"BANK RESPUBLIKA" OJSC

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2021

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Independent Auditor's Report

To the Shareholders and Board of Directors of Bank Respublika OJSC:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bank Respublika OJSC (the "Bank") and its subsidiary (together - the "Group") as at 31 December 2021, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

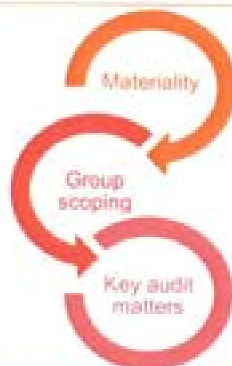
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



- Overall Group materiality: Azerbaijani Manats (AZN) 733 thousand, which represents 5% of profit before tax.
- We have audited the financial statements of the Bank, as well as the material balances and transactions of subsidiary included in the consolidated financial statements of the Group.
- Assessment of expected credit losses (ECL) provision for loans to customers in accordance with IFRS 9, Financial Instruments.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	AZN 733 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented entities in this sector.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit losses (ECL) provision for loans to customers in accordance with IFRS 9, Financial Instruments. Measurement of ECL is a significant estimate that involves determination of methodology, models and material data inputs. We considered impairment of loans to customers as a key audit matter due to the significance of loans to customer balance and a complex financial reporting standard, which	We assessed the appropriateness of methodology and models for calculating ECL provisions developed by the Group to evaluate their compliance with the requirements of IFRS 9. We obtained an understanding of the Group's process for estimating ECL, judgments that are significant to the ECL estimate, the sufficiency of the information to support those judgments and

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requires significant judgement to determine the ECL provision.

Key areas of judgement included:

- Classification of loans to customers into stages in accordance with IFRS 9;
- Key estimates and modelling assumptions used to estimate key risk parameters – probability of default, loss given default and exposure at default.

Note 3 "Significant accounting policies", Note 17 "Loans to Customers" and Note 31 "Risk Management Policies" to the consolidated financial statements provide detailed information on the credit loss allowance.

the degree of estimation uncertainty inherent in those judgments.

With regard to the controls relating to the credit loss allowance calculation process, we assessed and tested on a sample basis the design and operating effectiveness of the key controls over credit loss data and calculations. These key controls included those over loan authorization and accuracy of input of customer data into loan system, including authorization of loan standing data amendments, allocation of cash received from customers to respective loans to customers' accounts, overdue days count on delinquent loans and automated calculation of risk parameters and ECL figures.

We assessed and tested on a sample basis the underlying data and systems, which are used by the Group in determining the ECL estimate.

We evaluated and tested the reasonableness of the ECL methodology developed and applied by management such as:

- the appropriateness of the Group's approach to the segmentation of the loan portfolio;
- the appropriateness of the statistical methodology;
- tested, on a sample basis, the accuracy of allocation of loans to the different "stages" and the completeness of restructured credit-impaired loans;
- validation of model risk parameters (PD, LGD and EAD), forward-looking information, associated weighting and the ECL calculation;
- back-testing of probabilities of default (PD) and loss given default (LGD) risk parameters;

In our work we were supported by the following experts:

- credit risk experts in review of ECL methodology of the Group;
- risk assurance experts in validation of the ECL outputs from the calculation engine implemented by the Group for expected credit loss calculations.

We considered the sensitivity of the ECL provision to variations in PD and LGD.

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We assessed the adequacy and appropriateness of disclosures made in the consolidated financial statements regarding the credit loss allowance for loans to customers in accordance with IFRS.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Subsidiary of the Group is a non-significant component, therefore only material balances and transactions of subsidiary included in the consolidated financial statements of the Group were covered through limited audit procedures.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Aigule Akhmetova.

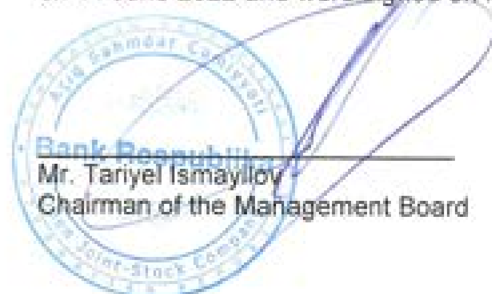
PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

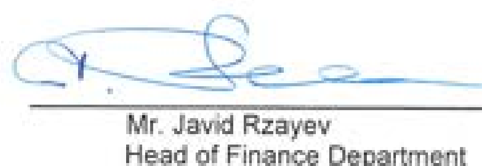
14 June 2022

	Notes	2021	2020
Interest income calculated using the effective interest method	4	88,423	74,340
Other interest income	4	-	46
Interest expense	4	(27,281)	(20,348)
Net interest income before expected credit losses on interest bearing assets		**61,142**	**54,038**
Expected credit losses on interest bearing assets	5	4,601	(10,198)
Net interest income		**65,743**	**43,840**
Net gain on foreign exchange operations	6	6,127	8,236
Losses less gains from financial derivatives	19	(9,245)	(3,978)
Fee and commission income	7	16,894	12,125
Fee and commission expense	8	(12,273)	(7,912)
Insurance reserves		(1,631)	(369)
Other income	9	938	817
Net non-interest income		**810**	**8,919**
Operating income		**66,553**	**52,759**
Non-banking activities			
Gross premiums written	10	4,539	1,715
Premium ceded on reinsurance	10	(268)	(215)
Claims paid, gross	11	(1,338)	(398)
Claims ceded on reinsurance	11	60	-
Total non-banking activities		**2,993**	**1,102**
Operating expenses	12	(59,335)	(46,848)
Profit before income tax		**10,211**	**7,013**
Income tax expense	13	(1,153)	(33)
Profit for the year		**9,058**	**6,980**
Other comprehensive income, net of income tax		-	-
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		**9,058**	**6,980**
Profit attributable to:			
- Owners of the Bank		9,528	6,904
- Non-controlling interests	34	(470)	76
Profit for the year		**9,058**	**6,980**
Total comprehensive income attributable to:			
- Owners of the Bank		9,528	6,904
- Non-controlling interests	34	(470)	76
Total comprehensive income for the year		**9,058**	**6,980**
Basic and diluted earnings per share (AZN)	14	**0.318**	**0.230**

The consolidated financial statements as set out on pages 5 to 104 were approved by management on 14 June 2022 and were signed on its behalf by:



Mr. Tariyel Ismayilov
Chairman of the Management Board



Mr. Javid Rzayev
Head of Finance Department

Bank Respublika OJSC
Consolidated Statement of Financial Position
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Notes	31 December 2021	31 December 2020
ASSETS			
Cash and cash equivalents	15	287,502	383,632
Loans to banks	16	32,480	28,082
Loans to customers	17	715,180	442,824
Investment securities	18	37,892	36,241
Derivative financial assets	19	1,961	2,377
Property and equipment	20	43,153	38,841
Intangible assets		1,967	1,857
Assets held for sale		20	819
Repossessed collateral	23	4,763	4,800
Deferred tax assets	13	2,052	2,220
Other assets	21	13,592	12,307
Goodwill		467	467
Total assets		**1,141,029**	**954,467**
LIABILITIES			
Amounts due to credit institutions	22	1,180	1,018
Current accounts and deposits from customers	24	822,850	706,519
Other borrowed funds	26	174,524	135,703
Lease liabilities	20	3,295	2,501
Derivative financial liabilities	19	1,157	313
Other liabilities	28	18,189	9,798
Current income tax liability	13	985	-
Bonds issued	27	10,038	-
Subordinated borrowings	25	20,646	19,508
Total liabilities		**1,052,864**	**875,360**
EQUITY			
Share capital	29	73,461	73,461
Revaluation reserve for buildings		7,633	7,633
Retained earnings/Accumulated deficit		2,897	(6,631)
Total equity attributable to owners of the Bank		**83,991**	**74,463**
Non-controlling interests	34	4,174	4,644
Total equity		**88,165**	**79,107**
Total liabilities and equity		**1,141,029**	**954,467**

Mr. Tariyel Ismayilov
Chairman of the Management Board

Mr. Javid Rzayev
Head of Finance Department

Bank Respublika OJSC
Consolidated Statement of Cash Flows
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Notes	2021	2020
Cash flows from operating activities			
Interest received		84,212	68,549
Interest paid		(16,661)	(12,987)
Fees and commissions received		16,894	12,125
Fees and commissions paid		(12,273)	(7,912)
Realized gains less losses from exchange transactions in foreign currencies		6,127	8,236
Personnel expenses paid		(38,321)	(30,742)
Administrative expenses paid		(14,128)	(12,273)
Net losses on operations with foreign currency derivatives		(7,985)	(7,352)
Gross premiums written		4,539	1,715
Premium ceded on reinsurance		(268)	(215)
Claims paid, gross		(1,338)	(398)
Other operating income received		938	817
Claims ceded on reinsurance		60	-
Cash flows from operating activities before changes in operating assets and liabilities		**21,796**	**19,563**
Net (increase)/decrease in operating assets			
Loans to banks		(4,374)	15,697
Loans to customers		(265,606)	30,685
Other assets		(977)	2,793
Net increase/(decrease) in operating liabilities			
Amounts due to credit institutions		154	(2,209)
Current accounts and deposits from customers		116,331	(399,867)
Other liabilities		4,923	1,457
Net cash flows used in operating activities		**(127,753)**	**(331,881)**
Cash flows from investing activities			
Purchase of property and equipment		(7,511)	(1,821)
Acquisition of intangible assets		(323)	(1,279)
Proceeds from sale of property and equipment		-	693
Proceeds from sale of asset held for sale		799	-
Purchase of investment securities		(2,408)	(35,013)
Proceeds from sale and redemption of investment securities		-	16,373
Interest income received on investments in debt securities		1,896	1,424
Net cash used in investing activities		**(7,547)**	**(19,623)**
Cash flows from financing activities			
Proceeds from other borrowed funds	26	88,091	39,447
Repayment of other borrowed funds	26	(47,966)	(23,645)
Interest expense paid on other borrowed funds	26	(6,847)	(5,426)
Proceeds from subordinated borrowings	25	7,008	-
Repayment of subordinated borrowings	25	(5,770)	-
Interest expense paid on subordinated borrowings	25	(1,592)	(1,706)
Repayment of principal lease liabilities		(2,020)	(953)
Proceeds from bonds issue		10,000	-
Net cash from financing activities		**40,904**	**7,717**
Net decrease in cash and cash equivalents		**(94,396)**	**(343,787)**
Effect of changes in exchange rates on cash and cash equivalents		(1,734)	850
Cash and cash equivalents, beginning		**383,632**	**726,569**
Cash and cash equivalents, ending	15	**287,502**	**383,632**

The accompanying notes on pages 5 to 104 are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Share capital	Revaluation reserve of buildings	Retained earnings /(Accumulated deficit)	Total	Non-controlling interests	Total equity
Balance as at 1 January 2020	**73,461**	**7,633**	**(13,535)**	**67,559**	**4,568**	**72,127**
Other comprehensive income	-	-	-	-	-	-
Profit for the year	-	-	6,904	6,904	76	6,980
Total comprehensive income for the year	**-**	**-**	**6,904**	**6,904**	**76**	**6,980**
Balance as at 31 December 2020	**73,461**	**7,633**	**(6,631)**	**74,463**	**4,644**	**79,107**
Balance as at 1 January 2021	**73,461**	**7,633**	**(6,631)**	**74,463**	**4,644**	**79,107**
Other comprehensive income	-	-	-	-	-	-
Profit for the year	-	-	9,528	9,528	(470)	9,058
Total comprehensive income for the year	**-**	**-**	**9,528**	**9,528**	**(470)**	**9,058**
Balance as at 31 December 2021	**73,461**	**7,633**	**2,897**	**83,991**	**4,174**	**88,165**

The accompanying notes on pages 5 to 104 are an integral part of these consolidated financial statements

1 Background

Organisation and operations

These consolidated financial statements comprise the financial statements of Bank Respublika OJSC (the Bank) and its subsidiary (together, the Group).

The Bank was incorporated in the Republic of Azerbaijan in 1992. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under general license number 83. The Bank's primary business consists of commercial activities, origination loans and guarantees, and trading with foreign currencies. The Bank had 25 branches and three service points in Azerbaijan as at 31 December 2021 (31 December 2020: 24 branches and two service points).

The Bank's registered office is 21, Khagani Street, Baku AZ 1000, Azerbaijan.

The only subsidiary of the Bank is as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			2021	2020
Baki Sigorta OJSC	The Republic of Azerbaijan	Insurance	51	51

Tural Insurance Open Joint Stock Company was registered on 8 February 1994, subsequently it was renamed to Baki Sigorta Open Joint Stock Company (the Company) which was registered in the Republic of Azerbaijan on 28 August 2007. The principal activity of the Company is insurance services. The Company operates under insurance licenses issued by the Ministry of Finance of the Republic of Azerbaijan dated 12 February 2004. Insurance policies written by the Company include, but are not limited to, cargo, property, casualty, third party liability, automobile and reinsurance.

The Company's registered office is 315C, Abbas Mirza Sharifzada Street, Baku, Azerbaijan.

The table below shows details of the only subsidiary of the Group that has material non-controlling interest:

	Ownership interests and voting rights held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
Name of subsidiary	**2021, %**	**2020, %**	**2021**	**2020**	**2021**	**2020**
Baki Sigorta OJSC	49	49	(470)	76	4,174	4,644
Total					**4,174**	**4,644**

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is presented below with further details in Note 34.

Non-controlling interests comprise:

	2021	2020
As at 1 January	**4,644**	**4,568**
Share of (loss)/profit for the year	(470)	76
As at 31 December	**4,174**	**4,644**

1 Background (Continued)

As at 31 December 2021 and 2020, the following shareholders owned issued shares of the Group:

	2021, %	2020, %
Guliyev Natig Saday oglu	67.75	51.15
DEG - Deutsche Investitions - und Entwicklungsgesellschaft mbH	-	16.60
Guliyev Elchin Saday oglu	15.06	15.06
Guliyev Namig Saday oglu	7.41	7.41
Rahimov Shakir Khayyam oglu	5.45	5.45
SIDT (Sparkassen International Development Trust GmbH)	4.25	4.25
Others	0.08	0.08
Total	**100**	**100**

The Group is ultimately controlled by a single individual, Guliyev Natig Saday oglu.

Business environment

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil prices and stability of Azerbaijani manats.

Based on the economic reforms initiated after the devaluation of 2016 involving institutional changes, between 2017-2019 period economic growth remained positive, inflation was stable at a low single-digit rate and the exchange rate of the national currency was sustainable. Azerbaijani economy rebounded strongly in 2021 from recession in 2020 and grew by 5.6 percent, reaching pre-pandemic level. The international rating agencies have maintained credit ratings of Azerbaijan during 2020 with stable outlook. In April 2021, Moody's affirmed Azerbaijan's economy as "Ba2" rating and changed outlook from stable to positive. In April 2022, Moody's issued a Credit Opinion of "Ba2" positive for Azerbaijan.

The recovery in oil prices in 2021 and gradual lifting of pandemic restrictions built confidence and economic growth was led by robust performance in non-oil sectors, despite challenges from the ongoing pandemic. The Manat remained stable throughout 2021 as pressure on manat decreased substantially, thanks to more than 60% annual rise in exports.

After the liberation of occupied territories in Karabakh region, restoration and reconstruction of the liberated territory have started swiftly, with the focus of reintegrating these territories to Azerbaijani economy. These activities are expected to provide a further boost to Azerbaijani economy in near future and long-term.

The lending activity of the banking sector has risen by 18% in 2021, providing support to the economic growth. Consumer and mortgage loans to individuals rose 22% and deposits portfolio of the banking sector recorded 30% growth. Management is taking necessary measures to ensure sustainability of the Group's operations and support its customers and employees.

During pandemic period in 2020 due to strict quarantine regime the Group ensured sustainability of operations with about 70% of employees working remotely. Programs were implemented for online meetings and internal communication. Further to the observations and revision, the Group provided opportunity for the loans restructuring to Azerbaijani small and micro businesses, impacted by the pandemic.

2 Basis of Preparation

(a) Statement of compliance

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are stated at fair value, assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell, and buildings are stated at revalued amounts.

(c) Functional and presentation currency

The functional currency of the Group and its only subsidiary is the Azerbaijani Manat (AZN) as, being the national currency of the Republic of Azerbaijan, it reflects the economic substance of the majority of underlying events and circumstances relevant to them.

At 31 December 2021, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000 and EUR 1 = AZN 1.9265 (31 December 2020: USD 1 = AZN 1.7000 and EUR 1 = AZN 2.0890). The AZN is also the presentation currency for the purposes of these consolidated financial statements.

