



**"AZER-TURK BANK"  
OPEN JOINT STOCK COMPANY**

**International Financial Reporting Standards  
Financial Statements and  
Independent Auditors' Report  
For the Year Ended December 31, 2020**

**Now, for tomorrow**

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

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**STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020**

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The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Azer-Turk Bank" Open Joint Stock Company (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2020, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Azerbaijan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements for the year ended December 31, 2020 were authorized for issue on May 5, 2021 by the Management Board of the Bank.

**Signed and authorized for release on behalf of the Management Board of the Bank:**

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**Mr. Orkhan Huseynov**  
Chairman of the Management Board  
Baku, the Republic of Azerbaijan

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**Mr. Orkhan Gadirbey**  
Deputy Chairman of the Management Board  
Baku, the Republic of Azerbaijan

## INDEPENDENT AUDITORS' REPORT

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

### *Opinion*

We have audited the financial statements of "Azer-Turk Bank" Open Joint Stock Company (the "Bank"), which comprise the statement of financial position as at December 31, 2020, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the statement of financial position as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for Opinion*

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

### *Responsibilities of Management and Audit Committee for the Financial Statements*

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

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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

*Baker Tilly Azerbaijan*

May 5, 2021  
Baku, the Republic of Azerbaijan

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

(Figures in tables are in thousands of Azerbaijani Manats)

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>Assets</b>			
Cash and cash equivalents	5, 24	105,350	85,042
Amounts due from credit institutions	6, 24	5,067	3,806
Loans to customers	7, 24	160,248	180,269
Investment securities	8, 24	59,464	56,260
Property and equipment	9	6,501	9,065
Intangible assets	10	5,902	5,264
Deferred income tax assets	11	199	-
Other assets	13	7,060	5,922
<b>Total assets</b>		<b>349,791</b>	<b>345,628</b>
<b>Liabilities</b>			
Amounts due to credit institutions and government organizations	14, 24	101,106	97,717
Amounts due to customers	15, 24	189,772	188,295
Current income tax liability		3	765
Deferred income tax liabilities	11	-	9
Lease liabilities	13	2,139	4,640
Other liabilities	13	4,758	2,248
<b>Total liabilities</b>		<b>297,778</b>	<b>293,674</b>
<b>Equity</b>			
	16		
Share capital		50,000	50,000
Retained earnings		2,048	1,989
Fair value reserve		(35)	(35)
<b>Total equity</b>		<b>52,013</b>	<b>51,954</b>
<b>Total liabilities and equity</b>		<b>349,791</b>	<b>345,628</b>

Signed and authorized for release on behalf of the Management Board of the Bank:

\_\_\_\_\_  
**Mr. Orkhan Huseynov**  
 Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Mr. Orkhan Gadirbey**  
 Deputy Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

*The accompanying notes on pages 9 to 55 are an integral part of these financial statements*

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED DECEMBER 31, 2020

(Figures in tables are in thousands of Azerbaijani Manats)

	<i>Notes</i>	<b>2020</b>	<b>2019</b>
<b>Interest income</b>			
Loans to customers		17,187	17,123
Investment securities		2,035	2,613
Amounts due from credit institutions		1,946	1,746
<b>Interest income calculated using the effective interest method</b>		<b>21,168</b>	<b>21,482</b>
Other interest income		-	12
		<b>21,168</b>	<b>21,494</b>
<b>Interest expense</b>			
Amounts due to customers		(4,387)	(6,354)
Amounts due to credit institutions and government organizations		(2,286)	(1,669)
Lease liabilities		(357)	(509)
		<b>(7,030)</b>	<b>(8,532)</b>
<b>Net interest income</b>		<b>14,138</b>	<b>12,962</b>
Credit loss expense on financial assets	12, 24	(412)	(390)
<b>Net interest income after credit loss expense</b>		<b>13,726</b>	<b>12,572</b>
<b>Fee and commission income</b>	18	<b>3,929</b>	<b>4,349</b>
Net gains/(losses) from foreign currencies:			
- dealing		1,587	1,837
- translation differences		172	(289)
Net gains arising on initial recognition of financial instruments	14	-	250
Other income	19	615	1,951
<b>Non-interest income</b>		<b>6,303</b>	<b>8,098</b>
Personnel expenses	20	(11,619)	(11,045)
General and administrative expenses	20	(4,235)	(4,585)
Depreciation and amortization	9, 10	(4,370)	(4,415)
Reversal of provision for credit related commitments and other impairment	12	446	186
<b>Non-interest expenses</b>		<b>(19,778)</b>	<b>(19,859)</b>
<b>Profit before income tax expense</b>		<b>251</b>	<b>811</b>
Income tax expense	11	(192)	(377)
<b>Profit for the year</b>		<b>59</b>	<b>434</b>

Signed and authorized for release on behalf of the Management Board of the Bank:

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**Mr. Orkhan Huseynov**  
 Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Mr. Orkhan Gadirbey**  
 Deputy Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

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## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2020

(Figures in tables are in thousands of Azerbaijani Manats)

	<i>Notes</i>	<b>2020</b>	<b>2019</b>
<b>Profit for the year</b>		<u>59</u>	<u>434</u>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods</i>			
Net change in fair value of debt instruments at fair value through other comprehensive income		-	(92)
Income tax relating to components of other comprehensive income	11	-	18
<b>Other comprehensive loss for the year, net of tax</b>		<u>-</u>	<u>(74)</u>
<b>Total comprehensive income for the year</b>		<u><u>59</u></u>	<u><u>360</u></u>

Signed and authorized for release on behalf of the Management Board of the Bank:

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**Mr. Orkhan Huseynov**  
Chairman of the Management Board  
Baku, the Republic of Azerbaijan

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**Mr. Orkhan Gadirbey**  
Deputy Chairman of the Management Board  
Baku, the Republic of Azerbaijan

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## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2020

*(Figures in tables are in thousands of Azerbaijani Manats)*

	<i>Share capital</i>	<i>Fair value reserve</i>	<i>Retained earnings</i>	<i>Total equity</i>
<b>January 1, 2019</b>	<b>50,000</b>	<b>39</b>	<b>1,855</b>	<b>51,894</b>
Net profit for the year	-	-	434	434
Other comprehensive loss for the year	-	(74)	-	(74)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(74)</b>	<b>434</b>	<b>360</b>
Dividends declared (Note 16)	-	-	(300)	(300)
<b>December 31, 2019</b>	<b>50,000</b>	<b>(35)</b>	<b>1,989</b>	<b>51,954</b>
Net profit for the year	-	-	59	59
Other comprehensive loss for the year	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>59</b>	<b>59</b>
Dividends declared (Note 16)	-	-	-	-
<b>December 31, 2020</b>	<b>50,000</b>	<b>(35)</b>	<b>2,048</b>	<b>52,013</b>

Signed and authorized for release on behalf of the Management Board of the Bank:

\_\_\_\_\_  
**Mr. Orkhan Huseynov**  
 Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Mr. Orkhan Gadirbey**  
 Deputy Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

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# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2020

(Figures in tables are in thousands of Azerbaijani Manats)

	Notes	2020	2019
<b>Cash flows from operating activities</b>			
Interest received		22,076	20,479
Interest paid		(4,472)	(9,017)
Fees and commissions received		8,751	8,551
Fees and commissions paid		(3,649)	(4,033)
Net realized gains from currency dealing operations		1,587	2,611
Personnel expenses paid		(11,457)	(10,958)
General and administrative expenses paid		(4,241)	(5,013)
Other income received		605	204
<b>Cash flows provided from operating activities before changes in operating assets and liabilities</b>		<b>9,200</b>	<b>2,824</b>
<i>Net (increase)/decrease in operating assets</i>			
Amounts due from credit institutions		(1,245)	11,747
Loans to customers		18,069	(15,640)
Other assets		(392)	(2,491)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions and government organizations		2,905	9,117
Amounts due to customers		(1,007)	(28,518)
Other liabilities		1,544	(1,538)
<b>Net cash flows provided from/(used in) operating activities before income tax</b>		<b>29,074</b>	<b>(24,499)</b>
Income tax paid		(336)	(250)
<b>Net cash provided from/(used in) operating activities</b>		<b>28,738</b>	<b>(24,749)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale and redemption of investment securities		151,141	341,000
Purchase of investment securities		(154,569)	(345,298)
Purchase of property and equipment		(1,861)	(853)
Acquisition of intangible assets		(1,573)	(2,250)
<b>Net cash used in investing activities</b>		<b>(6,862)</b>	<b>(7,401)</b>
Lease liability paid	13	(2,373)	(2,408)
Dividends paid to shareholders of the Bank	16	-	(300)
<b>Net cash used in financing activities</b>		<b>(2,373)</b>	<b>(2,708)</b>
Effect of exchange rates changes on cash and cash equivalents		805	(892)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>20,308</b>	<b>(35,750)</b>
Cash and cash equivalents, beginning	5	85,042	120,792
<b>Cash and cash equivalents, ending</b>	<b>5</b>	<b>105,350</b>	<b>85,042</b>

Signed and authorized for release on behalf of the Management Board of the Bank:

\_\_\_\_\_  
**Mr. Orkhan Huseynov**  
 Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

\_\_\_\_\_  
**Mr. Orkhan Gadirbey**  
 Deputy Chairman of the Management Board  
 Baku, the Republic of Azerbaijan

The accompanying notes on pages 9 to 55 are an integral part of these financial statements

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

(Figures in tables are in thousands of Azerbaijani Manats)

### 1. Principal activities

“Azer-Turk Bank” Open Joint Stock Company (the “Bank”) was incorporated in the Republic of Azerbaijan in May 1995. The Bank’s activities are regulated by the Central Bank of the Republic of Azerbaijan (the “CBAR”) and conducts its business under license number 234.

The Bank’s principal business activity is corporate and retail banking operations. This includes deposit taking and commercial lending in freely convertible currencies and in Azerbaijani manat (“AZN”), transfer payments in Azerbaijan and abroad, support of clients’ export/import transactions, foreign currency exchange and other banking services to its commercial and retail customers.

As at December 31, 2020, the Bank’s network comprised of head office, 1 customer service department, 7 branches and 3 unit service (2019: head office, 1 customer service department, 6 branches and 3 unit service).

The number of Bank’s employees as at December 31, 2020 was 416 (2019: 421).

The Bank’s registered address is 85 J. Mammadguluzade Street, 192/193, Baku, AZ1078, Azerbaijan.

