,438**	132,338

For the purpose of ECL measurement cash and cash equivalents and mandatory cash balances with CBAR are included in Stage 1. Refer to Note 24 for the ECL measurement approach.

At December 31, 2023, the Bank had 3 counterparty banks (2022: 3) with aggregated cash balances above AZN 1,000 (2022:1,000) thousand. The total aggregate amount of these balances was AZN 44,421 (2022: AZN 84,052) thousand or 99% of balance maintained with "correspondent accounts and overnight placements with other banks" (2022: 99.99%). The published international rating by Fitch ratings (by Standard & Poor's) of the Republic of Azerbaijan is BB+ (2022: BB+/B).

8 Due from other banks and financial institutions

In thousands of Azerbaijani Manats	**2023**	2022
Placements with other banks and other financial institutions with original maturities of more than three months	**23,533**	18,180
Blocked correspondent accounts with banks and other financial institutions	**2,607**	1,275
Less: allowance for expected credit loss	**(259)**	(182)
Total due from other banks and other financial institutions	**25,881**	19,273

Amounts due from banks and other financial institutions are not collateralized. Analysis by the credit quality of amounts due from banks and other financial institutions outstanding at December 31, 2023 and 2022 is as follows:

In thousands of Azerbaijani Manats	**2023**	2022
• AA	**8,748**	-
• B	**8,599**	-
• B-	**5,927**	-
• B2	**-**	5,086
• Unrated local financial institutions	**-**	5,000
• Unrated foreign banks	**2,607**	9,187
Total due from other banks and financial institutions	**25,881**	19,273

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks and financial institutions during the year ended December 31, 2023 is as follows:

In thousands of Azerbaijani Manats	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying value as at January 1, 2023	**19,455**	**-**	**-**	**19,455**
New assets originated or purchased	**6,685**	**-**	**-**	**6,685**
As at December 31, 2023	**26,140**	**-**	**-**	**26,140**

In thousands of Azerbaijani Manats	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**(182)**	**-**	**-**	**(182)**
Loss allowance during the year	**(77)**	**-**	**-**	**(77)**
As at December 31, 2023	**(259)**	**-**	**-**	**(259)**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from other banks and financial institutions during the year ended December 31, 2022 is as follows:

In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2022	10,537	-	-	10,537
New assets originated or purchased	8,918	-	-	8,918
As at December 31, 2022	19,455	-	-	19,455

In thousands of Azerbaijani Manats	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2022	(48)	-	-	(48)
Loss allowance during the year	(134)	-	-	(134)
As at December 31, 2022	(182)	-	-	(182)

There were no transfers between stages during the years ended December 31, 2023 and 2022.

At December 31, 2023 the Bank had balances with 3 counterparty bank with the aggregated principal amount above AZN 5,000 thousand (2022: 1). The total aggregate principal amount of these deposits was AZN 18,082 (2022: 7,912) thousand or 77% (2022: 44%) of the Placements with other banks and other financial institutions with original maturities of more than three months .

9 Investment securities

Investment securities comprise:

In thousands of Azerbaijani Manats	**2023**	2022
Debt securities at amortized cost		
Short notes of Central Bank of Azerbaijan Republic-AZN	**15,919**	-
Bonds of "SOCAR Polymer Investments" LLC-USD	**6,800**	6,800
Bonds of Ministry of Treasury and Finance of Turkey-USD	**6,650**	6,595
Bonds of "Turkcell Iletisim Hizmetleri" AS-USD	**6,374**	6,449
Bonds of "Turkiye Vakiflar Bankasi" T.A.O-USD	**5,948**	6,074
Bonds of "Turk Telekomunikasyon" AS-USD	**3,588**	3,647
Unibank OJSC-AZN	**2,016**	-
Bonds of State Oil Company of the Republic of Azerbaijan-USD	**512**	511
State bonds of Ministry of Finance of the Republic of Azerbaijan-AZN	**-**	1,022
Less: allowance for expected credit losses	**(316)**	(441)
	47,491	30,657
Equity securities at FVOCI		
Corporate shares	**1,557**	1,092
Total investment securities	**49,048**	31,749

The fair value of equity securities at FVOCI has been determined after considering the financial results of the investees.

In thousands of Azerbaijani Manats	**2023**	2022
Surplus on revaluation of financial assets at FVOCI for the year:		

Surplus on revaluation of financial assets at fair value through other comprehensive income	**465**	842
Related deferred tax liability	**(93)**	(168)
	372	674

Accrued interest of AZN 873 thousand and AZN 355 thousand is included in investment securities as at December 31, 2023 and 2022 respectively.

All investment security balances are in Stage 1 as at December 31, 2023 and 2022.

There were no transfers between stages during the years ended December 31, 2023 and 2022.

10 Loans and advances to customers

In thousands of Azerbaijani Manats	**2023**	2022
Corporate loans	**365,550**	305,939
Loans to individuals – entrepreneurs	**21,587**	18,970
Loans to individuals - consumer loans	**15,528**	8,682
	402,665	333,591
Less: Allowance for expected credit loss	**(20,732)**	(27,272)
Total loans and advances to customers	**381,933**	306,319

Accrued interest of AZN 5,925 thousand and AZN 13,702 is included in loans and advances to customers as at December 31, 2023 and 2022 respectively.

