“BANK OF BAKU” OPEN JOINT STOCK COMPANY

International Financial Reporting Standards
Financial Statements and
Independent Auditors’ Report
For the Year Ended December 31, 2021

“BANK OF BAKU” OPEN JOINT STOCK COMPANY

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of "Bank of Baku" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2021, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of financial position as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Responsibilities of Management and Audit Committee for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

Baker Tilly Azerbaijan

April 22, 2022
Baku, the Republic of Azerbaijan

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021
(In thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2021	December 31, 2020
ASSETS:			
Cash and cash equivalents	6	82,504	111,965
Amounts due from banks and other financial institutions	7	2,491	2,065
Investment securities	8	39,129	27,386
Loans to customers	9, 26	369,185	247,591
Property, equipment and intangible assets	10	11,191	11,982
Right-of-use assets	11	3,769	4,459
Other assets	12	11,186	13,939
Total assets		**519,455**	**419,387**
LIABILITIES AND EQUITY			
LIABILITIES:			
Amounts due to banks and other financial institutions	13	112,032	101,467
Amounts due to customers	14, 26	246,506	196,663
Subordinated debt	15, 26	16,762	16,762
Lease liabilities	16	4,127	4,837
Deferred income tax liabilities	25	6,054	3,880
Other liabilities	17	16,704	5,792
Total liabilities		**402,185**	**329,401**
EQUITY:			
Share capital	18	52,870	52,870
Revaluation reserve for property and equipment		4,041	4,320
Retained earnings		60,359	32,796
Total equity		**117,270**	**89,986**
TOTAL LIABILITIES AND EQUITY		**519,455**	**419,387**

On behalf of the Management Board:

Filiz Yunus Emre
Chairman of the Management Board

April 22, 2022
Baku, the Republic of Azerbaijan

Fuad Muradaliyev
Chief Financial Officer

April 22, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-89 form an integral part of these financial statements.

"BANK OF BAKU" OPEN JOINT STOCK COMPANY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Interest income	19, 26	62,898	53,470
Interest expense	19, 26	(19,157)	(16,344)
Net interest income		**43,741**	**37,126**
Recovery of expected credit losses on debt financial assets	20, 26	27,280	9,526
Net interest income		**71,021**	**46,652**
Fee and commission income	21	8,694	5,943
Fee and commission expense	22	(7,060)	(6,641)
Net gain on trading in foreign currencies		975	1,248
Net (loss)/gain on foreign exchange operations		(12)	287
Net realized loss on foreign currency derivatives		-	(332)
Other income, net		845	31
Net non-interest income		**3,442**	**536**
Personnel expenses	23	(20,164)	(18,977)
General and administrative expenses	24	(11,628)	(9,457)
(Charge)/recovery of expected credit losses on other assets	20, 26	(96)	87
Net fair value gain on initial recognition of financial instruments	9, 13	-	1,689
Profit before income tax		**42,575**	**20,530**
Income tax expense	25	(9,291)	(5,372)
Net profit for the year		**33,284**	**15,158**
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Change in revaluation of buildings		-	(720)
Deferred income tax effect of change in revaluation of buildings		-	144
Other comprehensive loss		**-**	**(576)**
Total comprehensive income for the year		**33,284**	**14,582**

On behalf of the Management Board:

Filiz Yunus Emre
Chairman of the Management Board

April 22, 2022
Baku, the Republic of Azerbaijan

Fuad Muradaliyev
Chief Financial Officer

April 22, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-89 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousands of AZN, unless otherwise indicated)

	Share capital	Property revaluation reserve	Retained earnings	Total equity
January 1, 2020	**52,870**	**6,038**	**16,496**	**75,404**
Net profit for the year	-	-	15,158	15,158
Other comprehensive loss	-	(576)	-	(576)
Transfer of revaluation reserve to retained earnings	-	(1,142)	1,142	-
December 31, 2020	**52,870**	**4,320**	**32,796**	**89,986**
Net profit for the year	-	-	33,284	33,284
Dividends declared	-	-	(6,000)	(6,000)
Transfer of revaluation reserve to retained earnings	-	(279)	279	-
December 31, 2021	**52,870**	**4,041**	**60,359**	**117,270**

On behalf of the Management Board:

Filiz Yunus Emre
Chairman of the Management Board

April 22, 2022
Baku, the Republic of Azerbaijan

Fuad Muradaliyev
Chief Financial Officer

April 22, 2022
Baku, the Republic of Azerbaijan

Bank of Baku ASC
Bank of Baku OJSC

The notes on pages 8-89 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Cash flows from operating activities:			
Interest received		64,850	58,023
Interest paid		(14,010)	(11,069)
Fees and commissions received		8,694	5,943
Fees and commissions paid		(7,060)	(6,641)
Personnel expenses paid		(19,382)	(18,757)
General and administrative expenses paid		(8,229)	(6,460)
Net gain from trading in foreign currencies		975	1,248
Net realized loss on foreign currency derivatives		-	(2)
Other income received, net		662	12
Cash inflow from operating activities before changes in operating assets and liabilities		**26,461**	**22,297**
(Increase)/decrease in operating assets			
Amounts due from banks and other credit institutions		(421)	1,033
Loans to customers		(96,463)	(19,991)
Other assets		2,887	(3,327)
Increase/(decrease) in operating liabilities			
Amounts due to banks and other financial institutions		15,903	(456)
Amounts due to customers		50,120	9,471
Other liabilities		4,606	557
Cash flows provided from operating activities before income tax paid		**3,093**	**9,584**
Income tax paid		(1,762)	-
Cash flows provided from operating activities		**1,331**	**9,584**
Cash flows from investing activities:			
Purchase of property, equipment and intangible assets		(899)	(2,023)
Proceeds from sale of property, equipment and intangible assets		3	17
Payments for investment securities		(11,539)	(22,402)
Proceeds from sale and redemption of investment securities		-	52,078
Cash flows (used in)/provided from investing activities		**(12,435)**	**27,670**
Cash flows from financing activities:			
Proceeds from other borrowed funds	13	16,467	18,212
Repayment of other borrowed funds	13	(26,926)	(4,765)
Dividend paid	18	(6,000)	-
Repayment of principal portion on lease liabilities	16	(1,694)	(1,494)
Cash flows (used in)/provided from financing activities		**(18,153)**	**11,953**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)
(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(210)	567
Effect of changes in ECL on cash and cash equivalents	20	6	(3)
Net (decrease)/increase in cash and cash equivalents		(29,461)	49,771
Cash and cash equivalents, beginning of the year	6	111,965	62,194
Cash and cash equivalents, end of the year	6	82,504	111,965

On behalf of the Management Board:

Filiz Yunus Emre
Chairman of the Management Board

April 22, 2022
Baku, the Republic of Azerbaijan

Fuad Muradaliyev
Chief Financial Officer

April 22, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-89 form an integral part of these financial statements.

(In thousands of AZN, unless otherwise indicated)

1. INTRODUCTION

Bank and its principal activity

“Bank of Baku” OJSC operates under banking license number 247 issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) on February 18, 2005.

The Bank’s principal activities are deposit-taking, customer account maintenance, credit operations, issuance of guarantees, cash and settlement operations, securities and foreign exchange transactions. Its main office is in Baku and it operates through 18 branches (2020: 17) in Baku and other cities of the Republic of Azerbaijan and 3 servicing outlets as at December 31, 2021 (2020: 3 servicing outlets). The Bank’s registered legal address is 42 Ataturk Avenue, Baku, AZ 1069, Azerbaijan.

The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan.

The Bank participates in the state deposit insurance scheme, which was introduced by the “Law on Deposit Insurance” dated December 29, 2006. The Azerbaijan Deposit Insurance Fund (the “Fund”) guarantees repayment of 100% of individual deposits meeting the following criteria:

According to the Law of the Republic of Azerbaijan on “Deposit Insurance”, insured deposit is the part of a protected deposit that will be compensated by the Deposit Insurance Fund in case of an insurance incident that occurred in the participant bank where a depositor is serviced. Starting from June 1, 2020, the maximum annual interest rate on protected deposits in the national currency is set at 12%, and in foreign currency - 2.5%. According to another law on “Full Deposit Insurance” dated January 19, 2016 and last amended on December 18, 2020, all protected deposits within the annual interest rate set by the Board of Trustees of the Deposit Insurance Fund are fully insured until April 5, 2021 regardless of their amounts. Starting from April 5, 2021 in case of an insurance incident each depositor is entitled to receive compensation from the Deposit Insurance Fund for the full amount of deposit agreement, but not exceeding AZN 100 thousand.

As at December 31, 2021 and 2020 the following shareholders owned the Bank:

	December 31, 2021, %	December 31, 2020, %
“NAB Holding”	35.00	35.00
Mr. Hikmat Ismayilov	31.11	31.11
“Azpetrol Neft Shirketi” LLC	28.89	28.89
Mr. Elchin Isayev	5.00	5.00
Total	**100.00**	**100.00**

Operating environment of the Bank

The Bank’s operations are conducted in the Republic of Azerbaijan.

During 2020, the global economy was negatively impacted by the spread of the coronavirus pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most if not all large economically strong countries in which the Republic of Azerbaijan is in a trade relationship. Starting from June 2020 many countries including the Republic of Azerbaijan demonstrated improvement in the signs of pandemic and certain restrictions were lifted subsequently.

As a result, recovery in global financial and commodity markets observed. However, subsequently the number of reported cases significantly increased in the Republic of Azerbaijan, and the government introduced new restrictions from mid-December 2020.

The restrictive lock-down measures to combat COVID-19 in the country significantly reduced economic activity and aggregate spending levels. Certain segments of the economy, such as hotels, transport, travel, entertainment and many other businesses also international trade much affected by these measures.

With the start of vaccination of Azerbaijani population on January 16, 2021 the government of the Republic of Azerbaijan decided to gradually eliminate the special quarantine regime measures introduced in the previous year to combat the COVID-19 outbreak, such as travel restrictions, closure of business and other venues, lockdowns of certain areas throughout the country.

Oil prices have decreased significantly due to the substantial reduction in oil consumption in the pandemic environment but demonstrated stable growth during the second quarter of 2020, however, prices for energy resources gradually went up as a result of the recovery of world economy in 2021.

The Bank’s operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan’s economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector. GDP in Azerbaijan was USD 54.62 billion during the year 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the Azerbaijan GDP is projected to trend around USD 54.73 billion in 2022 and USD 55.98 Billion in 2023, according to the econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2021 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 6.25% - 7.25% with a steady increase in rates.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements for the year ended December 31, 2021 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

Going concern

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

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

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

Other basis of presentation criteria

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

The Bank maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

Offsetting

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

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.

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

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

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 either 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 when the Bank commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments

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

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

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

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

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

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

All other financial assets are classified as measured at FVPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management’s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "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.

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 Bank should reclassify financial assets if the Bank changes its business model for managing those financial assets. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date.

The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default. Loan terms are modified in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to other terms. When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original EIR. If the difference in present value is greater than 10% the Bank deems the arrangement is substantially different leading to derecognition.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a "new" asset at fair value and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets).

The Bank derecognizes a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset.

Financial assets impairment

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued;
- lease receivables.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (Note 30).

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade".

12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1" financial instruments.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as "Stage 2" financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and "Stage 3" financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost, debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

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: 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 disclosed and is recognized in the fair value reserve.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

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 include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBAR and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the CBAR is not considered to be a cash equivalent due to restrictions on its availability. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test, unless they are included in contractual terms such that the feature would apply even if the legislation is subsequently changed.

Amounts 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 to customers

Loans to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans to customers into one of the following measurement categories:

- loans to customers measured at amortized cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method;
- net investments in finance leases.

Impairment allowances are determined based on the forward-looking ECL models. Note 31 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.

Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured as follows:

- at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The Bank has issued no loan commitments that are measured at FVTPL.

For other loan commitments the Bank recognizes a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

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 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.

Investments in equity instruments

Equity investment securities designated as at FVTPL – equity instruments are measured at fair value with changes recognized immediately in profit or loss.

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

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.

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).

Revaluation

Buildings are subject to revaluation on a regular basis. The frequency of revaluation depends on the movements in the fair values of the buildings being revalued. A revaluation increase on a building is recognized as other comprehensive income except to the extent that it reverses a previous revaluation decrease recognized in profit or loss, in which case it is recognized in profit or loss. A revaluation decrease on a building is recognized in profit or loss except to the extent that it reverses a previous revaluation increase recognized as other comprehensive income directly in equity, in which case it is recognized in other comprehensive income.