As at December 31, the following shareholders owned the outstanding shares of the Bank:

<i>Shareholder</i>	<i>2020, %</i>	<i>2019, %</i>
Government of the Republic of Azerbaijan	75.00	75.00
T.C. Ziraat Bankasi A.Ş.	12.37	12.37
“AzRe Reinsurance” OJSC	6.55	6.55
“Qala Life” Insurance Company OJSC	5.00	5.00
“Ziraat Bank International AG”	1.08	1.08
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

As at December 31, 2020 and 2019, the ultimate shareholder of the Bank is the Government of the Republic of Azerbaijan, acting through the State Committee on Property Issues of Azerbaijan Republic (the “Government”).

### 2. Basis of preparation

#### General

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The Azerbaijani manat (“AZN”) is the functional and presentation currency of the Bank as the majority of transactions are denominated, measured, or funded in AZN. Transactions in other currencies are treated as transactions in foreign currencies. The Bank is required to maintain its records and prepare its financial statements in AZN and in accordance with IFRS. The financial statements are presented in thousands of AZN except per share amounts and unless otherwise indicated. The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, investment securities have been measured at fair value.

### 3. Summary of accounting policies

#### Fair value measurement

The Bank measures financial instruments carried at FVOCI such as investment securities, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ▶ In the principal market for the asset or liability; or
- ▶ In the absence of a principal market, in the most advantageous market for the asset or liability.

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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The principal or the most advantageous market must be accessible by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- ▶ Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- ▶ Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- ▶ Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Financial assets and liabilities

#### *Initial recognition*

##### *Date of recognition*

All regular way purchases and sales of financial assets and liabilities are recognized on the trade date i.e. the date that the Bank commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

##### *Initial measurement*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

##### *Measurement categories of financial assets and liabilities*

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- ▶ Amortized cost;
- ▶ FVOCI;
- ▶ FVPL.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortized cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

##### *Amounts due from credit institutions, loans to customers, investments securities at amortized cost*

The Bank only measures amounts due from credit institutions and loans to customers, investment debt securities and other financial investment at amortized cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ 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 (SPPI).

The details of these conditions are outlined below.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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#### *Business model assessment*

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- ▶ The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

#### *The SPPI test*

As a second step of its classification process the Bank assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

#### *Debt instruments at FVOCI*

The Bank measures debt instruments at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest revenue and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

#### *Equity instruments at FVOCI*

Upon initial recognition, the Bank occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

## **“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**

*(Figures in tables are in thousands of Azerbaijani Manats)*

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

#### *Financial guarantees, letters of credit and undrawn loan commitments*

The Bank issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

#### **Financial assets and liabilities (continued)**

The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are initially recognized at fair value and subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

#### *Performance guarantees*

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

#### **Reclassification of financial assets and liabilities**

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank changes the business model for managing financial assets. Financial liabilities are never reclassified. The Bank did not reclassify any of its financial assets and liabilities in 2020.

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, amounts due from the Central Bank of Azerbaijan Republic ("CBAR"), excluding obligatory reserves, and amounts due from credit institutions that mature within ninety days of the date of origination and are free from contractual encumbrances.

#### **Derivative financial instruments**

In the normal course of business, the Bank enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Gains and losses resulting from these instruments are included in the statement of profit or loss as net gains from foreign currencies as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument.

## **“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**

*(Figures in tables are in thousands of Azerbaijani Manats)*

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Derivatives embedded in liabilities and non-financial host contracts are treated as separate derivatives and recorded at fair value if they met the definition of a derivative (as defined above), their economic characteristics and risks were not closely related to those of the host contract, and the host contract was not itself held for trading or designated at FVPL. The embedded derivatives separated from the host were carried at fair value in the trading portfolio with changes in fair value recognised in the statement of profit or loss.

Financial assets are classified based on the business model and SPPI assessments.

#### **Repurchase and reverse repurchase agreements and securities lending**

Sale and repurchase agreements (“repos”) are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the statement of financial position and, in case the transferee has the right by contract or custom to sell or repledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or customers. Securities purchased under agreements to resell (“reverse repo”) are recorded as investment securities or loans to customers as appropriate. The difference between sale and repurchase price is treated as interest revenue and accrued over the life of repo agreements using the effective interest method.

Securities lent to counterparties are retained in the statement of financial position. Securities borrowed are not recorded in the statement of financial position, unless these are sold to third parties, in which case the purchase and sale are recorded within gains less losses from trading securities in the statement of profit or loss. The obligation to return them is recorded at fair value as a trading liability.

#### **Borrowings**

Issued financial instruments or their components are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity instruments. Such instruments include amounts due to credit institutions and government funds and amounts due to customers. After initial recognition, borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognised in profit or loss when the borrowings are derecognised as well as through the amortisation process.

#### **Leases**

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

##### *Right-of-use assets*

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

##### *Lease liabilities*

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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#### *Short-term leases and leases of low-value assets*

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5 thousand). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

#### **Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The right of set-off must not be contingent on a future event and must be legally enforceable in all of the following circumstances:

- ▶ The normal course of business;
- ▶ The event of default; and
- ▶ The event of insolvency or bankruptcy of the entity and all of the counterparties.

These conditions are not generally met in master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### **Renegotiated loans**

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- ▶ Change in currency of the loan;
- ▶ Change in counterparty;
- ▶ If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, in the statement of profit or loss, to the extent that an impairment loss has not already been recorded.

For modifications not resulting in derecognition, the Bank also reassesses whether there has been a significant increase in credit risk or whether the assets should be classified as credit-impaired. Once an asset has been classified as credit-impaired as the result of modification, it will remain in Stage 3 for a minimum 6-month probation period. In order for the restructured loan to be reclassified out of Stage 3, regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period in accordance with the modified payment schedule.

#### **Derecognition of financial assets and liabilities**

##### ***Financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Bank has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; and
- ▶ The Bank either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.



## **“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)** *(Figures in tables are in thousands of Azerbaijani Manats)*

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Where the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Write-off*

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

#### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### **Taxation**

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan.

Deferred income tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred income tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Azerbaijan also has various operating taxes that are assessed on the Bank's activities. These taxes are included as a component of general and administrative expenses.

Current and deferred income taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred income tax are also recognised in other comprehensive income or directly in equity, respectively.

#### **Property and equipment**

Property and equipment are carried at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment. Such cost includes the cost of replacing part of equipment when that cost is incurred if the recognition criteria are met.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Depreciation of an asset begins when it is available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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	<u>Useful life in years</u>
Furniture and fixtures	5-10
Computer	5
Vehicles	5
Right of use assets	3-5
Leasehold improvements	3-5
Other fixed assets	5-8

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end.

Costs related to repairs and renewals are charged when incurred and included in other operating expenses, unless they qualify for capitalization.

#### **Intangible assets**

Intangible assets include computer software and licenses.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic lives of ten years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with indefinite useful lives are reviewed at least at each financial year-end.

#### **Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of obligation can be made.

#### **Retirement and other employee benefit obligations**

The Bank does not have any pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Bank does not provide post-retirement benefits to its employees.

#### **Share capital**

##### *Share capital*

Ordinary shares and non-redeemable preference shares with discretionary dividends are both classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

##### *Dividends*

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

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### Government grants and government assistance

Government grants are recognized where there is reasonable assurance that the grant will be received and all the related conditions will be, or have already been complied with. Where the grant relates to an expense item, it is recognized as income in the same periods as the respective expenses it is intended to compensate on a systematic basis. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset. Government loans provided at below market interest rates are recognized in accordance with IFRS 9. The benefit of the government loan is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognized in the statement of financial position. This benefit is accounted for in accordance with IAS 20. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized against the expenses which government grants are intended to compensate in the statement of profit or loss for the period in which it becomes receivable.

### Contingencies

Contingent liabilities are not recognised in the 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 statement of financial position but disclosed when an inflow of economic benefits is probable.

### Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### *Interest and similar income and expense*

The Bank calculates interest revenue on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Bank calculates interest revenue by applying the effective interest rate to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Bank reverts to calculating interest revenue on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest revenue by calculating the credit-adjusted EIR and applying that rate to the amortized cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI assets.

Interest revenue on all financial assets at FVPL is recognised using the contractual interest rate in “Other interest income” in the statement of profit or loss.

#### *Fees and commissions*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ▶ Income earned from the provision of service is recognized as revenue as the service are provided (for example, servicing plastic card operations, settlement operations, cash operations and others);
- ▶ Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

#### *Dividend income*

Revenue is recognized when the Bank's right to receive the payment is established.

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

### Foreign currency translation

The financial statements are presented in Azerbaijani manat, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss as gains less losses from foreign currencies – translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains from dealing operations.

The Bank used the following official exchange rates at December 31 in the preparation of these financial statements:

	<u>2020</u>	<u>2019</u>
1 US Dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 2.0890	AZN 1.9035

### Adoption of new and revised standards and interpretations

In the current year, the Bank has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending on December 31, 2020.

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

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

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

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

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

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

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

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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

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

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

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

### Standards and interpretations issued but not yet effective

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

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

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

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

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

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

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

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37** – In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

*(Figures in tables are in thousands of Azerbaijani Manats)*

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General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

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

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

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

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

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

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

#### 4. Significant accounting judgments and estimates

##### Estimation uncertainty

In the process of applying the Bank’s accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgments and estimates are as follows:

##### Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 22.

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

### Impairment losses on financial assets

The measurement of impairment losses across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis;
- ▶ Development of ECL models, including the various formulae and the choice of inputs;
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs;
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

More details are provided in Notes 7 and 21.

### Leases – estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the proxy Bank's credit rating). More details are provided in Note 3.

### Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management believes that as at December 31, 2020 and 2019 its interpretation of the relevant legislation is appropriate and that the Bank's tax position will be sustained.

## 5. Cash and cash equivalents

Cash and cash equivalents comprise:

	<u>2020</u>	<u>2019</u>
Cash on hand	22,730	26,344
Current accounts with the CBAR	48,543	23,184
Current accounts with other banks	23,115	27,702
Time deposits with the CBAR up to 90 days	10,962	7,812
<b>Cash and cash equivalents</b>	<b><u>105,350</u></b>	<b><u>85,042</u></b>

Current accounts with other banks consist of correspondent account balances with resident and non-resident banks in the amount of AZN 216 thousand (2019: AZN 40 thousand) and AZN 22,899 thousand (2019: AZN 27,662 thousand), respectively.

All balances of cash equivalents are allocated to Stage 1. As at December 31, 2020 and 2019 ECL relating to cash and cash equivalents rounds to zero.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### 6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	<u>2020</u>	<u>2019</u>
Time deposits for more than 90 days	3,427	1,725
Blocked accounts with credit institutions	722	881
Obligatory reserve with the CBAR	918	1,200
<b>Amounts due from credit institutions</b>	<b><u>5,067</u></b>	<b><u>3,806</u></b>

As at December 31, 2020, time deposits for more than 90 days include interest bearing time deposits in the amount of AZN 3,427 thousand placed in one resident credit institution (2019: AZN 1,725 thousand placed in one resident credit institution).