(in thousands of Azerbaijan Manats)

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, 2023.

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**288,283**	**14,253**	**31,055**	**333,591**
New assets originated or purchased	**246,591**	**-**	**-**	**246,591**
Movement between stages and others	**(154,558)**	**(12,338)**	**(10,621)**	**(177,517)**
As at December 31, 2023	**380,316**	**1,915**	**20,434**	**402,665**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**(5,275)**	**(245)**	**(21,752)**	**(27,272)**
Allowance for the year	**(3,260)**	**212**	**(15,998)**	**(19,046)**
Written offs	**-**	**-**	**25,586**	**25,586**
As at December 31, 2023	**(8,535)**	**(33)**	**(12,164)**	**(20,732)**

(in thousands of Azerbaijan Manats)

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, 2022.

	2022			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	193,063	28,293	24,104	245,460
New assets originated or purchased	203,113	-	-	203,113
Movement between stages and others	(107,893)	(14,040)	6,951	(114,982)
As at December 31, 2022	288,283	14,253	31,055	333,591

	2022			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	(2,765)	(858)	(14,524)	(18,147)
Net remeasurement	(2,510)	613	(9,173)	(11,070)
Written offs	-	-	1,945	1,945
As at December 31, 2022	(5,275)	(245)	(21,752)	(27,272)

(in thousands of Azerbaijan Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2023 is as follows:

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**272,727**	**14,253**	**18,959**	**305,939**
New assets originated or purchased	**223,535**	**-**	**-**	**223,535**
Movement between stages and others	**(148,501)**	**(12,497)**	**(2,926)**	**(163,924)**
As at December 31, 2023	**347,761**	**1,756**	**16,033**	**365,550**

Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**(5,000)**	**(245)**	**(10,256)**	**(15,501)**
Net remeasurement	**(2,910)**	**212**	**(14,848)**	**(17,546)**
Written offs	**-**	**-**	**16,748**	**16,748**
As at December 31, 2023	**(7,910)**	**(33)**	**(8,356)**	**(16,299)**

(in thousands of Azerbaijan Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2022 is as follows:

	2022			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	183,126	26,069	10,122	219,317
New assets originated or purchased	193,094	-	-	193,094
Movement between stages and others	(103,493)	(11,816)	8,837	(106,472)
As at December 31, 2022	272,727	14,253	18,959	305,939

	2022			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	(2,595)	(643)	(4,031)	(7,269)
Net remeasurement	(2,405)	398	(7,241)	(9,248)
Written offs	-	-	1,016	1,016
As at December 31, 2022	(5,000)	(245)	(10,256)	(15,501)

(in thousands of Azerbaijan Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals - entrepreneurship loans during the year ended December 31, 2023 is as follows:

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**6,973**	**-**	**11,997**	**18,970**
New assets originated or purchased	**14,135**	**-**	**-**	**14,135**
Movement between stages and others	**(3,886)**	**-**	**(7,632)**	**(11,518)**
As at December 31, 2023	**17,222**	**-**	**4,365**	**21,587**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**(132)**	**-**	**(11,398)**	**(11,530)**
Net remeasurement	**(284)**	**-**	**(1,128)**	**(1,412)**
Written offs	**-**	**-**	**8,753**	**8,753**
As at December 31, 2023	**(416)**	**-**	**(3,773)**	**(4,189)**

(in thousands of Azerbaijan Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals - entrepreneurship loans during the year ended December 31, 2022 is as follows:

	2022			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	5,717	1,355	13,913	20,985
New assets originated or purchased	4,456	-	-	4,456
Movement between stages and others	(3,200)	(1,355)	(1,916)	(6,471)
As at December 31, 2022	6,973	-	11,997	18,970

	2022			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	(53)	(14)	(10,432)	(10,499)
Net remeasurement	(79)	14	(1,895)	(1,960)
Written offs	-	-	929	929
As at December 31, 2022	(132)	-	(11,398)	(11,530)

Notes to the financial statements
For the year ended December 31, 2023
(in thousands of Azerbaijan Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals – consumer loans during the year ended December 31, 2023 is as follows:

	2023			
Gross carrying value	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**8,583**	**-**	**99**	**8,682**
New assets originated or purchased	**8,921**	**-**	**-**	**8,921**
Movement between stages and others	**(2,171)**	**159**	**(63)**	**(2,075)**
As at December 31, 2023	**15,333**	**159**	**36**	**15,528**

	2023			
Allowance for ECL of loans to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at January 1, 2023	**(143)**	**-**	**(98)**	**(241)**
Net remeasurement	**(66)**	**-**	**(22)**	**(88)**
Written offs	**-**	**-**	**85**	**85**
As at December 31, 2023	**(209)**	**-**	**(35)**	**(244)**

