“BANK BTB”
OPEN JOINT-STOCK COMPANY

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

“BANK BTB” OPEN JOINT-STOCK COMPANY

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated 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 Group 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 Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Baker Tilly Audit Azerbaijan CJSC trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Baker Tilly Azerbaijan

May 4, 2022
Baku, the Republic of Azerbaijan

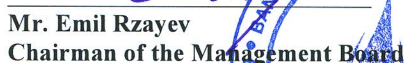
BANK "BTB" OPEN JOINT-STOCK COMPANY

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2021

(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Interest income	4, 30	26,486	24,342
Interest expense	4, 30	(15,631)	(13,626)
Net interest income		**10,855**	**10,716**
Fee and commission income	5	2,336	3,521
Fee and commission expense	6	(617)	(493)
Net fee and commission income		**1,719**	**3,028**
Net gain on trading in foreign currencies		776	376
Net loss on foreign exchange operations		-	(30)
Government grant	20	-	48
Other operating income		1,622	1,486
Operating income		**14,972**	**15,624**
Impairment recovery/(charge)	7	696	(2,923)
Personnel expenses	8	(8,336)	(8,235)
General and administrative expenses	9	(8,156)	(7,720)
Loss before income tax		**(824)**	**(3,254)**
Income tax expense	10	(29)	-
Net loss for the year		**(853)**	**(3,254)**
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		**(853)**	**(3,254)**
Loss per share			
Basic and diluted (expressed in AZN)	24	(12.92)	(49.30)

On behalf of the Management Board:



Mr. Emil Rzayev
Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan

Mr. Vugar Rafiyev
Finance Manager

May 4, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-81 form an integral part of these consolidated financial statements.

"BANK BTB" OPEN JOINT-STOCK COMPANY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

(In thousands of AZN, unless otherwise indicated)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	11	14,386	31,425
Due from banks	12	9,683	10,713
Investment securities			
- Held by the Group	13	192	3,841
- Pledged under sale and repurchase agreements	13	2,256	2,476
Loans to customers	14, 30	260,803	226,372
Investment property	15	12,809	13,006
Property, equipment and intangible assets	16	49,191	50,938
Right-of-use assets	28	706	927
Other financial assets	17	1,767	1,278
Other assets	17	4,988	1,654
Total assets		**356,781**	**342,630**
LIABILITIES			
Deposits and balances from banks	18	160	5,732
Current accounts and deposits from customers	19, 30	145,566	140,193
Other borrowed funds	20	156,180	141,098
Lease liabilities	28	647	907
Debt securities issued	21	-	1,512
Other liabilities	22	3,917	2,024
Total liabilities		**306,470**	**291,466**
EQUITY			
Share capital	23	66,450	66,450
Accumulated deficit		(16,139)	(15,286)
Total equity		**50,311**	**51,164**
Total liabilities and equity		**356,781**	**342,630**

On behalf of the Management Board:

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Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan

Mr. Vugar Rafiyev
Finance Manager

May 4, 2022
Baku, the Republic of Azerbaijan

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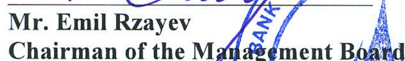
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(In thousands of AZN, unless otherwise indicated)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		27,189	25,617
Interest paid		(14,943)	(13,668)
Fee and commissions received		2,336	3,521
Fee and commissions paid		(617)	(493)
Net receipts from foreign exchange operations		776	376
Personnel expenses paid		(8,313)	(8,321)
General and administrative expenses paid		(6,232)	(4,986)
Other operating income received		1,578	1,474
(Increase)/decrease in operating assets			
Due from banks		1,162	3,321
Loans to customers		(37,403)	(4,456)
Other assets		(1,000)	(75)
Increase/(decrease) in operating liabilities			
Deposits and balances from banks		(5,572)	252
Current accounts and deposits from customers		5,012	(5,558)
Other liabilities		1,883	(11)
Cash flows used in operating activities		**(34,144)**	**(3,007)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises, equipment, investment property and intangible assets		(132)	(929)
Purchases of investment securities		(2,295)	(3,573)
Proceeds from repayment of investment securities		6,049	725
Proceeds from sale of property, equipment and intangible assets		603	-
Cash flows provided from/(used in) investing activities		**4,225**	**(3,777)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of other borrowed funds	20	37,313	37,365
Repayment of other borrowed funds	20	(22,497)	(21,859)
Payment of principal portion of lease liabilities	20	(365)	(392)
Repayment of debt securities	21	(1,500)	(500)
Receipts of debt securities	21	-	2,000
Cash flows provided from financing activities		**12,951**	**16,614**
Net (decrease)/increase in cash and cash equivalents		**(16,968)**	**9,830**
Effect of changes in exchange rates on cash and cash equivalents		(71)	41
CASH AND CASH EQUIVALENTS, as at the beginning of the year	11	31,425	21,554
CASH AND CASH EQUIVALENTS, as at the end of the year	11	14,386	31,425