Financial information presented in AZN is rounded to the nearest thousand, unless otherwise stated.

(d) Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of recent macro-economic developments on future operations of the Group. The Group was in compliance with covenants at 31 December 2021 and 31 December 2020. For further information on compliance with regulatory ratios refer to Note 33.

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 Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising 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 Group 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 Group's control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

2 Basis of Preparation (Continued)

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 realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Group classifies its debt securities as held to collect based on the assumption that these securities would only be sold in a stress case scenario.

Assessment whether cash flows are solely payments of principal and interest ("SPPI"). Determining whether a financial asset's cash flows are solely payments of principal and interest required judgement. In making this judgement, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to the cash flows from specified assets (e.g. non-recurse financing);
- Features that modify consideration of the time value of money element (e.g. periodical reset of interest rates);

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

The Groups' loan arrangements sometimes may include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current Group accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

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

2 Basis of Preparation (Continued)

ECL measurement. 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 31 "Risk Management Policies" (a). The following components have a major impact on credit loss allowance: definition of default, SICR and its assessment criteria, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios, segmentation of financial assets for the ECL assessment purposes, determination of a level of ECL assessment on a collective basis. The Group 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. Impact of forward-looking assumptions correlated with ECL level and their assigned weight is not significant.

The Group used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. Details about the most significant forward-looking assumptions that correlate with ECL level and further information is disclosed in Note 31 "Risk Management Policies".

ECL related sensitivity results are disclosed in Note 17 "Loans to Customers".

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

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

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

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group uses the following criteria:

- 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
- backstop of 30 days past due (DPD). DPD value is the maximum of DPD interest and DPD principal of the loan taking into account any delay in repayment.
- total probability of default in the next year exceeds certain threshold dependent on the loan segment

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 Group considers all reasonable and supportable forward looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 31 (a).

2 Basis of Preparation (Continued)

Modification of financial assets. When financial assets are contractually modified (e.g. renegotiated), the Group assesses whether the modification is substantial and should result in de-recognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Group applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The de-recognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

Taxation. Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes, as applied to the transactions and activity of the Group may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as of 31 December 2021 its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. Refer to Note 13.

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depend on the assessment of credit risk of the counterparty.

(e) Adoption of New or Revised Standards and Interpretations

The following amended standards became effective from 1 January 2021, but did not have any material impact on the Group:

COVID-19-Related Rent Concessions Amendment to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendment provides lessees with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. On 31 March 2021, in light of the on-going pandemic, the IASB published additional amendment to extend the date for the concessions from 30 June 2021 to 30 June 2022 (effective for annual periods beginning on or after 1 April 2021). Effect of the amendment did not have material impact on the consolidated financial statements of the Group.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

2 Basis of Preparation (Continued)

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The application of the amendments did not have any material impact on financial statements.

3 Significant Accounting Policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(iii) Goodwill

Goodwill on acquisitions of subsidiaries is presented separately in the consolidated financial statements.

Goodwill is allocated to cash-generating units for impairment testing purposes and is stated at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Foreign currency

Transactions in foreign currencies are translated to the respective functional currency of the Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for the differences on equity investments in respect of which an election has been made to present subsequent changes in fair value in other comprehensive income, which are recognized in other comprehensive income.

3 Significant Accounting Policies (Continued)

(d) Interest

Effective interest rate

Interest income and expense are recognised 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 amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group 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.

Amortised cost and gross carrying amount

The 'amortised 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 amortisation 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 amortised cost is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

3 Significant Accounting Policies (Continued)

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 amortised 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.

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 amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(f)(iv).

Presentation

Interest income calculated using the effective interest method presented in the consolidated statements of profit or loss and other comprehensive income includes interest on financial assets measured at amortised cost.

Other interest income presented in the consolidated statement of profit or loss and other comprehensive income includes interest income on non-derivative debt financial instruments measured at FVTPL.

Interest expense presented in the consolidated statements of profit or loss and other comprehensive income includes financial liabilities measured at amortised cost.

The Group presents net interest payments on cross currency interest rate swaps within the 'interest expense' line item on a net basis, while the other changes in fair value of these derivative instruments are presented as 'net gain (loss) on derivative financial instruments' on the basis that it reflects the economic hedge.

(e) Fees and commissions

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 (see Note 3(d)).

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 amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fee and commission income – including fee and commission income on plastic cards services, settlement fees, and cash operations – is recognised 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 recognised on a straight-line basis over the commitment period.

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

3 Significant Accounting Policies (Continued)

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

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 policies
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, provision of overdraft facilities, foreign currency transactions, credit cards and servicing fees. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	The Group charges commission fee to the customers for the guarantee letters issued.	Revenue from fees on issuance of guarantees and letters of credit is recognised over the period until maturity date of such contracts.

(f) Financial assets and financial liabilities

(i) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised 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.
- For debt financial assets measured at FVOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:
- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

3 Significant Accounting Policies (Continued)

When a debt financial asset measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

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

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Note 3(s)((ii)) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

The Group 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 realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group'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 Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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 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 Group 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 Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and

3 Significant Accounting Policies (Continued)

- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

(ii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iii) Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see Note 3(f)(ii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the CBAR key rate, if the loan agreement entitles the Group to do so.

The Group performs a quantitative and qualitative evaluation of whether the modification is substantial, i.e. whether the cash flows of the original financial asset and the modified or replaced financial asset are substantially different. The Group assesses whether the modification is substantial based on quantitative and qualitative factors in the following order: qualitative factors, quantitative factors, combined effect of qualitative and quantitative factors. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset deemed to have expired. In making this evaluation the Group analogizes to the guidance on the derecognition of financial liabilities.

3 Significant Accounting Policies (Continued)

The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial asset;
- change in collateral or other credit enhancement;
- change of terms of financial asset that lead to non-compliance with the SPPI criterion (e.g. inclusion of conversion feature).

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Group further performs qualitative evaluation of whether the modification is substantial.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, 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 or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Note 3(f)(iv), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method (see Note 3(d)).

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial liabilities

The Group derecognises 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 recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Group 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 Group 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 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

3 Significant Accounting Policies (Continued)

If the modification of a financial liability is not accounted for as derecognition, then the amortised 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 recognised 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 recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(iv) Impairment

See also Note 31(a).

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

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group 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 on which credit risk has not increased significantly since their initial recognition (see Note 31(a)).

The Group 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 are 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 recognised 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 recognised 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 are 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 Group 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 Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover. (See also Note 28(a)).

3 Significant Accounting Policies (Continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Note 3(f)(ii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 31(a)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a 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, all loans that are overdue for 90 days or more are considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: as a provision within "Other liabilities" line;

3 Significant Accounting Policies (Continued)

- _where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component_: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- _debt instruments measured at FVOCI_: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised 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 Group 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 'expected credit losses on interest bearing assets' in the consolidated statements 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 Group's procedures for recovery of amounts due.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group 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 Group uses valuation techniques that maximise the use of relevant observable inputs and minimise 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 Group 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 recognised 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.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Group 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 Group and all counterparties.

3 Significant Accounting Policies (Continued)

(g) Loans to customers

'Loans to customers' caption in the consolidated statement of financial position include:

- loans to customers measured at amortised cost (see Note 3(f)(i)); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

(h) Investment securities

The 'investment securities' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost (see Note 3(f)(i)); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt investment securities mandatorily measured at FVTPL (see Note 3(f)(i)); these are measured at fair value with changes recognised immediately in profit or loss;
- equity investment securities designated as at FVOCI (see Note 3(f)(i)).

(i) Deposits, subordinated borrowings and other borrowed funds

Amounts due to credit institutions, current accounts and deposits from customers, subordinated borrowings and other borrowed funds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(j) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group 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 at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3(f)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

For other loan commitments the Group recognises a loss allowance (see Note 3(f)(iv)).

ECL for loan commitments, financial guarantees and undrawn portion of credit line is presented in the separate line consolidated statement of profit or loss "Provision for credit

related commitments" in the consolidated statement of profit or loss and other comprehensive income and other liabilities (see Note 27)

(k) Reposessed Collateral

In certain circumstances, collateral is repossessed following the foreclosure on loans that are in default. Repossessed collateral is initially recognized at fair value when acquired and subsequently measured at the lower of carrying amount and net realisable value.

(l) 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 Group 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 withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

3 Significant Accounting Policies (Continued)

(m) Leases

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

As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3 Significant Accounting Policies (Continued)

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and lease liabilities in 'lease liabilities' in the consolidated statement of financial position.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(n) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

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.

(ii) Revaluation

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 recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised 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.

(iii) Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives and residual values are as follows:

	Years	Residual value, % of historical cost
- Buildings	50-70	20%
- Furniture and equipment	5-10	-
- Computers	4-5	-
- Vehicles	7-10	10%
- Other equipment	5-10	-
- Leasehold improvements	shorter of useful life and the term of the underlying lease	-

(o) Intangible assets

(i) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives of ten years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(ii) Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

3 Significant Accounting Policies (Continued)

(iii) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets, other than investment property and deferred tax assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An impairment loss for goodwill is not reversed. For other assets, when an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

(p) Investment property

Investment properties are stated at cost less accumulated depreciation and provision for impairment, where required. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with it will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment.

(q) Provisions

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

The amount recognised 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).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3 Significant Accounting Policies (Continued)

(r) Insurance operations

(i) Non-life insurance operations

- Gross premiums written - Upon inception of a contract, premium are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage.
- Provision for unearned premium - Provision for unearned premium represent the proportion of premium written in the period that relate to unexpired terms of policies in force as at the reporting date, calculated on a time apportionment basis.
- Claims paid - Claims paid including claims handling expenses are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

(ii) Loss provision

Loss provision represents the accumulation of estimates for ultimate losses and includes outstanding claims provision ("OCP") and provision for losses incurred but not yet reported ("IBNR"). Estimates of claims handling expenses are included in both OCP and IBNR. OCP is provided in respect of claims reported, but not settled as at reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases after the reporting date less regresses. IBNR is actuarially determined by the Group by line of business, and includes assumptions based on prior years' claims and claims handling experience. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are reflected in the consolidated statement of profit or loss and other comprehensive income as they arise. The loss reserves are estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment.

(iii) Reinsurance

The Group assumes and cedes reinsurance in the normal course of business. However, ceded reinsurance contracts do not relieve the Group from its obligations to policyholders.

Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses, and premium ceded to the Group. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premium to reinsurers and of the Group's share in claims in respect of insurance cases reinsured by the Group.

(s) Contingencies

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognised in the consolidated statement of financial position but disclosed when an inflow of economic benefits is probable.

(t) Share capital

(i) Ordinary shares

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

(ii) Dividends

The ability of the Group to declare and pay dividends is subject to the rules and regulations of Azerbaijani legislation.

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

Dividend income is recognised in profit or loss on the date that the dividend is declared.

3 Significant Accounting Policies (Continued)

(u) Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

(ii) Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is recognised on tax losses, which can be utilised during five years. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences and unutilised tax losses carried forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unutilized tax losses carried forward can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Operating taxes

Azerbaijan also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the consolidated statement of profit or loss and other comprehensive income.

(v) New standards and interpretations not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2022 or later, and which the Group has not early adopted.

3 Significant Accounting Policies (Continued)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group is currently assessing the impact of the standard on the Group's insurance business, which is not material.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- *Effective date:* The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- *Expected recovery of insurance acquisition cash flows:* An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- *Contractual service margin attributable to investment services:* Coverage units should be identified, considering the quantity of benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.
- *Reinsurance contracts held – recovery of losses:* When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.

3 Significant Accounting Policies (Continued)

- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the Covid-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022). The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

3 Significant Accounting Policies (Continued)

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

3 Significant Accounting Policies (Continued)

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

(w) Changes in presentation

i) The Group reclassified interest expense on derivate agreements from interest expense financial statement line to "gains less losses from financial derivatives" financial statement line as the coupon payments are set to guarantee settlement rate agreed at maturity date on currency swaps.

The Group believes such presentation is more representative of the total costs associated with hedging activities.

Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts. The effect of reclassification was as follows for the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020:

	As originally presented	Reclassification	As reclassified for the year ended 31 December 2020
Interest expense	(27,700)	7,352	(20,348)
Losses less gains from financial derivatives	3,374	(7,352)	(3,978)
Net interest income	***36,488***	***7,352***	***43,840***
Profit for the year	***6,980***	-	***6,980***

ii) The Group separately disclosed "repossessed collateral" on the consolidated statement of financial position due to significance of the amountsand the effect of reclassification was as follows:

	As originally presented	Reclassification	As reclassified for the year ended 31 December 2020
Repossessed collateral	-	4,800	4,800
Other assets	17,107	(4,800)	12,307
Total assets	***954,467***	-	***954,467***

iii) The Group decided to present operating activities within its consolidated statement of cash flows using direct method as such presentation is considered to be more informative and relevant for financial institutions. The effect of reclassification was as follows for the consolidated statement of cash flows for the year ended 31 December 2020:

	As originally presented	Reclassification	As reclassified at 31 December 2020
Cash flows from operating activities			
Indirect method			
Profit before income tax	7,013	(7,013)	-
Adjustments for:			
Expected credit losses on interest bearing assets	10,198	(10,198)	-
Provision/(recovery) on other operations	369	(369)	-
Net gain from derivative financial instruments	(3,374)	3,374	-
Foreign exchange gain	(98)	98	-
Depreciation	2,465	(2,465)	-
Amortization	254	(254)	-
(Loss)/gain on disposal of property and equipment	165	(165)	-
Interest expense on lease liabilities	229	(229)	-
Net change in interest accruals	(2,110)	2,110	-
Direct method			
Interest received	-	68,549	68,549
Interest paid	-	(12,987)	(12,987)
Fees and commissions received	-	12,125	12,125
Fees and commissions paid	-	(7,912)	(7,912)
Net gain/losses from currency dealing	-	8,236	8,236
Other operating income received	-	817	817
Salaries and other employee benefits paid	-	(30,742)	(30,742)
Administrative expenses paid	-	(12,273)	(12,273)
Net gains on operations with foreign currency derivatives	-	(7,352)	(7,352)
Gross premiums written		1,715	1,715
Premium ceded on reinsurance	-	(215)	(215)
Claims paid, gross	-	(398)	(398)
Claims ceded to reinsurers	-	-	-
Cash inflow from operating activities before changes in operating assets and liabilities	**15,111**	**4,452**	**19,563**
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Loans to banks	15,697	-	15,697
Loans to customers	30,685	-	30,685
Other assets	2,793	-	2,793
Increase/(decrease) in operating liabilities:		-	
Amounts due to credit institutions	(2,209)	-	(2,209)
Current accounts and deposits from Customers	(399,867)	-	(399,867)
Other borrowed funds	14,546	(14,546)	-
Other liabilities	1,457	-	1,457
Net cash flows used in operating activities before income tax	**(321,787)**	**(10,094)**	**(331,881)**
Cash flows from investing activities			
Acquisition of investment securities	(35,013)	-	(35,013)
Proceeds from sale and repayment of investment securities	16,373	-	16,373
Interest income received on investments in debt securities	-	1,424	1,424
Acquisition of property and equipment	(1,821)	-	(1,821)
Proceeds from sale of property and equipment	693	-	693
Acquisition of intangible assets	(1,279)	-	(1,279)
Net cash used in investing activities	**(21,047)**	**1,424**	**(19,623)**

Cash flows from financing activities			
Proceeds from other borrowed funds	-	39,447	39,447
Repayment of other borrowed funds	-	(23,645)	(23,645)
Interest expense paid on other borrowed funds	-	(5,426)	(5,426)
Interest expense paid on subordinated borrowings	-	(1,706)	(1,706)
Repayment of principal lease liabilities	(953)	-	(953)
Net cash (used in)/ from financing activities	**(953)**	**8,670**	**7,717**
Net decrease in cash and cash equivalents	**(343,787)**	-	**(343,787)**
Effect of changes in exchange rates on cash and cash equivalents	850	-	850
Cash and cash equivalents as at 1 January	726,569	-	726,569
Cash and cash equivalents as at 31 December	**383,632**	-	**383,632**

(x) Presentation of consolidated statement of financial position in order of liquidity

The Group does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 31 for analysis of financial instruments by their maturity. The following table provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 31.