(in thousands of Azerbaijan Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to Individuals – consumer loans during the year ended December 31, 2022 is as follows:

	2022			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	4,220	869	69	5,158
New assets originated or purchased	5,563	-	-	5,563
Movement between stages and others	(1200)	(869)	30	(2,039)
As at December 31, 2022	8,583	-	99	8,682

	2022			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2022	(117)	(201)	(61)	(379)
Net remeasurement	(26)	201	(37)	138
Written offs	-	-	-	-
As at December 31, 2022	(143)	-	(98)	(241)

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

In thousands of Azerbaijani Manats	**2023** Amount	**2023** %	2022 Amount	2022 %
Trade	**187,094**	**46.4**	135,296	40.6
Manufacturing	**92,423**	**23.0**	78,052	23.4
Individuals	**37,115**	**9.2**	27,652	8.3
Construction	**28,190**	**7.0**	46,329	13.9
Agriculture	**25,797**	**6.4**	26,324	7.9
Service	**14,905**	**3.7**	3,476	1
Healthcare	**9,889**	**2.5**	12,878	3.9
Financial Institutions	**7,252**	**1.8**	3,584	1.0
Total loans and advances to customers (before ECL)	**402,665**	**100**	333,591	100

As at December 31, 2023, the Bank had 99 borrowers (2022: 78) with aggregated granted loan amounts above AZN 1,000 thousand. The total aggregate amount of these loans was AZN 271,269 thousand or 67% of the gross loan portfolio (2022: AZN 230,944 thousand or 69%).

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 ("overcollateralized 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, 2023:

	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	**270,536**	**748,292**	**78,699**	**14,809**
Individuals - Consumer loans	**14,680**	**32,487**	**613**	**-**
Individuals – Entrepreneurship Loans	**17,203**	**54,419**	**202**	**35**

The effect of collateral at December 31, 2022:

	Over-collateralised Assets		Under-collateralised Assets	
	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	249,755	729,727	40,683	12,883
Individuals - Consumer loans	8,154	19,169	288	-
Individuals – Entrepreneurship Loans	7,238	32,116	201	49

Refer to Note 27 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 are disclosed in Note 24. Information on related party balances is disclosed in Note 28.

11.1 Property, equipment and right-of-use-assets

In thousands of Azerbaijani Manats	Buildings	Right-of-use-assets	Office and computer equipment	Leasehold improvements	Motor vehicles	Total
Carrying amount at January 1, 2022	13,289	4,132	1,676	3,950	281	23,328
Additions	212	208	757	191	64	1432
Depreciation/amortization charge	(290)	(475)	(784)	(504)	(138)	(2,191)
Carrying amount at December 31, 2022	13,211	3,865	1,649	3,637	207	22,569
Cost at December 31, 2022	15,204	5,088	4,992	5,164	749	31,197
Accumulated depreciation/amortization	(1,993)	(1,223)	(3,343)	(1,527)	(542)	(8,628)
Carrying amount at December 31, 2022	13,211	3,865	1,649	3,637	207	22,569
Additions	**14**	**681**	**919**	**-**	**189**	**1,803**
Depreciation/amortization charge	**(304)**	**(479)**	**(817)**	**(455)**	**(135)**	**(2,190)**
Carrying amount at December 31, 2023	**12,921**	**4,067**	**1,751**	**3,182**	**261**	**22,182**
Cost at December 31, 2023	**15,217**	**5,770**	**5,910**	**5,164**	**806**	**32,867**
Accumulated depreciation/amortization	**(2,296)**	**(1,703)**	**(4,159)**	**(1,982)**	**(545)**	**(10,685)**
Carrying amount at December 31, 2023	**12,921**	**4,067**	**1,751**	**3,182**	**261**	**22,182**

As at December 31, 2023 and 2022, property and equipment include fully depreciated assets of AZN 3,873 thousand and AZN 1,923 thousand, respectively. As at December 31, 2023 and 2022, property and equipment were not pledged as collateral.

As at December 31, 2023 and 2022, the amount of insured property and equipment is AZN 18,115 thousand and AZN 7,911 thousand, respectively.

The Bank has recorded right-of-use assets, as at December 31, 2023, for 7 branches (2022: 6 branches).

11.2 Intangible assets

In thousands of Azerbaijani Manats	Intangible assets	Intangible CIP	Total
Carrying amount at January 1, 2022	3,154	198	3,352
Additions	612	-	612
Transfer	198	(198)	-
Amortization charge	(633)	-	(633)
Carrying amount at December 31, 2022	3,331	-	3,331
Cost at December 31, 2022	5,804	-	5,804
Accumulated amortization	(2,473)	-	(2,473)
Carrying amount at December 31, 2022	3,331	-	3,331
Additions	**1,352**	**-**	**1,352**
Amortization charge	**(776)**	**-**	**(776)**
Carrying amount at December 31, 2023	**3,907**	**-**	**3,907**
Cost at December 31, 2023	**7,156**	**-**	**7,156**
Accumulated amortization	**(3,249)**	**-**	**(3,249)**
Carrying amount at December 31, 2023	**3,907**	**-**	**3,907**