As at December 31, 2020, blocked accounts with credit institutions represented funds blocked by one (2019: one) non-resident credit institutions against letters of guarantee and letters of credit (2019: letters of guarantee and letters of credit) issued to two customers (2019: three customers).

Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBAR at 0.5% (2019: 0.5%) of the previous month average balances in AZN and 1% (2019: 1%) of the previous month average balances in foreign currencies respectively, attracted from customers by the credit institution. The Bank's ability to withdraw such deposit is restricted by statutory legislation.

As at December 31, 2020, accrued interest income included in due from banks and other financial institutions amounted to AZN 27 thousand (December 31, 2019: AZN 26 thousand).

All balances of due from credit institutions are allocated to Stage 1. As at December 31, 2020 and 2019 ECL relating to amounts due from credit institutions rounds to zero.

#### 7. Loans to customers

Loans to customers comprise:

	<u>2020</u>	<u>2019</u>
Loans to individuals-mortgage	80,309	61,750
Loans to individuals-consumer	49,073	65,032
Corporate loans	31,143	45,514
Loans to government owned entities	6,312	16,323
Loans to individuals-entrepreneurship	1,922	2,477
<b>Gross loans to customers at amortized cost</b>	<b><u>168,759</u></b>	<b><u>191,096</u></b>
Less: allowance for expected credit losses	(8,511)	(10,827)
<b>Loans to customers at amortized cost</b>	<b><u>160,248</u></b>	<b><u>180,269</u></b>

#### Concentration of loans to customers

Loans are made principally in the following industry sectors:

	<u>2020</u>	<u>2019</u>
Individuals	126,089	126,782
Trading enterprises	17,208	14,414
Transport	6,312	16,323
Oil and gas	4,938	10,569
Telecommunication	2,758	6,421
Metallurgy	1,978	2,461
Agriculture and food processing	1,144	6,206
Manufacturing	588	876
Others	7,744	7,044
<b>Loans to customers, gross</b>	<b><u>168,759</u></b>	<b><u>191,096</u></b>



## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

Corporate loan granted to an entity operating in transport sector amounting to AZN 6,312 thousand (2019: AZN 16,323 thousand) was provided by the funds received from the Ministry of Finance of the Republic of Azerbaijan.

As at December 31, 2020, the Bank had a concentration of loans represented by AZN 27,632 thousand or 16% of gross loan portfolio (2019: AZN 47,399 thousand or 25%) due from ten (2019: ten) largest borrowers of the Bank. An allowance of AZN (2019: AZN 3,705 thousand) was recognized against these loans.

As at December 31, 2020, accrued interest income included in loans to customers amounted to AZN 2,982 thousand (December 31, 2019: AZN 5,796 thousand).

During the year ended December 31, 2020 the Bank restructured loans in the amount of AZN 4,855 thousand under the COVID-19 restructuring program.

#### Allowance for impairment of loans to customers at amortized cost

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-mortgage during the year ended December 31, 2020 is as follows:

<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying value as at January 1, 2020</b>	<b>61,392</b>	<b>241</b>	<b>117</b>	<b>61,750</b>
New assets originated or purchased	21,781	-	-	21,781
Assets repaid	(3,212)	(7)	(3)	(3,222)
Transfers to Stage 1	263	(146)	(117)	-
Transfers to Stage 2	(696)	696	-	-
Transfers to Stage 3	(347)	(93)	440	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2020</b>	<b>79,181</b>	<b>691</b>	<b>437</b>	<b>80,309</b>

<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>ECL as at January 1, 2020</b>	<b>(333)</b>	<b>(84)</b>	<b>(41)</b>	<b>(458)</b>
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(104)	-	-	(104)
Assets repaid	17	1	5	23
Transfers to Stage 1	(92)	51	41	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	4	33	(37)	-
Net remeasurement of loss allowance	216	(81)	(27)	108
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2020</b>	<b>(292)</b>	<b>(80)</b>	<b>(59)</b>	<b>(431)</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals-consumer loans during the year ended December 31, 2020 is as follows:

<i>Loans to individuals-consumer</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Gross carrying value as at January 1, 2020	62,545	358	2,129	-	65,032
New assets originated or purchased	26,066	-	-	-	26,066
Assets repaid	(40,943)	(431)	(824)	(36)	(42,234)
Net remeasurement of POCI	-	-	-	310	310
Transfers to Stage 1	95	(37)	(58)	-	-
Transfers to Stage 2	(1,499)	1,547	(48)	-	-
Transfers to Stage 3	(2,593)	(203)	2,796	-	-
Unwinding of discount	-	-	-	-	-
Recoveries	-	-	193	-	193
Amounts written off	-	-	(294)	-	(294)
<b>At December 31, 2020</b>	<b>43,671</b>	<b>1,234</b>	<b>3,894</b>	<b>274</b>	<b>49,073</b>

<i>Loans to individuals-consumer</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2020	(304)	(89)	(1,336)	(1,729)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(914)	-	-	(914)
Assets repaid	194	23	485	702
Transfers to Stage 1	(38)	12	26	-
Transfers to Stage 2	-	(17)	17	-
Transfers to Stage 3	359	45	(404)	-
Net remeasurement of loss allowance	(37)	(117)	(1,305)	(1,459)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	(193)	(193)
Amounts written off	-	-	294	294
<b>At December 31, 2020</b>	<b>(740)</b>	<b>(143)</b>	<b>(2,416)</b>	<b>(3,299)</b>

An analysis of changes in the gross carrying value and corresponding ECL in relation to corporate loans during the year ended December 31, 2020 is as follows:

<i>Corporate loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2020	35,590	-	9,924	45,514
New assets originated or purchased	18,365	-	-	18,365
Assets repaid	(27,626)	-	(2,547)	(30,173)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(3,225)	3,225	-	-
Transfers to Stage 3	(3,116)	-	3,116	-
Unwinding of discount	-	-	(66)	(66)
Recoveries	-	-	1,355	1,355
Amounts written off	-	-	(3,852)	(3,852)
<b>At December 31, 2020</b>	<b>19,988</b>	<b>3,225</b>	<b>7,930</b>	<b>31,143</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

<b>Corporate loans</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>ECL as at January 1, 2020</b>	(1,439)	-	(6,209)	(7,648)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>	-	-	-	-
New assets originated or purchased	(886)	-	-	(886)
Assets repaid	978	-	2,309	3,287
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	289	-	(289)	-
Net remeasurement of loss allowance	115	(411)	(1,052)	(1,348)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>	-	-	-	-
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	66	66
Recoveries	-	-	(1,355)	(1,355)
Amounts written off	-	-	3,852	3,852
<b>At December 31, 2020</b>	<b>(943)</b>	<b>(411)</b>	<b>(2,678)</b>	<b>(4,032)</b>

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to government owned entities during the year ended December 31, 2020 is as follows:

<b>Loans to government owned entities</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Gross carrying value as at January 1, 2020</b>	16,323	-	-	16,323
New assets originated or purchased	-	-	-	-
Assets repaid	(10,011)	-	-	(10,011)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2020</b>	<b>6,312</b>	<b>-</b>	<b>-</b>	<b>6,312</b>

<b>Loans to government owned entities</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>ECL as at January 1, 2020</b>	-	-	-	-
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>	-	-	-	-
New assets originated or purchased	-	-	-	-
Assets repaid	-	-	-	-
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>	-	-	-	-
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans individuals-entrepreneurship during the year ended December 31, 2020 is as follows:

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2020	602	-	1,875	2,477
New assets originated or purchased	558	-	-	558
Assets repaid	(312)	(17)	(464)	(793)
Transfers to Stage 1	19	-	(19)	-
Transfers to Stage 2	(506)	506	-	-
Transfers to Stage 3	(88)	-	88	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	46	46
Amounts written off	-	-	(366)	(366)
<b>At December 31, 2020</b>	<b>273</b>	<b>489</b>	<b>1,160</b>	<b>1,922</b>

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2020	(27)	-	(965)	(992)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(111)	-	-	(111)
Assets repaid	14	-	89	103
Transfers to Stage 1	(7)	-	7	-
Transfers to Stage 2	107	(107)	-	-
Transfers to Stage 3	6	-	(6)	-
Net remeasurement of loss allowance	14	(14)	(69)	(69)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	(46)	(46)
Amounts written off	-	-	366	366
<b>At December 31, 2020</b>	<b>(4)</b>	<b>(121)</b>	<b>(624)</b>	<b>(749)</b>

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

<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2019	47,979	199	61	48,239
New assets originated or purchased	15,964	-	-	15,964
Assets repaid	(2,424)	(18)	(11)	(2,453)
Transfers to Stage 1	250	(189)	(61)	-
Transfers to Stage 2	(249)	249	-	-
Transfers to Stage 3	(128)	-	128	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2019</b>	<b>61,392</b>	<b>241</b>	<b>117</b>	<b>61,750</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

<i>Loans to individuals-mortgage</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2019	(225)	(63)	(21)	(309)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(90)	-	-	(90)
Assets repaid	21	5	4	30
Transfers to Stage 1	(84)	63	21	-
Transfers to Stage 2	2	(2)	-	-
Transfers to Stage 3	1	-	(1)	-
Net remeasurement of loss allowance	42	(87)	(44)	(89)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2019</b>	<b>(333)</b>	<b>(84)</b>	<b>(41)</b>	<b>(458)</b>

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

<i>Loans to individuals-consumer</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2019	48,296	568	2,407	51,271
New assets originated or purchased	40,782	-	-	40,782
Assets repaid	(24,662)	(156)	(1,245)	(26,063)
Transfers to Stage 1	235	(195)	(40)	-
Transfers to Stage 2	(372)	372	-	-
Transfers to Stage 3	(1,734)	(231)	1,965	-
Unwinding of discount	-	-	16	16
Recoveries	-	-	646	646
Amounts written off	-	-	(1,620)	(1,620)
<b>At December 31, 2019</b>	<b>62,545</b>	<b>358</b>	<b>2,129</b>	<b>65,032</b>

<i>Loans to individuals-consumer</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2019	(242)	(120)	(1,476)	(1,838)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(438)	-	-	(438)
Assets repaid	186	33	810	1,029
Transfers to Stage 1	(72)	58	14	-
Transfers to Stage 2	2	(2)	-	-
Transfers to Stage 3	205	43	(248)	-
Net remeasurement of loss allowance	55	(101)	(1,394)	(1,440)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(16)	(16)
Recoveries	-	-	(646)	(646)
Amounts written off	-	-	1,620	1,620
<b>At December 31, 2019</b>	<b>(304)</b>	<b>(89)</b>	<b>(1,336)</b>	<b>(1,729)</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