On behalf of the Management Board:



Mr. Emil Rzayev
Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan

Mr. Vugar Rafiyev
Finance Manager

May 4, 2022
Baku, the Republic of Azerbaijan

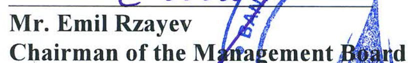
The notes on pages 8-81 form an integral part of these consolidated financial statements.

"BANK BTB" OPEN JOINT-STOCK COMPANY

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

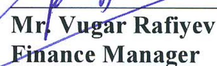
	Share capital	Accumulated deficit	Total equity
Balance as at January 1, 2020	**66,450**	**(12,032)**	**54,418**
Total comprehensive loss for the year	-	(3,254)	(3,254)
Balance as at December 31, 2020	**66,450**	**(15,286)**	**51,164**
Total comprehensive loss for the year	-	(853)	(853)
Balance as at December 31, 2021	**66,450**	**(16,139)**	**50,311**

On behalf of the Management Board:



Mr. Emil Rzayev
Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan



Mr. Vugar Rafiyev
Finance Manager

May 4, 2022
Baku, the Republic of Azerbaijan

The notes on pages 8-81 form an integral part of these consolidated financial statements.

1 BACKGROUND

Organisation and operations

These consolidated financial statements comprise the financial statements of “Bank BTB” Open Joint-Stock Company (the “Bank”) and its subsidiary (together, the “Group”). On February 15, 2018 the Bank established its fully owned subsidiary named “BTB Capital” OJSC.

The Bank has started operations under a full banking license No 254 issued by the Central Bank of the Republic of Azerbaijan (the “CBAR”) on March 19, 2010. The Bank’s activities are regulated by the CBAR. The Bank’s primary business consists of banking services: payments and money transfers, trading with foreign currencies, originating loans and other commercial activities. The Bank’s registered office is 27 Yusif Safarov Street, Baku, the Republic of Azerbaijan.

As at December 31, 2021 the Bank had 10 branches (2020: 13) and 2 divisions (2020: 2). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

The principal subsidiary is as follows:

Name	Country of incorporation	Principal activities	Ownership % 2021	Ownership % 2020
“BTB Capital” OJSC	Azerbaijan	Investment	100	100

The Bank is owned by :

	December 31, 2021, %	December 31, 2020, %
Shareholders		
Ms. Nigar Mehdiyeva	74.99	74.99
Mr. Rza Sadig	19.01	19.01
Ms. Tukazban Mahmudova	6.00	6.00
Total	**100.00**	**100.00**

The Group is ultimately controlled by a single individual, Ms. Nigar Mehdiyeva.

Business environment

The Group’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 2021, which had an impact on the Group’s business activities.

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

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

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

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

The Group's operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of 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 the 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 its dependence on the oil and gas sector.

GDP in Azerbaijan was USD 54.62 billion during the year 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, GDP in Azerbaijan is projected to trend around USD 54.73 billion in 2022 and USD 55.98 billion in 2023, 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 2021 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 6.25% - 7.25% with a steady increase in rates.

The Group'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 Group'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 a "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 Group’s operations and consequently what effect, if any, they could have on the financial position of the Group. The management is currently performing sensitivity analyses under different oil price scenarios and elaborating relevant action plans for maintaining the sustainability of the business.

2 BASIS OF PREPARATION

Statement of compliance

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

Basis of measurement

The consolidated financial statements are prepared on a historical cost basis.

Going concern

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

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

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

Functional and presentation currency

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

As at December 31, 2021, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000 and EUR 1 = AZN 1.9265 (December 31, 2020: USD 1 = AZN 1.7000 and EUR 1 = AZN 2.0890).