12 Other assets

In thousands of Azerbaijani Manats	**2023**	2022
Other financial assets:		
Settlements receivables	**1,636**	971
Accrued commission receivables	**66**	67
Others	**8**	8
Total other financial assets	**1,710**	1,046
Other non-financial assets		
Prepayment for services	**1,542**	971
Repossessed assets	**158**	75
Prepayment for purchase of property and equipment	**-**	47
Total other non-financial assets:	**1,700**	1,093
Total other assets	**3,410**	2,139

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	**2023**	2022
Due to the Entrepreneurship Development Fund of the Republic of Azerbaijan	**48,159**	48,206
Short-term placements of banks	**13,167**	23,931
Correspondent accounts of banks and financial institutions	**1,123**	835
Due to the Azerbaijan Mortgage and Credit Guarantee Fund	**11,948**	5,777
Restricted correspondent accounts of local banks	**1,650**	1,275
Due to the Agrarian Credit and Development Agency under the Ministry of Agriculture	**412**	66
Total due to banks	**76,459**	80,090

Accrued Interest of AZN 1,214 thousand and AZN 690 is included in Due to Bank as as at December 31, 2023 and 2022, respectively.

14 Customer accounts

In thousands of Azerbaijani Manats	**2023**	2022
Individuals		
Current/settlement accounts	**160,263**	25,741
Term deposits	**19,584**	100,444
Other legal entities		
Current/settlement accounts	**190,117**	98,854
Term deposits	**64,002**	97,022
State and Public Organisations		
Term deposits	**7,201**	13,810
Current/settlement accounts	**394**	4,778
Total customer accounts	**441,561**	340,649

Economic sector concentrations within customer accounts are as follows:

	2023		2022	
In thousands of Azerbaijani Manats	**Amount**	%	Amount	%
Individuals	**179,847**	**40.73%**	126,185	37.04%
Manufacturing	**77,295**	**17.50%**	68,678	20.16%
Trade and other services	**85,913**	**19.46%**	41,583	12.21%
Insurance	**25,211**	**5.71%**	38,035	11.17%
Agriculture	**25,639**	**5.81%**	13,137	3.86%
Transport and communication	**360**	**0.08%**	12,696	3.73%
Construction	**39,495**	**8.94%**	12,179	3.58%
Mining	**206**	**0.05%**	9,568	2.81%
State and public organizations	**7,595**	**1.72%**	18,588	5.44%
Total customer accounts	**441,561**	**100.00**	340,649	100.00

At December 31, 2023, the Bank had 77 customers (2022: 119) with balances above AZN 500 thousand. The aggregate balance of these customers was AZN 308,065 thousand or 70% of total customer accounts (2022: 254,735 thousand or 75%). Accrued interest of AZN 3,180 thousand and 2,815 thousand is included in customer accounts as at December 31, 2023 and 2022, respectively.

As at December 31, 2023 and 2022, an amount of AZN 22,899 thousand and AZN 4,388 thousand are deposits blocked as collateral for loans issued, respectively.

As at December 31, 2023 and 2022, an amount of AZN 108,911 thousand and AZN 184,972 thousand are deposits secured by the Azerbaijan Deposit Insurance Fund, respectively.

15 Lease liabilities

In thousands of Azerbaijani Manats	**2023**	2022
Lease liabilities (current)	**454**	398
Lease liabilities (non-current)	**3,917**	3,694
Total lease liabilities	**4,371**	4,092

Future minimum lease payments as at December 31, 2023 were as follows:

	Minimum lease payments due		
In thousands of Azerbaijani Manats	**Within one year**	**More than one year**	**Total**
Lease payments	**766**	**5,796**	**6,562**
Finance charges	**(312)**	**(1,879)**	**(2,191)**
Net present value as at December 31, 2023	**454**	**3,917**	**4,371**

Future minimum lease payments as at December 31, 2022 were as follows:

	Minimum lease payments due		
In thousands of Azerbaijani Manats	**Within one year**	**More than one year**	**Total**
Lease payments	690	5,438	6,128
Finance charges	(292)	(1,744)	(2,036)
Net present value as at December 31, 2022	398	3,694	4,092

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, 2023	**Cash Flow**	**Non-cash changes**		**As at December 31, 2023**
In thousands of Azerbaijani Manats		Principal and interest paid	Interest expense	Additions	
Lease liabilities	**4,092**	**(705)**	**302**	**682**	**4,371**

	As at January 1, 2022	Cash Flow	Non-cash changes		As at December 31, 2022
In thousands of Azerbaijani Manats		Principal and interest paid	Interest expense	Additions	
Lease liabilities	4,227	(693)	350	208	4,092

16 Other liabilities

Other liabilities comprise the following:

In thousands of Azerbaijani Manats	**2023**	2022
Other financial liabilities:		
Settlements payable	**699**	434
Payable to Azerbaijan Deposit Insurance Fund	**456**	489
Total other financial liabilities	**1,155**	923
Other non-financial liabilities:		
Provision for possible guarantees and other commitments*	**876**	1,039
Tax payable	**226**	87
Payables to State and Local Funds	**134**	108
Advances received	**101**	122
Other	**70**	481
Total other non-financial liabilities	**1,407**	1,837
Total other liabilities	**2,562**	2,760

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, 2023 is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL as at January 1, 2023	**(1,039)**	**-**	**-**	**(1,039)**
New exposures recognized	**(259)**	**-**	**-**	**(259)**
Exposures derecognized or matured	**422**	**-**	**-**	**422**
As at December 31, 2023	**(876)**	**-**	**-**	**(876)**

There were no transfers between stages during the years ended December 31, 2023 and 2022.