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

<i>Corporate loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2019	33,763	248	14,431	48,442
New assets originated or purchased	25,029	-	-	25,029
Assets repaid	(21,803)	(102)	(2,336)	(24,241)
Transfers to Stage 1	146	(146)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(1,545)	-	1,545	-
Unwinding of discount	-	-	93	93
Recoveries	-	-	-	-
Amounts written off	-	-	(3,809)	(3,809)
<b>At December 31, 2019</b>	<b>35,590</b>	<b>-</b>	<b>9,924</b>	<b>45,514</b>

<i>Corporate loans</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2019	(2,423)	(26)	(9,250)	(11,699)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(1,350)	-	-	(1,350)
Assets repaid	1,449	11	911	2,371
Transfers to Stage 1	(15)	15	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	476	-	(476)	-
Net remeasurement of loss allowance	424	-	(1,110)	(686)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(93)	(93)
Recoveries	-	-	-	-
Amounts written off	-	-	3,809	3,809
<b>At December 31, 2019</b>	<b>(1,439)</b>	<b>-</b>	<b>(6,209)</b>	<b>(7,648)</b>

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

<i>Loans to government owned entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2019	27,818	-	-	27,818
New assets originated or purchased	712	-	-	712
Assets repaid	(12,207)	-	-	(12,207)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Unwinding of discount	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2019</b>	<b>16,323</b>	<b>-</b>	<b>-</b>	<b>16,323</b>

**“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**  
*(Figures in tables are in thousands of Azerbaijani Manats)*

<i>Loans to government owned entities</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2019	(18)	-	-	(18)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	-	-	-	-
Assets repaid	18	-	-	18
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
<b>At December 31, 2019</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at January 1, 2019	1,233	52	4,831	6,116
New assets originated or purchased	399	-	-	399
Assets repaid	(861)	(52)	(1,148)	(2,061)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(169)	-	169	-
Unwinding of discount	-	-	13	13
Recoveries	-	-	22	22
Amounts written off	-	-	(2,012)	(2,012)
<b>At December 31, 2019</b>	<b>602</b>	<b>-</b>	<b>1,875</b>	<b>2,477</b>

<i>Loans to individuals-entrepreneurship</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at January 1, 2019	(62)	(5)	(3,157)	(3,224)
<i>Movements with impact on credit loss allowance (charge)/reversal in profit or loss</i>				
New assets originated or purchased	(20)	-	-	(20)
Assets repaid	42	5	483	530
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	10	-	(10)	-
Net remeasurement of loss allowance	3	-	(258)	(255)
<i>Movements without impact on credit loss allowance (charge)/reversal in profit or loss</i>				
Unwinding of discount (recognized as a reduction in interest income for stage 3 loans)	-	-	(13)	(13)
Recoveries	-	-	(22)	(22)
Amounts written off	-	-	2,012	2,012
<b>At December 31, 2019</b>	<b>(27)</b>	<b>-</b>	<b>(965)</b>	<b>(992)</b>

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

### Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- ▶ For corporate and governmental lending, charges over real estate properties and blocked cash;
- ▶ For retail lending, mortgages over residential properties.

Management monitors the market value of collateral and requests additional collateral in accordance with the underlying agreement during its review of the adequacy of the allowance for loan impairment. As at December 31, 2020, maximum exposure of collateralized loans in Stage 3 amounted to AZN 13,420 thousand (2019: AZN 11,548 thousand) for which ECL of AZN 5,775 thousand (2019: AZN 6,717 thousand) was recognized. If these loans were not collateralized, ECL amount for these loans would be AZN 7,957 thousand (2019: AZN 8,978 thousand).

### Loans issued at below-market interest rate

During 2019 the Bank issued a loan to customer at below-market interest rate in amount of AZN 2,700 thousand which resulted in loss of AZN 601 thousand on initial recognition of the loan. The loan has been financed by deposit placed by the Ministry of Finance of Azerbaijan Republic in the same amount as the loan.

## 8. Investment securities

Investment securities comprises:

	<u>2020</u>	<u>2019</u>
<b>Debt securities at FVOCI</b>		
Notes issued by the CBAR	29,628	33,821
Notes issued by the Ministry of Finance of the Republic of Azerbaijan	24,369	20,341
Corporate bonds	5,476	-
Notes issued by the Azerbaijan Mortgage and Credit Guarantee Fund	-	2,053
	<u>59,473</u>	<u>56,215</u>
Less: allowance for expected credit losses	(54)	-
	<u>59,419</u>	<u>56,215</u>
<b>Equity securities at FVOCI</b>		
Corporate shares	45	45
	<u>45</u>	<u>45</u>
<b>Total investment securities</b>	<u>59,464</u>	<u>56,260</u>

All balances of investment securities are allocated to Stage 1.

As at December 31, 2020, accrued interest income included in investment securities amounted to AZN 327 thousand (December 31, 2019: AZN 551 thousand).



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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**  
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**9. Property and equipment**

The movements in property and equipment were as follows:

	<i>Furniture and fixtures</i>	<i>Computer</i>	<i>Vehicles</i>	<i>Other fixed assets</i>	<i>Leasehold improve- ments</i>	<i>Right of use asset (Note 3)</i>	<i>Total</i>
<b>Cost</b>							
January 1, 2019	3,776	3,497	997	227	3,010	6,243	17,750
Additions	305	499	-	17	-	296	1,117
Disposals	(35)	(14)	-	-	-	-	(49)
<b>December 31, 2019</b>	<b>4,046</b>	<b>3,982</b>	<b>997</b>	<b>244</b>	<b>3,010</b>	<b>6,539</b>	<b>18,818</b>
Additions	629	517	20	41	242	324	1,773
Disposals/derecognition of lease agreement	-	-	-	-	-	(452)	(452)
Lease modifications	-	-	-	-	-	(253)	(253)
<b>December 31, 2020</b>	<b>4,675</b>	<b>4,499</b>	<b>1,017</b>	<b>285</b>	<b>3,252</b>	<b>6,158</b>	<b>19,886</b>
<b>Accumulated depreciation</b>							
January 1, 2019	(2,378)	(1,978)	(747)	(123)	(655)	-	(5,881)
Depreciation charge	(393)	(413)	(170)	(51)	(779)	(2,111)	(3,917)
Disposals	34	11	-	-	-	-	45
<b>December 31, 2019</b>	<b>(2,737)</b>	<b>(2,380)</b>	<b>(917)</b>	<b>(174)</b>	<b>(1,434)</b>	<b>(2,111)</b>	<b>(9,753)</b>
Depreciation charge	(332)	(295)	(81)	(41)	(835)	(2,048)	(3,632)
<b>December 31, 2020</b>	<b>(3,069)</b>	<b>(2,675)</b>	<b>(998)</b>	<b>(215)</b>	<b>(2,269)</b>	<b>(4,159)</b>	<b>(13,385)</b>
<b>Net book value</b>							
December 31, 2019	1,309	1,602	80	70	1,576	4,428	9,065
December 31, 2020	1,606	1,824	19	70	983	1,999	6,501

As at December 31, 2020, property and equipment amounting to AZN 4,965 thousand (2019: AZN 1,126) were fully depreciated.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### 10. Intangible assets

The movements in intangible assets were as follows:

	<i>Licenses</i>	<i>Computer software</i>	<i>Total</i>
<b>Cost</b>			
January 1, 2019	1,088	2,894	3,982
Additions	758	1,928	2,686
December 31, 2019	<u>1,846</u>	<u>4,822</u>	<u>6,668</u>
Additions	842	534	1,376
December 31, 2020	<u>2,688</u>	<u>5,356</u>	<u>8,044</u>
<b>Accumulated amortization</b>			
January 1, 2019	(379)	(527)	(906)
Amortization charge	(195)	(303)	(498)
December 31, 2019	<u>(574)</u>	<u>(830)</u>	<u>(1,404)</u>
Amortization charge	(180)	(558)	(738)
December 31, 2020	<u>(754)</u>	<u>(1,388)</u>	<u>(2,142)</u>
<b>Net book value</b>			
December 31, 2019	<u>1,272</u>	<u>3,992</u>	<u>5,264</u>
December 31, 2020	<u>1,934</u>	<u>3,968</u>	<u>5,902</u>

As at December 31, 2020, intangible assets amounting to AZN 16 thousand (2019: 16 thousand AZN) were fully depreciated.

#### 11. Taxation

The corporate income tax expense comprises:

	<i>2020</i>	<i>2019</i>
Current income tax charge	(400)	(445)
Deferred income tax credit – origination and reversal of temporary differences	208	86
Less: deferred income tax recognised in other comprehensive income	-	(18)
<b>Income tax expense</b>	<u>(192)</u>	<u>(377)</u>

Deferred income tax related to items charged or credited to other comprehensive income during the year is as follows:

	<i>2020</i>	<i>2019</i>
Net losses/(gains) on debt instruments designated at FVOCI	-	18
<b>Income tax credited/(charged) to other comprehensive income</b>	<u>-</u>	<u>18</u>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax charge based on statutory rates with actual is as follows:

	2020	2019
Profit before tax	251	811
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(50)	(162)
Tax effect of non-deductible expenses	(142)	(215)
<b>Income tax charge</b>	<b>(192)</b>	<b>(377)</b>

Deferred income tax assets and liabilities as at December 31 and their movements for the respective years comprise:

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	<i>January 1, 2019</i>	<i>In the statement of profit or loss</i>	<i>In other compre- hensive income</i>	<i>December 31, 2019</i>	<i>In the statement of profit or loss</i>	<i>In other compre- hensive income</i>	<i>December 31, 2020</i>
<b>Tax effect of deductible temporary differences</b>							
Investment securities	37	31	18	86	(5)	-	81
Lease Liability	-	(380)	-	(380)	808	-	428
Other liabilities	463	(158)	-	305	31	-	336
<b>Deferred income tax assets</b>	<b>500</b>	<b>(507)</b>	<b>18</b>	<b>11</b>	<b>834</b>	<b>-</b>	<b>845</b>
<b>Tax effect of taxable temporary differences</b>							
Cash and cash equivalents	(26)	16	-	(10)	10	-	-
Amounts due to banks and government organizations	-	(153)	-	(153)	45	-	(108)
Amounts due from credit institutions	-	-	-	-	(10)	-	(10)
Amount due to customers	(306)	230	-	(76)	(3)	-	(79)
Loan to customers	35	(100)	-	(65)	(12)	-	(77)
Intangible assets	(81)	1	-	(80)	(200)	-	(280)
Property and equipment	(93)	581	-	488	(538)	-	(50)
Other assets	(124)	-	-	(124)	82	-	(42)
<b>Deferred income tax liabilities</b>	<b>(595)</b>	<b>575</b>	<b>-</b>	<b>(20)</b>	<b>(626)</b>	<b>-</b>	<b>(646)</b>
<b>Net deferred income tax assets/(liabilities)</b>	<b>(95)</b>	<b>68</b>	<b>18</b>	<b>(9)</b>	<b>208</b>	<b>-</b>	<b>199</b>