Depreciation

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Depreciation is based on the cost of an asset less its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	5%
Furniture and equipment	20%
Computers and communication equipment	25%
Vehicles	20%
Other	20%
Right-of-use assets	over the term of the underlying lease

Intangible assets

Acquired intangible assets are stated at cost less accumulated amortization and impairment losses.

Acquired computer and software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are 10 years.

Repossessed collateral

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

In certain circumstances, assets are repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Repossessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Bank performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Bank concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Amounts due to banks and other financial institutions

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

Amounts due to customers

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

Leases

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

Bank as a lessee

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

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.

Share capital

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

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

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

Taxation

Income tax comprises current and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Prepayments to The Ministry of Taxes of the Republic of Azerbaijan has been made in 2015 and this balance represents a cumulative closing balance after recognition of accruals and payments for all types of taxes.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss.

The measurement of deferred income tax assets and liabilities reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

In determining the amount of current and deferred income tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Recognition of interest income and expense

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

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

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

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

Amortized cost and gross carrying amount

The “amortized cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The “gross carrying amount of a financial asset” measured at amortized cost is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

The effective interest rate is also revised for fair value hedge adjustments at the date amortization of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and other comprehensive income includes:

- interest on financial assets measured at amortized cost.

Interest expense presented in the statement of profit or loss and other comprehensive income includes:

- financial liabilities measured at amortized cost.

Fees and commission

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

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

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

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

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

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15**
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, foreign currency transactions, cash operations, settlements and credit card transactions. Transaction-based fees for interchange, foreign currency transactions are charged to the customer's account when transaction takes place.	Revenue related to transactions is recognized at the point in time when the transaction takes place.
	The Bank charges a commission fee to the customers for the guarantee letters issued.	Since, the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs, Bank recognized revenue over time.

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

Retirement and other benefit obligations

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

Operating taxes

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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 Manat ("AZN").

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

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

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

	December 31, 2021	**December 31, 2020**
AZN/1 US Dollar	1.7000	1.7000
AZN/1 Euro	1.9265	2.0890

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY UNDERGOING CONCERN BASIS

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Measurement of ECL allowance

Measurement of ECLs is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 30. 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 macroeconomic scenarios.

The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including incorporation of forward-looking information refers to Note 30.

Significant increase in credit risk ("SICR")

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioral aspects of particular customer portfolios. The Bank identifies behavioral 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 30.

Business model assessment

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

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

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

Assessment of whether cash flows are solely payments of principal and interest ("SPPI")

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

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset's principal is the fair value at initial recognition less subsequent principal repayments, 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.

Useful life of property and equipment

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

Valuation of lease liabilities and right of use assets

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

4. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2021.

IASB has published **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

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

The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business.

According to the amendment new definition a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

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

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

On May 15, 2020 IASB has published **"COVID-19-Related Rent Concessions (Amendment to IFRS 16)"** amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

The changes in COVID-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The impact of the adoption of this standard had no effect on the financial statements.

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

5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Bank in advance of their effective dates, the following Interpretations were in issue but not yet effective.

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

IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

Reference to the Conceptual Framework – Amendments to IFRS 3 – In May 2020, the IASB issued Amendments to IFRS 3 "Business Combinations" – Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately. At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 – In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to IFRS standards process, the IASB issued an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment permits a subsidiary that elects to apply paragraph D16 (a) of IFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16 (a) of IFRS 1. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

IFRS 9 Financial Instruments – Fees in the "10 percent" test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

"IAS 41 Agriculture" – Taxation in fair value measurements – As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued an amendment to IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

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

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

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

(In thousands of AZN, unless otherwise indicated)

6. CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	20,754	19,212
Nostro accounts with the CBAR	47,107	46,105
Nostro accounts with other banks		
- rated from A- to A+	11,713	23,862
- rated from BB- to BB+	2,916	297
- rated from B- to B+	23	94
Total nostro accounts with other banks	**14,652**	**24,253**
Term deposits with the CBAR	-	8,678
CBAR notes	-	13,732
Less: Allowance for expected credit losses	(9)	(15)
Total cash and cash equivalents	**82,504**	**111,965**

Ratings are based on Fitch rating system.

As at December 31, 2021, the Bank had cash and cash equivalents balances with two banks exceeding 10% of the equity of the Bank, with a total gross value of the balances equal to AZN 57,173 thousand (2020: two banks AZN 92,377 thousand).

For the purpose of ECL measurement all cash and cash equivalent balances are in Stage 1.

7. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2021	December 31, 2020
Mandatory reserve with the CBAR	1,647	1,226
Loans and deposits with other financial institutions		
- not rated	846	843
Total loans and deposits with other financial institutions	**846**	**843**
Less: Allowance for expected credit losses	(2)	(4)
Net due from banks and other financial institutions	**2,491**	**2,065**

As at December 31, 2021, accrued interest income included in due from banks and other financial institutions amounted to AZN 5 thousand (December 31, 2020: AZN 2 thousand).

All due from banks and other financial institutions balances are in Stage 1 as at December 31, 2021 and 2020.

There were no transfers between stages during the years ended December 31, 2021 and 2020.

(In thousands of AZN, unless otherwise indicated)

Concentration of due from banks and other financial institutions

As at December 31, 2021 the Bank doesn't have any balances (December 31, 2020: nil), where balances individually exceed 10% of the Bank's equity.

Mandatory reserve with the CBAR

The mandatory reserve deposit is a non-interest bearing deposit calculated in accordance with regulations issued by the CBAR and where availability is restricted. Reserves are measured in accordance with regulations issued by the CBAR and equal to 0.5% and 1% (December 31, 2020: 0.5% and 1%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

Credit risk

The balance of not-rated loans to other financial institutions consists of "Premier Credit" non-bank credit organizations amounting to AZN 846 thousand (December 31, 2020: AZN 843 thousand).

There are no impairment indicators in respect of these balances.

8. INVESTMENT SECURITIES

	December 31, 2021	December 31, 2020
Investment securities designated at FVTOCI	24,860	13,540
Investment securities measured at amortized cost	14,078	13,855
Investment securities designated as at FVTPL - equity instruments	368	188
Total investment securities	**39,306**	**27,583**
Less: Allowance for expected credit losses	(177)	(197)
Net investment securities	**39,129**	**27,386**

Investment securities measured at amortized cost and designated at FVTOCI:

	December 31, 2021	December 31, 2020
Government bonds	32,017	20,739
Corporate bonds	6,921	6,656
Debt securities	**38,938**	**27,395**

All debt security balances are in Stage 1 as at December 31, 2021 and 2020.

There were no transfers between stages during the years ended December 31, 2021 and 2020.

All ratings are based on Fitch rating system.

(In thousands of AZN, unless otherwise indicated)

At January 1, 2018, the Bank designated certain investments shown in the following table as equity securities at FVTPL. Management believes it is unlikely that the fair value at the year-end would differ significantly from that carrying amount.

Equity investment securities designated as at FVTPL:

	December 31, 2021	December 31, 2020
"Baku Stock Exchange" CJSC	240	60
"International Bank of Azerbaijan" OJSC	88	88
"MilliKart" LLC	40	40
Equity securities	**368**	**188**

9. LOANS TO CUSTOMERS

	December 31, 2021		December 31, 2020	
	Amount	% of total gross loans	Amount	% of total gross loans
Consumer loans	240,476	63%	164,187	60%
Microloans	72,115	19%	51,538	19%
Business loans	52,108	13%	42,354	16%
Cards	18,566	5%	14,607	5%
Auto loans	276	0%	431	0%
Gross loans to customers	**383,541**		**273,117**	
Less: Allowance for expected credit losses	(14,356)		(25,526)	
Net loans to customers	**369,185**		**247,591**	

Carrying value of loans to customers analyzed by industry sector:

	December 31, 2021	December 31, 2020
Individuals	337,135	235,797
Trade and services	30,361	23,870
Agriculture and food processing	8,792	6,072
Manufacturing	7,253	7,378
Gross loans to customers	**383,541**	**273,117**
Less: Allowance for expected credit losses	(14,356)	(25,526)
Net loans to customers	**369,185**	**247,591**

(In thousands of AZN, unless otherwise indicated)

During the year ended December 31, 2021 the Bank restructured loans in the amount of AZN 1,505 thousand under the COVID-19 restructuring program (December 31, 2020: AZN 16,417 thousand).

The following tables show reconciliations from the opening to the closing balances of the gross amounts of loans to customers.

Loans to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (Purchased or originated credit impaired)**	**Total**
As at January 1, 2021	**246,680**	**4,498**	**21,939**	**-**	**273,117**
Transfer to Stage 1	2,065	(1,049)	(1,016)	-	-
Transfer to Stage 2	(2,879)	2,953	(74)	-	-
Transfer to Stage 3	(6,496)	(74)	6,570	-	-
Other movements	(160,883)	(3,603)	(15,546)	(13,961)	(193,993)
New financial assets originated or purchased	289,872	-	-	-	289,872
Write-offs	-	-	(8,760)	-	(8,760)
Recoveries of amounts previously written off	-	-	9,344	13,961	23,305
As at December 31, 2021	**368,359**	**2,725**	**12,457**	**-**	**383,541**

Loans to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (Purchased or originated credit impaired)**	**Total**
As at January 1, 2020	**230,802**	**686**	**36,198**	**281**	**267,967**
Transfer to Stage 1	239	(5)	(234)	-	-
Transfer to Stage 2	(2,755)	2,762	(7)	-	-
Transfer to Stage 3	-	(7,290)	7,290	-	-
Other movements	(153,032)	8,345	(9,011)	(348)	(154,046)
New financial assets originated or purchased	171,426	-	-	67	171,493
Write-offs	-	-	(18,686)	-	(18,686)
Recoveries of amounts previously written off	-	-	6,389	-	6,389
As at December 31, 2020	**246,680**	**4,498**	**21,939**	**-**	**273,117**

(In thousands of AZN, unless otherwise indicated)

Loans to customers at amortized cost-retail loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (Purchased or originated credit impaired)**	**Total**
As at January 1, 2021	**215,997**	**4,484**	**15,316**	**-**	**235,797**
Transfer to Stage 1	2,051	(1,035)	(1,016)	-	-
Transfer to Stage 2	(1,392)	1,466	(74)	-	-
Transfer to Stage 3	(6,038)	(74)	6,112	-	-
Other movements	(148,113)	(3,409)	(11,678)	(13,961)	(177,161)
New financial assets originated or purchased	263,500	-	-	-	263,500
Write-offs	-	-	(8,010)	-	(8,010)
Recoveries of amounts previously written off	-	-	9,048	13,961	23,009
As at December 31, 2021	**326,005**	**1,432**	**9,698**	**-**	**337,135**

Loans to customers at amortized cost-retail loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI (Purchased or originated credit impaired)**	**Total**
As at January 1, 2020	**201,399**	**686**	**27,171**	**281**	**229,537**
Transfer to Stage 1	227	(5)	(222)	-	-
Transfer to Stage 2	(2,740)	2,747	(7)	-	-
Transfer to Stage 3	-	(6,689)	6,689	-	-
Other movements	(134,701)	7,745	(8,553)	(348)	(135,857)
New financial assets originated or purchased	151,812	-	-	67	151,879
Write-offs	-	-	(16,125)	-	(16,125)
Recoveries of amounts previously written off	-	-	6,363	-	6,363
As at December 31, 2020	**215,997**	**4,484**	**15,316**	**-**	**235,797**

(In thousands of AZN, unless otherwise indicated)

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-business loans				
As at January 1, 2021	**30,684**	**14**	**6,622**	**37,320**
Transfer to Stage 1	14	(14)	-	-
Transfer to Stage 2	(1,487)	1,487	-	-
Transfer to Stage 3	(458)	-	458	-
Other movements	(12,771)	(194)	(3,867)	(16,832)
New financial assets originated or purchased	26,372	-	-	26,372
Write-offs	-	-	(750)	(750)
Recoveries of amounts previously written off	-	-	296	296
As at December 31, 2021	**42,354**	**1,293**	**2,759**	**46,406**

	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-business loans				
As at January 1, 2020	**29,403**	**-**	**9,027**	**38,430**
Transfer to Stage 1	12	-	(12)	-
Transfer to Stage 2	(15)	15	-	-
Transfer to Stage 3	-	(601)	601	-
Other movements	(18,330)	600	(459)	(18,189)
New financial assets originated or purchased	19,614	-	-	19,614
Write-offs	-	-	(2,561)	(2,561)
Recoveries of amounts previously written off	-	-	26	26
As at December 31, 2020	**30,684**	**14**	**6,622**	**37,320**

(In thousands of AZN, unless otherwise indicated)

The following tables show reconciliations from the opening to the closing balances of the loss allowance of loans to customers.