*An analysis of changes in the ECL allowance on commitment and contingencies during the year ended December 31, 2022 is as follows:

	Stage 1	Stage 2	Stage 3	Total
ECL as at January 1, 2022	(1,230)	-	-	(1,230)
New exposures recognized	(761)	-	-	(761)
Exposures derecognized or matured	952	-	-	952
As at December 31, 2022	(1,039)	-	-	(1,039)

17 Share capital

In thousands of Azerbaijani Manats except for number of shares	**Number of outstanding shares**	**Ordinary shares**
At December 31, 2022	65,500	65,500
At December 31, 2023	**65,500**	**65,500**

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 in prior years, T.C. Ziraat Bank Inc. (the Republic of Turkey), Ziraat Technology Inc. (the Republic of Turkey) and Ziraat Investment Securities Inc. (the Republic of Turkey) owns 99.98%, 0.01% and 0.01% of Bank's share capital, respectively.

18 Interest income and expense calculated using effective interest method

In thousands of Azerbaijani Manats	**2023**	2022
Interest income related to:		
Loans and advances to customers	**34,641**	28,012
Guarantees	**1,799**	2,183
Investment securities	**2,330**	1,714
Due from banks and other financial institutions	**7,248**	986
Cash and cash equivalents	**2,761**	368
Total interest income	**48,779**	33,263
Interest expense related to:		
Term deposits of legal entities/customer accounts	**(5,381)**	(3,532)
Term deposits of individuals/customer accounts	**(4,276)**	(1,468)
Due to banks	**(2,676)**	(2,100)
Lease liabilities	**(302)**	(350)
Total interest expense	**(12,635)**	(7,450)
Net interest income	**36,144**	25,813

19 Expected credit loss expense on financial assets

The following table provides a break-down of the impairment losses in the statement of profit or loss and other comprehensive income per class of financial instrument.

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to customers	**(3,260)**	**212**	**(15,998)**	**(19,046)**
Investment securities	**125**	**-**	**-**	**125**
Due from banks and other financial institutions and correspondent accounts with other banks:	**(126)**	**-**	**-**	**(126)**
(Expected credit loss expense)/reversal of expected credit loss on financial assets	**(3,261)**	**212**	**(15,998)**	**(19,047)**

	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers	(2,510)	613	(9,173)	(11,070)
Investment securities	(298)	-	-	(298)
Due from banks and other financial institutions and correspondent accounts with other banks:	(144)	-	-	(144)
(Expected credit loss expense)/reversal of expected credit loss on financial assets	(2,952)	613	(9,173)	(11,512)

20 Fee and commission income and expense

In thousands of Azerbaijani Manats	**2023**	2022
Fee and commission income		
- Settlement transactions	**4,897**	3,940
- Plastic card operations	**2,648**	1,785
- Cash transactions	**517**	528
- Others	**89**	136
Total fee and commission income	**8,151**	6,389

In thousands of Azerbaijani Manats	**2023**	2022
Fee and commission expense		
- Plastic card operations	**(3,205)**	(2,482)
- Settlement and cash transactions	**(729)**	(684)
- Letters of credit and guarantee letters	**(259)**	(317)
- Other	**(72)**	(80)
Total fee and commission expense	**(4,265)**	(3,563)
Net fee and commission income	**3,886**	2,826

21 Administrative and operating expenses

In thousands of Azerbaijani Manats	Note	2023	2022
Staff costs and related contribution		**(7,347)**	(5,669)
Depreciation of premises and equipment	11	**(2,190)**	(2,191)
Sponsorship expenses		**(980)**	(52)
Software expenses		**(834)**	(718)
Amortization of intangible assets	11	**(776)**	(633)
Payments to the Deposit Insurance Fund		**(680)**	(462)
Advertising and marketing expenses		**(542)**	(498)
Office expenses		**(453)**	(220)
Security expenses		**(412)**	(321)
Communication expenses		**(332)**	(304)
Repair and maintenance		**(264)**	(167)
Professional fees		**(251)**	(317)
Taxes, other than income tax		**(163)**	(185)
Business trip expenses		**(137)**	(116)
Utility expenses		**(104)**	(102)
Cleaning expenses		**(47)**	(169)
Membership fees		**(46)**	(57)
Insurance expenses		**(30)**	(27)
Other		**(671)**	(665)
Total administrative and other expense		**(16,259)**	(12,873)