## 12. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended December 31, 2020:

	<i>Note</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>POCI</i>	<i>Total</i>
Loans to customers at amortized cost	7	124	(582)	(210)	310	(358)
Investment securities		(54)	-	-	-	(54)
<b>Credit loss on financial assets</b>		<b>70</b>	<b>(582)</b>	<b>(210)</b>	<b>310</b>	<b>(412)</b>
Financial guarantees	17	(236)	-	-	-	(236)
Letter of credits	17	12	-	-	-	12
<b>Credit related commitments</b>		<b>(224)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(224)</b>
<b>Total credit loss expense</b>		<b>(154)</b>	<b>(582)</b>	<b>(210)</b>	<b>310</b>	<b>(636)</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

The table below shows the ECL charges on financial instruments recorded in the statement of profit or loss for the year ended December 31, 2019:

	Note	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost	7	867	41	(1,298)	(390)
<b>Credit loss on financial assets</b>		<b>867</b>	<b>41</b>	<b>(1,298)</b>	<b>(390)</b>
Financial guarantees	17	915	-	-	915
Letter of credits	17	(8)	-	-	(8)
<b>Credit related commitments</b>		<b>907</b>	<b>-</b>	<b>-</b>	<b>907</b>
<b>Total credit loss expense</b>		<b>1,774</b>	<b>41</b>	<b>(1,298)</b>	<b>517</b>

The reversal of credit loss expense on loans to customers at amortized cost includes AZN 140 thousand of government grant which was repaid by Government of Azerbaijan on behalf of customers in accordance with decree of President of the Republic of Azerbaijan dated February 28, 2019 on “Additional measures to resolve problematic loans of individuals in the Republic of Azerbaijan”.

The movements in other impairment allowances and provisions were as follows:

	Performance guarantees	Irrecoverable tax positions	Total
December 31, 2018	-	-	-
Charge	(46)	(675)	(721)
December 31, 2019	(46)	(675)	(721)
Reversal	46	624	670
December 31, 2020	-	(51)	(51)

Provisions for credit related commitments and performance guarantees are recorded in other liabilities.

### 13. Other assets and liabilities

Other assets comprise:

	2020	2019
<b>Other financial assets</b>		
Settlements on money transfers	3,143	2,456
Settlements on operations with plastic cards	659	830
Settlement on swap operation	67	-
<b>Total other financial assets</b>	<b>3,869</b>	<b>3,286</b>
<b>Other non-financial assets</b>		
Repossessed collaterals	1,678	1,789
Prepayments for acquisition of property, equipment and intangible assets	1,174	501
Deferred expenses	335	340
Settlement with government budget	4	6
<b>Total other non-financial assets</b>	<b>3,191</b>	<b>2,636</b>
<b>Other assets</b>	<b>7,060</b>	<b>5,922</b>

All balances of other assets are allocated to Stage 1. As at December 31, 2020 ECL and December 31, 2019 relating to other assets rounds to zero.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

Other liabilities comprise:

	2020	2019
<b>Other financial liabilities</b>		
Funds in settlement	2,306	284
Other	-	67
<b>Total other financial liabilities</b>	<b>2,306</b>	<b>351</b>
<b>Other non-financial liabilities</b>		
Accrued expenses	544	393
Payable to employees	732	455
Provision for ECL for credit related commitment and other provision (Note 17)	609	431
Deferred income	567	521
Settlements with government budget	-	97
<b>Total other non-financial liabilities</b>	<b>2,452</b>	<b>1,897</b>
<b>Other liabilities</b>	<b>4,758</b>	<b>2,248</b>

The movements in lease liability were as follows:

	2020	2019
<b>As at January 1</b>	<b>4,640</b>	<b>6,243</b>
Additions	324	296
Modifications	(253)	-
Derecognitions	(424)	-
Concessions	(132)	-
Interest expense	357	509
Payments	(2,373)	(2,408)
<b>As at December 31</b>	<b>2,139</b>	<b>4,640</b>

The Bank had total cash outflows for leases of AZN 2,373 thousand in 2020 (2019: AZN 2,408 thousand). The Bank also had non-cash additions to right-of-use assets and lease liabilities of AZN 324 thousand in 2020 (2019: AZN 296 thousand).

#### 14. Amounts due to credit institutions and government organizations

Amounts due to credit institutions and government organizations comprise:

	2020	2019
Amounts due to the Ministry of Finance	14,249	33,060
Amounts due to the Azerbaijan Mortgage and Credit Guarantee Fund	74,046	59,545
Borrowings under repurchase agreements	6,006	-
Current accounts	2,640	2,436
Loans received from the National Fund for Support of Entrepreneurship	3,547	2,248
Amounts due to CBAR	380	380
Blocked accounts	238	48
<b>Amounts due to credit institutions and government organizations</b>	<b>101,106</b>	<b>97,717</b>
Held as security against letters of guarantee (Note 17)	47	48
Held as security against letters of credit (Note 17)	192	-

As at December 31, 2020, the Bank had time deposit placed by the Ministry of Finance in the amount of AZN 6,321 thousand (2019: AZN 16,321 thousand) that matures during 2021 and bears interest rate of monthly LIBOR plus 1.75% p.a. The fund was used for refinancing loan to one related party company.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

In addition, as at December 31, 2020, the Bank had time deposit placed by the Ministry of Finance in the amount of AZN 7,928 thousand (2019: two time deposits in the amount of AZN 9,047 thousand and AZN 7,692 thousand) which matured in 2024. The long-term deposit in amount of AZN 7,928 thousand bears contractual interest rate of 0.5% p.a., and was used for financing of a loan.

On December 20, 2006, the Bank signed a credit agreement with the Azerbaijan Mortgage and Credit Guarantee Fund, for granting long term mortgage loans to individuals. Under this program, funds are made available to the Bank at an interest rate of 1-4% p.a. (2019: 1-4% p.a.) which matures through in 2021-2050 (2019: 2020-2049). The Bank relends these funds to eligible borrowers at rates not higher than 8.0% p.a.

On December 23, 2010, the Bank signed a credit agreement with the National Fund for Support of Entrepreneurship, a program under the Ministry of Economy of the Republic of Azerbaijan, for financing of small and medium sized enterprises. Under this program, funds are made available to the Bank at an interest rate of 1% p.a. (2019: 1% p.a.) which matures through 2021-2024 (2019: 2020-2023). The Bank uses these funds to issue loans to eligible borrowers at rate of 6% p.a.

Long term loans due to Central Bank of the Republic of Azerbaijan are funds provided in accordance with Presidential Decree on additional measures for resolution of the issues relating to non-performing loans of individuals in the Republic of Azerbaijan, which was signed on February 28, 2019. The loan matures on December 31, 2024 and bears contractual interest rate of 0.1% p.a.

As at December 31, 2020, accrued interest expense included in amounts due to credit institutions and government organizations amounted to AZN 446 thousand (December 31, 2019: AZN 253 thousand).

As at December 31, 2020, the Bank entered into repurchase agreements and borrowed funds in the amount of AZN 6,006 thousand (2019: AZN nil). As at December 31, 2020, for the balance of the borrowing amounted to AZN 6,006 thousand (2019: AZN nil) the Bank pledged its debt securities as collateral in National Depository Centre of Azerbaijan.

#### 15. Amounts due to customers

The amounts due to customers include the following:

	<u>2020</u>	<u>2019</u>
Current accounts	134,607	140,550
Time deposits	55,165	47,745
<b>Amounts due to customers</b>	<b><u>189,772</u></b>	<b><u>188,295</u></b>
Held as security against letters of guarantee (Note 17)	561	661
Held as security against loans to customers	2,205	22,955

At December 31, 2020, the Bank had amounts due to 10 (2019: 10) largest customers with aggregate balance of AZN 90,565 or 48% of total amounts due to customers (2019: AZN 86,586 or 46%).  
Customer accounts by economic sectors are as follows:

	<u>2020</u>	<u>2019</u>
Individuals	83,854	74,588
Insurance companies and other non-bank financial institutions	55,226	50,407
Trade and services	24,800	17,616
State and public organizations	9,772	8,891
Construction	4,437	11,245
Transportation and communication	4,246	17,766
Manufacturing	3,537	3,352
Agriculture	1,746	2,319
Other	2,154	2,111
<b>Amounts due to customers</b>	<b><u>189,772</u></b>	<b><u>188,295</u></b>

## **“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)** *(Figures in tables are in thousands of Azerbaijani Manats)*

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As at December 31, 2020, accrued interest expense included in amounts due to customers amounted to AZN 2,531 thousand (December 31, 2019: AZN 1,991 thousand).

#### **16. Equity**

As at December 31, 2020 and 2019, the Bank's share capital is represented by authorized, issued and fully paid up 50,000,000 ordinary shares with nominal amount of 1 (one) Azerbaijani manat per share. Each ordinary share carries one vote.

The share capital of the Bank was contributed by shareholders in Azerbaijani manat and they are entitled to dividends and any capital distribution in Azerbaijani manat.

The Bank does not declared and paid dividends in respect of the year ended December 31, 2020 and 2019. On April 24, 2020 the Management Board of the Central Bank of Azerbaijan Republic approved "Temporary regulatory guidelines for credit institutions in connection to coronavirus (COVID-19) pandemic" based on the Resolution number 16 as part of the Actions Plan on 'Granting a regulatory holiday to credit institutions to allow them to regulate liabilities of pandemic-affected businesses during lockdown' approved by the Cabinet of Ministers with respect to implementation of Item 10.2 of Decree # 1950 of the President of the Republic of Azerbaijan dated March 19, 2020 on 'A number of measures to mitigate the negative impact of Coronavirus (COVID-19) pandemic and consequent sharp fluctuations in global energy and stock markets on the economy of the Republic of Azerbaijan, macroeconomic stability, employment and businesses'. Based on guidelines defined the support package for individuals, pandemic-affected entrepreneurs, modification of the banking sector's regulatory framework, regulatory requirements on classification of entrepreneur loans. Moreover, dividend payments restricted until July 1, 2021.

According to the decision of the General Shareholders' Meeting held on April 29, 2019, the Bank declared dividends in respect of the year ended December 31, 2018, totalling AZN 300 thousand (including 10% withholding tax to be paid on behalf of shareholders) on ordinary shares. The dividends were fully paid during 2019.

#### **Fair value reserve**

This reserve records fair value changes on financial assets at FVOCI.