*Loans to customers at amortized cost**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL-impaired)**	**Total**
As at January 1, 2021	**8,794**	**1,984**	**14,748**	**25,526**
Transfer to Stage 1	923	(485)	(438)	-
Transfer to Stage 2	(473)	507	(34)	-
Transfer to Stage 3	(850)	(34)	884	-
Net remeasurement of loss allowance	(7,864)	(856)	(8,438)	(17,158)
New financial assets originated or purchased	3,867	-	-	3,867
Write-offs	-	-	(8,760)	(8,760)
Recoveries of amounts previously written off	-	-	9,344	9,344
Unwinding of discount on present value of ECLs	-	-	1,537	1,537
As at December 31, 2021	**4,397**	**1,116**	**8,843**	**14,356**

*Loans to customers at amortized cost**	**Stage 1 (12-month ECL)**	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL-impaired)**	**Total**
As at January 1, 2020	**13,245**	**301**	**32,195**	**45,741**
Transfer to Stage 1	159	(3)	(156)	-
Transfer to Stage 2	(179)	183	(4)	-
Transfer to Stage 3	-	(725)	725	-
Net remeasurement of loss allowance	(12,940)	2,228	(7,485)	(18,197)
New financial assets originated or purchased	8,509	-	-	8,509
Write-offs	-	-	(18,686)	(18,686)
Recoveries of amounts previously written off	-	-	6,389	6,389
Unwinding of discount on present value of ECLs	-	-	1,770	1,770
As at December 31, 2020	**8,794**	**1,984**	**14,748**	**25,526**

(In thousands of AZN, unless otherwise indicated)

* The loss allowance in these tables includes ECL on loan commitments, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

*Loans to customers at amortized cost-retail loans**	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
As at January 1, 2021	**6,218**	**1,978**	**9,733**	**17,929**
Transfer to Stage 1	917	(479)	(438)	-
Transfer to Stage 2	(330)	364	(34)	-
Transfer to Stage 3	(798)	(34)	832	-
Net remeasurement of loss allowance	(6,355)	(1,231)	(6,041)	(13,627)
New financial assets originated or purchased	3,072	-	-	3,072
Write-offs	-	-	(8,010)	(8,010)
Recoveries of amounts previously written off	-	-	9,048	9,048
Unwinding of discount on present value of ECLs	-	-	1,294	1,294
As at December 31, 2021	**2,724**	**598**	**6,384**	**9,706**

*Loans to customers at amortized cost-retail loans**	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
As at January 1, 2020	**10,399**	**301**	**24,564**	**35,264**
Transfer to Stage 1	149	(3)	(146)	-
Transfer to Stage 2	(178)	182	(4)	-
Transfer to Stage 3	-	(698)	698	-
Net remeasurement of loss allowance	(10,315)	2,196	(7,087)	(15,206)
New financial assets originated or purchased	6,163	-	-	6,163
Write-offs	-	-	(16,125)	(16,125)
Recoveries of amounts previously written off	-	-	6,363	6,363
Unwinding of discount on present value of ECLs	-	-	1,470	1,470
As at December 31, 2020	**6,218**	**1,978**	**9,733**	**17,929**

(In thousands of AZN, unless otherwise indicated)

* The loss allowance in these tables includes ECL on loan commitments, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
*Loans to customers at amortized cost-business loans**				
As at January 1, 2021	**2,576**	**6**	**5,015**	**7,597**
Transfer to Stage 1	6	(6)	-	-
Transfer to Stage 2	(143)	143	-	-
Transfer to Stage 3	(52)	-	52	-
Net remeasurement of loss allowance	(1,509)	375	(2,397)	(3,531)
New financial assets originated or purchased	795	-	-	795
Write-offs	-	-	(750)	(750)
Recoveries of amounts previously written off	-	-	296	296
Unwinding of discount on present value of ECLs	-	-	243	243
As at December 31, 2021	**1,673**	**518**	**2,459**	**4,650**

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
*Loans to customers at amortized cost-business loans**				
As at January 1, 2020	**2,846**	**-**	**7,631**	**10,477**
Transfer to Stage 1	10	-	(10)	-
Transfer to Stage 2	(1)	1	-	-
Transfer to Stage 3	-	(27)	27	-
Net remeasurement of loss allowance	(2,625)	32	(398)	(2,991)
New financial assets originated or purchased	2,346	-	-	2,346
Write-offs	-	-	(2,561)	(2,561)
Recoveries of amounts previously written off	-	-	26	26
Unwinding of discount on present value of ECLs	-	-	300	300
As at December 31, 2020	**2,576**	**6**	**5,015**	**7,597**

(In thousands of AZN, unless otherwise indicated)

* The loss allowance in these tables includes ECL on loan commitments, because the Bank cannot separately identify the ECL on the loan commitment component from those on the financial instrument component.

Credit quality analysis

The following tables sets out information about the credit quality of loans to customers measured at amortized cost as at December 31, 2021 and 2020. Unless specially indicated, the amounts in the table represent gross carrying amounts.

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – consumer loans				
Not overdue	230,674	-	835	231,509
Overdue less than 30 days	3,177	-	139	3,316
Overdue 30-89 days	27	-	-	27
Overdue 90-179 days	-	831	168	999
Overdue 180-360 days	-	-	1,077	1,077
Overdue more than 360 days	-	-	3,548	3,548
Total gross loans to customers	**233,878**	**831**	**5,767**	**240,476**
Less: Allowance for expected credit losses	(1,959)	(330)	(3,351)	(5,640)
Carrying amount as at December 31, 2021	**231,919**	**501**	**2,416**	**234,836**

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – consumer loans				
Not overdue	149,806	-	1,710	151,516
Overdue less than 30 days	3,083	-	219	3,302
Overdue 30-89 days	116	2,868	247	3,231
Overdue 90-179 days	-	-	1,426	1,426
Overdue 180-360 days	-	-	2,158	2,158
Overdue more than 360 days	-	-	2,554	2,554
Total gross loans to customers	**153,005**	**2,868**	**8,314**	**164,187**
Less: Allowance for expected credit losses	(3,542)	(1,175)	(5,069)	(9,786)
Carrying amount as at December 31, 2020	**149,463**	**1,693**	**3,245**	**154,401**

(In thousands of AZN, unless otherwise indicated)

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – micro loans				
Not overdue	68,921	-	217	69,138
Overdue less than 30 days	927	-	34	961
Overdue 30-89 days	39	-	-	39
Overdue 90-179 days	-	335	38	373
Overdue 180-360 days	-	-	483	483
Overdue more than 360 days	-	-	1,121	1,121
Total gross loans to customers	**69,887**	**335**	**1,893**	**72,115**
Less: Allowance for expected credit losses	(582)	(135)	(1,221)	(1,938)
Carrying amount as at December 31, 2021	**69,305**	**200**	**672**	**70,177**

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – micro loans				
Not overdue	46,200	-	479	46,679
Overdue less than 30 days	1,011	-	48	1,059
Overdue 30-89 days	30	1,339	161	1,530
Overdue 90-179 days	-	-	1,173	1,173
Overdue 180-360 days	-	-	748	748
Overdue more than 360 days	-	-	349	349
Total gross loans to customers	**47,241**	**1,339**	**2,958**	**51,538**
Less: Allowance for expected credit losses	(1,767)	(629)	(1,735)	(4,131)
Carrying amount as at December 31, 2020	**45,474**	**710**	**1,223**	**47,407**

(In thousands of AZN, unless otherwise indicated)

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – business loans				
Not overdue	42,421	-	-	42,421
Overdue less than 30 days	4,314	-	-	4,314
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	1,337	99	1,436
Overdue 180-360 days	-	-	83	83
Overdue more than 360 days	-	-	3,854	3,854
Total gross loans to customers	**46,735**	**1,337**	**4,036**	**52,108**
Less: Allowance for expected credit losses	(1,752)	(537)	(3,657)	(5,946)
Carrying amount as at December 31, 2021	**44,983**	**800**	**379**	**46,162**

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – business loans				
Not overdue	29,442	-	4,057	33,499
Overdue less than 30 days	4,196	-	-	4,196
Overdue 30-89 days	-	3	47	50
Overdue 90-179 days	-	-	254	254
Overdue 180-360 days	-	-	81	81
Overdue more than 360 days	-	-	4,274	4,274
Total gross loans to customers	**33,638**	**3**	**8,713**	**42,354**
Less: Allowance for expected credit losses	(2,765)	(1)	(6,491)	(9,257)
Carrying amount as at December 31, 2020	**30,873**	**2**	**2,222**	**33,097**

(In thousands of AZN, unless otherwise indicated)

	Stage 1 (12-month ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL-impaired)**	**Total**
Loans to customers at amortized cost – card loans				
Not overdue	17,705	-	84	17,789
Overdue less than 30 days	154	-	1	155
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	222	9	231
Overdue 180-360 days	-	-	113	113
Overdue more than 360 days	-	-	278	278
Total gross loans to customers	**17,859**	**222**	**485**	**18,566**
Less: Allowance for expected credit losses	(104)	(114)	(361)	(579)
Carrying amount as at December 31, 2021	**17,755**	**108**	**124**	**17,987**

	Stage 1 (12-month ECL)	**Stage 2 (lifetime ECL)**	**Stage 3 (lifetime ECL-impaired)**	**Total**
Loans to customers at amortized cost – card loans				
Not overdue	11,702	-	91	11,793
Overdue less than 30 days	1,077	-	35	1,112
Overdue 30-89 days	-	288	98	386
Overdue 90-179 days	-	-	213	213
Overdue 180-360 days	-	-	511	511
Overdue more than 360 days	-	-	592	592
Total gross loans to customers	**12,779**	**288**	**1,540**	**14,607**
Less: Allowance for expected credit losses	(719)	(179)	(1,085)	(1,983)
Carrying amount as at December 31, 2020	**12,060**	**109**	**455**	**12,624**

(In thousands of AZN, unless otherwise indicated)

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – auto loans				
Not overdue	-	-	14	14
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	17	17
Overdue more than 360 days	-	-	245	245
Total gross loans to customers	**-**	**-**	**276**	**276**
Less: Allowance for expected credit losses	-	-	(253)	(253)
Carrying amount as at December 31, 2021	**-**	**-**	**23**	**23**

	Stage 1 (12-month ECL)	Stage 2 (lifetime ECL)	Stage 3 (lifetime ECL-impaired)	Total
Loans to customers at amortized cost – auto loans				
Not overdue	6	-	16	22
Overdue less than 30 days	11	-	-	11
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	4	4
Overdue 180-360 days	-	-	17	17
Overdue more than 360 days	-	-	377	377
Total gross loans to customers	**17**	**-**	**414**	**431**
Less: Allowance for expected credit losses	(2)	-	(367)	(369)
Carrying amount as at December 31, 2020	**15**	**-**	**47**	**62**

(In thousands of AZN, unless otherwise indicated)

The following table sets out information on loans to customers that are credit-impaired (excluding POCI) and related collateral held in order to mitigate potential losses as at December 31, 2021:

				Value of collateral held			
	Gross carrying amount	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Real estate**	**Motor vehicles**	**Total**
Consumer loans	5,767	(3,351)	2,416	-	126	-	126
Business loans	4,036	(3,657)	379	-	2,343	-	2,343
Microloans	1,893	(1,221)	672	-	290	-	290
Card loans	485	(361)	124	-	-	-	-
Auto loans	276	(253)	23	-	51	-	51
Total credit-impaired loans to customers	**12,457**	**(8,843)**	**3,614**	**-**	**2,810**	**-**	**2,810**

The following table sets out information on loans to customers that are credit-impaired (excluding POCI) and related collateral held in order to mitigate potential losses as at December 31, 2020:

				Value of collateral held			
	Gross carrying amount	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Real estate**	**Motor vehicles**	**Total**
Consumer loans	8,314	(5,069)	3,245	-	161	-	161
Business loans	8,713	(6,491)	2,222	-	5,428	-	5,428
Microloans	2,958	(1,735)	1,223	-	392	-	392
Card loans	1,540	(1,085)	455	-	-	-	-
Auto loans	414	(367)	47	-	68	-	68
Total credit-impaired loans to customers	**21,939**	**(14,747)**	**7,192**	**-**	**6,049**	**-**	**6,049**

Repossessed collateral

During the year ended December 31, 2021, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 120 thousand (December 31, 2020: 102 thousand) and recognized them as assets held for sale. The Bank's policy is to sell these as soon as possible. Repossessed collateral is comprised of real estates and other assets and disclosure in Note 12.