Included in staff costs are statutory pension contributions of AZN 819 thousand (2022: 636 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	2023	2022
Current income tax expense	**(2,128)**	(1,890)
Deferred tax income in profit or loss account	**158**	305
Charged to profit or loss account	**(1,970)**	(1,585)
Deferred tax expense charged to other comprehensive income	**(93)**	(168)
Income tax expense for the year	**(2,063)**	(1,753)

(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 2023 and 2022 income is 20%. Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Azerbaijani Manats	**2023**	2022
Profit before tax	**9,825**	9,168
Theoretical tax charge at statutory rate (20%)	**(1,965)**	(1,834)
- Non-deductible expenses	**(163)**	(56)
- Deferred tax income	**158**	305
Charge to profit & loss account	**(1,970)**	(1,585)
Charge to OCI	**(93)**	(168)
Income tax expense for the year	**(2,063)**	(1,753)

(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, 2023**	**Movement for the year**	**December 31, 2023**
Tax effect of deductible temporary differences			
Lease liability	**818**	**56**	**874**
Loans and advances to customers	**131**	**166**	**297**
Premises and equipment	**13**	**-**	**13**
Tax effect of taxable temporary differences			
Right of use assets	**(773)**	**(40)**	**(813)**
Investment	**(164)**	**(117)**	**(281)**
Net deferred income tax asset	**25**	**65**	**90**

In thousands of Azerbaijani Manats	January 1, 2022	Movement for the year	December 31, 2022
Tax effect of deductible temporary differences			
Lease liability	845	(27)	818
Loans and advances to customers	157	(26)	131
Premises and equipment	(253)	266	13
Other liability	26	(26)	-
Tax effect of taxable temporary differences			
Right of use assets	(826)	53	(773)
Investment	-	(164)	(164)
Due from banks and other financial institutions	(15)	15	-
Other assets	(46)	46	-
Net deferred tax (liability)/asset	(112)	137	25

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:

	Note	**2023**	2022
Profit for the year attributable to ordinary shareholders - *In thousands of Azerbaijani Manats*		**7,855**	7,583
Weighted average number of ordinary shares in issue (thousand)	17	**65.5**	65.5
Earnings per ordinary share (expressed in AZN per share)		**119.92**	115.77

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 risks), 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 the 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 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 the 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 is reported to and reviewed by the Executive Board or the Board of Directors.

Expected credit loss (ECL) measurement – definition

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 a 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 the Republic of Azerbaijan and nominated in AZN, loans to companies owned by the Republic of Azerbaijan 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 considers 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 the 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 the NPL department.

If there is evidence that the SICR criteria are no longer met and this has lasted at least 6 months, 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 an 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 a 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 those 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 Banking 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 rating 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 follows.

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 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 are defined based on a statistical analysis of exposure at default.

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 the economic cycle using not only a statistical approach but also an 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 from 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 of 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 the Basel Committee values are used for the 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 the 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.

	At 31 December 2023			At 31 December 2022		
In thousands of Azerbaijani Manats	**Monetary financial assets**	**Monetary financial liabilities**	**Net position**	Monetary financial assets	Monetary financial liabilities	Net position
Azerbaijani Manats	**336,633**	**255,035**	**81,598**	247,416	185,744	61,672
US Dollars	**229,285**	**233,106**	**(3,821)**	211,735	197,409	14,326
Euro	**37,455**	**33,330**	**4,125**	32,188	33,297	(1,109)
Turkish Lira	**390**	**421**	**(31)**	900	867	33
Others	**1,637**	**1,654**	**(17)**	8,433	8,437	(4)
Total	**605,400**	**523,546**	**81,854**	500,672	425,754	74,918

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:

	At December 31, 2023	At December 31, 2022
In thousands of Azerbaijani Manats	**Impact on profit or loss (before income tax)**	Impact on profit or loss (before income tax)
US Dollar strengthening by 30%	**(1,146)**	4,298
US Dollar weakening by 30%	**1,146**	(4,298)
Euro strengthening by 30%	**1,238**	(333)
Euro weakening by 30%	**(1,238)**	333
Turkish Lira strengthening by 30%	**(9)**	10
Turkish Lira weakening by 30%	**9**	(10)

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, 2023 and 2022, the Bank did not have financial instruments at variable interest rates. The Bank monitors interest rates for its financial instruments. The table below summarises average interest rates at the respective reporting date based on reports reviewed by key management personnel.