The AZN is also the presentation currency for the purposes of these consolidated financial statements.

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

Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgement, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding – Note 3.
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 25.

Assumptions and estimations uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2021 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including the incorporation of forward-looking information – Note 25.
- estimates of fair values of financial assets and liabilities – Note 31.

3 SIGNIFICANT ACCOUNTING POLICIES

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

Foreign currency

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

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

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on retranslation of investment securities at FVOCI.

Interest

Effective interest rate

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

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

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

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

Amortized cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired, see Note 3.

Presentation

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

- interest on financial assets measured at amortized cost.

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

- financial liabilities measured at amortized cost;
- interest expense on lease liabilities.

Fees and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate (see Note 3(b)).

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBAR and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of short-term commitments. Cash and cash equivalents are carried at amortized cost in the consolidated statement of financial position.

Mandatory cash balance held with the CBAR

Mandatory cash balances with the CBAR are carried at amortized cost and represent non-interest-bearing mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Financial assets and financial liabilities

Classification

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

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

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

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

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

For debt financial assets measured at FVOCI, gains and losses are recognized in other comprehensive income, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest income using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

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

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

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

All other financial assets are classified as measured at FVTPL.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassification

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

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL.

Financial liabilities (including deposits by financial institutions and customers, term borrowings and other financial liabilities) are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

Derecognition

Financial assets

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

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

Any cumulative gain/loss recognized in other comprehensive income in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities, as explained in Note 3. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognized on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

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

Financial liabilities

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

Modification of financial assets and financial liabilities

Financial assets

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

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

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

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

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

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

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

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

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

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

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

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

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

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

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

Impairment

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

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

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 25).

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

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

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized are referred to as 'Stage 2' financial instruments.

Financial instruments for which lifetime ECL are recognized and that are credit-impaired are referred to as 'Stage 3' financial instruments.

Measurement of ECL

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

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

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- Undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment.

See also Note 25.

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 25).

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

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

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

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL is incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognized as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

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

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

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

Write-offs

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

Recoveries of amounts previously written off are included in 'impairment losses on charge/recovery' in the consolidated statement of profit or loss and other comprehensive income.

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

Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Offsetting

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

Loans to customers

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

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

Investment securities

The 'investment securities' caption in the consolidated statement of financial position includes: debt investment securities measured at amortized cost (see Note 3); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortized cost using the effective interest method.

Deposits, debt securities issued and other borrowed funds

Deposits, debt securities issued and other borrowed funds initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Property and equipment

Owned assets

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

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

Depreciation

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. Depreciation commences on the date of ready for use.

The estimated useful lives are as follows:

	Residual value, % of historical cost	**Rates used in the years ended December 31, 2021 and 2020**
- buildings	30%	50 years
- furniture and equipment	-	8 years
- computers	-	4 years
- vehicles	-	8 years

Intangible assets

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

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

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

Assets held for sale

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

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and impairment losses (if any).

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognized.

When the use of property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Depreciation

Depreciation is recognized so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. Depreciation commences on the date of ready for use.

The estimated useful lives are as follows:

	Residual value, % of historical cost	Rates used in the years ended December 31, 2021 and 2020
- buildings	30%	50 years

Provisions

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Financial guarantees and loan commitments

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

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

- at the higher of the loss allowance determined in accordance with IFRS 9 (see Note 3) and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

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

For other loan commitments:

- the Group recognises a loss allowance (see Note 3).

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

Lease

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

Group as a lessee

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

Right-of-use assets

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

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

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

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

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

Share capital

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

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

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

Taxation

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

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

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

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

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

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

Adoption of new and revised standards and interpretations

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

IASB has published **"Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)"** as a first reaction to the potential effects the IBOR reform could have on financial reporting. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group 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, 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 published **"COVID-19-Related Rent Concessions (Amendment to IFRS 16)"** amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

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

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

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

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

New standards and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, other than the Standards and Interpretations adopted by the Group 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 – **(Amendments to IAS 1)** – In January 2020 the IASB has issued "Classification of Liabilities as Current or Non-Current" providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items.
The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and are to be applied retrospectively. Earlier application is permitted.

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

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

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

IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Subsidiary as a first-time adopter. As part of its 2018-2020 annual improvements to the 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 the 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 the 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 consolidated financial statements of the Group.