#### **17. Commitment and contingencies**

##### **Operating environment**

The Bank's operations are conducted in the Republic of Azerbaijan. There were a number of significant changes in the operating and economic environment during the year 2020, which had an impact on the Bank's business activities.

In March 2020 the World Health Organization (WHO) announced that the spread of the COVID-19 virus across the globe was a pandemic. Significant restrictions on travel and movement of individuals and the closure of non-essential businesses have either been imposed in most countries or have happened as a result of the pandemic. This has led to significant declines in GDP in most if not all large economically strong countries in which the Republic of Azerbaijan is in a trade relationship. The global economy was negatively impacted by the coronavirus pandemic (COVID-19) spread in the first half of 2020. Starting from June 2020 many countries including the Republic of Azerbaijan demonstrated improvement in the signs of pandemic and certain restrictions were lifted subsequently.

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

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

Oil prices have decreased significantly due to the substantial reduction in oil consumption in the pandemic environment but demonstrated stable growth during the second quarter of 2020. The government introduced support packages in the form of subsidized lending tools, payments to unemployed individuals and other subsidies to the entrepreneurs during the year to compensate for the economic slowdown caused by the pandemic.

## **“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)**

*(Figures in tables are in thousands of Azerbaijani Manats)*

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On April 24, 2020, the Central Bank of Azerbaijan approved a package of additional measures “Procedure for the Temporary Regulation of Credit Institutions in the Context of the Coronavirus Pandemic”. This procedure is designed to reduce the possible negative impact of the COVID-19 pandemic on the banking sector of the Republic of Azerbaijan and determines the classification of loans and risk groups, capital adequacy ratio and its calculation in banks and non-bank credit organizations operating in the Republic of Azerbaijan. According to the rules, concessions should be considered during the classification of loans and credit restructuring cases that meet the criteria. In addition, the total capital adequacy ratio for banks which are having special importance for the banking system was set at a minimum of 11%, and for other banks at 9% until April 1, 2021. According to the rule, dividend payments based on the results of previous years should be postponed until April 1, 2021, in order to protect the capital position and financial stability of banks. Subsequently, this date was extended to July 1, 2021.

The Bank’s operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and the development of its legal, tax and regulatory frameworks. The future stability of Azerbaijan’s economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, during recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector. GDP in Azerbaijan was USD 42.6 billion during the year 2020, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the Azerbaijan GDP is projected to trend around USD 50 billion in 2021 and USD 51 Billion in 2022, according to our econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2020 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 7.25% - 6.25% with a steady decrease in rates.

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

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

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

In September 2020, the escalation of unresolved conflict in Karabakh region (located in the southwest, which is internationally recognized as part of the Republic of Azerbaijan) resulted in clashes between the Republic of Azerbaijan and Armenian forces in occupied territories. In response, both countries introduced a curfew and military mobilization. Although the military actions mainly occurred in the western part of the Republic of Azerbaijan, some businesses were affected by the curfew which covered all the territories of the Republic of Azerbaijan including the capital Baku, to a certain degree. A complete ceasefire and a cessation of all hostilities in the zone of the Karabakh conflict were achieved on November 10, 2020. The level of macroeconomic effects in which the state involvement in liberated regions is uncertain as of reporting date.

These events and conditions described above created a level of uncertainty and risk that companies have not encountered before. The above-mentioned events had a significant effect on the financial results of the Bank during the year ended December 31, 2020 and in the subsequent period.

#### **Legal**

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



# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) *(Figures in tables are in thousands of Azerbaijani Manats)*

### Taxation

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Bank may be challenged by the relevant authorities. Recent events within the Republic of Azerbaijan suggest that the tax authorities may be taking a more assertive position in their interpretation and application of this legislation and assessments. It is therefore possible that transactions and activities of the Bank that have not been challenged in the past may be challenged at any time in the future. As a result, significant additional taxes, penalties and interest may be assessed by the relevant authorities.

Fiscal periods remain open and subject to review by the tax authorities for a period of three calendar years immediately preceding the year in which the decision to conduct a tax review is taken. The last tax audit covered second quarter of 2015 and third quarter of 2016.

Management's interpretation of the relevant legislation as at December 31, 2020 is appropriate and the Bank's tax, currency and customs positions will be sustained.

### Insurance

The Bank has not currently obtained insurance coverage related to liabilities arising from errors or omissions.

### Compliance with CBAR requirements

CBAR requires banks to maintain certain prudential norms computed based on statutory financial statements. As at December 31, 2020 and 2019, the Bank was in compliance with these norms.

### Financial commitments and contingencies

The Bank provides guarantees and letters of credit to customers with primary purpose of ensuring that funds are available to a customer as required. Guarantees and standby letters of credit represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods, to which they relate, or cash deposits and, therefore, carry less risk than a direct borrowing.

The undrawn loan commitment agreements stipulate the right of the Bank to unilaterally withdraw from the agreement should any conditions unfavourable to the Bank arise, including change of the refinance rate, inflation, exchange rates and others.

As at December 31, the Bank's commitments and contingencies comprised the following:

	<u>2020</u>	<u>2019</u>
<b>Credit related commitments</b>		
Undrawn loan commitments	12,360	14,163
Letters of credit	192	941
Financial guarantees	<u>24,041</u>	<u>33,293</u>
	<u>36,593</u>	<u>48,397</u>
Performance guarantees	<u>4,171</u>	<u>4,485</u>
<b>Commitments and contingencies</b>	<u>40,764</u>	<u>52,882</u>
Provisions for ECL for credit related commitments	(609)	(385)
Provisions for other commitments	-	(46)
Deposits held as security against financial guarantees (Note 14, 15)	(509)	(529)
Deposits held as security against performance guarantees (Note 14, 15)	(52)	(180)
Deposits held as security against letters of credit (Note 14, 15)	(192)	-

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### Financial commitments and contingencies

An analysis of changes in the ECLs during the year ended December 31, 2020 is as follows:

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at January 1, 2020	(373)	-	-	(373)
New exposures	(539)	-	-	(539)
Exposures derecognised or matured (excluding write-offs)	269	-	-	269
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	34	-	-	34
<b>At December 31, 2020</b>	<b>(609)</b>	<b>-</b>	<b>-</b>	<b>(609)</b>

<i>Letters of credit</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at January 1, 2020	(12)	-	-	(12)
New exposures	-	-	-	-
Exposures derecognised or matured (excluding write-offs)	12	-	-	12
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
<b>At December 31, 2020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

As at December 31, 2020 and December 31, 2019 ECL relating to undrawn loan commitments rounds to zero.

An analysis of changes in the ECLs during the year ended December 31, 2019 is as follows:

<i>Financial guarantees</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at January 1, 2019	(1,288)	-	-	(1,288)
New exposures	(304)	-	-	(304)
Exposures derecognised or matured (excluding write-offs)	919	-	-	919
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	300	-	-	300
<b>At December 31, 2019</b>	<b>(373)</b>	<b>-</b>	<b>-</b>	<b>(373)</b>

<i>Letters of credit</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECLs as at January 1, 2019	(4)	-	-	(4)
New exposures	(10)	-	-	(10)
Exposures derecognised or matured (excluding write-offs)	2	-	-	2
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
<b>At December 31, 2019</b>	<b>(12)</b>	<b>-</b>	<b>-</b>	<b>(12)</b>

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### 18. Net fee and commission income

Net fee and commission income comprises:

	2020	2019
Servicing plastic card operations	2,430	2,401
Settlements operations	2,164	2,137
Cash operations	1,181	1,825
Guarantees and letter of credit	844	1,057
Foreign exchange operations	795	774
Other	222	365
<b>Fee and commission income</b>	<b>7,636</b>	<b>8,559</b>
Servicing plastic card operations	(2,869)	(2,960)
Settlements operations	(290)	(530)
Cash operations	(189)	(349)
Guarantees and commitments	(80)	(136)
Other	(279)	(235)
<b>Fee and commission expense</b>	<b>(3,707)</b>	<b>(4,210)</b>
<b>Net fee and commission income</b>	<b>3,929</b>	<b>4,349</b>

#### 19. Other income

As at December 31, 2020, other income of AZN 615 thousand (2019: AZN 1,951 thousand) primarily comprises penalty fees from customers due to early withdrawal of term deposits.

#### 20. Personnel, general and administrative expenses

Personnel expenses comprise:

	2020	2019
Salaries and bonuses	(9,267)	(8,707)
Social security costs	(2,019)	(1,952)
Other employee related expenses	(333)	(386)
<b>Personnel expenses</b>	<b>(11,619)</b>	<b>(11,045)</b>

General and administrative expenses comprise:

	2020	2019 (reclassified)
Operating taxes other than income tax	(462)	(683)
Marketing and advertising	(452)	(513)
Deposit insurance expense	(344)	(433)
Data processing	(526)	(417)
Communication	(518)	(381)
Membership expenses	(110)	(321)
Repair and maintenance of property and equipment	(287)	(312)
Utility expenses	(313)	(309)
Security	(317)	(266)
Office supplies	(271)	(251)
Legal and consultancy	(218)	(230)
Business travel and related expenses	(33)	(143)
Other	(384)	(326)
<b>Total general and administrative expenses</b>	<b>(4,235)</b>	<b>(4,585)</b>

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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### 21. Risk management

#### Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

#### *Risk management structure*

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

#### *Audit Committee*

The Audit Committee has the overall responsibility for the establishment and development of the audit mission and strategy. It is responsible for the fundamental audit issues and monitoring Internal Audit's activities.

#### *Management Board*

The Management Board has the responsibility to monitor the overall risk process within the Bank.

#### *Risk Committee*

The Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

#### *Risk Management*

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

#### *Bank Treasury*

Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

#### *Internal Audit*

Risk management processes throughout the Bank are audited annually by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

#### *Risk measurement and reporting systems*

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Management Board, the Risk Committee, and the head of each business division. The report includes aggregate credit exposure, hold limit exceptions and liquidity ratios. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Management Board and all other relevant employees of the Bank on the utilization of market limits and liquidity, plus any other risk developments.

#### *Risk mitigation*

The Bank actively uses collateral to reduce its credit risks.

#### *Excessive risk concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risks, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

#### **Credit risk**

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

#### *Credit-related commitments risks*

The Bank makes available to its customers guarantees which may require that the Bank make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the statement of financial position, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 7.

#### *Impairment assessment*

The Bank calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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PD	The <i>Probability of Default</i> is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
EAD	The <i>Exposure at Default</i> is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
LGD	The <i>Loss Given Default</i> is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1:	When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
Stage 2:	When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
Stage 3:	Loans considered credit-impaired. The Bank records an allowance for the LTECL.
POCI:	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

#### *Definition of default and cure*

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers amounts due from banks defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- ▶ Default and Credit-impaired assets:
  - ▶ Loans with principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
  - ▶ Loans that have been restructured;
  - ▶ Any loan considered by management as non-performing.
- ▶ Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition.
- ▶ Default on other financial instruments of the same borrower.
- ▶ Default according to external rating.