	2023			2022		
In % p.a.	**AZN**	**USD**	**EUR**	AZN	USD	EUR
Assets						
Cash and cash equivalents	**6.50%**	**-**	**-**	4.68%	-	-
Due from banks and other financial	**8.06%**	**4.42%**	**2.81%**	4.09%	1.45%	0.01%
Loans and advances to customers	**11.64%**	**6.42%**	**6.03%**	11.55%	5.87%	5.47%
Investment securities	**9.76%**	**5.70%**	**-**	9.29%	5.38%	-
Liabilities						
Due to banks	**2.90%**	**-**	**3.90%**	2.66%	0.80%	1.63%
Term deposits	**6.53%**	**2.29%**	**1.80%**	6.46%	1.65%	1.26%
Credit related commitments	**9.39%**	**3.64%**	**3.85%**	6.73%	3.27%	2.45%
Lease liability	**7.50%**	**-**	**-**	7.20%	-	-

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, 2023		As at December 31, 2022	
	Interest rate +1%	**Interest rate - 1%**	Interest rate +1%	Interest rate - 1%
Financial assets				
Cash and cash equivalents	**1,468**	**(1,468)**	1,423	(1,423)
Due from banks and other financial institutions	**259**	**(259)**	193	(193)
Loans to customers	**3,819**	**(3,819)**	3,063	(3,063)
Investment securities	**490**	**(490)**	317	(317)
Financial liabilities				
Due to banks	**(765)**	**765**	(801)	801
Customer accounts	**(4,416)**	**4,416**	(3,406)	3,406
Lease liabilities	**(44)**	**44**	(41)	41
Net impact on profit before tax	**811**	**(811)**	748	(748)

Geographical risk concentrations. The geographical concentration of the Bank's financial assets and liabilities at December 31, 2023 and 2022 is set out below:

In thousands of Azerbaijani Manats	**Azerbaijan**	**OECD**	**Non-OECD**	**2023 Total**
Financial assets				
Cash and cash equivalents and mandatory cash balances with CBAR	**104,071**	**42,739**	**18**	**146,828**
Due from banks and other financial institutions	**5,087**	**18,187**	**2,607**	**25,881**
Investment securities	**26,706**	**22,342**	**-**	**49,048**
Loans and advances to customers	**342,900**	**38,862**	**171**	**381,933**
Other financial assets	**1,602**	**108**	**-**	**1,710**
Total financial assets	**480,366**	**122,238**	**2,796**	**605,400**
Financial liabilities				
Due to banks	**66,922**	**9,537**	**-**	**76,459**
Customer accounts	**432,025**	**9,282**	**254**	**441,561**
Lease liabilities	**4,371**	**-**	**-**	**4,371**
Other financial liabilities	**1,155**	**-**	**-**	**1,155**
Total financial liabilities	**504,473**	**18,819**	**254**	**523,546**
Net position in on-balance sheet financial instruments	**(24,107)**	**103,419**	**2,542**	**81,854**

In thousands of Azerbaijani Manats	Azerbaijan	OECD	Non-OECD	2022 Total
Financial assets				
Cash and cash equivalents and mandatory cash balances with CBAR	58,227	84,053	5	142,285
Due from banks and other financial institutions	10,182	-	9,091	19,273
Investment securities	9,425	22,324	-	31,749
Loans and advances to customers	270,544	35,775	-	306,319
Other financial assets	1,046	-	-	1,046
Total financial assets	349,424	142,152	9,096	500,672
Financial liabilities				
Due to banks	79,553	537	-	80,090
Customer accounts	264,938	57,086	18,625	340,649
Lease liabilities	4,092	-	-	4,092
Other financial liabilities	923	-	-	923
Total financial liabilities	349,506	57,623	18,625	425,754
Net position in on-balance sheet financial instruments	(82)	84,529	(9,529)	74,918

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 the 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 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, 2023 and 2022 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, 2023 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	**20,847**	**10,293**	**5,155**	**40,164**	**76,459**
Customer accounts	**271,106**	**111,559**	**39,457**	**19,439**	**441,561**
Lease liabilities	**36**	**186**	**231**	**3,918**	**4,371**
Other financial liabilities	**1,155**	**-**	**-**	**-**	**1,155**
Total potential future payments for financial obligations	**293,144**	**122,038**	**44,843**	**63,521**	**523,546**

The maturity analysis of undiscounted financial liabilities at December 31, 2022 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	14,543	18,566	7,276	39,705	80,090
Customer accounts	147,430	116,818	63,678	12,723	340,649
Lease liabilities	34	196	203	3,659	4,092
Other financial liabilities	923	-	-	-	923
Total potential future payments for financial obligations	162,930	135,580	71,157	56,087	425,754

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 the 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, 2023					
Total financial assets	**165,185**	**49,210**	**147,133**	**243,872**	**605,400**
Total financial liabilities	**297,365**	**159,770**	**89,479**	**77,726**	**624,340**
Net liquidity gap based on expected maturities	**(132,180)**	**(110,560)**	**57,654**	**166,146**	**(18,940)**

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, 2022					
Total financial assets	151,652	19,276	3,358	326,386	500,672
Total financial liabilities	162,928	55,926	150,778	56,122	425,754
Net liquidity gap based on expected maturities	(11,276)	(36,650)	(147,420)	270,264	74,918

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

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 the 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, 2022: 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 12% (December 31, 2022: 12%) 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 6% (December 31, 2022: 6%). The composition of the Bank's capital calculated in accordance with the CBAR capital requirements and in accordance with financial results as per prudential returns is as follows:

In thousands of Azerbaijani Manats	**2023**	2022
Tier 1 Capital		
Share capital	**65,500**	65,500
Add retained earnings	**34,707**	27,147
Less: intangible assets	**(3,907)**	(3,331)
Total tier 1 capital	**96,300**	89,316
Current year profit	**8,513**	7,559
Plus: general provision for impairment	**7,194**	5,775
Total regulatory capital	**112,007**	102,650
Risk-weighted assets	**614,294**	488,396
Capital adequacy ratio	**18.23%**	21.02%
Tier I Capital to risk-weighted assets	**15.68%**	18.29%

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. At December 31, 2023, there were no demands received from the taxation authorities and hence, no provision for any potential tax liabilities was recorded in these financial statements.