		31 December 2021			**31 December 2020**		
		Amounts expected to be recovered or settled			**Amounts expected to be recovered or settled**		
	Note	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**	**Within 12 months after the reporting period**	**After 12 months after the reporting period**	**Total**
ASSETS							
Property and equipment	20	-	43,153	**43,153**	-	38,841	**38,841**
Intangible assets		-	1,967	**1,967**	-	1,857	**1,857**
Assets held for sale		20	-	**20**	819	-	**819**
Deferred income tax asset	13	-	2,052	**2,052**	-	2,220	**2,220**
Other non-financial assets	21	4,791	120	**4,911**	3,315	120	**3,435**
Repossessed collateral	23	4,763	-	**4,763**	4,800	-	**4,800**
Goodwill		-	467	**467**	-	467	**467**
LIABILITIES							
Current income tax liability	13	985	-	**985**	-	-	-
Other non-financial liabilities	28	6,050	3,244	**9,294**	4,405	921	**5,326**

4 Net Interest Income

	2021	2020
Interest income calculated using the effective interest method		
Loans to customers	84,492	68,107
Cash and cash equivalents	1,149	3,864
Investment securities measured at amortised cost	1,865	1,424
Loans to banks	917	945
	88,423	**74,340**
Other interest income		
Investment securities mandatorily measured at FVTPL	-	46
	-	**46**
Interest expense		
Current accounts and deposits from customers	(19,787)	(13,115)
Other borrowed funds	(5,573)	(5,303)
Subordinated borrowings	(1,492)	(1,688)
Lease liabilities	(391)	(229)
Issued bonds	(38)	-
Amounts due to credit institutions	-	(13)
	(27,281)	**(20,348)**

5 Expected credit losses on interest bearing assets

Expected credit losses amount on interest bearing assets recognised in the consolidated statement of profit or loss and other comprehensive income is comprised of the following:

	2021	2020
Loans to customers	4,532	(9,991)
Investment securities measured at amortised cost	7	(177)
Loans to banks	62	(30)
Expected credit losses on interest bearing assets, total	**4,601**	**(10,198)**

6 Net gain on foreign exchange operations

	2021	2020
Dealing, net	5,937	8,138
Translation differences, net	190	98
	6,127	**8,236**

7 Fee and Commission Income

	2021	2020
Plastic cards services	9,687	5,958
Settlements	4,205	3,528
Cash operations	2,038	1,725
Guarantee letters	236	499
Other operations	728	415
	16,894	**12,125**

8 Fee and Commission Expense

	2021	2020
Plastic cards services	6,343	5,069
Payment systems	3,596	1,157
Settlements	1,160	875
Reinsurance	459	240
Cash operations	276	201
Guarantees	92	52
Other operations	347	318
	12,273	**7,912**

9 Other Income, Net

	2021	2020
Income on regress and deductibles	152	119
Dividend income	113	-
Government grant	-	529
Other income	673	169
	938	**817**

During the year 2020 and earlier the CBAR issued loans to the Group in the amount of AZN 2,699 thousand and 10,674 thousand with annual interest rate of 0.1% based on the decree of the President of the Republic of Azerbaijan signed on 28 February 2019 "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan". These low-interest rate loans were provided by the CBAR for restructuring problem loans and were measured at fair value on initial recognition. Difference between the consideration received and the fair value of the loans was recognised as a government grant in the amount of AZN 529 thousand in 2020. No such financing received during 2021.

10 Net Premiums Written

The following table presents premiums written regarding the Group's major business lines for the year ended 31 December 2021:

	Vehicle	Property	Others	Total
Gross premiums written	3,776	434	329	4,539
Premiums ceded to reinsurers	(97)	(39)	(132)	(268)
Net premiums written	**3,679**	**395**	**197**	**4,271**

The following table presents premiums written regarding the Group's major business lines for the year ended 31 December 2020:

	Vehicle	Property	Others	Total
Gross premiums written	1,191	406	118	1,715
Premiums ceded to reinsurers	(96)	(100)	(19)	(215)
Net premiums written	**1,095**	**306**	**99**	**1,500**

11 Claims Paid

The following table presents claims paid for the year ended 31 December 2021 and 31 December 2020:

	2021	2020
Gross claims paid	1,338	398
Claims ceded to reinsurers	(60)	-
Net claims paid	**1,278**	**398**

12 Operating Expenses

	2021	2020
Staff costs	34,829	26,968
Payments to Social Pension Fund	4,833	3,997
Other operating expenses	3,948	2,018
Depreciation	3,097	2,465
Fees paid to Deposit Insurance Fund	2,513	1,487
Taxes other than income tax	1,760	1,544
Advertising and marketing	1,347	870
Office expenses	1,278	641
Professional services fees	1,268	1,642
Software costs	1,260	1,369
Communication expenses	983	845
Security costs	716	716
Repairs and maintenance	550	454
Transportation and travel	378	265
Lease expense (short-term and low value items)	333	153
Amortization	213	254
Membership fees	29	236
Sponsorship and charity	-	924
	59,335	**46,848**

13 Income Taxes

	2021	2020
Current income tax charge	(985)	-
Recognition of previously unrecognised deductible temporary differences	-	1,434
Deferred income tax charge	(168)	(1,467)
Income tax expense for the year	**(1,153)**	**(33)**

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

	2021	2020
Profit before tax	**10,211**	**7,013**
Income tax at the applicable tax rate	(2,042)	(1,403)
Tax effect of non-deductible expenses	(69)	(64)
Unrecognised deferred tax asset on tax losses of subsidiary	336	-
Income not subject to profit tax at 20%	25	-
Other	598	-
Change in unrecognised deferred tax assets	-	1,434
Income tax expense for the year	**(1,153)**	**(33)**

Included in other line is AZN 240 thousand tax effect of recovery of impairment on repossessed collateral.

13 Income Taxes (Continued)

(a) Deferred tax assets and liabilities

Deferred tax assets and liabilities represent the potential income tax benefit and charge respectively, arising from temporary differences between the carrying values of assets and liabilities in the consolidated statement of financial position in accordance with IFRS and their values for tax accounting purposes reported in accordance with the local tax regulations.

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

	Balance 1 January 2021	Recognised in profit or loss	Balance 31 December 2021
Deferred tax assets in relation to:			
Loans to customers	1,090	708	1,798
Loans to banks	97	(212)	(115)
Investment securities	(31)	1	(30)
Derivative financial assets	(476)	84	(392)
Property and intangible assets	(1,056)	834	(222)
Assets held for sale	(164)	164	-
Other assets	(788)	767	(21)
Other borrowed funds	(336)	164	(172)
Lease liabilities	500	128	628
Derivative financial liabilities	63	168	231
Other liabilities	(198)	512	314
Tax loss carry forwards	3,519	(3,486)	33
Net deferred tax assets	**2,220**	**(168)**	**2,052**
Recognised deferred tax asset	5,269	(2,265)	3,004
Recognised deferred tax liability	(3,049)	2,097	(952)
Net deferred tax assets	**2,220**	**(168)**	**2,052**

13 Income Taxes (Continued)

	Balance 1 January 2020	Recognised in profit or loss	Balance 31 December 2020
Deferred tax assets in relation to:			
Loans to customers	(3)	1,093	1,090
Loans to banks	91	6	97
Investment securities	(15)	(16)	(31)
Derivative financial assets	-	(476)	(476)
Property and intangible assets	(1,236)	180	(1,056)
Assets held for sale	-	(164)	(164)
Other assets	(245)	(543)	(788)
Other borrowed funds	(425)	89	(336)
Lease liabilities	591	(91)	500
Derivative financial liabilities	-	63	63
Other liabilities	141	(339)	(198)
Tax loss carry forwards	4,788	(1,269)	3,519
Net deferred tax assets	**3,687**	**(1,467)**	**2,220**
Recognised deferred tax asset	5,611	(342)	5,269
Recognised deferred tax liability	(1,924)	(1,125)	(3,049)
Net deferred tax assets	**3,687**	**(1,467)**	**2,220**
(Unrecognised deferred tax asset)/Recognition of previously unrecognised deductible temporary differences	(1,434)	1,434	-
Net deferred tax assets	**2,253**	**(33)**	**2,220**

14 Earnings Per Share

The profit and weighted average number of ordinary shares used in calculation of basic and diluted earnings per share are as follows:

	2021	2020
Profit for the year attributable to owners of the Bank	9,528	6,904
Weighted average number of ordinary shares for the purpose of basic and diluted profit per share	29,984,118	29,984,118
Profit per share – basic and diluted (AZN)	**0.318**	**0.230**

15 Cash and Cash Equivalents

	31 December 2021	31 December 2020
Cash on hand	49,401	55,595
Nostro accounts with CBAR	230,182	267,514
Nostro accounts and overnight placements with other banks	3,739	5,077
Cash equivalents		
CBAR notes	4,180	38,164
Short-term deposits with CBAR	-	17,282
Total cash equivalents	**4,180**	**55,446**
Total cash and cash equivalents	**287,502**	**383,632**

All cash and cash equivalent balances are in Stage 1 and their ECL is not significant as for 31 December 2021 and 31 December 2020.

As at 31 December 2021 the Group had outstanding balances with one bank (31 December 2020: one bank), whose balances exceed 10% of equity. These balances as at 31 December 2021 are AZN 234,361 thousand (31 December 2020: AZN 322,960 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2021. Refer to Note 31 for the description of the Group's credit risk grading system. For fair value disclosure refer to Note 36.

	31 December 2021	31 December 2020
Excellent	3,472	179
Good	234,433	327,576
Satisfactory	196	-
Not rated	-	282
Total cash and cash equivalents, excluding cash on hand	**238,101**	**328,037**

16 Loans to Banks

	31 December 2021	31 December 2020
Blocked accounts	13,010	11,858
Loans and deposits	14,130	11,608
Mandatory reserve with the CBAR	6,020	5,358
Loans to banks, gross	**33,160**	**28,824**
Loss allowance	(680)	(742)
Loans to banks, net of loss allowance	**32,480**	**28,082**

As at 31 December 2021, the Group had no bank (31 December 2020: one bank), whose balances individually exceeded 10% of equity (the gross value of this balance as at 31 December 2020 was AZN 8,521 thousand).

As at 31 December 2021 and 2020, included in balances of Loans to banks are the blocked guarantee deposits placed by the Group for its plastic cards operations totaling AZN 5,105 thousand and AZN 5,102 thousand, respectively.

As at 31 December 2021 and 2020 AZN equivalent 4,147 thousand and 2,999 thousand are the amounts of deposits in two banks (31 December 2020: two banks) blocked against the Group's guarantees.

As at 31 December 2021 AZN equivalent 3,400 thousand is the amount of deposit in one bank (31 December 2020: AZN equivalent 3,400 thousand in one bank) blocked against the Group's derivative contracts.

As at 31 December 2021 AZN equivalent 357 thousand is the amount of deposit in one bank (31 December 2020: AZN equivalent 357 thousand in one bank) blocked against the Group's forward contracts.

Loss allowance

As at 31 December 2021, gross amounts of Loans to banks included in Stage 3 were AZN 524 thousand (2020: AZN 524 thousand). All other Loans to banks balances are in Stage 1 and their ECL is AZN 156 thousand and AZN 218 thousand as for 31 December 2021 and 31 December 2020, respectively.

	2021			2020		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Loans to banks						
Balance at 1 January	218	524	**742**	188	524	**712**
Net remeasurement of loss allowance	(62)	-	**(62)**	30	-	**30**
Balance at 31 December	**156**	**524**	**680**	**218**	**524**	**742**

16 Loans to Banks (Continued)

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 whose withdrawability is restricted.

The following tables below contain an analysis of loans to banks balances by credit quality at 31 December 2021 and 31 December 2020 based on credit risk grades and discloses those balances by three stages for the purpose of ECL measurement. Refer to Note 32 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to loans to banks balances.

31 December 2021	Stage 1 (12-months ECL)	Stage 3	Total
Placements with other banks			
- Excellent	12,653	-	**12,653**
- Good	16,793	-	**16,793**
- Satisfactory	3,190	-	**3,190**
- Default	-	524	**524**
Gross carrying amount	**32,636**	**524**	**33,160**
Credit loss allowance	(156)	(524)	(680)
Carrying amount	**32,480**	**-**	**32,480**

31 December 2020	Stage 1 (12-months ECL)	Stage 3	Total
Placements with other banks			
- Excellent	11,334	-	**11,334**
- Good	15,597	-	**15,597**
- Default	-	524	**524**
- Not rated	1,369	-	**1,369**
Gross carrying amount	**28,300**	**524**	**28,824**
Credit loss allowance	(218)	(524)	(742)
Carrying amount	**28,082**	**-**	**28,082**

17 Loans to Customers

	31 December 2021	31 December 2020
SME loans	327,375	240,837
Micro loans	206,962	102,526
Retail loans	140,010	69,414
Mortgage loans	59,562	49,560
Card loans	2,000	1,581
Gross loans to customers	**735,909**	**463,918**
Loss allowance	(20,729)	(21,094)
Net loans to customers	**715,180**	**442,824**

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance in total for 31 December 2021:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2021	**387,781**	**43,181**	**31,610**	**1,346**	**463,918**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	824,343	-	-	-	824,343
Derecognised during the period	(490,269)	(44,189)	(13,898)	(1,346)	(549,702)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(86,584)	86,584	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(6,116)	(676)	6,792	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	11,681	(9,284)	(2,397)	-	-
- from Stage 3 to Stage 2	-	4,780	(4,780)	-	-
Total movements with impact on credit loss allowance charge for the period	**253,055**	**37,215**	**(14,283)**	**(1,346)**	**274,641**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	(2,650)	-	(2,650)
At 31 December 2021	**640,836**	**80,396**	**14,677**	**-**	**735,909**

17 Loans to Customers (Continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2021	**(4,214)**	**(3,555)**	**(12,585)**	**(740)**	**(21,094)**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	(10,969)	-	-	-	(10,969)
Derecognised during the period	1,758	1,384	5,696	824	9,662
Changes to ECL measurement model assumptions	(761)	186	(2,477)	(84)	(3,136)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	5,523	(5,589)	-	-	(66)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	2,186	274	(3,036)	-	(576)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(71)	928	1,065	-	1,922
- from Stage 3 to Stage 2	-	(94)	1,779	-	1,685
Total movements with impact on credit loss allowance charge for the period	**(2,334)**	**(2,911)**	**3,027**	**740**	**(1,478)**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	2,650	-	2,650
Unwinding of discount on present value of ECLs	-	-	(807)	-	(807)
At 31 December 2021	**(6,548)**	**(6,466)**	**(7,715)**	**-**	**(20,729)**

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance in total for 31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2020	**464,494**	**21,306**	**8,565**	**1,197**	**495,562**
New assets originated or purchased	234,604	-	-	966	235,570
Derecognised during the period	(249,874)	(9,333)	(3,348)	(444)	(262,999)
Transfer to Stage 1	4,006	(3,870)	(136)	-	-
Transfer to Stage 2	(36,707)	36,742	(35)	-	-
Transfer to Stage 3	(28,742)	(1,664)	30,406	-	-
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	(4,892)	(373)	(5,265)
Unwinding of discount on present value of ECLs	-	-	1,050	-	1,050
At 31 December 2020	**387,781**	**43,181**	**31,610**	**1,346**	**463,918**

17 Loans to Customers (Continued)

	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2020	**(4,552)**	**(844)**	**(4,893)**	**(379)**	**(10,668)**
New assets originated or purchased	(3,978)	-	-	-	(3,978)
Changes to ECL measurement model assumptions	1,566	(1,138)	(5,707)	(734)	(6,013)
Transfer to Stage 1	(291)	264	27	-	-
Transfer to Stage 2	1,874	(1,894)	20	-	-
Transfer to Stage 3	1,167	57	(1,224)	-	-
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	4,892	373	5,265
Recoveries of assets previously written off	-	-	(4,650)	-	(4,650)
Unwinding of discount on present value of ECLs	-	-	(1,050)	-	(1,050)
At 31 December 2020	**(4,214)**	**(3,555)**	**(12,585)**	**(740)**	**(21,094)**

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for SME segment for 31 December 2021:

SME loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2021	**207,928**	**8,460**	**24,426**	**23**	**240,837**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	369,748	-	-	-	369,748
Derecognised during the period	(271,310)	(107)	(11,445)	(23)	(282,885)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(13,271)	13,271	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(5,110)	-	5,110	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,870	(3,304)	(1,566)	-	-
- from Stage 3 to Stage 2	-	4,240	(4,240)	-	-
Total movements with impact on credit loss allowance charge for the period	**84,927**	**14,100**	**(12,141)**	**(23)**	**86,863**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	(325)	-	(325)
At 31 December 2021	**292,855**	**22,560**	**11,960**	**-**	**327,375**