4 NET INTEREST INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Interest income		
Loans to customers	25,042	23,326
Due from banks	1,052	538
Investment securities	325	379
Cash and cash equivalents	67	99
Total interest income	**26,486**	**24,342**
Interest expense		
Current accounts and deposits from customers	(11,629)	(9,039)
Other borrowed funds	(3,899)	(3,754)
Lease liabilities	(79)	(104)
Deposits and balances from banks	(16)	(594)
Debt securied issued	(8)	(135)
Total interest expense	**(15,631)**	**(13,626)**
Net interest income	**10,855**	**10,716**

5 FEE AND COMMISSION INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Settlements	1,051	1,297
Plastic card operations	777	892
Cash withdrawal	342	486
Guarantees	104	788
Others	62	58
Total fee and commission income	**2,336**	**3,521**

Performance obligations and revenue recognition policies

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over service to a customer. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

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

6 FEE AND COMMISSION EXPENSE

	Year ended December 31, 2021	Year ended December 31, 2020
Cash withdrawal	(359)	(231)
Settlements	(171)	(235)
Others	(87)	(27)
Total fee and commission expense	**(617)**	**(493)**

7 IMPAIRMENT RECOVERY/(CHARGE)

	Year ended December 31, 2021	Year ended December 31, 2020
Recovery/(charge) of expected credit losses on loans to customers	1,093	(2,255)
Recovery/(charge) of expected credit losses on due from banks	128	(88)
Charge of expected credit losses on financial guarantee contracts	(80)	(210)
Charge of impairment on other assets	(445)	(370)
Total impairment recovery/(charge), net	**696**	**(2,923)**

8 PERSONNEL EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Employee compensation	(7,066)	(7,062)
Payments to Social Security Fund	(1,270)	(1,173)
Total personnel expenses	**(8,336)**	**(8,235)**

9 GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31, 2021	Year ended December 31, 2020
Depreciation and amortization	(1,573)	(1,672)
Professional service fees	(1,541)	(1,124)
Expenses related to cheques and other valuables	(880)	(1,268)
Fees paid to Deposit Insurance Fund	(724)	(396)
Advertising expenses	(530)	(347)
Utility expenses	(472)	(241)
Taxes other than income tax	(417)	(333)
Communication expense	(399)	(375)
Repairs and maintenance	(363)	(300)
Security expenses	(330)	(394)
Depreciation of RoU	(318)	(350)
Rent expenses	(160)	(313)
Corporate social responsibility	(122)	(219)
Membership fees	(92)	(126)
Printing expenses	(27)	(29)
Others	(208)	(233)
Total general administrative expenses	**(8,156)**	**(7,720)**

10 INCOME TAX EXPENSE

	December 31, 2021	December 31, 2020
Current year tax expense	(29)	-
Movement in deferred income tax assets and liabilities due to origination and reversal of temporary differences	132	567
Recognition of previously unrecognized deferred income tax assets	(132)	(567)
Total income tax expense	**(29)**	**-**

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

Reconciliation of effective tax rate for the year ended December 31:

	Year ended December 31, 2021	%	Year ended December 31, 2020	%
Loss before income tax	(824)		(3,254)	
Income tax at the applicable tax rate	165	20.0	651	20.0
Change in unrecognized deferred income tax assets	(132)		(567)	
Non-deductable costs	(62)		(84)	
Total income tax expense	**(29)**		**-**	

Deferred income tax assets and liabilities

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to net deferred tax assets as at December 31, 2021 and 2020. These deferred tax assets are not recognized in these consolidated financial statements for the years ended December 31, 2021 and 2020. Future tax benefits will only be realized if profits will be available against which unused tax losses can be utilized and there are no changes to the law and regulations that adversely affect the Group’s ability to claim deductions in future periods. These future tax benefits are not recognized due to uncertainties concerning their realisation. The Group recognises income tax expense for the year ended December 31, 2021 in the amount of AZN 29 thousand (2020: nil).

The deductible temporary differences do not expire under current tax legislation.