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, 2023, the Bank was in compliance of covenants set by CBAR on regulations on governing credit risks on a single borrower or a group of related borrowers. According to the regulation, the aggregate amount of secured and unsecured credit risks of a single borrower or a group of related borrowers may not exceed 25% of the bank's Tier 1 Capital after deductions. As at

December 31, 2023, this ratio was 23%. However, the Bank was in breach of compliance of said ratio in prior year as the ratio was 26 % as at December 31, 2022.

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

In thousands of Azerbaijani Manats	**2023**	2022
Financial guarantees issued	**91,333**	113,815
Undrawn credit lines	**9,293**	5,774
Total credit related commitments	**100,626**	119,589

The total outstanding contractual amount of undrawn credit lines and guarantees do 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	**2023**	2022
US Dollars	**56,003**	52,102
Azerbaijani Manats	**38,292**	47,235
Euro	**6,331**	20,252
Total	**100,626**	119,589

27 Fair value of financial instruments

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

At December 31, 2023 and 2022, fair values of financial assets and financial liabilities carried at amortized cost approximated their carrying values. 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, 2023 Level 3 fair value**	December 31, 2022 Level 3 fair value
FINANCIAL ASSETS		
Cash and cash equivalents and mandatory cash balances with CBAR		
Cash in hand	**6,651**	7,535
Cash balances with CBAR (other than mandatory reserve deposits)	**71,814**	40,745
Mandatory cash balance with CBAR	**23,456**	9,964
Correspondent accounts and overnight placements with other banks	**44,973**	84,058
Due from banks and other financial institutions		
- Short-term placements with other banks	**25,881**	19,273
Investment securities		
- Debt securities & equity securities	**49,364**	32,190
Loans and advances to customers		

- Corporate loans	**365,550**	305,939
- Loans to individuals – entrepreneurs	**21,587**	18,970
- Loans to individuals – consumer loans	**15,528**	8,682
Other financial assets	**1,710**	1,046
Total	**626,514**	528,402

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, 2023 Level 3 fair value**	December 31, 2022 Level 3 fair value
FINANCIAL LIABILITIES		
Due to banks		
- Due to the Entrepreneurship Development Fund of the Republic of Azerbaijan	**48,159**	48,206
-Short-term placements of banks	**13,167**	23,931
- Correspondent accounts of banks	**1,123**	835
- Due to the Azerbaijan Mortgage and Credit Guarantee Fund	**11,948**	5,777
- Restricted correspondent accounts of local banks	**1,650**	1,275
- Due to the Agrarian Credit and Development Agency under the Ministry of Agriculture	**412**	66
Customer accounts		
- Current/settlement accounts of individuals	**160,263**	25,741
- Term deposits of individuals	**19,584**	100,444
- Current/settlement accounts of other legal entities	**190,117**	98,854
-Term deposits of other legal entities	**64,002**	97,022
-Term deposits of state and public organizations	**7,201**	13,810
- Current/settlement accounts of public	**394**	4,778
Lease liability	**4,371**	4,092
Other financial liabilities	**1,155**	923
TOTAL	**523,546**	425,754

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, 2023, 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	**245**	**18**	**-**
Due from banks and other financial institutions	**-**	**3,684**	**-**
Loans and advances to customers	**-**	**-**	**199**
Due to banks	**9,537**	**-**	**-**
Customer accounts		**-**	**1,142**

At December 31, 2022, 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	1,742	5	-
Due from banks and other financial institutions	-	9,091	-
Loans and advances to customers	-	10	14
Due to banks	537	-	149
Customer accounts	-	-	93

The income and expense items with related parties for 2023 were as follows:

In thousands of Azerbaijani Manats	**Parent Company**	**Other related parties**	**Key management personnel**
Interest income	-	15	17
Interest expense	29	-	-
Administrative and operating expenses	-	-	-

The income and expense items with related parties for 2022 were as follows:

In thousands of Azerbaijani Manats	Parent Company	Other related parties	Key management personnel
Interest income	-	-	2
Interest expense	-	-	1
Administrative and operating expenses	-	116	-

Key management compensation is presented below:

In thousands of Azerbaijani Manats	**2023 Expense**	2022 Expense
Short-term benefits		
-Salaries	**1,523**	1,434
Total	**1,523**	1,434

Compensation paid to nineteen members of the 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

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