17 Loans to Customers (Continued)

SME loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2021	**(2,961)**	**(659)**	**(9,299)**	**(11)**	**(12,930)**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	(3,070)	-	-	-	(3,070)
Derecognised during the period	1,076	107	4,598	13	5,794
Changes to ECL measurement model assumptions	(662)	(170)	(1,670)	(2)	(2,504)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	301	(334)	-	-	(33)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1,576	-	(1,938)	-	(362)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(48)	305	692	-	949
- from Stage 3 to Stage 2	-	(92)	1,705	-	1,613
Total movements with impact on credit loss allowance charge for the period	**(827)**	**(184)**	**3,387**	**11**	**2,387**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	325	-	325
Unwinding of discount on present value of ECLs	-	-	(468)	-	(468)
At 31 December 2021	**(3,788)**	**(843)**	**(6,055)**	**-**	**(10,686)**

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for SME segment for 31 December 2020:

SME loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying value as at 1 January 2020	**238,544**	**9,241**	**3,224**	**17**	**251,026**
New assets originated or purchased	104,041	-	-	18	104,059
Derecognised during the period	(107,765)	(2,884)	(2,265)	(12)	(112,926)
Transfer to Stage 1	2,340	(2,340)	-	-	-
Transfer to Stage 2	(5,813)	5,814	(1)	-	-
Transfer to Stage 3	(23,419)	(1,371)	24,790	-	-
Amounts written off	-	-	(1,864)	-	(1,864)
Unwinding of discount on present value of ECLs	-	-	542	-	542
At 31 December 2020	**207,928**	**8,460**	**24,426**	**23**	**240,837**

SME loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2020	**(3,305)**	**(599)**	**(1,927)**	**(5)**	**(5,836)**
New financial assets originated or purchased	(1,342)	(140)	(20)	-	(1,502)
Changes to ECL measurement model assumptions	950	(59)	(5,538)	(6)	(4,653)
Transfer to Stage 1	(178)	178	-	-	-
Transfer to Stage 2	78	(79)	1	-	-
Transfer to Stage 3	836	40	(876)	-	-
Movements without impact on credit loss allowance charge for the period:	-	-	-	-	-
Amounts written off	-	-	1,864	-	1,864
Recoveries of assets previously written -off	-	-	(2,261)	-	(2,261)
Unwinding of discount on present value of ECLs	-	-	(542)	-	(542)
At 31 December 2020	**(2,961)**	**(659)**	**(9,299)**	**(11)**	**(12,930)**

17 Loans to Customers (Continued)

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Micro segment for 31 December 2021:

Micro loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying value as at 1 January 2021	**74,359**	**24,191**	**3,312**	**664**	**102,526**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	254,629	-	-	-	254,629
Derecognised during the period	(112,368)	(35,411)	(1,345)	(664)	(149,788)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(71,376)	71,376	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(347)	(256)	603	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,683	(4,163)	(520)	-	-
- from Stage 3 to Stage 2	-	10	(10)	-	-
Total movements with impact on credit loss allowance charge for the period	**75,221**	**31,556**	**(1,272)**	**(664)**	**104,841**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	(405)	-	(405)
At 31 December 2021	**149,580**	**55,747**	**1,635**	**-**	**206,962**

Micro loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2021	**(763)**	**(2,477)**	**(1,867)**	**(414)**	**(5,521)**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	(7,247)	-	-	-	(7,247)
Derecognised during the period	478	1,188	900	417	2,983
Changes to ECL measurement model assumptions	151	472	(57)	(3)	563
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	5,186	(5,179)	-	-	7
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	510	46	(704)	-	(148)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(16)	464	294	-	742
- from Stage 3 to Stage 2	-	-	7	-	7
Total movements with impact on credit loss allowance charge for the period	**(938)**	**(3,009)**	**440**	**414**	**(3,093)**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	405	-	405
Unwinding of discount on present value of ECLs	-	-	(87)	-	(87)
At 31 December 2021	**(1,701)**	**(5,486)**	**(1,109)**	**-**	**(8,296)**

17 Loans to Customers (Continued)

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Micro segment for 31 December 2020:

Micro loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying value as at 1 January 2020	**114,136**	**3,813**	**455**	**469**	**118,873**
New assets originated or purchased	66,044	-	-	469	66,513
Derecognised during the period	(82,221)	(41)	(304)	(146)	(82,712)
Transfer to Stage 1	305	(298)	(7)	-	-
Transfer to Stage 2	(20,860)	20,861	(1)	-	-
Transfer to Stage 3	(3,045)	(144)	3,189	-	-
Amounts written off	-	-	(300)	(128)	(428)
Unwinding of discount on present value of ECLs	-	-	280	-	280
At 31 December 2020	**74,359**	**24,191**	**3,312**	**664**	**102,526**

Micro loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2020	**(672)**	**(104)**	**(316)**	**(156)**	**1,248)**
New financial assets originated or purchased	(571)	(1,478)	(79)	-	(2,128)
Changes to ECL measurement model assumptions	310	(866)	(371)	(386)	(1,313)
Transfer to Stage 1	(36)	27	9	-	-
Transfer to Stage 2	59	(61)	2	-	-
Transfer to Stage 3	147	5	(152)	-	-
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	300	128	428
Recoveries of assets previously written -off	-	-	(980)	-	(980)
Unwinding of discount on present value of ECLs	-	-	(280)	-	(280)
At 31 December 2020	**(763)**	**(2,477)**	**(1,867)**	**(414)**	**(5,521)**

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Retail segment for 31 December 2021:

Retail loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying value as at 1 January 2021	**59,518**	**8,019**	**1,220**	**657**	**69,414**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	174,587	-	-	-	174,587
Derecognised during the period	(94,464)	(7,342)	(583)	(657)	(103,045)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(1,250)	1,250	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(451)	(240)	691	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	487	(405)	(82)	-	-
- from Stage 3 to Stage 2	-	3	(3)	-	-
Total movements with impact on credit loss allowance charge for the period	**78,909**	**(6,734)**	**23**	**(657)**	**71,541**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	(945)	-	(945)
At 31 December 2021	**138,427**	**1,285**	**298**	**-**	**140,010**

17 Loans to Customers (Continued)

Retail loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2021	**(271)**	**(173)**	**(534)**	**(315)**	**(1,293)**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	(602)	-	-	-	(602)
Derecognised during the period	171	52	150	394	766
Changes to ECL measurement model assumptions	(357)	(141)	(210)	(79)	(787)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	33	(35)	-	-	(2)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	98	205	(335)	-	(32)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(2)	20	29	-	47
- from Stage 3 to Stage 2	-	-	2	-	2
Total movements with impact on credit loss allowance charge for the period	**(659)**	**100**	**(364)**	**315**	**(608)**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	945	-	945
Unwinding of discount on present value of ECLs	-	-	(214)	-	(214)
At 31 December 2021	**(930)**	**(73)**	**(167)**	**-**	**(1,170)**

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Retail segment for December 2020:

Retail loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
Gross carrying value as at 1 January 2020	**69,617**	**5,632**	**1,319**	**708**	**77,276**
New assets originated or purchased	52,684	-	-	479	53,163
Derecognised during the period	(53,777)	(5,291)	(200)	(285)	(59,553)
Transfer to Stage 1	197	(174)	(23)	-	-
Transfer to Stage 2	(7,884)	7,884	-	-	-
Transfer to Stage 3	1,319)	(32)	1,351	-	-
Amounts written off	-	-	(1,315)	(245)	(1,560)
Unwinding of discount on present value of ECLs	-	-	88	-	88
At 31 December 2020	**59,518**	**8,019**	**1,220**	**657**	**69,414**

Retail loans	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
ECL as at 1 January 2020	**(409)**	**(25)**	**(846)**	**(217)**	**(1,497)**
New financial assets originated or purchased	(178)	(47)	(41)	-	**(266)**
Changes to ECL measurement model assumptions	285	(66)	217	(343)	**93**
Transfer to Stage 1	(9)	1	8	-	**-**
Transfer to Stage 2	37	(37)	-	-	-
Transfer to Stage 3	3	1	(4)	-	-
Movements without impact on credit loss allowance charge for the period:	-	-	-	-	-
Write-offs	-	-	1,315	245	**1,560**
Recoveries of assets previously written -off	-	-	(1,095)	-	**(1,095)**
Unwinding of discount on present value of ECLs	-	-	(88)	-	**(88)**
At 31 December 2020	**(271)**	**(173)**	**(534)**	**(315)**	**1,293)**

17 Loans to Customers (Continued)

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Mortgage loans for 31 December 2021:

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2021	**44,922**	**2,250**	**2,386**	**2**	**49,560**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	21,480	-	-	-	21,480
Derecognised during the period	(9,167)	(883)	(462)	(2)	(10,514)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	(370)	370	-	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(176)	(179)	355	-	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	1,538	(1,351)	(187)	-	-
- from Stage 3 to Stage 2	-	524	(524)	-	-
Total movements with impact on credit loss allowance charge for the period	**13,305**	**(1,519)**	**(818)**	**(2)**	**10,966**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	(964)	-	(964)
At 31 December 2021	**58,227**	**731**	**604**	**-**	**59,562**

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2021	**(175)**	**(204)**	**(739)**	**-**	**(1,118)**
Movements with impact on credit loss allowance charge for the period:					
New assets originated or purchased	(24)	-	-	-	(24)
Derecognised during the period	14	18	14	-	46
Changes to ECL measurement model assumptions	115	27	(476)	-	(334)
Transfers:					
- to lifetime (from Stage 1 to Stage 2)	2	(22)	-	-	(20)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	2	22	(36)	-	(12)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(4)	124	24	-	144
- from Stage 3 to Stage 2	-	(2)	66	-	64
Total movements with impact on credit loss allowance charge for the period	**105**	**167**	**(408)**	**-**	**(135)**
Movements without impact on credit loss allowance charge for the period:					
Amounts written off	-	-	964	-	964
Unwinding of discount on present value of ECLs	-	-	(28)	-	(28)
At 31 December 2021	**(70)**	**(37)**	**(211)**	**-**	**(318)**

17 Loans to Customers (Continued)

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Mortgage loans for 31 December 2020:

	Stage 1	Stage 2	Stage 3	POCI	Total
Mortgage					
Gross carrying value as at 1 January 2020	**40,912**	**1,650**	**3,478**	**3**	**46,043**
New assets originated or purchased	11,073	-	-	-	11,073
Derecognised during the period	(5,146)	(530)	(531)	(1)	(6,208)
Transfer to Stage 1	856	(783)	(73)	-	-
Transfer to Stage 2	(1,953)	1,981	(28)	-	-
Transfer to Stage 3	(820)	(68)	888	-	-
Amounts written off	-	-	(1,411)	-	(1,411)
Unwinding of discount on present value of ECLs	-	-	63	-	63
At 31 December 2020	**44,922**	**2,250**	**2,386**	**2**	**49,560**

Mortgage loans	Stage 1	Stage 2	Stage 3	POCI	Total
ECL as at 1 January 2020	**(115)**	**(76)**	**(1,778)**	**(1)**	**(1,970)**
New financial assets originated or purchased	(10)	-	-	-	(10)
Changes to ECL measurement model assumptions	(22)	(144)	(192)	1	(357)
Transfer to Stage 1	(47)	37	10	-	-
Transfer to Stage 2	13	(28)	15	-	-
Transfer to Stage 3	6	7	(13)	-	-
Movements without impact on credit loss allowance charge for the period:	-	-	-	-	
Write-offs	-	-	1,411	-	1,411
Recoveries of assets previously written -off	-	-	(129)	-	(129)
Unwinding of discount on present value of ECLs	-	-	(63)	-	(63)
At 31 December 2020	**(175)**	**(204)**	**(739)**	**-**	**(1,118)**

17 Loans to Customers (Continued)

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Card loans for 31 December 2021:

Card loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2021	**1,054**	**261**	**266**	**1,581**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	3,899	-	-	3,899
Derecognised during the period	(2,962)	(445)	(63)	(3,470)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(317)	317	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(32)	(2)	34	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	104	(60)	(44)	-
- from Stage 3 to Stage 2	-	3	(3)	-
Total movements with impact on credit loss allowance charge for the period	**692**	**(187)**	**(76)**	**429**
Movements without impact on credit loss allowance charge for the period:				
Amounts written off	-	-	(10)	(10)
At 31 December 2021	**1,746**	**74**	**180**	**2,000**

Card loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2021	**(44)**	**(42)**	**(146)**	**(232)**
Movements with impact on credit loss allowance charge for the period:				
New assets originated or purchased	(27)	-	-	(27)
Derecognised during the period	19	20	34	73
Changes to ECL measurement model assumptions	(8)	(2)	(64)	(74)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	1	(18)	-	(17)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1	-	(26)	(25)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-	14	26	40
- from Stage 3 to Stage 2	-	-	3	3
Total movements with impact on credit loss allowance charge for the period	**(14)**	**14**	**(27)**	**(27)**
Movements without impact on credit loss allowance charge for the period:				
Amounts written off	-	-	10	10
Unwinding of discount on present value of ECLs	-	-	(10)	(10)
At 31 December 2021	**(58)**	**(28)**	**(173)**	**(259)**

17 Loans to Customers (Continued)

The following tables below show reconciliations from the opening to the closing balances of the loans to customers balance for Card loans for 31 December 2020:

Card loans	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value as at 1 January 2020	**1,285**	**970**	**89**	**-**	**2,344**
New assets originated or purchased	762			-	762
Derecognised during the period	(965)	(587)	(48)	-	(1,600)
Transfer to Stage 1	308	(275)	(33)	-	-
Transfer to Stage 2	(197)	202	(5)	-	-
Transfer to Stage 3	(139)	(49)	188	-	-
Amounts written off	-	-	(2)		(2)
Unwinding of discount on present value of ECLs	-	-	77		77
At 31 December 2020	**1,054**	**261**	**266**	**-**	**1,581**

Card loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2020	**(51)**	**(40)**	**(26)**	**(117)**
New financial assets originated or purchased	(22)	(20)	(30)	(72)
Changes to ECL measurement model assumptions	43	(3)	177	217
Transfer to Stage 1	(21)	21	-	-
Transfer to Stage 2	2	(4)	2	-
Transfer to Stage 3	5	4	(9)	-
Movements without impact on credit loss allowance charge for the period:				
Write-offs	-	-	2	2
Recoveries of assets previously written -off	-	-	(185)	(185)
Unwinding of discount on present value of ECLs	-	-	(77)	(77)
At 31 December 2020	**(44)**	**(42)**	**(146)**	**(232)**

** The loss allowance in these tables excludes ECL on loan commitments, because the Group can separately identify the ECL on the loan commitment component from those on the financial instrument component.

17 Loans to Customers (Continued)

Credit quality analysis

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

Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 31 (a).