Significant credit exposures

As at December 31, 2021, the Bank had sixteen borrowers or groups of connected borrowers (December 31, 2020: thirteen borrowers) with gross loan balances exceeding AZN 1,000 thousand. The gross value of these loans as at December 31, 2021 was AZN 39,675 thousand or 11% of the total loans to customers (December 31, 2020: AZN 29,288 thousand or 12%).

Loan maturities

The maturity of the loan portfolio is presented in Note 30, which shows the remaining period from the reporting date to the contractual maturity of the loans.

Key assumptions and judgments for estimating the loan impairment

The Bank calculates ECL for portfolio of loans as described in Note 30, on a collective basis. Bank modelled PD, LGD and EAD to calculate 12-months and lifetime expected credit losses.

PD

For loan portfolio segments, Markov transition matrix is used to estimate PD employing historical monthly data. Using average monthly transitions, annual transition matrix is constructed. PIT PD is computed based on last 12-month data. Through the cycle (TTC) PD was calculated using last 48 months' historical overdue information. From the second year on TTC PD was used to calculate life-time ECL.

LGD

According to the methodology, LGD modelling is based on average rates of historical recoveries that capture cured and non-cured cases. Recovery period is limited to 60 months and LGD is permanently set to 100% after this period.

EAD

For loan portfolio, EAD for Stage 1 is calculated based on current exposure including projected accrued interest within a 3-month period. EAD for Stage 2 is calculated based on planned amortization schedule and accrued interest. EAD for Stage 3 equals current exposure. CCF is taken as 100% for unused amounts of credit card customers due to lack of historical data for modelling.

Sensitivity analysis

Changes in these estimates could affect the loan impairment provision. For example, to the extent that the net present value of the estimated cash flow differs by one percent, the allowance for expected credit losses on loans to customers as at December 31, 2021 would be AZN 144 thousand lower/higher (December 31, 2020: AZN 255 thousand lower/higher).

(In thousands of AZN, unless otherwise indicated)

10. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Land and buildings	Furniture and equipment	Computers and communication equipment	Vehicles	Other assets	Licenses and computer software	Total property, equipment and intangible assets
Cost/revalued amount							
January 1, 2020	**13,213**	**5,435**	**9,651**	**653**	**286**	**2,469**	**31,707**
Additions	1,185	308	674	-	15	80	2,262
Revaluation adjustment	(1,252)	-	-	-	-	-	(1,252)
Disposals	(988)	(159)	(33)	-	(7)	-	(1,187)
December 31, 2020	**12,158**	**5,584**	**10,292**	**653**	**294**	**2,549**	**31,530**
Additions	-	207	481	-	22	-	710
Disposals	-	(121)	(491)	-	(8)	-	(620)
December 31, 2021	**12,158**	**5,670**	**10,282**	**653**	**308**	**2,549**	**31,620**
Accumulated depreciation							
January 1, 2020	**(2,608)**	**(5,165)**	**(8,771)**	**(465)**	**(271)**	**(1,618)**	**(18,898)**
Depreciation charge	(635)	(129)	(376)	(45)	(8)	(187)	(1,380)
Eliminated on disposals	532	159	33	-	6	-	730
December 31, 2020	**(2,711)**	**(5,135)**	**(9,114)**	**(510)**	**(273)**	**(1,805)**	**(19,548)**
Depreciation charge	(599)	(142)	(518)	(43)	(10)	(189)	(1,501)
Eliminated on disposals	-	121	491	-	8	-	620
December 31, 2021	**(3,310)**	**(5,156)**	**(9,141)**	**(553)**	**(275)**	**(1,994)**	**(20,429)**

(In thousands of AZN, unless otherwise indicated)

	Land and buildings	Furniture and equipment	Computers and communication equipment	Vehicles	Other assets	Licenses and computer software	Total property, equipment and intangible assets
Net book value							
As at December 31, 2021	**8,848**	**514**	**1,141**	**100**	**33**	**555**	**11,191**
As at December 31, 2020	**9,447**	**449**	**1,178**	**143**	**21**	**744**	**11,982**

As at December 31, 2021 and 2020 included in property and equipment were fully depreciated assets of AZN 14,194 thousand and AZN 14,598 thousand, respectively. Buildings and land owned by the Bank are carried at revalued amounts.

Revalued assets

The fair values of the Bank's buildings and lands are categorised into Level 3 of the fair value hierarchy as at December 31, 2021 and 2020.

The basis used for the appraisal is the market approach. The market approach is based on an analysis of the results of comparable sales of similar buildings. The key assumption used in applying the market approach is the selling price, in the absence of undue stress and if reasonable time is given.

The carrying value of buildings as at December 31, 2021, if they would not have been revalued, would be AZN 4,873 thousand (December 31, 2020: AZN 5,200 thousand).

On December 31, 2021, management analysed the main factors affecting the change in the value of commercial office real estate from January 1, 2021 to December 31, 2021. Based on the results of the analysis, it was concluded that there have been no significant changes in prices in the office real estate segment. The analysis was conducted based on the comparative sales method. The comparative sales method is based on the direct comparison of the revalued object with other objects sold or offered for sale. In this case the fair value of premises is determined based on the price which an independent party would pay for an object similar by its quality and use. The market value of premises was estimated based on information on offers of the comparable items placed in the market, using correction adjustments from -10% to 30% depending on the object analogue. These offers were adjusted for the differences in characteristics of the appraised and similar property. An estimation of value determined using factors mentioned above represents a result of management's analysis of future prospects of running day-to-day operations and is based both on external and internal sources of data.

Changes in these estimates could affect the value of land and premises. For example, to the extent that the market value of comparable items differs by plus/minus three percent, the value of land and premises as at December 31, 2021 would be AZN 265 thousand higher/lower (2020: AZN 283 thousand).

(In thousands of AZN, unless otherwise indicated)

11. RIGHT-OF-USE ASSETS

	Office Buildings	Others	Total right-of-use assets
At initial cost			
January 1, 2020	**7,656**	**116**	**7,772**
Disposals	-	(48)	(48)
December 31, 2020	**7,656**	**68**	**7,724**
Additions	984	-	984
Disposals	-	-	-
December 31, 2021	**8,640**	**68**	**8,708**
Accumulated depreciation			
January 1, 2020	**(1,618)**	**(36)**	**(1,654)**
Depreciation charge	(1,618)	(20)	(1,638)
Eliminated on disposals	-	27	27
December 31, 2020	**(3,236)**	**(29)**	**(3,265)**
Depreciation charge	(1,658)	(16)	(1,674)
December 31, 2021	**(4,894)**	**(45)**	**(4,939)**
Net book value			
December 31, 2021	**3,746**	**23**	**3,769**
December 31, 2020	**4,420**	**39**	**4,459**

(In thousands of AZN, unless otherwise indicated)

12. OTHER ASSETS

	December 31, 2021	December 31, 2020
Other financial assets:		
Receivable from intermediaries	4,815	7,603
Plastic cards settlements	2,734	2,357
Restricted cash with foreign entity	1,403	1,403
Compensation receivable from government	404	719
Receivable from the bank under the process of liquidation	-	2,552
Less: Allowance for expected credit losses	-	(2,556)
Total other financial assets	**9,356**	**12,078**
Other non-financial assets:		
Prepayments for purchase of intangible assets	1,029	840
Repossessed collaterals	1,010	923
Deferred expenses	278	300
Prepayments to state and local funds	114	289
Others	191	217
Less: Allowance for impairment losses	(792)	(708)
Total other non-financial assets	**1,830**	**1,861**
Total other assets	**11,186**	**13,939**

As at December 31, 2020, the Bank has an overdue receivable from money transfer systems placed in one of local banks which had its license revoked back in 2016 and the Bank has recognized full impairment for this receivable and written off as at December 31, 2021. All other financial assets are in Stage 1 and their ECL is not material as for December 31, 2021 and 2020.

During the year ended December 31, 2021, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 120 thousand (December 31, 2020: AZN 102 thousand) and recognized them as assets held for sale.

(In thousands of AZN, unless otherwise indicated)

13. AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2021	December 31, 2020
Demand deposits	9,803	329
Time deposits	6,775	346
Other borrowed funds		
Central Bank of the Republic of Azerbaijan	55,599	71,824
National Fund for Entrepreneurship Support of the Republic of Azerbaijan	19,311	15,916
Azerbaijan Mortgage and Credit Guarantee Fund	17,287	11,494
Azerbaijan State Agency on Agricultural Credits under the Ministry of Agriculture	3,257	1,558
Total other borrowed funds	**95,454**	**100,792**
Total amounts due to banks and other financial institutions	**112,032**	**101,467**

Central Bank of the Republic of Azerbaijan

During the year ended December 31, 2020, the Bank received borrowings from CBAR in the amount of AZN 7,963 thousand with an annual interest rate of 0.1% per annum for 5 years under the Decree (2019: AZN 77,346 thousand). The interest rate of borrowings received from the CBAR for the purpose of financing the restructured loans was below market rate as at the date of origination, therefore the Bank recognized gain in the amount of AZN 1,689 thousand during the year ended December 31, 2020 (2019: AZN 16,406 thousand) at initial recognition of these borrowings.

In accordance with the agreement signed between the Bank and the Ministry of Finance of Azerbaijan who acts as a guarantor on behalf of the Republic of Azerbaijan, the Bank paid a guarantee fee in the amount of 0.5% of received borrowings from CBAR.

Entrepreneurship Development Fund of the Republic of Azerbaijan

The Bank signed a credit agreement on May 14, 2012 with the Entrepreneurship Development Fund of the Republic of Azerbaijan, a programme under the auspices of the Ministry for Economy of the Republic of Azerbaijan, for the financing of small and medium-size enterprises. Under this programme, funds are made available to the Bank at an interest rate of 1.0% per annum and the Bank lends these funds on to eligible borrowers at rates not higher than 6.0%-7.0% per annum. As at December 31, 2021 the Bank had AZN 19,311 thousand (December 31, 2020: AZN 15,916 thousand) payable to the fund, repayable up to December 2028. There are no financial covenants with regard to borrowing from the Entrepreneurship Development Fund of the Republic of Azerbaijan that the Bank should comply with.

Azerbaijan Mortgage and Credit Guarantee Fund

The Bank signed an agreement on July 11, 2007 with the Azerbaijan Mortgage and Credit Guarantee Fund, for the initial financing and refinancing of mortgage loans at an interest rate of 1-4% p.a. As at December 31, 2021, the Bank had AZN 17,287 thousand (December 31, 2020: AZN 11,494 thousand) payable to the fund, repayable up to November 2051. There are no financial covenants with regard to borrowing from Azerbaijan Mortgage and Credit Guarantee Fund the Bank should comply with.

(In thousands of AZN, unless otherwise indicated)

Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan

During the year ended December 31, 2021, the Company received borrowings in the amount of AZN 2,493 thousand from Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan with an annual interest rate of 2.5% per annum for the purpose of issuing loans to customers. As at December 31, 2021, the Bank had AZN 3,257 thousand (December 31, 2020: AZN 1,558 thousand).

In estimating the discount rates for term borrowings from Azerbaijan Mortgage and Credit Guarantee Fund, Entrepreneurship Development Fund of Azerbaijan Republic and Agrarian Credit and Development Agency under the Ministry of Agriculture of the Republic of Azerbaijan the Bank considers this market as a separate market from other commercial borrowing business as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

As at December 31, 2021, accrued interest expenses included in amounts due to banks and other financial institutions amounted to AZN 96 thousand (December 31, 2020: AZN 44 thousand).