## **“AZER-TURK BANK” OPEN JOINT STOCK COMPANY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)** *(Figures in tables are in thousands of Azerbaijani Manats)*

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It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

#### *PD estimation process*

The Bank runs separate models for its key portfolios. The models incorporate quantitative information and utilise supplemental external information that could affect the borrower's behaviour. In order to consider the impact of macroeconomic factors on probability of default, sensitivity of probabilities to the macroeconomic factors are calculated by statistical regression method. Where practicable, PDs, incorporate forward looking macroeconomic information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

#### *Treasury and interbank relationships*

The Bank's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank analyses publicly available information such as financial information and other external data, e.g., the external ratings.

#### *Consumer lending and residential mortgages*

Consumer lending comprises secured and unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by days past due.

The probability of default for consumer loans is calculated using migration matrices. For this purpose, simplified migration matrices, which reflect the change from respective month of one year to the same month of the next year are prepared based on the amounts of loans in each matrices. Other key inputs into the models are real GDP growth, AZN/USD rates, and LTV ratios.

#### *Corporate and small business lending*

The same approach and inputs as for consumer lending applies to corporate and small business lending. For corporate loans, migration matrices used in the PD and LGD calculations are determined by the number of loans in each matrices.

#### *Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

#### *Loss given default*

For corporate lending assets, LGD values are assessed at least quarterly by account managers and reviewed and approved by the Bank.

The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type) as well as borrower characteristics.

Where appropriate, further recent data is used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group.

LGD rates are estimated for the Stage 1, Stage 2 and Stage 3 segment of each asset class.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

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#### *Significant increase in credit risk*

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming restructured due to credit event. In certain cases, the Bank may also consider that events explained in “Definition of default” section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

#### *Grouping financial assets measured on a collective basis*

Dependent on the factors below, the Bank calculates ECLs either on a collective or on an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- ▶ The treasury and interbank relationships (such as amounts due from banks, cash equivalents and debt investment securities at amortized cost and FVOCI).

ECL on all other assets calculated on collective basis.

#### *Forward-looking information and multiple economic scenarios*

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP;
- ▶ Non-oil GDP;
- ▶ Real GDP;
- ▶ Non-oil real GDP;
- ▶ Nominal people income;
- ▶ Nominal salaries;
- ▶ Budget income;
- ▶ Budget expenses;
- ▶ Budget deficit;
- ▶ Investments in basic capital;
- ▶ Consumer Price Index;
- ▶ USD/AZN rate;
- ▶ Nominal effective FX rate;
- ▶ Non-oil Nominal effective FX rate;
- ▶ Real effective FX rate;
- ▶ Non-oil Real effective FX rate;
- ▶ Volume of overdue credits in the country;
- ▶ Percentage of overdue loans to total loans.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

#### *Credit quality per class of financial assets*

The Bank classifies its credit related assets as follows:

High grade – counterparties with highly liquid collaterals or strong government support, excellent financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Standard grade – counterparties with stable financial performance, having no changes in the terms and conditions of loan agreements and no overdue in principal and interest.

Sub-standard grade – counterparties with satisfactory financial performance, having changes in the terms and conditions of loan agreements and no overdue in principal and interest.



## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

Impaired – counterparties with unsatisfactory financial performance, having changes in the terms and conditions of loan agreements and overdue in principal and interest.

The credit quality of financial assets is managed by the Bank internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the statement of financial position, based on the Bank's credit rating system.

<i>December 31, 2020</i>	<i>Note</i>		<i>High grade</i>	<i>Standard grade</i>	<i>Sub-standard grade</i>	<i>Impaired</i>	<i>Total</i>
Cash and cash equivalents, except for cash on hand	5	Stage 1	78,675	3,945	-	-	82,620
Amounts due from credit institutions	6	Stage 1	1,640	3,427	-	-	5,067
Loans to customers at amortized cost	7						
- Government related entities		Stage 1	6,312	-	-	-	6,312
- Loans to individuals – consumer loans		Stage 1	9,752	33,919	-	-	43,671
		Stage 2	-	-	1,234	-	1,234
		Stage 3	-	-	-	4,168	4,168
- Corporate loans		Stage 1	3,156	16,832	-	-	19,988
		Stage 2	-	-	3,225	-	3,225
		Stage 3	-	-	-	7,930	7,930
- Loans to individuals – entrepreneurs		Stage 1	-	273	-	-	273
		Stage 2	-	-	489	-	489
		Stage 3	-	-	-	1,160	1,160
- Loans to individuals – mortgage loans		Stage 1	-	79,181	-	-	79,181
		Stage 2	-	-	691	-	691
		Stage 3	-	-	-	437	437
Debt securities at FVOCI	8	Stage 1	59,401	-	-	-	59,401
Other financial assets	13	Stage 1	2,192	1,677	-	-	3,869
Undrawn loan commitments	17	Stage 1	-	12,360	-	-	12,360
Letters of credit	17	Stage 1	-	192	-	-	192
Financial guarantees	17	Stage 1	13,471	10,570	-	-	24,041
<b>Total</b>			<b>174,599</b>	<b>162,376</b>	<b>5,639</b>	<b>13,695</b>	<b>356,309</b>

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

December 31, 2019	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	5	Stage 1	57,138	1,560	-	-	58,698
Amounts due from credit institutions	6	Stage 1	2,081	1,725	-	-	3,806
Loans to customers at amortized cost	7						
- Government related entities		Stage 1	16,323	-	-	-	16,323
- Loans to individuals – consumer loans		Stage 1	14,023	48,522	-	-	62,545
		Stage 2	-	-	358	-	358
		Stage 3	-	-	-	2,129	2,129
- Corporate loans		Stage 1	8,932	26,658	-	-	35,590
		Stage 3	-	-	-	9,924	9,924
- Loans to individuals – entrepreneurs		Stage 1	-	602	-	-	602
		Stage 3	-	-	-	1,875	1,875
- Loans to individuals – mortgage loans		Stage 1	-	61,392	-	-	61,392
		Stage 2	-	-	241	-	241
		Stage 3	-	-	-	117	117
Debt securities at FVOCI	8	Stage 1	56,215	-	-	-	56,215
Other financial assets	13	Stage 1	1,587	1,699	-	-	3,286
Undrawn loan commitments	17	Stage 1	2,599	11,564	-	-	14,163
Letters of credit	17	Stage 1	-	941	-	-	941
Financial guarantees	17	Stage 1	14,000	19,293	-	-	33,293
<b>Total</b>			<b>172,898</b>	<b>173,956</b>	<b>599</b>	<b>14,045</b>	<b>361,498</b>

See Note 7 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, undrawn loan commitments and letters of credit are assessed and a provision for expected credit losses is calculated in similar manner as for loans, see Note 17.

The geographical concentration of Bank's financial assets and liabilities is set out below:

	2020				2019			
	Azerbaijan	OECD	CIS and other foreign countries	Total	Azerbaijan	OECD	CIS and other foreign countries	Total
<b>Assets</b>								
Cash and cash equivalents	82,451	20,521	2,378	105,350	57,380	26,397	1,265	85,042
Amounts due from credit institutions	4,346	721	-	5,067	2,925	881	-	3,806
Investment securities	59,464	-	-	59,464	56,260	-	-	56,260
Loans to customers	160,248	-	-	160,248	180,269	-	-	180,269
Other financial assets	1,581	2,151	137	3,869	1,015	2,222	49	3,286
	<b>308,090</b>	<b>23,393</b>	<b>2,515</b>	<b>333,998</b>	<b>297,849</b>	<b>29,500</b>	<b>1,314</b>	<b>328,663</b>
<b>Liabilities</b>								
Amounts due to credit institutions and government organizations	101,018	8	80	101,106	97,577	8	132	97,717
Amounts due to customers	176,743	3,731	9,298	189,772	182,195	5,025	1,075	188,295
Lease Liabilities	2,139	-	-	2,139	4,640	-	-	4,640
Other financial liabilities	2,239	-	-	2,239	335	-	16	351
	<b>282,139</b>	<b>3,739</b>	<b>9,378</b>	<b>295,256</b>	<b>284,747</b>	<b>5,033</b>	<b>1,223</b>	<b>291,003</b>
<b>Net assets</b>	<b>25,817</b>	<b>19,654</b>	<b>(6,863)</b>	<b>38,608</b>	<b>13,102</b>	<b>24,467</b>	<b>91</b>	<b>37,660</b>

# “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

### Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains obligatory reserves with the CBAR, the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank based on certain liquidity ratios established by the CBAR. The CBAR requires banks to maintain instant liquidity ratio of more than 30%. As at December 31, these ratios were as follows:

	<u>2020, %</u>	<u>2019, %</u>
Instant liquidity ratio (assets receivable or realisable within one day/ liabilities repayable on demand)	83.37	73.7

### Analysis of financial liabilities by remaining contractual maturities

The tables below summarise the maturity profile of the Bank's financial liabilities at December 31, based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. In accordance with Azerbaijani legislation, the Bank is obliged to repay the principal amounts of a term deposit upon demand of the depositor. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

<u>As at December 31, 2020</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>Financial liabilities</b>					
Amounts due to credit institutions and government organizations	9,823	3,918	34,715	68,847	117,303
Amounts due to customers	139,426	25,519	24,317	6,615	195,877
Lease Liabilities	129	1,676	607	-	2,412
Other liabilities	2,306	-	-	-	2,306
<b>Total undiscounted financial liabilities</b>	<u>151,684</u>	<u>31,113</u>	<u>59,639</u>	<u>75,462</u>	<u>317,898</u>

<u>As at December 31, 2019</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<b>Financial liabilities</b>					
Amounts due to credit institutions and government organizations	4,909	13,116	39,174	55,078	112,277
Amounts due to customers	148,341	20,750	16,524	8,381	193,996
Lease Liabilities	618	1,853	2,681	-	5,152
Other liabilities	351	-	-	-	351
<b>Total undiscounted financial liabilities</b>	<u>154,219</u>	<u>35,719</u>	<u>58,379</u>	<u>63,459</u>	<u>311,776</u>

The table below shows the contractual expiry by maturity of the Bank's credit related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee and letters of credit contracts, the maximum amount is allocated to the earliest period in which the contract could be called.

	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
2020	36,593	-	-	-	36,593
2019	48,397	-	-	-	48,397

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

The Bank's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from individuals and entities period less than one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Bank. This level of funding will remain with the Bank for the foreseeable future and that in the event of withdrawal of funds, the Bank would be given sufficient notice so as to realise its liquid assets to enable repayment.