	31 December 2021				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – SME					
Not past due	285,681	17,343	6,849	-	309,873
Less than 30 days	7,174	4,266	877	-	12,317
31 to 90 days	-	951	485	-	1,436
91 to 180 days	-	-	447	-	447
181 to 360 days	-	-	325	-	325
Over 360 days	-	-	2,977	-	2,977
Total	**292,855**	**22,560**	**11,960**	**-**	**327,375**
Loss allowance	(3,788)	(843)	(6,055)	-	(10,686)
Carrying amount	**289,067**	**21,717**	**5,905**	**-**	**316,689**

	31 December 2020				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – SME					
Not past due	201,048	5,582	16,564	11	223,205
Less than 30 days	6,880	1,067	875	7	8,829
31 to 90 days	-	1,811	75	-	1,886
91 to 180 days	-	-	2,858	4	2,862
181 to 360 days	-	-	2,700	1	2,701
Over 360 days	-	-	1,354	-	1,354
Total	**207,928**	**8,460**	**24,426**	**23**	**240,837**
Loss allowance	(2,961)	(659)	(9,299)	(11)	(12,930)
Carrying amount	**204,967**	**7,801**	**15,127**	**12**	**227,907**

	31 December 2021				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Micro					
Not past due	149,355	55,580	547	-	205,482
Less than 30 days	225	62	5	-	292
31 to 90 days	-	105	38	-	143
91 to 180 days	-	-	320	-	320
181 to 360 days	-	-	387	-	387
Over 360 days	-	-	338	-	338
Total	**149,580**	**55,747**	**1,635**	**-**	**206,962**
Loss allowance	(1,701)	(5,486)	(1,109)	-	(8,296)
Carrying amount	**147,879**	**50,261**	**526**	**-**	**198,666**

17 Loans to Customers (Continued)

	31 December 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost - Micro					
Not past due	73,803	22,982	1,507	137	98,429
Less than 30 days	556	253	139	105	1,053
31 to 90 days	-	956	152	101	1,209
91 to 180 days	-	-	538	239	777
181 to 360 days	-	-	885	82	967
Over 360 days	-	-	91	-	91
Total	**74,359**	**24,191**	**3,312**	**664**	**102,526**
Loss allowance	(763)	(2,477)	(1,867)	(414)	(5,521)
Carrying amount	**73,596**	**21,714**	**1,445**	**250**	**97,005**

	31 December 2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – Retail					
Not past due	136,067	664	123	-	136,854
Less than 30 days	2,360	301	5	-	2,666
31 to 90 days	-	320	2	-	322
91 to 180 days	-	-	95	-	95
181 to 360 days	-	-	6	-	6
Over 360 days	-	-	67	-	67
Total	**138,427**	**1,285**	**298**	**-**	**140,010**
Loss allowance	(930)	(73)	(167)	-	(1,170)
Carrying amount	**137,497**	**1,212**	**131**	**-**	**138,840**

	31 December 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost - Retail					
Not past due	57,257	6,970	269	230	64,726
Less than 30 days	2,261	176	56	100	2,593
31 to 90 days	-	873	34	140	1,047
91 to 180 days	-	-	406	186	592
181 to 360 days	-	-	100	1	101
Over 360 days	-	-	355	-	355
Total	**59,518**	**8,019**	**1,220**	**657**	**69,414**
Loss allowance	(271)	(173)	(534)	(315)	(1,293)
Carrying amount	**59,247**	**7,846**	**686**	**342**	**68,121**

17 Loans to Customers (Continued)

	31 December 2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – Mortgage					
Not past due	57,811	371	34	-	58,216
Less than 30 days	416	138	9	-	563
31 to 90 days	-	222	32	-	254
91 to 180 days	-	-	89	-	89
181 to 360 days	-	-	64	-	64
Over 360 days	-	-	376	-	376
Total	**58,227**	**731**	**604**	**-**	**59,562**
Loss allowance	(70)	(37)	(210)	-	(318)
Carrying amount	**58,157**	**694**	**393**	**-**	**59,244**

	31 December 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost - Mortgage					
Not past due	44,542	1,392	171	2	46,107
Less than 30 days	380	309	-	-	689
31 to 90 days	-	549	-	-	549
91 to 180 days	-	-	591	-	591
181 to 360 days	-	-	292	-	292
Over 360 days	-	-	1,332	-	1,332
Total	**44,922**	**2,250**	**2,386**	**2**	**49,560**
Loss allowance	(175)	(204)	(739)	-	(1,118)
Carrying amount	**44,747**	**2,046**	**1,647**	**2**	**48,442**

	31 December 2021				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – Card					
Not past due	1,678	60	4	-	1,742
Less than 30 days	68	9	-	-	77
31 to 90 days	-	4	2	-	6
91 to 180 days	-	-	4	-	4
181 to 360 days	-	-	10	-	10
Over 360 days	-	-	161	-	161
Total	**1,746**	**74**	**180**	**-**	**2,000**
Loss allowance	(58)	(28)	(173)	-	(259)
Carrying amount	**1,688**	**46**	**7**	**-**	**1,741**

17 Loans to Customers (Continued)

	31 December 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – Cards					
Not past due	957	87	-	-	1,044
Less than 30 days	97	55	-	-	152
31 to 90 days	-	119	-	-	119
91 to 180 days	-	-	49	-	49
181 to 360 days	-	-	135	-	135
Over 360 days	-	-	82	-	82
Total	**1,054**	**261**	**266**	**-**	**1,581**
Loss allowance	(44)	(42)	(146)	-	(232)
Carrying amount	**1,010**	**219**	**120**	**-**	**1,349**

Sensitivity

31 December 2021

LGD increase. 10 percentage points increase in LGD estimates would result in an increase in total expected credit loss allowances of AZN 5,299 thousand at 31 December 2021.

A 10 percentage points increase in LGD estimates for the SME segment would result in an increase in total expected credit loss allowances of AZN 2,414 thousand at 31 December 2021. A 10 percentage points increase in LGD estimates for the Micro segment would result in an increase in total expected credit loss allowances of AZN 2,088 thousand at 31 December 2021. A 10 percentage points increase in LGD estimates for the Retail segment would result in an increase in total expected credit loss allowances of AZN 601 thousand at 31 December 2021. A 10 percentage points increase in LGD estimates for the Mortgage segment would result in an increase in total expected credit loss allowances of AZN 150 thousand at 31 December 2021. A 10 percentage points increase in LGD estimates for the Cards segment would result in an increase in total expected credit loss allowances of AZN 46 thousand at 31 December 2021.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) , the expected credit loss allowance would be higher by AZN 2,503 thousand as of 31 December 2021.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the SME segment, the expected credit loss allowance would be higher by AZN 1,127 thousand as of 31 December 2021. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Micro segment, the expected credit loss allowance would be higher by AZN 450 thousand as of 31 December 2021. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Retail segment, the expected credit loss allowance would be higher by AZN 359 thousand as of 31 December 2021. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Mortgage segment, the expected credit loss allowance would be higher by AZN 538 thousand as of 31 December 2021. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Cards segment, the expected credit loss allowance would be higher by AZN 29 thousand as of 31 December 2021.

31 December 2020

Changes in estimates could affect the amount of expected credit losses. For example, to the extent that the net present value of the estimated cash flows differs by plus or minus one percent, the loss allowance on loans to customers as at 31 December 2020 would be AZN 4,428 thousand lower/higher.

17 Loans to Customers (Continued)

Collateral held and other credit enhancements

The disclosure below represents the lower of the carrying value of the loan or fair value of collateral taken; the remaining part is disclosed within the "unsecured exposures". The carrying value of loans was allocated based on carrying amount of the assets taken as collateral.
The Group obtains collateral valuation at the time of granting loans and updates it when a new loan is obtained for that collateral after six months depending on the significance of the loan exposure.

Description of collateral held for loans carried at amortised cost is as follows at 31 December 2021:

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	190,225	63,034	4,934	58,943	76	317,212
- cash and deposits	22,176	1,088	4,010	-	179	27,453
- government fund guarantees	53,256	1,981	-	301	-	55,538
- motor vehicles	3,187	18,119	413	-	-	21,719
- gold	54	5,924	35,094	-	-	41,072
Total	**268,898**	**90,146**	**44,451**	**59,244**	**255**	**462,994**
Soft collaterals	22,853	63,885	385	-	-	87,123
Unsecured exposures (excluding soft)	24,938	44,635	94,004	-	1,486	165,063
Total carrying value loans to customers at AC	**316,689**	**198,666**	**138,840**	**59,244**	**1,741**	**715,180**

Description of collateral held for loans carried at amortised cost is as follows at 31 December 2020:

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	126,060	18,352	4,103	48,082	-	196,597
- cash and deposits	16,412	258	8,878	-	81	25,629
- government fund guarantees	-	-	-	-	-	-
- motor vehicles	4,194	1,967	448	-	-	6,609
- gold	-	655	21,866	-	-	22,521
Total	**146,666**	**21,232**	**35,295**	**48,082**	**81**	**251,356**
Unsecured exposures and soft collateral	81,241	75,773	32,826	360	1,268	191,468
Total carrying value loans to customers at AC	**227,907**	**97,005**	**68,121**	**48,442**	**1,349**	**442,824**

17 Loans to Customers (Continued)

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

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	3,247	496	85	395	2	4,225
- cash and deposits	93	-	-	-	-	93
- government fund guarantees	-	-	-	-	-	0
- motor vehicles	138	-	9	-	-	147
- gold	-	30	36	-	-	66
Total	**3,478**	**526**	**130**	**395**	**2**	**4,531**
Soft collaterals	1,035	-	-	-	-	1,035
Unsecured exposures (excluding soft)	1,392	-	-	-	5	1,397
Total carrying value loans to customers at AC	**5,905**	**526**	**130**	**395**	**7**	**6,963**

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

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	11,512	687	184	1,631	-	14,014
- cash and deposits	1,655	-	-	-	-	1,655
- motor vehicles	43	52	28	-	-	123
- gold	-	11	200	-	-	211
	-					
Total	**13,210**	**750**	**412**	**1,631**	-	**16,003**
Unsecured exposures	1,929	945	616	18	120	3,628
Total carrying value loans to customers at AC	**15,139**	**1,695**	**1,028**	**1,649**	**120**	**19,631**

Repossessed collateral

During the year ended 31 December 2021, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 681 thousand (2020: 1,972 thousand). As at 31 December 2021 and 2020, the repossessed collateral comprises real estate at amounts of AZN 4,763 thousand and AZN 4,800 thousand respectively. See Note 23.

17 Loans to Customers (Continued)

Significant credit exposures

As at 31 December 2021, the Group had 52 borrowers (31 December 2020: 47) with gross loan balances exceeding AZN 1,000 thousand. The total gross value of these loans as at 31 December 2021 was AZN 127,329 thousand or 17 % of the total loans to customers (31 December 2020: AZN 99,246 thousand or 21%).

Loan maturities

The maturity of the loan portfolio is presented in Note 31(b) 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

As at 31 December 2021 and 2020, the Group estimated ECL for significant loans in Stage 3 based on an individual review of each loan and estimation of its future cash flows. This estimate of future cash flows is dependent on factors such as the estimated value of underlying collateral and delay of 12 to 48 months in obtaining proceeds from the foreclosure of collateral. The Group then calculates the net present value of these cash flows using a discount rate which equates to the original effective interest rate of the loan, in order to determine the required amount of ECL.

For the remaining portfolio of loans the Group calculates ECL on a collective basis. The key areas of uncertainty and assumptions used in the calculation of collective impairment are:

- Due to macro data availability and portfolio data adequacy data starting from 31 January 2012 was considered as valid;
- Only first default for each exposure was considered as valid (i.e. remaining data after default entry was cut off);
- All facilities which are in default at their first observation date were excluded from the sample;
- For each loan segment there was a cut-off on MOBs (months on book) where number of unique facilities was smaller than 100 – i.e. baseline hazard estimates obtained for MOBs greater than this cut-off point were considered as highly biased;
- Loss Given Default was estimated based on eight year's cash flow.

18 Investment Securities

	2021	2020
Investment in debt securities at AC	37,102	35,444
Investment securities at FVOCI - equity instruments	1,088	1,088
Investment securities, gross	**38,190**	**36,532**
Loss allowance	(298)	(291)
Total investment securities	**37,892**	**36,241**

The table below discloses investments in debt securities at 31 December 2021 by measurement categories and classes:

18 Investment Securities (Continued)

	Investment in debt securities at AC	Total
Government bonds	2,328	2,328
Corporate bonds	34,774	34,774
Total investments in debt securities at 31 December 2021 (fair value or gross carrying value)	**37,102**	**37,102**
Credit loss allowance	(298)	(298)
Total investments in debt securities at 31 December 2021 (carrying value)	**36,804**	**36,804**

The table below discloses investments in debt securities at 31 December 2020 by measurement categories and classes:

	Investment in debt securities at AC	Total
Government bonds	-	-
Corporate bonds	35,444	35,444
Total investments in debt securities at 31 December 2020 (fair value or gross carrying value)	**35,444**	**35,444**
Credit loss allowance	(291)	(291)
Total investments in debt securities at 31 December 2020 (carrying value)	**35,153**	**35,153**

The carrying amount of investment in debt securities at AC at 31 December 2021 below also represents the Group' maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)
Government bonds	
- Good	2,328
Corporate bonds	
- Good	34,774
Gross carrying amount	**37,102**
Credit loss allowance	(298)
Carrying amount	**36,804**

18 Investment Securities (Continued)

The carrying amount of investment in debt securities at AC at 31 December 2020 below also represents the Group' maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)
Corporate bonds	
- Good	35,444
Gross carrying amount	**35,444**
Credit loss allowance	(291)
Carrying amount	**35,153**

Investment securities designated at FVOCI - equity instruments

Investment securities designated at FVOCI consist of equity investments expected to be held for the long-term for strategic purposes. During 2021 dividend received from "Azerbaijan Credit Bureau LLC" in the amount of AZN 113 thousand. Refer to Note 9.

	Ownership,%	2021	Ownership,%	2020
Milli Kart LLC	10.00%	500	10.00%	500
Agrar Insurance Joint Insurance Company OJSC	14.29%	313	14.29%	313
Azerbaijan Credit Bureau LLC	12.50%	250	12.50%	250
SWIFT	-	25	-	25
		1,088		**1,088**

19 Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability and is a basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of credit risk.

	Notional amount	31 December 2021 Fair value		Notional amount	31 December 2020 Fair value	
		Assets	Liabilities		Assets	Liabilities
Swaps – domestic	80,000	1,231	-	70,000	693	(112)
Swaps – foreign	34,000	730	(484)	34,000	1,549	(201)
Forward	6,186	-	(673)	6,186	135	-
Total derivative financial instruments	**120,186**	**1,961**	**(1,157)**	**110,186**	**2,377**	**(313)**

Respective changes in the fair value were as follows and presented within the 'Gains less losses from financial derivatives' line item in the consolidated statement of profit or loss and other comprehensive income:

	2021	2020
Interest payments on derivative financial instruments	(7,985)	(7,352)
Fair value (loss) / gain from derivative financial instruments	(1,260)	3,374
Losses less gains from financial derivatives	**(9,245)**	**(3,978)**

20 Property and Equipment

	Land	Buildings	Right-of-use assets	Fixtures and equipment	Computers	Motor vehicles	Leasehold mprovements	Other :quipment	Total
Cost/revalued amount									
Balance at 1 January 2020	5,638	26,087	3,544	8,855	9,152	2,191	1,269	822	57,558
Additions	-	536	331	291	596	233	11	-	1,998
Disposals	-	(907)	(135)	(5)	-	(98)	-	-	(1,145)
Revaluation	-	(819)	-	-	-	-	-	-	(819)
Elimination of accumulated depreciation on revalued buildings	-	-	31	-	-	-	-	-	31
Balance at 31 December 2020	**5,638**	**24,897**	**3,771**	**9,141**	**9,748**	**2,326**	**1,280**	**822**	**57,623**
Balance at 1 January 2021	5,638	24,897	3,771	9,141	9,748	2,326	1,280	822	57,623
Additions	-	1,648	1,385	1,017	3,448	-	-	-	7,498
Disposals	-	-	-	(297)	(799)	(467)	-	-	(1,563)
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-
Reassessment and modification of right-of-use assets	-	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**5,638**	**26,545**	**5,156**	**9,861**	**12,397**	**1,859**	**1,280**	**822**	**63,558**
Accumulated depreciation									
Balance at 1 January 2020	-	-	**(709)**	**(6,217)**	**(6,626)**	**(1,383)**	**(930)**	**(649)**	**(16,514)**
Depreciation for the year	-	(260)	(681)	(525)	(770)	(128)	(66)	(35)	(2,465)
Elimination on disposals	-	63	45	5	-	78	-	-	191
Eliminated on revaluation	-	6	-	-	-	-	-	-	6
Balance at 31 December 2020	**-**	**(191)**	**(1,345)**	**(6,737)**	**(7,396)**	**(1,433)**	**(996)**	**(684)**	**(18,782)**
Depreciation for the year	-	(302)	(882)	(541)	(971)	(294)	(67)	(40)	(3,097)
Elimination on disposals	-	-		280	787	407	-	-	1,474
Reclassification to assets held for sale	-	-	-	-	-	-	-	-	-
Balance at 31 December 2021	**-**	**(493)**	**(2,227)**	**(6,998)**	**(7,580)**	**(1,320)**	**(1,063)**	**(724)**	**(20,405)**
Carrying amount									
At 1 January 2020	**5,638**	**26,087**	**2,835**	**2,638**	**2,526**	**808**	**339**	**173**	**41,044**
At 31 December 2020	**5,638**	**24,706**	**2,426**	**2,404**	**2,352**	**893**	**284**	**138**	**38,841**
At 31 December 2021	**5,638**	**26,052**	**2,929**	**2,863**	**4,817**	**539**	**217**	**98**	**43,153**

20 Property and Equipment (Continued)

As at 31 December 2021 and 2020, included in property and equipment were fully depreciated assets of AZN 9,778 thousand and AZN 9,551 thousand, respectively.