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

	Amount
January 1, 2020	**84,050**
Cash flows	
Proceeds	18,212
Repayment	(4,765)
Interest paid	(606)
Non-cash changes	
Interest expense	5,590
Fair value adjustment at initial recognition	(1,689)
December 31, 2020	**100,792**
Cash flows	
Proceeds	16,467
Repayment	(26,926)
Interest paid	(733)
Non-cash changes	
Interest expense	5,854
December 31, 2021	**95,454**

(In thousands of AZN, unless otherwise indicated)

14. AMOUNTS DUE TO CUSTOMERS

	December 31, 2021	December 31, 2020
Current accounts and demand deposits		
- Retail	55,733	50,911
- Corporate	14,849	14,738
Total current accounts and demand deposits	**70,582**	**65,649**
Term deposits		
- Retail	174,170	129,259
- Corporate	1,754	1,755
Total term deposits	**175,924**	**131,014**
Total amounts due to customers	**246,506**	**196,663**

As at December 31, 2021, the Bank did not have any customer (December 31, 2020: nil), whose balance exceeded 10% of equity.

As at December 31, 2021 and 2020 amounts due to customers totalling AZN 11,941 thousand and AZN 6,591 thousand, respectively were held as security against loans and AZN 2,062 thousand and AZN 313 thousand as security against undrawn credit facilities.

Included in amounts due to customers in the amount of AZN 228,541 thousand and AZN 168,070 thousand as at December 31, 2021 and 2020, respectively are deposits and current accounts secured by the Azerbaijan Deposit Insurance Fund.

As at December 31, 2021, accrued interest expenses included in amounts due to customers amounted to AZN 2,911 thousand (December 31, 2020: AZN 2,937 thousand).

15. SUBORDINATED DEBTS

	Issue date	Maturity date	Interest rate	December 31, 2021	December 31, 2020
Subordinated debt from related parties ("Azpetrol Neft Shirketi" LLC, USD 9,860 thousand, monthly interest payment)	January-March, 2016	January, 2026	4.5%	16,762	16,762

In the event of bankruptcy or liquidation of the Bank, repayments of these debts are subordinate to the repayments of the Bank's liabilities to all other creditors.

The Bank is not obligated to comply with financial covenants in relation to subordinated debt balances disclosed above.

As at December 31, 2021, the Bank doesn't have any accrued interest expenses (December 31, 2020: nil).

(In thousands of AZN, unless otherwise indicated)

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

	Amount
January 1, 2020	**16,762**
Cash flows	
Interest paid	(753)
Non-cash changes	
Interest expense	753
December 31, 2020	**16,762**
Cash flows	
Interest paid	(753)
Non-cash changes	
Interest expense	753
December 31, 2021	**16,762**

16. LEASE LIABILITIES

	December 31, 2021	**December 31, 2020**
Current lease liabilities	1,777	1,570
Non-current lease liabilities	2,350	3,267
Total lease liabilities	**4,127**	**4,837**

Future minimum lease payments as at December 31, 2021 were as follows:

	Minimum lease payments due		
	Within one year	**One to ten years**	**Total**
Lease payments	2,025	2,568	4,593
Finance charges	(248)	(218)	(466)
Net present value as at December 31, 2021	**1,777**	**2,350**	**4,127**

Future minimum lease payments as at December 31, 2020 were as follows:

	Minimum lease payments due		
	Within one year	**One to ten years**	**Total**
Lease payments	1,871	3,554	5,425
Finance charges	(301)	(287)	(588)
Net present value as at December 31, 2020	**1,570**	**3,267**	**4,837**

(In thousands of AZN, unless otherwise indicated)

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

	Amount
January 1, 2020	**6,354**
Cash flows	
Repayment of principal	(1,494)
Interest paid	(412)
Non-cash changes	
Interest expense	412
Derecognition	(23)
December 31, 2020	**4,837**
Cash flows	
Repayment of principal	(1,694)
Interest paid	(314)
Non-cash changes	
Interest expense	314
New leases	984
December 31, 2021	**4,127**

17. OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Other financial liabilities:		
Liabilities in the course of settlement	4,504	1,493
Compensation payable to customers	935	701
Payable to Azerbaijan Deposit Insurance Fund	400	198
Other	307	271
Total other financial liabilities	**6,146**	**2,663**
Other non-financial liabilities:		
Income tax payable	6,356	1,001
Salary and other payables to employees	2,509	1,727
Tax payable	1,693	401
Total other non-financial liabilities	**10,558**	**3,129**
Total other liabilities	**16,704**	**5,792**

18. SHARE CAPITAL

The authorized, issued and outstanding share capital comprises 3,400,000 ordinary shares (December 31, 2020: 3,400,000). All shares have a nominal value of AZN 15.55 per share. Each share entitles one vote to the shareholder.

(In thousands of AZN, unless otherwise indicated)

Dividends in the amount of AZN 6,000 thousand were declared and paid by the Bank during 2021, with a dividend per share of AZN 1.76 (2020: Nil).

19. NET INTEREST INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Interest income calculated using the effective interest method		
Loans to customers	60,512	50,666
Investment securities	1,707	1,699
Cash and cash equivalents	580	957
Due from banks and other financial institutions	90	132
Other	9	16
Total interest income calculated using the effective interest method	**62,898**	**53,470**
Interest expense calculated using the effective interest method		
Current accounts and deposits from customers	(12,128)	(9,589)
Deposits and balances from banks	(5,962)	(5,590)
Subordinated debt	(753)	(753)
Lease liabilities	(314)	(412)
Total interest expense calculated using the effective interest method	**(19,157)**	**(16,344)**
Net interest income	**43,741**	**37,126**

20. EXPECTED CREDIT LOSSES

The following table provides a reconciliation of the expected credit loss on debt financial assets and other assets in the statement of profit or loss and other comprehensive income per class of financial instrument for the year ended December 31, 2021.

	Loans to customers	Due from banks	Cash and cash equivalents	Investment securities	Total
Net remeasurement of loss allowance	31,119	2	6	20	31,147
New financial assets originated or purchased	(3,867)	-	-	-	(3,867)
Total recovery of expected credit loss on debt financial assets	**27,252**	**2**	**6**	**20**	**27,280**

	Other assets	Total
Net remeasurement of loss allowance	(96)	(96)
Total charge of expected credit losses on other assets	**(96)**	**(96)**

(In thousands of AZN, unless otherwise indicated)

The following table provides a reconciliation of the expected credit loss on debt financial assets and other assets in the statement of profit or loss and other comprehensive income per class of financial instrument for the year ended December 31, 2020.

	Loans to customers	Due from banks	Cash and cash equivalents	Investment securities	Total
Net remeasurement of loss allowance	18,197	7	(3)	(166)	18,035
New financial assets originated or purchased	(8,509)	-	-	-	(8,509)
Total recovery/(charge) of expected credit loss on debt financial assets	**9,688**	**7**	**(3)**	**(166)**	**9,526**

	Other assets	Total
Net remeasurement of loss allowance	87	87
Total recovery of expected credit losses on other assets	**87**	**87**

21. FEE AND COMMISSION INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Plastic card operations	5,502	2,957
Cash operations	1,734	1,979
Settlements	855	679
Guarantee letters	41	32
Currency conversion operations	2	96
Other operations	560	200
Total fee and commission income	**8,694**	**5,943**

22. FEE AND COMMISSION EXPENSE

	Year ended December 31, 2021	Year ended December 31, 2020
Plastic card operations	(4,509)	(4,184)
Settlements	(2,446)	(2,317)
Cash operations	(68)	(113)
Letters of credit	(37)	(27)
Total fee and commission expense	**(7,060)**	**(6,641)**

(In thousands of AZN, unless otherwise indicated)

23. PERSONNEL EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Employee compensation	(17,437)	(16,657)
Payments to Social Security Fund	(2,708)	(2,284)
Other employment expenses	(19)	(36)
Total personnel expenses	**(20,164)**	**(18,977)**

24. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Depreciation and amortization expenses	(3,175)	(3,018)
Marketing and advertising expenses	(2,137)	(1,360)
Payments to the Deposit Insurance Fund	(1,431)	(786)
Legal and consultancy	(863)	(700)
Property and equipment maintenance	(575)	(426)
Security expenses	(508)	(509)
Software cost	(504)	(309)
Communication expenses	(378)	(356)
Printing expenses	(343)	(265)
Utility expenses	(332)	(305)
Taxes other than income tax	(315)	(309)
Office supplies	(219)	(205)
Occupancy and rent expenses	(204)	(91)
Charity expenses**	(140)	(296)
Business travel and related expenses	(103)	(78)
Vehicle running costs	(41)	(33)
Insurance expenses	(32)	(36)
Membership fees	(28)	(71)
Payment to the Financial Markets Supervisory Authority	-	(75)
Others*	(300)	(229)
Total general and administrative expenses	**(11,628)**	**(9,457)**

**Included in charity expenses for the year ended December 31, 2020 amount of AZN 150 thousand represent funds paid to the Coronavirus Response Fund.

*Others included cleaning and sanitation costs, acquisition of masks, gloves, sanitizers and tests incurred to prevent the spread of COVID-19 in the amount of AZN 30 thousand for the year ended December 31, 2021 (2020: AZN 61 thousand).

25. INCOME TAXES

The Bank measures and records its current income tax payable and its tax bases in its assets and liabilities in accordance with the tax regulations of the Republic of Azerbaijan where the Bank operates, which may differ from IFRS.

(In thousands of AZN, unless otherwise indicated)

The Bank is subject to certain permanent tax differences due to the non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at December 31, 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by tax-book bases' differences for certain assets.

The tax rate used for the reconciliations below is the corporate tax rate of 20% payable by corporate entities in the Republic of Azerbaijan on taxable profits (as defined) under tax law in that jurisdiction.

In 2021, the applicable tax rate for current and deferred income tax is 20% (December 31, 2020: 20%).

	December 31, 2021	**December 31, 2020**
Current tax expense	(7,117)	(1,016)
Origination and reversal of temporary differences	(2,174)	(4,356)
Total income tax expense	**(9,291)**	**(5,372)**

The effective tax rate reconciliation is as follows for the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021	**Year ended December 31, 2020**
Profit before income tax	42,575	20,530
Tax at the statutory tax rate (20%)	(8,515)	(4,106)
Effect of permanent differences	(776)	(737)
Revision of tax loss carried forward	-	(529)
Income tax expense	**(9,291)**	**(5,372)**

(In thousands of AZN, unless otherwise indicated)

Deferred income tax assets and liabilities

Movements in temporary differences during the years ended December 31, 2021 and 2020 are presented as follows:

	January 1, 2021	Charged to profit or loss	December 31, 2021
Lease liabilities	972	(339)	633
Other liabilities	423	220	643
Investment securities	16	(40)	(24)
Due to banks and other financial institutions	(2,571)	1,006	(1,565)
Property, equipment and intangible assets	(1,519)	-	(1,519)
Right-of-use assets	(896)	335	(561)
Loans to customers	(248)	(3,360)	(3,608)
Cash and cash equivalents	(33)	4	(29)
Due from banks and other financial institutions	(23)	14	(9)
Other assets	(1)	(14)	(15)
Net deferred income tax liabilities	**(3,880)**	**(2,174)**	**(6,054)**

	January 1, 2020	Charged to profit or loss	Charged to other comprehensive income	December 31, 2020
Lease liabilities	1,271	(299)	-	972
Other liabilities	293	130	-	423
Investment securities	4	12	-	16
Due to banks and other financial institutions	(3,218)	647	-	(2,571)
Property, equipment and intangible assets	(1,670)	7	144	(1,519)
Right-of-use assets	(1,224)	328	-	(896)
Loans to customers	1,546	(1,794)	-	(248)
Cash and cash equivalents	-	(33)	-	(33)
Due from banks and other financial institutions	(23)	-	-	(23)
Other assets	(58)	57	-	(1)
Tax loss carried forward	3,411	(3,411)	-	-
Net deferred income tax assets/(liabilities)	**332**	**(4,356)**	**144**	**(3,880)**

26. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IAS 24 "Related party disclosures", represent:

(a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and
(b) fellow subsidiaries); have an interest in the Bank that gives then significant influence over the Bank; and that have joint control over the Bank;
(c) Associates – enterprises on which the Bank has significant influence and which is neither a subsidiary nor a joint venture of the investor;
(d) Joint ventures in which the Bank is a venture;
(e) Members of key management personnel of the Bank or its parent;

(In thousands of AZN, unless otherwise indicated)

(f) Close members of the family of any individuals referred to in (a) or (d);
(g) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(h) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

Control relationships

The Bank has no ultimate controlling party.

Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended December 31, 2021 and 2020 is as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Short-term employee benefits	1,410	1,571
Total short-term employee benefits	**1,410**	**1,571**

These amounts include cash benefits in respect of the members of the Supervisory Board and the Management Board.