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 three months in the tables above.

#### Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchanges. The Bank classifies exposures to market risk into non-trading portfolios. Non-trading positions are managed and monitored using sensitivity analysis. Except for the concentrations within foreign currency, the Bank has no significant concentration of market risk.

#### 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. As at December 31, 2020 and December 31, 2019, the Bank does not have any significant floating rate non-trading financial instruments.

#### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Management Board has set limits on positions by currency based on the CBAR regulations. Positions are monitored on a daily basis.

The tables below indicate the currencies to which the Bank had significant exposure at December 31, on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the manat, with all other variables held constant on the statement of profit or loss (due to the fair value of currency sensitive non-trading monetary assets and liabilities). The effect on equity does not differ from the effect on the statement of profit or loss. A negative amount in the table reflects a potential net reduction in statement of profit or loss or equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Increase in currency rate in % 2020</i>	<i>Effect on profit before tax 2020</i>	<i>Increase in currency rate in % 2019</i>	<i>Effect on profit before tax 2019</i>
USD	10.00%	(10)	10.00%	994
EUR	10.00%	336	10.00%	74

<i>Currency</i>	<i>Decrease in currency rate in % 2020</i>	<i>Effect on profit before tax 2020</i>	<i>Decrease in currency rate in % 2019</i>	<i>Effect on profit before tax 2019</i>
USD	-3.00%	3	-3.00%	(298)
EUR	-6.00%	(202)	-6.00%	(44)

#### Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### 22. Fair value measurement

##### Fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- ▶ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets measured at fair value</b>					
Investment securities at FVOCI	December 31, 2020	–	59,419	45	59,464
Other financial assets	December 31, 2020	–	–	67	67
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	December 31, 2020	105,350	–	–	105,350
Amounts due from credit institutions	December 31, 2020	–	–	5,067	5,067
Loans to customers	December 31, 2020	–	–	160,248	160,248
Other financial assets	December 31, 2020	–	–	3,802	3,802
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions and government organizations	December 31, 2020	–	79,719	21,387	101,106
Amounts due to customers	December 31, 2020	–	–	189,772	189,772
Other financial liabilities	December 31, 2020	–	–	2,306	2,306

	Date of valuation	Fair value measurement using			Total
		Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets measured at fair value</b>					
Investment securities at FVOCI	December 31, 2019	–	56,215	45	56,260
<b>Assets for which fair values are disclosed</b>					
Cash and cash equivalents	December 31, 2019	85,042	–	–	85,042
Amounts due from credit institutions	December 31, 2019	–	–	3,806	3,806
Loans to customers	December 31, 2019	–	–	180,269	180,269
Other financial assets	December 31, 2019	–	–	3,286	3,286
<b>Liabilities for which fair values are disclosed</b>					
Amounts due to credit institutions and government organizations	December 31, 2019	–	59,716	38,001	97,717
Amounts due to customers	December 31, 2019	–	–	188,295	188,295
Other financial liabilities	December 31, 2019	–	–	351	351

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### *Fair value of financial assets and liabilities not carried at fair value*

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	<i>Carrying value 2020</i>	<i>Fair value 2020</i>	<i>Unrecognised gain/(loss)</i>	<i>Carrying value 2019</i>	<i>Fair value 2019</i>	<i>Unrecognised gain/(loss)</i>
<b>Financial assets</b>						
Cash and cash equivalents	105,350	105,350	-	85,042	85,042	-
Amounts due from credit institutions	5,067	5,067	-	3,806	3,806	-
Loans to customers	160,248	160,248	-	180,269	180,269	-
Other financial assets	3,869	3,869	-	3,286	3,286	-
<b>Financial liabilities</b>						
Amounts due to credit institutions and government organizations	101,106	101,106	-	97,717	97,717	-
Amounts due to customers	189,772	189,772	-	188,295	188,295	-
Other financial liabilities	2,306	2,306	-	351	351	-
			-			-

#### **Valuation techniques and assumptions**

The following describes the methodologies and assumptions used to determine fair values for assets and liabilities recorded at fair value in the financial statements and those items that are not measured at fair value in the statement of financial position, but whose fair value is disclosed.

#### *Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

#### *Loans at fair value through profit or loss*

Loans at fair value through profit or loss are valued using a combination of approaches. Where appropriate, loans are valued with reference to observable prices of debt securities issued by the borrower or by comparable entities. In other cases, valuation is performed using internal models based on present value techniques or, in some circumstances (for example, in respect of cash flow from assets held as collateral), external valuation reports. The non-observable inputs to the models include adjustments for credit, market and liquidity risks associated with the expected cash flows from the borrower's operations or in respect of collateral valuation.

#### *Investment securities*

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

#### *Financial assets and financial liabilities carried at amortized cost*

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to government organizations and credit institutions and other financial assets and liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### 23. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be due or settled. See Note 21 “Risk management” for the Bank’s contractual undiscounted repayment obligations.

	2020			2019		
	Within one year	More than one year	Total	Within one year	More than one year	Total
Cash and cash equivalents	105,350	-	105,350	85,042	-	85,042
Amounts due from credit institutions	5,067	-	5,067	3,806	-	3,806
Investment securities	36,943	22,521	59,464	53,120	3,140	56,260
Loans to customers	64,099	96,149	160,248	76,778	103,491	180,269
Property and equipment	-	6,501	6,501	-	9,065	9,065
Intangible assets	-	5,902	5,902	-	5,264	5,264
Deferred income tax assets	-	199	199	-	-	-
Other assets	7,060	-	7,060	5,922	-	5,922
<b>Total</b>	<b>218,519</b>	<b>131,272</b>	<b>349,791</b>	<b>224,668</b>	<b>120,960</b>	<b>345,628</b>
Amounts due to credit institutions and government organizations	14,418	86,688	101,106	30,962	66,755	97,717
Amounts due to customers	162,970	26,802	189,772	167,824	20,471	188,295
Current Income tax liability	3	-	3	765	-	765
Deferred income tax liability	-	-	-	-	9	9
Lease liabilities	1,625	514	2,139	2,129	2,511	4,640
Other liabilities	4,758	-	4,758	2,181	67	2,248
<b>Total</b>	<b>183,774</b>	<b>114,004</b>	<b>297,778</b>	<b>203,861</b>	<b>89,813</b>	<b>293,674</b>
<b>Net</b>	<b>34,745</b>	<b>17,268</b>	<b>52,013</b>	<b>20,807</b>	<b>31,147</b>	<b>51,954</b>

#### 24. Related party disclosures

In accordance with IAS 24 *Related Party Disclosures*, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Government of the Republic of Azerbaijan, acting through the Shareholders, controls the Bank activities. The Government of the Republic of Azerbaijan directly and indirectly controls and has significant influence over a significant number of entities through its government agencies and other organizations (together referred to as “government institutions”). The Government of the Republic of Azerbaijan does not provide to the general public or entities under its ownership/control a complete list of the entities, which are owned or controlled directly or indirectly by the government. Under these circumstances, the management of the Bank disclosed only information that its current internal management system allows to present in relation to operations with government-controlled entities and where the management believes such entities could be considered as government-controlled based on its best knowledge.

## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued)

(Figures in tables are in thousands of Azerbaijani Manats)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

	2020			2019		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Loans outstanding at January 1, gross	-	16,323	162	-	27,818	231
Loans issued during the year	-	-	30	-	-	-
Loan repayments during the year	-	(10,011)	(128)	-	(11,495)	(69)
Other movements	-	-	-	-	-	-
Loans outstanding at December 31, gross	-	6,312	65	-	16,323	162
Less: allowance for expected credit losses at December 31	-	-	-	-	-	-
Loans outstanding at December 31, net	-	6,312	65	-	16,323	162
Interest income on loans	-	190	14	-	758	16
Credit loss reversal	-	-	-	-	18	-

	2020			2019		
	Shareholders	Entities under common control	Key management personnel	Shareholders	Entities under common control	Key management personnel
Deposits at January 1,	-	-	-	-	76,960	-
Deposits received during the year	-	10,668	-	-	-	-
Deposits repaid during the year	-	-	-	-	(76,960)	-
Deposits at December 31,	-	10,668	-	-	-	-
Current accounts as at December 31 ,	-	54,092	12	-	21,222	10
Cash and cash equivalents	-	61,162	-	-	31,084	-
Due from credit institutions	-	4,346	-	-	1,725	-
Due to credit institutions and government organizations	-	91,903	-	-	96,163	-
Investment securities	-	53,924	-	-	56,215	-
Interest income on due from credit institutions	-	566	-	-	1,746	-
Interest income on investment securities	-	2,099	-	-	2,613	-
Interest expense on customer deposits	-	1,091	-	-	205	-
Interest expense on due to credit institutions and government organizations	-	1,305	-	-	1,669	-
Other operating expenses	-	806	-	-	2,902	-
Operating income	-	1,195	-	-	768	-

Compensation of key management personnel is as follows:

	2020	2019
Salaries and other benefits	446	412
Social security costs	98	91
<b>Total key management personnel compensation</b>	<b>544</b>	<b>503</b>

For the year ended December 31, 2020, key management personnel comprised of three (2019: three) members.



## “AZER-TURK BANK” OPEN JOINT STOCK COMPANY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020 (Continued) (Figures in tables are in thousands of Azerbaijani Manats)

#### 25. Capital adequacy

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored by the CBAR in supervising the Bank.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No change was made in the objectives, policies and processes from the previous years.

As at December 31, 2020 the Bank's regulatory capital after deductions were AZN 50,038 which is in the range of the required minimum of AZN 50,000 set by CBAR.

The government of Azerbaijan Republic stands ready to provide capital injection necessary to ensure Bank's compliance with regulatory requirements of the CBAR and enable it to continue normal operations.

Management believes that the Bank will not face any sanctions against the Bank in the future.

#### CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum Tier 1 and total capital adequacy ratio of 5% (2019: 5%) and 9% (2019: 10%), respectively, of risk-weighted assets for regulatory capital.

As at December 31, 2020 and 2019, the Bank's capital adequacy ratios on this basis were as follows:

	<u>2020</u>	<u>2019</u>
Tier 1 capital	47,940	48,227
Tier 2 capital	2,278	2,452
Less: deductions from capital	(180)	(355)
<b>Total regulatory capital</b>	<b><u>50,038</u></b>	<b><u>50,324</u></b>
<b>Risk weighted assets</b>	<b><u>158,025</u></b>	<b><u>147,970</u></b>
Capital adequacy ratio (Tier 1)	30.34%	32.59%
Capital adequacy ratio (Total Capital)	31.66%	34.01%