Buildings owned by the Group are carried at revalued amounts based on the independent appraiser's report. As at 31 December 2021 and 2020, the carrying value of these buildings approximate their fair values. If the buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying value would be AZN 18,546 thousand as at 31 December 2021 (31 December 2020: AZN 17,073 thousand).

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.

In respect of right of use assets disclosed in table above, the Group recognised lease liabilities as follows:

	31 December 2021	31 December 2020
Short-term lease liabilities	(854)	(739)
Long-term lease liabilities	(2,441)	(1,762)
Total lease liabilities	**(3,295)**	**(2,501)**

Sensitivity

Useful lives are accounting estimates and 10% increase/decrease in useful lives would result in increase by 219,060 AZN and decrease by 189,585 AZN, respectively.

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2021 and 2020 are as follows:

	31 December 2021		31 December 2020	
AZN'000	**Level 3**	**Fair value**	**Level 3**	**Fair value**
Buildings	26,047	26,047	24,706	24,706
Total	**26,047**	**26,047**	**24,706**	**24,706**

21 Other Assets

	31 December 2021	31 December 2020
Settlements on money transfers	6,733	3,432
Receivables from the government	588	2,052
Receivables on plastic card operations	680	2,044
Receivables arising out of insurance operations	575	635
Deposits at Compulsory Insurance Bureau	-	400
Other	105	309
Total other financial assets	**8,681**	**8,872**
Prepayments for property, equipment and intangible assets	641	1,880
Other prepayments	2,223	1,114
Prepaid taxes	178	222
Investment property	120	120
Impairment allowance	(24)	(274)
Other	1,773	373
Total other non-financial assets	**4,911**	**3,435**
Total other assets	**13,592**	**12,307**

Included in other assets as at 31 December 2021 AZN 588 thousand and 31 December 2020 AZN 2,052 thousand represents compensations receivable from the government for impairment losses on loans denominated in foreign currency resulted from devaluation of the national currency in 2015. Compensations were made to customers in advance by the Group on behalf of the government based on the decree of the President of the Republic of Azerbaijan signed on 28 February 2019 "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan.

22 Amounts Due to Credit Institutions

	31 December 2021	31 December 2020
Current accounts	1,052	808
Term deposits	128	210
	1,180	**1,018**

23 Repossessed Collateral

As of 31 December 2021 and 2020, Repossessed Collateral in the amount of AZN 4,763 thousand and AZN 4,800 thousand is represented by AZN 3,902 thousand and AZN 2,961 thousand of real estate (apartments, land and non-living area), respectively, which the Group took possession of, and is available for sale. As of 31 December 2021 the fair value of this property exceeds its carrying value by AZN 1,461 thousand (31 December 2020: by AZN 1,061 thousand).

24 Current accounts and deposits from customers

	31 December 2021	31 December 2020
Current accounts and demand deposits		
- Retail	107,565	102,443
- Corporate	317,792	290,031
Term deposits		
- Retail	302,645	211,455
- Corporate	94,848	102,590
	822,850	**706,519**

Current accounts and deposits of entrepreneurs held with the Group are included in Corporate segment line in the table above.

As at 31 December 2021, the Group has 3 customers (2020: 4 customers), whose balances exceed 10% of equity. These balances as at 31 December 2021 are AZN 258,233 thousand (2020: AZN 282,152 thousand).

25 Subordinated Borrowings

	Currency	Placement period	2021 nominal interest rate	31 December 2021	2020 nominal interest rate	31 December 2020
Subordinated borrowings from foreign credit institutions - third parties	USD	10 years	7.57%-7.8%	20,646	7.5%	19,508
Total subordinated borrowings				**20,646**		**19,508**

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Subordinated borrowings
Balance at 1 January 2020	**19,526**
Interest expense	1,688
Interest paid	(1,706)
Balance at 1 January 2021	**19,508**
Proceeds from subordinated borrowings, principal	7,008
Repayments of subordinated borrowings, principal	(5,770)
Interest expense	1,492
Interest paid	(1,592)
Balance at 31 December 2021	**20,646**

26 Other Borrowed Funds

	31 December 2021	31 December 2020
Loans from local credit institutions:		
Entrepreneurship Development Fund of the Republic of Azerbaijan	57,193	46,201
The Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	56,870	44,151
Agrarian Credit and Development Agency	12,568	12,965
The Central Bank of the Republic of Azerbaijan	9,172	11,695
Total loans from local credit institutions	**135,803**	**115,012**
Loans from foreign credit institutions:		
European Bank for Reconstruction and Development	18,727	10,364
FMO	19,994	8,193
Frontera Capital BV	-	2,134
Total loans from foreign credit institutions	**38,721**	**20,691**
Total loans received from local and foreign credit institutions	**174,524**	**135,703**

Entrepreneurship Development Fund of the Republic of Azerbaijan. Under this program, funds made available to the Group at an interest rate of 1% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 6% p.a. These loans have maturity periods up to 10 years.

26 Other Borrowed Funds (Continued)

Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan. Under this program, funds made available to the Group at interest rates of 1-4% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 8% p.a. These loans have maturity periods from 3 to 30 years.

Agrarian Credit and Development Agency under the Ministry of Agriculture. Under this program, funds made available to the Group at an interest rate of 2% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 7% p.a. The loans are repayable within 3 years from issue date.

The Central Bank of the Republic of Azerbaijan. During 2020 and 2019, the CBAR issued loans to the Group in the amount of AZN 2,699 thousand and 10,674 thousand respectively with annual interest rate of 0.1% for restructuring problem loans based on the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan. These loans were recorded at fair value on initial recognition. See Note 9. As at 31 December 2021 and 31 December 2020 amortized carrying amount of these loans was AZN 9,172 and AZN 11,695 thousand respectively.

In estimating the discount rates for term borrowings from National Fund for Entrepreneurship Support of Azerbaijan Republic, Azerbaijan Mortgage and Credit Guarantee Fund and Agrarian Credit and Development Agency under the Ministry of Agriculture the Group 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.

Included in loans received from foreign credit institutions are USD denominated loans from the third party foreign credit institutions. These loans have original maturity periods from 12 months to 3 years. (31 December 2020: original maturity periods from 12 months to 3 years). Interest rates on these loans are fixed and range from 8.35% to 10.85% as at 31 December 2021 (31 December 2020: fixed and range from 8.35% to 12%).

As at 31 December 2021 and 2020, loans received from local and foreign credit institutions did not include loans from related party foreign credit institutions.

The Group is obligated to comply with financial covenants in relation to loans received from foreign credit institutions. These covenants include debt to equity ratios and various other financial performance ratios. The Group's compliance with these financial covenants is disclosed in Note 34.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Other borrowed funds
Balance at 1 January 2020	**120,024**
Financing cash flows:	
Proceeds from other borrowed funds, principal	39,447
Repayments of other borrowed funds, principal	(23,645)
Interest expense	5,303
Interest paid	(5,426)
Balance at 1 January 2021	**135,703**
Financing cash flows:	
Proceeds from other borrowed funds, principal	88,091
Repayments of other borrowed funds, principal	(47,996)
Interest expense	5,573
Interest paid	(6,847)
Balance at 31 December 2021	**174,524**

27 Bonds Issued

In December 2021 the Group issued AZN denominated interest-bearing bonds listed on Baku Stock Exchange with maturity date on 15 December 2023. The issuance was conducted through public placement and fully purchased by different investors. Number of bonds are 10,000. Nominal rate is AZN 1,000. Coupon rate is 8.5%, payable semi-annually.

	31 December 2021	31 December 2020
Bonds issued on domestic market	10,038	-
Total debt securities in issue	**10,038**	**-**

28 Other liabilities

	31 December 2021	31 December 2020
Settlements on money transfers and plastic card operations	5,814	1,206
Items in course of settlement	1,913	1,996
Payables arising out of insurance operations	210	164
Insurance loss provision	349	154
Professional fees payable	607	105
Other	2	847
Total other financial liabilities	**8,895**	**4,472**
Salary and Other Payables to Employees	6,025	4,024
Provision for unearned premium	2,304	921
Payable to the Deposit Insurance Fund	740	366
Other non-financial liabilities	225	15
Total other non-financial liabilities	**9,294**	**5,326**
Total other liabilities	**18,189**	**9,798**

29 Share Capital

As at 31 December 2021 and 2020 authorized share capital consisted of ordinary shares, with par value of AZN 2.45 each. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

The Group did not declare dividends on ordinary shares during the years ended 31 December 2021 and 31 December 2020.

30 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person – or group of persons – who allocates resources and assesses the performance for the entity. The functions of the CODM are performed by the Board of Directors (management board) of the Group.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Corporate banking – loan and other credit facilities, current accounts, deposits, dealing operations and other banking products with entrepreneurs (legal entities and individual entrepreneurs).
- Retail banking –customer current accounts, savings, deposits, credit and debit cards, consumer loans and mortgages and other banking services with individuals,
- Treasury – interbank lending and borrowings, securities trading, foreign exchange services and other treasury functions
- Insurance

(b) Information about reportable segment profit or loss

31 December 2021	Corporate banking	Retail banking	Treasury	Insurance	Total
External revenues:					
Interest income	62,955	27,829	2,868	735	94,387
Fee and commission income	2,614	8,522	-	-	11,136
Internal revenues:					
Funds transfer pricing	4,040	9,873	(13,913)	-	-
Total revenues	**69,609**	**46,224**	**(11,045)**	**735**	**105,523**
Interest expense	(22,619)	(8,405)	40	-	(30,984)
Fee and commission expense	(2,642)	(7,744)	(101)	(454)	(10,941)
Operating expenses	(32,267)	(19,750)	(265)	(3,332)	(55,614)
Net gain on foreign exchange operations	3,870	2,075	(542)	1	5,404
Gains less losses from financial derivatives	(4,636)	(4,609)	-	-	(9,245)
Net premiums written	-	-	-	4,508	4,508
Claims paid, gross	-	-	-	1,338	1,338
Claims ceded on reinsurance				(60)	(60)
Other income/(expense)	-	-	188	(1,133)	(945)
Reserves	3,572	1,165	7	(8)	4,736
Net segment result	**14,887**	**8,956**	**(11,718)**	**(961)**	**11,164**

Net segment result	***11,164***
Interest expense	(392)
Operating expenses	(561)
Income tax charge	(1,153)
Profit for the year	***9,058***

30 Segment Analysis (Continued)

(c) *Information about reportable segment assets/liabilities*

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Loans to corporate clients and entrepreneurs are included in Corporate segment column.

Segment liabilities are measured in the same way as in the financial statements. These liabilities are allocated based on the operations of the segment.

The Group's investments in debt and equity securities, borrowings and derivative financial instruments are managed by the treasury function.

31 December 2021	Segment assets	Corporate banking	Retail banking	Treasury	Insurance
Cash and cash equivalents	326	-	-	-	326
Loans to banks	32,480	-	-	28,107	4,373
Loans to customers	715,180	515,355	199,825	-	-
Investment securities	37,892	-	-	36,578	1,314
Derivative financial assets	1,961	-	-	1,961	-
Other assets	1,961	-	-	-	1,961
Total segment assets	**789,800**				**11,243**
Cash and cash equivalents	287,176				
Property and equipment	43,153				
Intangible assets	1,967				
Deferred tax assets	2,052				
Other assets	11,631				
Repossessed collateral	4,763				
Goodwill	467				
Assets held for sale	20				
Total assets as per consolidated financial statements	**1,141,029**				

30 Segment Analysis (Continued)

31 December 2021	Segment liabilities	Corporate banking	Retail banking	Treasury	Insurance
Current accounts and deposits from customers	822,850	412,640	410,210	-	-
Other borrowed funds	174,524	-	-	174,524	-
Lease liabilities	157	-	-	-	157
Derivative financial liabilities	1,157	-	-	1,157	-
Other liabilities	3,029	-	-	-	3,029
Bonds issued	10,038	-	-	10,038	-
Subordinated borrowings	20,646	-	-	20,646	-
Total segment liabilities	**1,032,401**				**3,186**

Amounts due to credit institutions	1,180
Lease liabilities	3,138
Other liabilities	15,160
Current income tax liability	985
Total liabilities as per consolidated financial statements	**1,052,864**

31 Risk Management Policies

Management of risk is fundamental to the Group's banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Group recognises that it is essential to have efficient and effective risk management processes in place. To enable this, the Group has established a risk management framework, whose main purpose is to protect the Group from risk and allow it to achieve its performance objectives.

Through the risk management framework, the Group manages the following risks:

(a) Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

31 Risk Management Policies (Continued)

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. Certain portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the credit-related commitments as it does to the consolidated statement of financial position financial instruments, i.e. the one based on the procedures for approving the granting of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off balance sheet commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet commitments. For financial assets in the consolidated statement of financial position, the maximum exposure is equal to the carrying amount of those assets.

The Group's maximum exposure to credit risk under credit-related commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

	31 December 2021	31 December 2020
Cash equivalents	238,101	328,037
Loans to banks	32,480	28,082
Loans to customers	715,180	442,824
Investment securities	36,804	35,153
Derivative financial assets	1,961	2,377
Other financial assets	8,681	8,872
Commitments on loans and unused credit lines	15,068	20,108
Guarantees issued and similar commitments	20,298	16,104

31 Risk Management Policies (Continued)

Geographical concentration

The Risk Management Committee exercises control over the risk in the legislation and regulatory area and assesses its influence on the Group's activity. This approach allows the Group to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

The geographical concentration of assets and liabilities is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
31 December 2021				
Non-derivative financial assets:				
Cash and cash equivalents	284,033	3,160	309	287,502
Loans to banks	18,914	13,566	-	32,480
Loans to customers	715,180	-	-	715,180
Investment securities	37,867	25	-	37,892
Other financial assets	8,681	-	-	8,681
Total non-derivative financial assets	**1,064,675**	**16,751**	**309**	**1,081,735**
Non-derivative financial liabilities:				
Amounts due to credit institutions	1,180	-	-	1,180
Current accounts and deposits from customers	799,507	4,516	18,827	822,850
Issued bonds	10,038	-	-	10,038
Subordinated borrowings	-	20,646	-	20,646
Other borrowed funds	135,803	18,727	19,994	174,524
Lease liabilities	3,295	-	-	3,295
Other financial liabilities	8,895	-	-	8,895
Total non-derivative financial liabilities	**958,718**	**43,889**	**38,821**	**1,041,428**
Net position	**105,957**	**(27,138)**	**(38,512)**	

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
31 December 2020				
Non-derivative financial assets:				
Cash and cash equivalents	380,497	2,598	537	383,632
Loans to banks	16,250	11,667	165	28,082
Loans to customers	442,824	-	-	442,824
Investment securities	36,216	25	-	36,241
Other financial assets	8,726	146	-	8,872
Total non-derivative financial assets	**884,513**	**14,436**	**702**	**899,651**
Non-derivative financial liabilities:				
Amounts due to credit institutions	1,018	-	-	1,018
Current accounts and deposits from customers	685,350	3,590	17,579	706,519
Subordinated borrowings	-	19,508	-	19,508
Other borrowed funds	115,012	10,364	10,327	135,703
Lease liabilities	2,501	-	-	2,501
Other financial liabilities	4,271	201	-	4,472
Total non-derivative financial liabilities	**808,152**	**33,663**	**27,906**	**869,721**
Net position	**76,361**	**(19,227)**	**(27,204)**	

31 Risk Management Policies (Continued)

Credit quality by class of financial asset

External ratings. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available.

Master scale credit risk grade	Corresponding ratings of external international rating agencies (Moody's)	Corresponding PD interval
Excellent	Aaa to Ba1	0,01% - 0,5%
Good	Ba2 to B1	0,51% - 3%
Satisfactory	B2, B3	3% - 10%
Special monitoring	Caa1+ to Ca	10% - 99,9%
Default	C	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred.

Such ratings and the corresponding range of PD are applied for the financial instrument indicated in table below. Credit quality disclosure for each class of these financial assets for 31 December 2021 and 31 December 2020 is disclosed in each relevant note for the following lines:

Financial statement line item	Notes
Cash and cash equivalents (excluding cash on hand)	15
Loans to banks	16
Loans to customers	17
Investment securities	18
Other financial assets	21

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(f)(iv).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group 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 Group'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 an 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 Group uses the following criteria for determining whether there has been a significant increase in credit risk:

31 Risk Management Policies (Continued)

- significant increase in probability of default since the origination date;
- backstop of 30 days past due (DPD). DPD value is the maximum of DPD interest and DPD principal of the loan taking into account any delay in repayment.
- total probability of default in the next year exceeds certain threshold dependent on the loan segment

Generating the term structure of PD

The Group employs statistical models to analyse 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

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain hightened risk criteria. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is past due more than 90 days on any material credit obligation to the Group.
- exposure is subject to restructuring; or
- in bankruptcy

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same borrower to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Group 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.