The outstanding balances and average effective interest rates as at December 31, 2021 and 2020 for transactions with the members of the Supervisory Board and the Management Board are as follows:

	December 31, 2021	Average effective interest rate, %	December 31, 2020	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	87	13.25%	51	13.5%
Allowance for expected credit losses	-	-	(2)	-
Current accounts	327	-	71	-
Term deposits	1,700	2%	585	5.26%

Amounts included in profit or loss in relation to transactions with the members of the Supervisory Board and the Management Board for the year ended December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Profit or loss		
Interest income	4	6
Interest expense	(20)	(6)
Recovery of expected credit losses	3	1

(In thousands of AZN, unless otherwise indicated)

Transactions with other related parties

The outstanding balances and the related average effective interest rates as at December 31, 2021 and related profit or loss amounts of transactions for the year ended December 31, 2021 with other related parties are as follows:

	Shareholders		Others		Total
	Related party transactions	Average effective interest rate, %	Related party transactions	Average effective interest rate, %	
Statement of financial position					
ASSETS					
Loans to customers					
Principal balance	-	-	15,041	12.25%	15,041
Allowance for expected credit losses	-	-	(374)	-	(374)
LIABILITIES					
Customer accounts	3,618	-	3,902	-	7,520
Term deposits	1,700	2%	2,653	9.5%	4,353
Subordinated debt	16,788	4.59%	-	-	16,788
Profit or loss					
Interest income	-	-	716	-	720
Interest expense	(701)	-	(247)	-	(948)

The outstanding balances and the related average effective interest rates as at December 31, 2020 and related profit or loss amounts of transactions for the year ended December 31, 2020 with other related parties are as follows:

	Shareholders		Others		Total
	Related party transactions	Average effective interest rate, %	Related party transactions	Average effective interest rate, %	
Statement of financial position					
ASSETS					
Loans to customers					
Principal balance	-	-	8,825	8.28%	8,825
Allowance for expected credit losses	-	-	(1,407)	-	(1,407)
LIABILITIES					
Customer accounts	1,907	-	2,377	-	4,284
Term deposits	-	-	1,714	10.47%	1,714
Subordinated debt	16,788	4.59%	-	-	16,788
Profit or loss					
Interest income	-	-	593	-	593
Interest expense	(753)	-	(55)	-	(808)

(In thousands of AZN, unless otherwise indicated)

Other related parties include family members of key management personnel, entities under the control of shareholders. The majority of balances resulting from transactions with related parties mature within one year. Transactions with related parties are not secured.

27. COMMITMENTS AND CONTINGENCIES

Credit-related commitments

The Bank has outstanding credit-related commitments to extend loans. These credit-related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides tender and advances guarantees and letters of credit to guarantee the performance of customers to third parties.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees as it does for granting loans to customers.

The contractual amounts of credit-related commitments are set out in the following table by category. The amounts reflected in the table for credit-related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted.

	December 31, 2021	December 31, 2020
Contracted amount		
Guarantees	1,569	614
Undrawn credit lines	17,410	3,561
Total contractual credit-related commitments	**18,979**	**4,175**

The total outstanding contractual credit-related commitments above do not necessarily represent future cash requirements, as these credit-related commitments may expire or terminate without being funded. The majority of loan and credit line commitments do not represent an unconditional credit-related commitment by the Bank.

Insurance

The insurance industry in the Republic of Azerbaijan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Bank does not have full coverage for its premises and equipment, business interruption, or third-party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial position or the results of future operations.

(In thousands of AZN, unless otherwise indicated)

Taxation contingencies

The taxation system in the Azerbaijan Republic continues to evolve and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretations by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Azerbaijan Republic suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Azerbaijan Republic that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Azerbaijani tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

28. FAIR VALUE OF FINANCIAL INSTRUMENT

Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2021:

	Amortized cost	**FVTPL**	**FVTOCI**	**Total carrying amount**	**Total**
ASSETS					
Cash and cash equivalents	82,504	-	-	82,504	82,504
Due from banks and other financial institutions	2,491	-	-	2,491	2,491
Investment securities	13,901	368	24,860	39,129	39,129
Loans to customers	369,185	-	-	369,185	369,185
Other financial assets	9,356	-	-	9,356	9,356
TOTAL ASSETS	**477,437**	**368**	**24,860**	**502,665**	**502,665**
LIABILITIES					
Amounts due to banks and other financial institutions	112,032	-	-	112,032	112,032
Amounts due to customers	246,506	-	-	246,506	246,506
Subordinated debt	16,762	-	-	16,762	16,762
Lease liabilities	4,127	-	-	4,127	4,127
Other financial liabilities	6,146	-	-	6,146	6,146
TOTAL LIABILITIES	**385,573**	**-**	**-**	**385,573**	**385,573**

(In thousands of AZN, unless otherwise indicated)

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at December 31, 2020:

	Amortized cost	FVTPL	FVTOCI	Total carrying amount	Total
ASSETS					
Cash and cash equivalents	111,965	-	-	111,965	111,965
Due from banks and other financial institutions	2,065	-	-	2,065	2,065
Investment securities	13,658	188	13,540	27,386	27,386
Loans to customers	247,591	-	-	247,591	247,591
Other financial assets	12,078	-	-	12,078	12,078
TOTAL ASSETS	**387,357**	**188**	**13,540**	**401,085**	**401,085**
LIABILITIES					
Amounts due to banks and other financial institutions	101,467	-	-	101,467	101,467
Amounts due to customers	196,663	-	-	196,663	196,663
Subordinated debt	16,762	-	-	16,762	16,762
Lease liabilities	4,837	-	-	4,837	4,837
Other financial liabilities	2,663	-	-	2,663	2,663
TOTAL LIABILITIES	**322,392**	-	-	**322,392**	**322,392**

The estimates of fair value are intended to approximate 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. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using other valuation techniques.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The Bank uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives like interest rate swaps.

For more complex instruments, the Bank uses proprietary valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market, certain over-the-counter structured derivatives, and retained interests in securitizations.

Loans from government agencies

Management has assessed the nature of the agreements with the Azerbaijan National Fund for Entrepreneurship Support ("ANFES") and "Azerbaijan Mortgage and Credit Guarantee Fund" OJSC ("AMCGF"), and in particular whether the Bank is acting as an agent of the Government agencies, or as a principal with the borrower under this program. Having considered the risks and rewards related to the loans issued under those programs, management has concluded that the Bank is acting as a principal and accordingly the accounting in these financial statements follows this judgment.

The loans issued by the Bank under these programs in accordance with decrees of government agencies do not have similar instruments on the market and form a separate market segment due to their unique nature, specifics of state lending program and borrowers' category. Thus the management assumes that contractual interest rates are market rates for such loans and they recognized at fair value which is equal to their nominal value.

Similarly, for the related funds received by the Bank from the government agencies under these programs, the management assumes that contractual interest rates are market rates for such borrowings and recognized at fair value which is equal to their nominal value.

Valuation of financial instruments

The Bank uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e., the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument, but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair value hierarchy

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

(In thousands of AZN, unless otherwise indicated)

- **Level 1**: quoted market price (unadjusted) in an active market for an identical instrument.
- **Level 2**: inputs other than quotes prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- **Level 3**: inputs that are unobservable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table analyses the fair value of financial instruments measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at December 31, 2021:

			Fair value measurement using		
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value**	**Total carrying amount**
ASSETS					
Cash and cash equivalents	82,504	-	-	82,504	82,504
Due from banks and other financial institutions	-	-	2,491	2,491	2,491
Investment securities	25,228	-	13,658	39,129	39,129
Loans to customers	-	-	369,185	369,185	369,185
Other financial assets	-	-	9,356	9,356	9,356
LIABILITIES					
Amounts due to banks and other financial institutions	-	-	112,032	112,032	112,032
Amounts due to customers	-	-	246,506	246,506	246,506
Subordinated debt	-	-	16,762	16,762	16,762
Lease liabilities	-	-	4,127	4,127	4,127
Other financial liabilities	-	-	6,146	6,146	6,146

(In thousands of AZN, unless otherwise indicated)

The following table analyses the fair value of financial instruments measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at December 31, 2020:

	Fair value measurement using				
	Quoted prices in active markets (Level 1)	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value**	**Total carrying amount**
ASSETS					
Cash and cash equivalents	111,965	-	-	111,965	111,965
Due from banks and other financial institutions	-	-	2,065	2,065	2,065
Investment securities	13,728	-	13,658	27,386	27,386
Loans to customers	-	-	247,591	247,591	247,591
Other financial assets	-	-	12,078	12,078	12,078
LIABILITIES					
Amounts due to banks and other financial institutions	-	-	101,467	101,467	101,467
Amounts due to customers	-	-	196,663	196,663	196,663
Subordinated debt	-	-	16,762	16,762	16,762
Lease liabilities	-	-	4,837	4,837	4,837
Other financial liabilities	-	-	2,663	2,663	2,663

29. CAPITAL RISK MANAGEMENT

The CBAR sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBAR, banks have to maintain a ratio of capital to risk-weighted assets (statutory capital ratio) above the prescribed minimum level and maintain a minimum level of total statutory capital of AZN 50,000 thousand (December 31, 2020: AZN 50,000 thousand). As at December 31, 2021, the statutory capital ratio was 10% (December 31, 2020: 9%). The Bank was in compliance with the statutory capital requirement of AZN 50,000 thousand as at December 31, 2021 (December 31, 2020: was in compliance with the statutory capital requirement of AZN 50,000 thousand).

The Bank provides the CBAR with information on mandatory ratios in accordance with set form. Risk Department controls on daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBAR and the Bank’s internal policy this information is communicated to the Supervisory Board.

As at December 31, 2021 the Bank was in compliance with the requirements for minimum total capital adequacy ratio (December 31, 2020: was in compliance with minimum total capital adequacy ratio). The calculation of total capital adequacy ratio based on requirements set by the CBAR as at December 31, 2021 and 2020 was as follows:

(In thousands of AZN, unless otherwise indicated)

	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Tier 1 capital		
Share capital	52,870	52,870
Retained earnings	10,511	3,559
Total tier 1 capital	**63,381**	**56,429**
Deductions from Tier 1 capital	554	744
Tier 1 capital, after deductions	62,827	55,685
Tier 2 capital (not more than Tier 1)	40,386	32,536
Total capital	**103,213**	**88,221**
Deductions from total capital	358	178
Total capital after deductions	**102,855**	**88,043**
Total risk weighted assets	**499,172**	**285,656**
Tier 1 adequacy ratio	**12.59%**	**19.49%**
Total capital adequacy ratio	**20.61%**	**30.82%**

Reconciliation of total statutory capital to IFRS equity

The following unaudited supplementary information is intended to provide additional information to users of the financial statements of the Bank for the years ended December 31, 2021 and 2020 and is not required under International Financial Reporting Standards (IFRS).

(In thousands of AZN, unless otherwise indicated)

	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Total statutory capital (after deductions)	**102,855**	**88,043**
Reconciliation of total statutory capital and IFRS equity:		
- retained earnings	22,285	12,937
- current year profit	10,223	2,485
- loan expected credit losses	16,013	8,721
- net interest income	(7,674)	(6,421)
- other income	180	2
- net fee and commission income	(3,969)	(954)
- net gain on foreign exchange operations	1,367	787
- net realised loss on foreign currency derivatives	-	(332)
- income tax expense	(641)	(1,000)
- personnel expenses	2,315	(457)
- administrative expenses	2,566	754
- net fair value gain on initial recognition of financial instruments	-	1,689
- Change in fair value of financial assets at fair value through profit or loss	-	(329)
- Recovery of impairment losses	66	25
- differences arising from deduction	912	922
- equity investment	358	178
- intangible assets	554	744
- deferred income tax assets	-	-
- general allowances	(3,427)	(2,590)
- other capital	(13,898)	(17,273)
- dividend declared	(6,000)	-
- revaluation reserve	4,320	5,462
Total IFRS equity	**117,270**	**89,986**

The table above provides an overview of the differences in composition of the net assets as at December 31, 2021 and 2020 presented in the Bank's financial statements prepared under IFRS and total statutory capital determined under the rules and regulations of the CBAR.

30. RISK MANAGEMENT, CORPORATE GOVERNANCE AND INTERNAL CONTROL

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

Corporate governance framework

The Bank is established as an open joint-stock company in accordance with Azerbaijani law. The supreme governing body of the Bank is the General Shareholders' meeting that is called for annual or extraordinary meetings. The General Shareholders' meeting makes strategic decisions on the Bank's operations.

The General Shareholders' meeting elects the Supervisory Board. The Supervisory Board is responsible for overall governance of the Bank's activities.

Azerbaijani legislation and the charter of the Bank establish lists of decisions that are exclusively approved by the General Shareholders’ meeting and that are approved by the Supervisory Board.

As at December 31, 2021 the Supervisory Board includes:

Elchin Isayev - Chairman of the Supervisory Board;
Mogaghegh Oromi Shahram - Member of the Supervisory Board;
Mashallah Taghiyev - Member of the Supervisory Board;
Ilgar Aliyev - Member of the Supervisory Board;
Haqiqat Rahimli - Member of the Supervisory Board.

During the year ended December 31, 2021, no changes occurred in composition of the Supervisory Board.

Internal control policies and procedures

The Supervisory Board and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Bank that is commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Bank’s internal controls and periodically implements additional controls or modifies existing controls as considered necessary.

The Bank developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

There is a hierarchy of requirements for authorization of transactions depending on their size and complexity. A significant portion of operations are automated and the Bank put in place a system of automated controls.

The main functions of the Internal Audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures;
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit organization (methods, programs, rules and procedures for banking operations and transactions, and for the management of banking risks);
- audit of reliability of internal control system over automated information systems, audit and testing of fairness, completeness and timeliness of accounting and reporting function and the reliability (including the trustworthiness, fullness and objectivity) of the collection and submission of financial information;
- audit of applicable methods of safekeeping the credit organization’s property;
- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of internal control service and risk management service.

Compliance with the Bank’s standards is supported by a program of periodic reviews undertaken by Internal Audit. The Internal Audit function is independent from management and reports directly to the Audit Committee and the Supervisory Board. The results of Internal Audit reviews are discussed with relevant business process managers, with summaries submitted to the Audit Committee and the Supervisory Board and senior management of the Bank.

The internal control system in the Bank comprises:

- the Supervisory Board and its committees;
- the Chief Executive officer and the Management Board;
- the Chief Accountant;
- the risk management function;
- the security function, including IT security.

- the human resource function;
- the Internal Audit service;
- other employees, divisions and functions that are responsible for compliance with the established standards, policies and procedures, including:

    - heads of branches and heads of business units;
    - business processes managers;
    - division responsible for compliance with anti-money laundering requirements;
    - the legal officer – an employee responsible for compliance with the legal and regulatory requirements;
    - other employees with control responsibilities.

Management believes that the Bank complies with the FIMSA requirements related to risk management and internal control systems, including requirements related to the Internal Audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

Risk management policies and procedures

The risk management policies aim to identify, analyze and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practices.

The Supervisory Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Management Board is responsible for monitoring and implementing risk mitigation measures, and ensuring that the Bank operates within established risk parameters.

The Head of the Risk Department is responsible for the overall risk management and compliance functions, ensuring the implementation of common principles and methods for identifying, measuring, managing and reporting both financial and non-financial risks. He reports directly to the responsible member of the Management Board.

Credit, market and liquidity risk both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established a hierarchy of Credit Committees depending on the type and amount of the exposure.

Both external and internal risk factors are identified and managed throughout the organization. Particular attention is given to identifying the full range of risk factors and determination of the level of assurance over the current risk mitigation procedures. Apart from the standard credit and market risk analysis, the Risk Department monitors financial and non-financial risks by holding regular meetings with operational units in order to obtain expert judgments in their areas of expertise.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices and foreign currency rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimizing the return on risk.

Overall authority for market risk is vested in the ALCO, which is chaired by the Chairman of the Management Board. Market risk limits are approved by ALCO based on recommendations of the Risk Department.

The Bank manages its market risk by setting open position limits in relation to financial instruments, interest rate maturity and currency positions and stop-loss limits. These are monitored on a regular basis and reviewed and approved by the Supervisory Board.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed 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 also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

(In thousands of AZN, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest bearing	December 31, 2021 Total
FINANCIAL ASSETS							
Cash and cash equivalents	23	-	-	-	-	82,481	82,504
Due from banks and other financial institutions	-	-	844	-	-	1,647	2,491
Investment securities	-	-	16,220	22,541	-	368	39,129
Loans to customers	28,001	30,817	118,219	175,036	17,112	-	369,185
Other financial assets	-	-	-	-	-	9,356	9,356
Total financial assets	**28,024**	**30,817**	**135,283**	**197,577**	**17,112**	**93,852**	**502,665**
FINANCIAL LIABILITIES							
Amounts due to banks and other financial institutions	2,467	1,206	19,169	74,354	14,836	-	112,032
Amounts due to customers	35,949	26,300	93,204	45,107	-	45,946	246,506
Subordinated debt	37	-	-	16,725	-	-	16,762
Lease liabilities	159	319	465	834	2,350	-	4,127
Other financial liabilities	-	-	-	-	-	6,146	6,146
Total financial liabilities and commitments	**38,612**	**27,825**	**112,838**	**137,020**	**17,186**	**52,092**	**385,573**
Liquidity gap	(10,588)	2,992	22,445	60,557	(74)	41,760	117,092
Cumulative liquidity gap	**(10,588)**	**(7,596)**	**14,849**	**75,406**	**75,332**	**117,092**	

(In thousands of AZN, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Non-interest bearing	December 31, 2020 Total
FINANCIAL ASSETS							
Cash and cash equivalents	22,501	-	-	-	-	89,464	111,965
Due from banks and other financial institutions	-	-	840	-	-	1,225	2,065
Investment securities	-	-	4,261	22,937	-	188	27,386
Loans to customers	17,735	15,385	65,648	109,394	39,429	-	247,591
Other financial assets	-	-	-	-	-	12,078	12,078
Total financial assets	**40,236**	**15,385**	**70,749**	**132,331**	**39,429**	**102,955**	**401,085**
FINANCIAL LIABILITIES							
Amounts due to banks and other financial institutions	604	1,118	4,420	84,856	10,140	329	101,467
Amounts due to customers	30,725	20,737	73,641	28,911	-	42,649	196,663
Subordinated debt	37	-	-	-	16,725	-	16,762
Lease liabilities	113	261	1,196	3,267	-	-	4,837
Other financial liabilities	-	-	-	-	-	2,663	2,663
Total financial liabilities and commitments	**31,479**	**22,116**	**79,257**	**117,034**	**26,865**	**45,641**	**322,392**
Liquidity gap	8,757	(6,731)	(8,508)	15,297	12,564	57,314	78,693
Cumulative liquidity gap	**8,757**	**2,026**	**(6,482)**	**8,815**	**21,379**	**78,693**	

Interest rate gaps are managed principally through refinancing of interest-bearing liabilities maturing in respective maturity bands with liabilities at equal or lower interest rates.

(In thousands of AZN, unless otherwise indicated)

Average effective interest rates

The table below displays average effective interest rates for interest-bearing assets and liabilities as at December 31, 2021 and 2020. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	December 31, 2021			December 31, 2020		
	Average effective interest rate, %			Average effective interest rate, %		
	AZN	USD	EUR	AZN	USD	EUR
Interest-bearing assets						
Cash and cash equivalents	0.00%	0.99%	0.99%	5.76%	-	-
Due from banks and other financial institutions	8.00%	0.00%	-	-	11.50%	-
Investment securities	5.72%	4.34%	1.75%	6.21%	3.97%	1.75%
Loans to customers	18.08%		4.16%	19.14%	5.85%	-
Other financial assets	0.00%	0.00%	0.00%	-	-	-
Amounts due to banks and other financial institutions	5.95%	-	-	6.02%	-	-
Amounts due to customers	9.57%	2.11%	1.31%	9.70%	2.17%	1.39%
Subordinated debt	-	4.50%	-	-	4.50%	-
Lease liabilities	8.45%	-	-	7.50%	-	-

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis, is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of net profit or loss and equity (net of taxes) to changes in interest rates (repricing risk), based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at December 31, 2021 and 2020 is as follows:

	December 31, 2021	December 31, 2020
100 bp parallel fall	419	(885)
100 bp parallel rise	(419)	885

Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2021:

(In thousands of AZN, unless otherwise indicated)

	AZN	USD	EUR	Other	Total
Cash and cash equivalents	21,825	58,293	2,247	139	82,504
Due from banks and other financial institutions	838	1,653	-	-	2,491
Investment securities	19,589	18,197	1,343	-	39,129
Loans to customers	353,492	15,693	-	-	369,185
Other financial assets	6,911	1,892	511	42	9,356
Total financial assets	**402,655**	**95,728**	**4,101**	**181**	**502,665**
Amounts due to banks and other financial institutions	111,983	47	2	-	112,032
Amounts due to customers	164,868	77,465	4,123	50	246,506
Subordinated debt	-	16,762	-	-	16,762
Lease liabilities	4,127	-	-	-	4,127
Other financial liabilities	5,756	228	159	3	6,146
Total financial liabilities	**286,734**	**94,502**	**4,284**	**53**	**385,573**
OPEN POSITION	**115,921**	**1,226**	**(183)**	**128**	**117,092**

The following table shows the foreign currency exposure structure of financial assets and liabilities as at December 31, 2020:

	AZN	USD	EUR	Other	Total
Cash and cash equivalents	55,551	53,583	2,496	335	111,965
Due from banks and other financial institutions	553	1,512	-	-	2,065
Investment securities	7,952	17,978	1,456	-	27,386
Loans to customers	239,789	7,801	1	-	247,591
Other financial assets	10,199	1,781	98	-	12,078
Total financial assets	**314,044**	**82,655**	**4,051**	**335**	**401,085**
Swap agreements	**-**	**850**	**-**	**-**	**850**
Amounts due to banks and other financial institutions	101,362	103	2	-	101,467
Amounts due to customers	130,604	62,340	3,659	60	196,663
Subordinated debt	-	16,762	-	-	16,762
Lease liabilities	4,837	-	-	-	4,837
Other financial liabilities	2,415	138	110	-	2,663
Total financial liabilities	**239,218**	**79,343**	**3,771**	**60**	**322,392**
Swap agreements	**906**	**-**	**-**	**-**	**906**
OPEN POSITION	**73,920**	**4,162**	**280**	**275**	**78,637**

(In thousands of AZN, unless otherwise indicated)

The Bank manages currency position and reports for compliance purposes based on statutory amounts.

A weakening of the AZN, as indicated below, against the following currencies at December 31, 2021 and 2020, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	December 31, 2021	**December 31, 2020**
20% appreciation of USD against AZN	196	666
20% appreciation of EUR against AZN	(29)	45

A strengthening of the AZN against the above currencies at December 31, 2021 and 2020 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognized financial assets and unrecognized contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Supervisory Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications;
- methodology for the credit assessment of borrowers (corporate and retail);
- methodology for the credit assessment of counterparties, issuers and insurance companies;
- methodology for the evaluation of collateral;
- credit documentation requirements;
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The loan credit application and the report are then independently reviewed by the Risk Management Department and a second opinion is given accompanied by verification that credit policy requirements are met. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Credit Supervision Department as well as Legal, Accounting and Tax Departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank. Retail loan credit applications are reviewed by the Sales Department through the use of scoring models and application data verification procedures developed together with the Risk Management Department.

(In thousands of AZN, unless otherwise indicated)

Apart from individual customer analysis, the credit portfolio is assessed by the Risk Management Department with regard to credit concentration and market risks.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	December 31, 2021	**December 31, 2020**
Cash and cash equivalents (excluding cash on hand)	61,750	92,753
Due from banks and other financial institutions	2,491	2,065
Investment securities	38,761	27,198
Loans to customers	369,185	247,591
Other financial assets	9,356	12,078
Commitments on loans and unused credit lines	17,410	3,561
Guarantees issued and similar commitments	1,569	614
Total maximum exposure	**500,522**	**385,860**

Credit risk-Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in probability of default (PD);
- qualitative indicators; and
- backstop of 30 days past due, except for transactions with financial institutions and issuers of securities, for which a backstop of 2-10 days past due is applied.

Generating the term structure of PD

The Bank collects performance and default information about its credit risk exposures by type of product as well as borrower’s segment. For some portfolios, information purchased from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Determining whether credit risk has increased significantly

A financial instrument is transferred from Stage 1 to Stage 2 if there is a significant increase in credit risk when assessed at the reporting date compared to the expected level of credit risk at initial recognition. The presence of a significant increase in credit risk is analyzed on a quarterly basis (at the date the provision was calculated), and the following criteria are considered in the analysis:

Quality

- The fact of overdue debt for 31-90 days for all segments except transactions with financial institutions and issuers of securities;
- The presence of a debt overdue by 1-7 business days for transactions with financial institutions and issuers of securities;
- Reduction of financial support from the parent company or another affiliate;
- The receipt by the Bank of reliable negative information about products issued to the borrower.