31 Risk Management Policies (Continued)

Nominal effective exchange rate (NEER), oil price, home price and budget revenues variables are selected to be the main variables in the main modelling phase. These variables ought to be forecasted in different scenarios.

Oil price, home price and budget revenues variables are forecasted by applying Autoregressive Integrated Moving Average (p,d,q) (ARIMA) model. The reason for applying this model is its parsimonious nature and the ability to capture dependent variations of variables whose determinants are not well documented.

In oil price, baseline, optimistic and pessimistic scenarios are multiplied with 0.5, 0.3, 0.2 weights, respectively. The reason for choosing these weights is that global oil prices hugely suffered from historical negative shocks in the beginning of 2020 while the prices stabilized after the second quarter.

In the case of home price, baseline, optimistic and pessimistic scenarios are multiplied with 0.5, 0.25, 0.25 weights respectively. Unlike oil price, home price is not severely affected by pandemic and it has an overall upward bias. Thus, optimistic and pessimistic scenarios are multiplied with equal weights.

Finally, NEER turned out to be the main macro variable which appeared to be statistically significant in all models. For baseline, optimistic and pessimistic scenarios the Group applies 0.4, 0.4 and 0.2 weights. Analysis of historical behaviour of this macro variable (NEER) leads to a conclusion that it is a very stable index – the volatility is limited and the only significant deviation from this pattern was observed in 2015 as a result of devaluation of Azerbaijan Manat. Due to the fact that it was a political decision of the authorities, it is assumed that nominal effective exchange rate will continue to follow flat trend. Therefore, for the purpose of ECL calculation the value of the macro variable was constant for the base scenario and equal to the value observed at ECL calculation date. Two remaining scenarios (optimistic and pessimistic) were obtained as an upside and downside divergence from the base scenario depending on historical standard deviation and average as well as on time that passes from the calculation date.

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

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 a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(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 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 recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group'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.

31 Risk Management Policies (Continued)

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(f)(iv). 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 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 is calculated on a month-by-month basis using monthly PD, LGD and EAD. ECL for exposures in Stage 1 represents the sum of the 12-months ECL and for exposures in Stage 2 the sum of the lifetime ECL.

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

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Depending upon segment, time interval changes from 2012 to November 2021. Generally, LGD calculations were computed in the following sequence:

Firstly, base recovery rate curves were built for portfolios, then they were separated into homogeneous group default pools in terms of recoveries. Also, the Group estimated remaining recovery for unfinished defaults based on closed cases. Generally, recovery rates depending on MID (month in default) were properly calculated.

Exposure at the time of default was calculated based on CCF (credit conversion factor) model and contractual repayment schedules. General approach per product type was estimated by:

For non-revolving loan products, the Group used full repayment schedule and simplified repayment schedule method, but off-balance items CCF was modelled. In the calculation of CCF values floors and caps were applied to reduce influence of outliers.

For revolving loan products, the Group used model based EAD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics. In order to reflect different characteristics of portfolio's segments in modelling process, exposures were divided into five major segments, four of which were included in source data and one additional was defined for credit card exposures, while guarantees were added to the SME segment.

31 Risk Management Policies (Continued)

The logic of how final segmentation was determined is shown in the table below:

Source Loan Segment	Exposure type	Final Loan Segment
Retail	Card	Credit card
	Loan	Retail
Micro	Loan	Micro
Mortgage	Loan	Mortgage
SME	Loan	SME
-	Guarantee	

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

For portfolios in respect of which the Group 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	238,101	Moody's default study	S&P recovery studies
Loans to banks	32,480	Moody's default study	S&P recovery studies
Investment securities	36,804	Moody's default study	S&P recovery studies

Offsetting financial assets and financial liabilities

The disclosure set out in the table below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

31 December 2021

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	36,527	36,527	-	(36,527)	-
Total financial assets	**36,527**	**36,527**	**-**	**(36,527)**	**-**
Current accounts and deposits from customers	(45,196)	(45,196)	36,527	-	(8,669)
Total financial liabilities	**(45,196)**	**(45,196)**	**36,527**	**-**	**(8,669)**

31 Risk Management Policies (Continued)

31 December 2020

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	25,629	25,629	-	(25,629)	-
Total financial assets	**25,629**	**25,629**	**-**	**(25,629)**	**-**
Current accounts and deposits from customers	(39,975)	(39,975)	25,629	-	(14,346)
Total financial liabilities	**(39,975)**	**(39,975)**	**25,629**	**-**	**(14,346)**

(b) Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

Liquidity risk is the risk that the Group 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 Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising long- 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 efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account 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

31 Risk Management Policies (Continued)

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 loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury 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 the ALMC and implemented by the Treasury Department.

The following tables show the analysis, by contractual maturities of financial assets, liabilities and credit-related commitments on the basis of their earliest possible expected maturity. 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 ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table. The presentation below is based upon the information provided internally to key management personnel of the Group. Overdue interest of loans to customers is included in category 1 year to 5 years in the table below:

31 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
31 December 2021								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.00%	4,180	-	-	-	-		4,180
Loans to banks	4.36%	9	883	5,210	15,297			21,399
Loans to customers	14.66%	34,105	58,385	260,927	315,898	45,865	-	715,180
Investment securities	5.22%	74	-	1,163	35,567	-	-	36,804
Total fixed interest bearing financial assets		**38,368**	**59,268**	**267,300**	**366,762**	**45,865**	**-**	**777,563**
Non-interest bearing financial assets								
Cash and cash equivalents		283,322	-	-	-	-	-	283,322
Loans to banks		6,020	-	1,271	3,790	-	-	11,081
Investment securities		-	-	-	-	-	1,088	1,088
Other financial assets		-	8,681	-	-	-	-	8,681
Total non-interest bearing financial assets		**289,342**	**8,681**	**1,271**	**3,790**	**-**	**1,088**	**304,172**
Total non-derivative financial assets		**327,710**	**67,949**	**268,571**	**370,552**	**45,865**	**1,088**	**1,081,735**
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	7.50%	-	106	-	-	-	-	106
Current accounts and deposits from customers	6.24%	20,871	77,651	213,289	85,554	128	-	397,493
Issued bonds	8.5%	-	-	38	10,000	-	-	10,038
Other borrowed funds	3.81%	1,271	1,020	16,858	42,838	112,537	-	174,524
Lease liabilities	6.7%-8.73%	71	142	640	2,342	100	-	3,295
Total fixed interest bearing financial liabilities		**22,213**	**78,919**	**230,825**	**140,734**	**112,765**	**-**	**585,456**
Variable interest rate instruments								
Subordinated borrowings	7.50%	-	-	246	-	20,400	-	**20,646**

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
31 December 2021								
Total variable interest bearing financial liabilities		-	-	246	-	20,400	-	20,646
Non-interest bearing financial liabilities								
Amounts due to credit institutions		1,074	-	-	-	-	-	1,074
Current accounts and deposits from customers		425,357	-	-	-	-	-	425,357
Other financial liabilities		8,895	-	-	-	-	-	8,895
Total non-interest bearing financial liabilities		**435,326**	-	-	-	-	-	**435,326**
Total non-derivative financial liabilities		**457,539**	**78,919**	**231,071**	**140,734**	**133,165**	-	**1,041,428**
The effect of derivatives								
- inflow		17	30,018	31,809	58,561			
- outflow		(1,208)	(31,381)	(36,813)	(62,877)			
Net effect of derivatives		**(1,191)**	**(1,363)**	**(5,004)**	**(4,316)**			
Liquidity gap		(131,020)	(12,333)	32,496	225,502	(87,300)		
Cumulative liquidity gap		**(131,020)**	**(143,353)**	**(110,857)**	**114,645**	**27,345**		
Interest sensitivity gap		16,155	(19,651)	36,228	226,028	(87,300)		
Cumulative interest sensitivity gap		**16,155**	**(3,496)**	**32,732**	**258,760**	**171,460**		

31 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
31 December 2020								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	5.82%	55,446	-	-	-	-	-	55,446
Loans to banks	3.91%	49	-	1,995	6,353	10,995	-	19,392
Loans to customers	13.73%	29,836	47,586	163,639	159,324	42,357	82	442,824
Investment securities	5.36%	45	-	653	34,455	-	-	35,153
Total fixed interest bearing financial assets		**85,376**	**47,586**	**166,287**	**200,132**	**53,352**	**82**	**552,815**
Non-interest bearing financial assets								
Cash and cash equivalents		328,186	-	-	-	-	-	328,186
Loans to banks		6,329	418	1,352	591	-	-	8,690
Investment securities		-	-	-	-	-	1,088	1,088
Other financial assets		-	8,472	-	-	-	400	8,872
Total non-interest bearing financial assets		**334,515**	**8,890**	**1,352**	**591**	**-**	**1,488**	**346,836**
Total non-derivative financial assets		**419,891**	**56,476**	**167,639**	**200,723**	**53,352**	**1,570**	**899,651**
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	6.00%	10	200	-	-	-	-	210
Current accounts and deposits from customers	4.92%	12,221	29,826	191,442	81,286	4	-	314,779
Other borrowed funds	3.93%	6,755	6,813	25,252	52,960	43,923	-	135,703
Lease liabilities	8.73%	62	124	552	1,711	52	-	2,501
Total fixed interest bearing financial liabilities		**19,048**	**36,963**	**217,246**	**135,957**	**43,979**	**-**	**453,193**
Variable interest rate instruments								
Subordinated borrowings	7.50%	298	-	-	-	19,210	-	19,508
Total variable interest bearing financial liabilities		298	-	-	-	19,210	-	19,508
Non-interest bearing financial liabilities								
Amounts due to credit institutions		808	-	-	-	-	-	808
Current accounts and deposits from customers		391,740	-	-	-	-	-	391,740

31 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
31 December 2020								
Other financial liabilities		4,472	-	-	-	-	-	4,472
Total non-interest bearing financial liabilities		**397,020**	-	-	-	-	-	**397,020**
Total non-derivative financial liabilities		**416,366**	**36,963**	**217,246**	**135,957**	**63,189**	-	**869,721**
The effect of derivatives								
- inflow		50	20,053	268	84,062			
- outflow		866	21,811	5,648	86,427			
Net effect of derivatives		**(816)**	**(1,758)**	**(5,380)**	**(2,365)**			
Liquidity gap		2,709	17,755	(54,987)	62,401	(9,837)		
Cumulative liquidity gap		**2,709**	**20,464**	**(34,523)**	**27,878**	**18,041**		
Interest sensitivity gap		66,030	10,623	(50,959)	64,175	(9,837)		
Cumulative interest sensitivity gap		**66,030**	**76,653**	**25,694**	**89,869**	**80,032**		

31 Risk Management Policies (Continued)

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 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 Group does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding for the Group.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

31 Risk Management Policies (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
31 December 2021								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	4,180						4,180	4,180
Loans to banks	17	932	5,396	17,917			24,262	21,399
Loans to customers	37,791	74,966	313,945	366,335	70,828	-	863,865	715,180
Investment securities	161	322	2,635	40,294	-	-	43,412	36,804
Total fixed interest bearing financial assets	**42,149**	**76,220**	**321,976**	**424,546**	**70,828**	**-**	**935,719**	**777,563**
Non-interest bearing financial assets								
Cash and cash equivalents	283,322						283,322	283,322
Loans to banks	6,020	-	1,271	3,790	-		11,081	11,081
Investment securities	-	-	-	-	-	1,088	1,088	1,088
Other financial assets	-	8,681	-	-	-	-	8,681	8,681
Total non-interest bearing financial assets	**289,342**	**8,681**	**1,271**	**3,790**	**-**	**1,088**	**304,172**	**304,172**
Total non-derivative financial assets	**331,491**	**84,901**	**323,247**	**428,336**	**70,828**	**1,088**	**1,239,891**	**1,081,735**

31 Risk Management Policies (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	-	106	-	-	-	-	106	106
Current accounts and deposits from customers	21,485	80,253	228,310	87,991	169	-	418,208	397,493
Issued bonds	-	-	850	10,850	-	-	11,700	10,038
Other borrowed funds	-	-	24,723	55,993	136,626	-	217,342	174,524
Lease liabilities	104	207	904	1,849	239		3,303	3,295
Total fixed interest bearing financial liabilities	**21,589**	**80,566**	**254,787**	**156,683**	**137,034**	**-**	**650,659**	**585,456**
Variable interest rate instruments								
Subordinated borrowings	**129**	**258**	**1,158**	**6,179**	**24,729**	**-**	**32,453**	**20,646**
Total variable interest bearing financial liabilities	**129**	**258**	**1,158**	**6,179**	**24,729**	**-**	**32,453**	**20,646**
Non-interest bearing instruments								
Amounts due to credit institutions	1,074		-	-	-	-	1,074	1,074
Current accounts and deposits from customers	425,357		-	-	-	-	425,357	425,357
Other financial liabilities	8,895		-	-	-	-	8,895	8,895
Guarantees issued and similar commitments	20,298		-	-	-		20,298	-
Commitments on loans and unused credit lines	15,068		-	-	-		15,068	-
Total non-interest bearing financial liabilities and commitments	**470,692**	**-**	**-**	**-**	**-**	**-**	**470,692**	**435,326**
Total financial liabilities and commitments	**492,410**	**80,824**	**255,945**	**162,862**	**161,763**	**-**	**1,153,804**	**1,041,428**
The effect of derivatives held for risk management								
- inflow	17	30,018	31,809	58,561				
- outflow	(1,208)	(31,381)	(36,813)	(62,877)				
Net effect of derivatives held for risk management purposes	**(1,191)**	**(1,363)**	**(5,004)**	**(4,316)**				
Liquidity gap	(162,110)	2,714	62,298	261,158	(90,935)			
Cumulative liquidity gap	**(162,110)**	**(159,396)**	**(97,098)**	**164,060**	**73,125**			

31 Risk Management Policies (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
31 December 2020								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	55,586	-	-	-	-	-	55,586	55,446
Loans to banks	131	165	2,633	8,562	11,781	-	23,272	19,392
Loans to customers	33,772	56,374	189,667	184,070	59,621	-	523,504	442,824
Investment securities	201	312	2,044	40,627	-	-	43,184	35,153
Total fixed interest bearing financial assets	**89,690**	**56,851**	**194,344**	**233,259**	**71,402**	**-**	**645,546**	**552,815**
Non-interest bearing financial assets								
Cash and cash equivalents	328,186	-	-	-	-	-	328,186	328,186
Loans to banks	6,329	418	1,352	591	-	-	8,690	8,690
Investment securities	-		-	-	-	1,088	1,088	1,088
Other financial assets	-	8,472	-	-	-	400	8,872	8,872
Total non-interest bearing financial assets	**334,515**	**8,890**	**1,352**	**591**	**-**	**1,488**	**346,836**	**346,836**
Total non-derivative financial assets	**424,205**	**65,741**	**195,696**	**233,850**	**71,402**	**1,488**	**992,382**	**899,651**
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	11	202	-	-	-	-	213	210
Current accounts and deposits from customers	12,665	32,173	197,544	83,637	4	-	326,023	314,779
Other borrowed funds	7,885	8,279	31,517	76,522	78,166	-	202,369	135,703
Lease liabilities	80	160	716	2,365	110	-	3,431	2,501
Total fixed interest bearing financial liabilities	**20,641**	**40,814**	**229,777**	**162,524**	**78,280**	**-**	**532,036**	**453,193**
Variable interest rate instruments								
Subordinated borrowings	466	240	1,081	5,766	20,395	-	27,948	19,508
Total variable interest bearing financial liabilities	**466**	**240**	**1,081**	**5,766**	**20,395**	**-**	**27,948**	**19,508**

31 Risk Management Policies (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
Non-interest bearing instruments								
Amounts due to credit institutions	808	-	-	-	-	-	808	808
Current accounts and deposits from customers	391,740	-	-	-	-	-	391,740	391,740
Other financial liabilities	4,472	-	-	-	-	-	4,472	4,472
Guarantees issued and similar commitments	16,104	-	-	-	-	-	16,104	
Commitments on loans and unused credit lines	20,108	-	-	-	-	-	20,108	
Total noninterest bearing financial liabilities and commitments	**433,232**	**-**	**-**	**-**	**-**	**-**	**433,232**	**397,020**
Total financial liabilities and commitments	**454,339**	**41,054**	**230,858**	**168,290**	**98,675**	**-**	**993,216**	**869,721**
The effect of derivatives held for risk management								
- inflow	50	20,053	268	84,062	-	-		
- outflow	866	21,811	5,648	86,427	-	-		
Net effect of derivatives held for risk management purposes	**(816)**	**(1,758)**	**(5,380)**	**(2,365)**	**-**	**-**		
Liquidity gap	(30,950)	22,929	(40,542)	63,195	(27,273)			
Cumulative liquidity gap	**(30,950)**	**(8,021)**	**(48,563)**	**14,632**	**(12,641)**			

31 Risk Management Policies (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

(c) Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ALMC on regular basis reviews the overall interest rate spreads by detailed analysis of the assets and liabilities interest rate structure. The Group is constantly monitoring interest rate gap. As of 31 December 2021 and 31 December 2020, the Group does not consider itself exposed to significant interest rate risk or consequential cash flow risk since most of the financial assets and liabilities are with fixed rates.