Quantitative criteria apply only if there are external ratings:

- The relative change in the external rating at the reporting date compared to the external rating at the date of recognition according to the criteria given in Table 1.

Calculation and determination of criteria of materiality of the relative changes in the external rating

External ratings for corporate borrowers, financial institutions and issuers of securities are determined on the basis of assessments of international rating agencies Moody’s, Fitch, S&P.

The relative change in the external rating is defined as the number of rating categories for which the counterparty’s external rating at the reporting date is reduced compared to the rating at the transaction date. The criteria for the materiality of changes in the external rating are given in Table 1.

For instruments with low credit risk, the standard assumes the possibility of simplifying and using the assumption that the credit risk of a financial instrument has not increased significantly since initial recognition if it was determined that the financial instrument has low credit risk as at the reporting date. To determine whether the credit risk of a financial instrument is low, the Bank may use external credit risk ratings.

(In thousands of AZN, unless otherwise indicated)

Table 1: Criteria for determining a significant increase in credit risk depending on the value of the external rating upon initial recognition.

Counterparty rating at initial recognition				A significant increase in credit risk is recognized
	Moody’s	**Fitch**	**S&P**	
1	AAA	AAA	AAA	Low credit risk: category does not change, unless the rating deteriorates by 3 levels
2	Aa1	AA+	AA+	
3	Aa2	AA	AA	
4	Aa3	AA-	AA-	
5	A1	A+	A+	
6	A2	A	A	
7	A3	A-	A-	
8	Baa1	BBB+	BBB+	
9	Baa2	BBB	BBB	
10	Baa3	BBB-	BBB-	
11	Ba1	BB+	BB+	Changes to -2 category
12	Ba2	BB	BB	
13	Ba3	BB-	BB-	
14	B1	B+	B+	Changes to -1 category
15	B2	B	B	
16	B3	B-	B-	
17	Caa1	CCC-C	CCC-C	
18	Caa2			
19	Caa3			
20	Ca-C			
21	D	D	D	

Criteria for transferring a financial instrument to Stage 3

A financial instrument is transferred from Stage 1 / Stage 2 to Stage 3 if there is a default. For the purposes of the methodology of the Bank, a default event is assumed to be equivalent to an impairment event.

An impairment event for a financial instrument is determined at the borrower level for all portfolios except for the portfolio of retail borrowers. For retail borrowers, an impairment event is determined at the financial instrument level. Impairment criteria is:

- More than 90 calendar days of arrears on the reporting date for all segments except transactions with financial institutions and issuers of securities;
- More than 7 business days of overdue debts at the reporting date for transactions with financial institutions and issuers of securities;
- The counterparty/issuer was declared bankrupt by the court, or the court introduced bankruptcy proceedings against the Borrower. This criterion applies to all portfolios with the exception of the portfolio of retail borrowers;
- Assignment to the contract of regulatory quality category 5 as of the reporting date;

(In thousands of AZN, unless otherwise indicated)

- Default/forced restructuring due to the financial difficulties of the borrower (applicable except for transactions with financial institutions and securities). Default/forced restructuring is understood as a change in the terms of the contract, recognized as a forced restructuring by the Authorized body of the Bank, which are a result of the borrower's inability to fulfill the obligations stipulated in the contract and are caused by deterioration in the credit quality of the borrower;
- Revocation of the license and introduction of an interim administration (applicable to financial institutions and issuers of securities).

Criteria for recovery and transfer of financial instruments to Stage 1:

- Lack of default criteria described in this section;
- Lack of criteria for a significant increase in credit risk;
- Lack of arrears for three consecutive (including the current reporting month) reporting months.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The impact of macroeconomic events is taken into account at the level of the credit risk component PD. The Bank assesses the impact of macroeconomic information on the corporate and retail portfolio. For a portfolio of securities, for requirements to financial institutions, macro adjustments are used according to the corporate portfolio. An assessment of the impact of macroeconomic information should be made at least annually.

Availability of forward-looking information for future periods.

Since the analysis requires the calculation of forecast values of the default level, only those factors for which there are forecast values published by open official external sources are included in the list.

Adequate frequency of data publication

Since the modeling process requires a sufficient number of observations, then those factors are selected for inclusion in a wide list, the data for which were published more often than once a year.

When analyzing the dependence of the default level on macroeconomic indicators, the list of factors - Real GDP growth, CIP and oil price forecast was used. As a result, real GDP was used as the key driver. The list of indicators can be expanded by adding new factors to it if there are publications on these factors.

The Bank has identified and documented key drivers of credit risk and credit losses for the entire loan portfolio (including the securities portfolio, requirements for financial institutions), using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at December 31, 2021 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2022 through 2023.

Key driver	**2021**	**2022**	**2023**
Real GDP growth	2.30	1.70	
Oil Price (Brent)	47.97	49.58	
Consumer price index	3.50	3.20	

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 4 years.

When building a macroeconomic model, the Bank uses external statistics on defaults (NPL), as there are no sufficient internal statistics on defaults.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 4(e) (iii).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time). If the loan is credit-impaired at the date of origination, then the Bank recognize such loans as POCI.

The Bank renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximize collection opportunities and minimize the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and interest rate. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that exposure is credit-impaired. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is the maximum amounts that may be drawn under the contract at the reporting date, if overdue days of the loan is less than 30 days as otherwise the card is blocked; and, in credit limits for business customers, if the credit limit is revolving. For financial guarantees, the EAD represents the guarantee exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of instrument type.

The groupings are subject to regular review to ensure that exposures within a particular Bank remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

		External benchmarks used	
	Exposure	**PD**	**LGD**
Cash and cash equivalents	61,750	Moody's default study	S&P recovery studies
Due from banks and other financial institutions	2,491	Moody's default study	S&P recovery studies
Investment securities	38,761	Moody's default study	S&P recovery studies

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions 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 Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Supervisory Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of short-term liquid trading securities, loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Risk Management Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by ALCO and implemented by the Treasury Department.

The following tables show the undiscounted cash flows on financial assets, liabilities and credit-related commitments on the basis of their earliest possible contractual maturity. The total gross outflow disclosed in the tables is the contractual, undiscounted cash flow on the financial liability or credit-related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

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

(in thousands of AZN, unless otherwise indicated)

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total gross amount outflow	Total carrying amount
Non-derivative liabilities							
Amounts due to banks and other financial institutions	2,585	1,439	39,772	66,527	24,167	134,490	112,032
Amounts to due customers	82,872	28,086	98,626	48,995	-	258,579	246,506
Subordinated debt	100	125	564	19,083	-	19,872	16,762
Lease liabilities	185	368	1,472	2,568	-	4,593	4,127
Other financial liabilities	6,146	-	-	-	-	6,146	6,146
Total financial liabilities	**91,888**	**30,018**	**140,434**	**137,173**	**24,167**	**423,680**	**385,573**
Credit related commitments	18,979	-	-	-	-	18,979	18,979

The maturity analysis for financial liabilities as at December 31, 2020 is as follows:

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The management of the Bank does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates.

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total gross amount outflow	Total carrying amount
Non-derivative liabilities							
Amounts due to banks and other financial institutions	998	1,249	24,410	81,896	18,204	126,757	101,467
Amounts to due customers	74,088	22,048	77,330	31,408	-	204,874	196,663
Subordinated debt	100	125	564	3,010	16,836	20,635	16,762
Lease liabilities	142	318	1,411	3,554	-	5,425	4,837
Other financial liabilities	2,663	-	-	-	-	2,663	2,663
Total financial liabilities	**77,991**	**23,740**	**103,715**	**119,868**	**35,040**	**360,354**	**322,392**
Credit related commitments	4,175	-	-	-	-	4,175	-

(in thousands of AZN, unless otherwise indicated)

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at December 31, 2021:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Overdue	No maturity	Total
FINANCIAL ASSETS								
Cash and cash equivalents	82,504	-	-	-	-	-	-	82,504
Due from banks and other financial institutions	-	-	844	-	-	-	1,647	2,491
Investment securities	-	-	16,220	22,541	-	-	368	39,129
Loans to customers	21,945	30,817	118,219	175,036	17,112	6,056	-	369,185
Other financial assets	9,356	-	-	-	-	-	-	9,356
Total financial assets	**113,805**	**30,817**	**135,283**	**197,577**	**17,112**	**6,056**	**2,015**	**502,665**
FINANCIAL LIABILITIES								
Amounts due to banks and other financial institutions	2,467	1,206	19,169	74,354	14,836	-	-	112,032
Amounts to due customers	81,895	26,300	93,204	45,107	-	-	-	246,506
Subordinated debt	37	-	-	16,725	-	-	-	16,762
Lease liabilities	159	319	465	834	2,350	-	-	4,127
Other financial liabilities	6,146	-	-	-	-	-	-	6,146
Total financial liabilities and commitments	**90,704**	**27,825**	**112,838**	**137,020**	**17,186**	**-**	**-**	**385,573**
Liquidity gap	23,101	2,992	22,445	60,557	(74)	6,056	2,015	117,092
Cumulative liquidity gap	**23,101**	**26,093**	**48,538**	**109,095**	**109,021**	**115,077**	**117,092**	

(in thousands of AZN, unless otherwise indicated)

The table below shows an analysis, by contractual maturities, of the amounts recognized in the statement of financial position as at December 31, 2020:

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Overdue	No maturity	Total
FINANCIAL ASSETS								
Cash and cash equivalents	111,965	-	-	-	-	-	-	111,965
Due from banks and other financial institutions	-	-	840	-	-	-	1,225	2,065
Investment securities	-	-	4,261	22,937	-	-	188	27,386
Loans to customers	15,605	15,385	65,648	109,394	39,429	2,130	-	247,591
Other financial assets	10,675	-	-	-	-	-	1,403	12,078
Total financial assets	**138,245**	**15,385**	**70,749**	**132,331**	**39,429**	**2,130**	**2,816**	**401,085**
FINANCIAL LIABILITIES								
Amounts due to banks and other financial institutions	933	1,118	4,420	84,856	10,140	-	-	101,467
Amounts to due customers	73,374	20,737	73,641	28,911	-	-	-	196,663
Subordinated debt	37	-	-	-	16,725	-	-	16,762
Lease liabilities	113	261	1,196	3,267	-	-	-	4,837
Other financial liabilities	2,663	-	-	-	-	-	-	2,663
Total financial liabilities and commitments	**77,120**	**22,116**	**79,257**	**117,034**	**26,865**	**-**	**-**	**322,392**
Liquidity gap	61,125	(6,731)	(8,508)	15,297	12,564	2,130	2,816	78,693
Cumulative liquidity gap	**61,125**	**54,394**	**45,886**	**61,183**	**73,747**	**75,877**	**78,693**	

The key measure used by the Bank for managing liquidity risk is the liquidity ratio stipulated by the CBAR.

The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR. This ratio is represented by the instant liquidity ratio, which is calculated as the ratio of highly liquid assets to liabilities payable on demand.

The Bank was in compliance with instant liquidity ratio as at December 31, 2021 (2020: was in compliance with the instant liquidity ratio).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank’s processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Bank’s operations.

The Bank’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank’s reputation with overall cost-effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Bank manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

31. EVENTS AFTER THE REPORTING DATE

Political tensions between Russia and Ukraine have been observed since February 24, 2022. The conflict received widespread international condemnation, including new sanctions imposed on Russia by European countries, the UK and the United States of America. The sanctions covered Russia’s central bank and sovereign wealth funds, effectively freezing their assets and banning dealings with the Russian financial institutions. Certain Russian banks were banned from SWIFT as well.

The Russian stock market fell 39% on the first day, as measured by the RTS Index, the ruble fell to a record low against the US dollar. The National Bank of Ukraine suspended currency markets, announcing that it would fix the official exchange rate. As a result of the escalation, Brent oil prices rose above $100 a barrel for the first time since 2014.

As at the date of this report, the situation has not been stabilized. The Bank has corresponding bank accounts in Russian banks and has been conducting banking operations through these accounts so far. Currently, the management could not estimate the effects of conflict on financial statements of the Bank, however, carrying out negotiations with other banks on opening alternative nostro accounts.