(ii) Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

31 Risk Management Policies (Continued)

The ALMC controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the Central Bank of the Republic of Azerbaijan

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

	AZN	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	76,732	187,678	21,029	2,063	287,502
Loans to banks	8,410	23,492	578	-	32,480
Loans to customers	644,018	70,626	536	-	715,180
Investment securities	2,328	34,476	-	-	36,804
Other financial assets	6,796	1,192	361	332	8,681
Total assets	**738,284**	**317,464**	**22,504**	**2,395**	**1,080,647**
LIABILITIES					
Amounts due to credit institutions	987	177	16	0	1,180
Current accounts and deposits from customers	390,147	409,441	22,088	1,174	822,850
Issued bonds	10,038	-	-	-	10,038
Subordinated borrowings	-	20,646	-	-	20,646
Other borrowed funds	174,524	-	-	-	174,524
Lease liabilities	3,295	-	-	-	3,295
Other financial liabilities	5,898	2,578	407	12	8,895
Total liabilities	**584,889**	**432,842**	**22,511**	**1,186**	**1,041,428**
Net position	**153,395**	**(115,378)**	**(7)**	**1,209**	
The effect of derivatives held for risk management	(120,000)	120,000	-	-	
Net position after derivatives held for risk management purposes	**33,395**	**4,622**	**(7)**	**1,209**	

31 Risk Management Policies (Continued)

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

	AZN	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	140,632	213,581	27,054	2,365	383,632
Loans to banks	3,343	24,008	731	-	28,082
Loans to customers	385,599	57,109	116	-	442,824
Investment securities	1,316	33,812	25		35,153
Other financial assets	8,383	397	70	22	8,872
Total assets	**539,273**	**328,907**	**27,996**	**2,387**	**898,563**
LIABILITIES					
Amounts due to credit institutions	739	76	203		1,018
Current accounts and deposits from customers	266,491	410,457	27,644	1,927	706,519
Subordinated borrowings	-	19,508	-	-	19,508
Other borrowed funds	135,703	-	-	-	135,703
Lease liabilities	2,501	-	-	-	2,501
Other financial liabilities	3,260	1,050	155	7	4,472
Total liabilities	**408,694**	**431,091**	**28,002**	**1,934**	**869,721**
Net position	**130,579**	**(102,184)**	**(6)**	**453**	
The effect of derivatives held for risk management	(110,186)	110,186	-	-	
Net position after derivatives held for risk management purposes	**20,393**	**8,002**	**(6)**	**453**	

Currency risk sensitivity analysis

A weakening of AZN, as indicated below, against the following currencies at 31 December 2021 and 2020, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis, and is based on foreign currency exchange rate variances that the Group 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.

	2021	2020
30% (2020: 30%) appreciation of USD against AZN	1,067	1,920
30% (2020: 30%) appreciation of EUR against AZN	-	(1)

A strengthening of AZN against the above currencies at 31 December 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 remained constant.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

31 Risk Management Policies (Continued)

The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholders' equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

32 Capital Risk Management

The Central Bank of Azerbaijan Republic (CBAR) requires banks to maintain certain regulatory ratios based on regulatory reporting standards.

The objectives of management when managing the Bank's and Group's capital are (i) to comply with the capital requirements set by the CBAR, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Capital Accord of at least 8%.

Under the current regulatory capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (31 December 2020: AZN 50,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (31 December 2020: 9%) and (c) maintain a ratio of Tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 5% (31 December 2020: 5%).

As at 31 December 2021, the Bank was in compliance with all these ratios except for maximum credit exposure of a Bank on unsecured loan per a single borrower which was 54.73% (2020: 60.55%) of the Bank's Tier 1 capital (ratio should not exceed 10% of Tier 1) and was the result of investment to the bonds of government related company. However, waiver for that ratio obtained from CBAR in 2020 for the lifetime of mentioned investment.

The calculation of capital adequacy based on the prudential reports prepared by the Group in accordance with the prudential regulations set by the CBAR was as follows:

	31 December 2021	31 December 2020
Total statutory capital	104,484	83,893
Risk-weighted assets	764,816	501,572
Capital adequacy ratio (%)	**13.66%**	**16.73%**

The regulatory guidelines on capital adequacy are mostly based on Basel Capital Accord requirements with some differences related to inclusion of additional components into total capital as well as to calculation of allowance for impairment losses on loans to customers, which is determined per the prudential rules on loan loss provisioning.

33 Commitments and Contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

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 and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if the counterparties failed completely to perform as contracted.

As at 31 December 2021 and 2020, credit-related commitments comprise:

	31 December 2021	31 December 2020
Credit-related commitments		
Commitments on loans and unused credit lines	15,068	20,108
Guarantees issued and similar commitments	20,298	16,104
	35,366	**36,212**

Legal proceedings

In the ordinary course of business, the Group 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 condition or the results of future operations.

Taxation

The taxation system in Azerbaijan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

These circumstances may create tax risks in the Republic of Azerbaijan 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.

Operating environment

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 behaviour. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

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

34 Commitments and Contingencies (Continued)

Compliance with covenants

The Group has agreed to comply with certain financial and business covenants in various financing and similar agreements.

As at 31 December 2021 the Group was in breach of certain covenant with two financing arrangements with outstanding balances amounting to AZN 38,222 thousand (31 December 2020: two financing arrangements with outstanding balances amounting to AZN 12,498 thousand). Group obtained all relevant waivers in 2021, so that borrowings are not payable on demand as at 31 December 2021. (31 December 2020: no borrowings are payable on demand).

34 Non-Controlling Interest

The following table provides information about subsidiary that has non-controlling interest that is material to the Group:

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2021						
Baki Sigorta OJSC	The Republic of Azerbaijan	49%	49%	(470)	4,174	-
Year ended 31 December 2020						
Baki Sigorta OJSC	The Republic of Azerbaijan	49%	49%	76	4,644	-

The summarised financial information of the subsidiary was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Total comprehensive income/(loss)	Cash flows
Year ended 31 December 2021	9,508	1,735	325	2,862	5,843	(959)	(959)	(1,292)
Baki Sigorta OJSC	4,659	850	159	1,402	2,863	(470)	(470)	(633)
Year ended 31 December 2020	8,174	2,450	164	1,443	3,129	156	156	1,036
Baki Sigorta OJSC	4,005	1,201	80	707	1,533	76	76	508

35 Related Party Transactions

Transactions between the Group and its subsidiary have been eliminated on consolidation and are not disclosed in this Note. The outstanding balances and the related average effective interest rates as at 31 December 2021 and related profit or loss amounts of transactions for the year ended 31 December 2021 with related parties are as follows:

	Share-holders	Entities under common control		Key management personnel of the Group		Total amount
	Amount	Amount	Average effective interest rate, %	Amount	Average effective interest rate, %	
Consolidated statement of financial position						
ASSETS						
Loans to customers						
Principal balance	-	5,400	5%	511	13%	5,943
Loss allowance	-	(155)		(5)		(160)
LIABILITIES						
Current accounts and deposits from customers	14	1,788	4%	1,392	1%	5,587
Items not recognised in the consolidated statement of financial position						
Guarantees given (expires in 3 months)	-	191		-		191
Commitments on loans and unused credit lines	-	1,660		-		1,660
Profit (loss)						
Interest income	-	343		36		379
Interest expense	-	(194)		(16)		(210)
Fee and commission expense	-	-		-		-
Recovery of impairment/(Impairment losses)	-	132		(5)		127
Operating expenses	-	-		(1,674)		(1,674)

Shareholders with more than 20% ownership of the Group's shares have been disclosed in the table. Entities under common control are companies where key shareholders have control or significant influence.

35 Related Party Transactions (Continued)

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

	Share-holders	Entities under common control		Key management personnel of the Group		Total amount
	Amount	Amount	Average effective interest rate, %	Amount	Average effective interest rate, %	
Consolidated statement of financial position						
ASSETS						
Loans to customers						
Principal balance	6	6,349	6%	187	10%	6,541
Loss allowance	(4)	(283)		-		(287)
LIABILITIES						
Current accounts and deposits from customers	1,579	68	1%	858	4%	2,505
Items not recognised in the consolidated statement of financial position						
Guarantees given (expires in 3 months)	-	21		-		21
Commitments on loans and unused credit lines	5	9		5		19
Profit (loss)						
Interest income	-	381		1		382
Interest expense	(346)	(1)		(6)		(353)
Fee and commission expense	-	(323)		-		(323)
Impairment losses	(2)	(113)		3		(111)
Operating expenses	-	-		(1,458)		(1,458)

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

	2021	2020
Short-term employee benefits	1,554	1,336
Pension and other contributions	120	122
	1,674	**1,458**

These amounts include cash and non-cash benefits in respect of members of the Board of Directors and the Management Board.

36 Fair Values Disclosures

IFRS defines fair value as 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.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis.

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

- 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 table below analyses financial instruments measured at fair value at 31 December 2021, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1	Level 3	Total
Investment securities designated as at FVOCI - equity instruments	-	1,088	1,088
Derivative assets	-	1,961	1,961
Derivative liabilities	-	(1,157)	(1,157)

The table below analyses financial instruments measured at fair value at 31 December 2020, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1	Level 3	Total
Investment securities designated as at FVOCI - equity instruments	-	1,088	1,088
Derivative assets	-	2,377	2,377
Derivative liabilities	-	(313)	(313)

There were no transfers between Level 1 and 2 in the period.

36 Fair Values Disclosures (Continued)

The following table shows a reconciliation for the year ended 31 December 2021 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3			
	Financial instruments at fair value through profit or loss		Financial instruments at fair value through other comprehensive income	Total
	Derivative assets	Derivative liabilities	Equity investments	
Balance at beginning of the year	2,377	(313)	1,088	3,152
Unrealized change in fair value of derivative financial instruments	(416)	(844)	-	-
Balance at end of the year	1,961	(1,157)	1,088	1,891

The following table shows a reconciliation for the year ended 31 December 2020 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3			
	Financial instruments at fair value through profit or loss		Financial instruments at fair value through other comprehensive income	Total
	Derivative assets	Derivative liabilities	Equity investments	
Balance at beginning of the year	-	(1,310)	776	(534)
Unrealized change in fair value of derivative financial instruments	1,684	1,198	-	2,882
Purchases	693	(201)	313	805
Effect of changes in exchange rates	-	-	(1)	(1)
Balance at end of the year	2,377	(313)	1,088	3,152

As part of its trading activities, the Group enters into OTC-structured derivatives (primarily interest rate cross currency swaps indexed to credit spreads, foreign exchange rates and interest rates) with international financial institutions and domestic banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities and expected correlations between different underlyings.

36 Fair Values Disclosures (Continued)

As at 31 December 2021, to determine the fair value of the swaps, management assumed interest rates within the range of 5.28%-6.01% and 0.40%-1.06% in AZN and USD, respectively (31 December 2020: within the range of 7.87%-9.56% and 0.05%-3.04% in AZN and USD, respectively).

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2021:

	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS				
Investment securities	37,412	-	37,412	36,804
Loans to banks	33,523	-	33,523	32,480
Loans to customers	-	721,640	721,640	715,180
LIABILITIES				
Current accounts and deposits from customers:			820,261	822,850
- Current accounts and demand deposits	425,357	-	425,357	425,357
- Term deposits	-	394,904	394,904	397,493
Subordinated borrowings		22,360	22,360	20,646
Other borrowed funds	173,830	-	173,830	174,524

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2020:

	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS				
Loans to banks	26,993	-	26,993	28,082
Loans to customers	-	445,997	445,997	442,824
Investment securities	35,324	-	35,324	35,153
LIABILITIES				
Current accounts and deposits from customers:			706,741	706,519
- Current accounts and demand deposits	392,474	-	392,474	392,474
- Term deposits	-	314,267	314,267	314,045
Subordinated borrowings	19,680		19,680	19,508
Other borrowed funds	135,594		135,594	135,703

The Group uses the following information in calculation of fair value of financial instruments not measured at fair value based on the type of instrument and availability of observable data in the relevant market in the order of priority (from the most to the least observable data) :

- Loans to banks and Amounts due to credit institutions: analogical market rates disclosed in the statistical bulletin issued by the Central Bank of the Republic of Azerbaijan
- Investment securities: depending on the measurement Level, Group uses the price of the instrument as of reporting date based on daily quotations or applies income approach using identical assets.

36 Fair Values Disclosures (Continued)

- Loans to customers: expected present value technique, where risk premium is incorporated either into contractual cash flows or into discount rate, defined as the risk-free rate plus the risk premium determined for loan portfolios based on similar characteristics (from credit risk quality point of view). The Group also benchmarks discount rates to interest rates observable from the published regulatory statistics on loans based on relevant maturity.
- Current accounts and deposits from customers, Other borrowed funds: Current accounts are short-term non-interest-bearing liabilities and their carrying value approximate fair value.

  Term-deposits, fair value of amount due to banks, credit institutions and government funds is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturity.
- Borrowings from government funds, where no observable rates are available a Bank will price those instruments at base rate (refinancing or government bond rates) adjusted for non-performance risk (credit risk premium) of the Bank.
- Bonds issued: those with daily quotations for identical assets are in Level 1 measurement category and the price as of reporting date would be taken as such for disclosure purpose. The price of the bond is estimated by comparing it to corporate bonds with an active market, and that have similar maturities, coupon rates, and credit rating. The discount rate is determined as the risk free rate + credit risk premium of the Issuer

As at 31 December 2021, to determine the fair value of financial instruments not measured at fair value, management used interest rates within the range of 8%-11% and 4%-5% in AZN and foreign currencies, respectively for loans to customers (31 December 2020: range of 8.27%-16.09% and 4.98%-6.53% in AZN and foreign currencies, respectively), and within the range of 6%-8% and 1%-2% in AZN and foreign currencies, respectively for deposits from customer (31 December 2020: within range of 5.92%-9.00% and 1.05%-2.15% in AZN and foreign currencies, respectively).

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 realisable 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 Group 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 premia 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 objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

37 Events after the End of the Reporting Period

Financing activities. On 18 February 2022, the Group issued bonds at amount of AZN 15,000,000 (15,000 number of bonds with nominal value AZN 1,000), interest-bearing bonds in AZN maturing on 18 February 2024. The issuance was conducted through public placement, completely purchased by different investors and bonds are listed on Baku Stock Exchange. Coupon rate is 8.5%, payable semi-annually.

On 28 April 2022, the Group issued bonds at amount of AZN 15,000,000 (15,000 number of bonds with nominal value AZN 1,000), interest-bearing bonds in AZN maturing on 28 April 2024. The issuance was conducted through public placement, completely purchased by different investors and bonds are listed on Baku Stock Exchange. Coupon rate is 8.5%, payable semi-annually.

According to the individual synthetic local currency term loan facility agreement the Group borrowed a total of 15,000,000 USD in the period between January 2022 and April 2022 from the European Fund for Southeast Europe (EFSE).

Dividends. In January 2022 the Group declared and paid dividends in the amounts of AZN 12 million.

Impact of sanctions from Russia - Ukraine conflict. Since February 2022, numerous sanctions have been announced by majority of western countries against the Russian Federation, due to the conflict between the Russian Federation and Ukraine. These sanctions are expected to have certain negative economic impact on the Russian Federation. As of the date of these financial statements, the Group's total exposure to Russian financial markets was immaterial: mainly comprised of small amounts related to money transfer systems and some customers partially involved in trade operations and compensated by other sources of income. The Group's management is thoroughly monitoring the economic situation in the current environment and taking precautionary measures in order to manage associated risks.