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

	January 1, 2021	Recognized in profit or loss	December 31, 2021
Tax loss carried forward	5,867	152	6,019
Loans to customers	(184)	(103)	(287)
Other liabilities	98	26	124
Other financial assets	44	-	44
Right-of-use assets	100	64	164
Due from banks	44	(26)	18
Intangible assets	8	-	8
Lease liability	(104)	(72)	(176)
Due to banks	(1)	-	(1)
Other assets	(157)	(81)	(238)
Property and equipment	(2,181)	127	(2,054)
Other borrowed funds	(135)	45	(90)
Unrecognized deferred income tax assets	(3,399)	(132)	(3,531)
	-	-	-

	January 1, 2020	Recognized in profit or loss	December 31, 2020
Tax loss carried forward	4,175	1,692	5,867
Loans to customers	1,041	(1,225)	(184)
Other liabilities	27	71	98
Other financial assets	44	-	44
Right-of-use assets	30	70	100
Lease liability	-	(104)	(104)
Due from banks	20	24	44
Due to banks	-	(1)	(1)
Intangible assets	8	-	8
Other assets	(60)	(97)	(157)
Property and equipment	(2,283)	102	(2,181)
Other borrowed funds	(170)	35	(135)
Unrecognized deferred income tax assets	(2,832)	(567)	(3,399)
	-	-	-

11 CASH AND CASH EQUIVALENTS

	December 31, 2021	December 31, 2020
Cash on hand	**7,501**	**10,111**
Nostro accounts with the CBAR	**4,934**	**11,448**
Government notes with original maturity up to 90 days	**1,284**	**9,000**
Nostro accounts with other banks		
- rated from A- to A+	10	534
- rated from BBB- to BBB+	-	21
- rated from BB- to BB+	128	16
- rated from B- to B+	347	290
- rated from CCC- to CCC+	-	-
- not rated	182	5
Total nostro accounts with other banks	**667**	**866**
Total cash and cash equivalents	**14,386**	**31,425**

Cash and cash equivalents are neither credit-impaired nor past due. The Group presented the nostro accounts with other banks by the lowest Fitch rating equivalents from the available ratings of Moody’s, S&P and Fitch.

As at December 31, 2021 the Group had 1 bank (2020: 1) whose balance exceeded 10% of equity.

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

12 DUE FROM BANKS

	December 31, 2021	December 31, 2020
Mandatory reserve with the CBAR	**829**	**799**
Loans, deposits and other balances with other banks		
- rated from A- to A+	-	146
- rated from BBB- to BBB+	291	51
- rated from BB- to BB+	294	-
- rated from B- to B+	8,357	9,942
- not rated	18	9
Total loans and deposits with other banks	**8,960**	**10,148**
Less: allowance for expected credit losses	(106)	(234)
Net due from banks	**9,683**	**10,713**

The Group presented the loans and deposits with other banks by the lowest Fitch rating equivalents from the available ratings of Moody’s, S&P and Fitch.

As at December 31, 2021, accrued interest income included in due from banks amounted to AZN 7 thousand (2020: AZN 3 thousand).

Analysis of movements in the expected credit losses:

	2021		2020	
	Stage 1	Total	Stage 1	Total
Balance at January 1	234	234	146	146
(Recovery)/charge of expected credit loss	(128)	(128)	88	88
Balance at December 31	**106**	**106**	**234**	**234**

Concentration of due from banks

As at December 31, 2021 the Group had 1 counterparty bank (2020: 1), whose total balances exceeded 10% of the Group’s equity. The gross value of these balances as at December 31, 2021 is AZN 8,134 thousand (2020: AZN 9,733 thousand).

Mandatory reserve with the CBAR

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

13 INVESTMENT SECURITIES

	December 31, 2021	December 31, 2020
Investment securities measured at amortized cost	2,448	6,317
Total investment securities	**2,448**	**6,317**

All investment securities balances are in Stage 1 and their ECL is not material as for December 31, 2021 and 2020.

Investment securities measured at amortized cost

	December 31, 2021	December 31, 2020
Corporate bonds		
- rated from BB- to BB+	2,448	6,317
Total investment securities	**2,448**	**6,317**

The Group presented the investment securities by the lowest Fitch rating equivalents from the available ratings of Moody's, S&P and Fitch.

As at December 31, 2021, accrued interest income included in investment securities amounted to AZN 16 thousand (December 31, 2020: AZN 122 thousand).

14 LOANS TO CUSTOMERS

	December 31, 2021	% of total gross loans	December 31, 2020	% of total gross loans
Loans to corporate customers				
Loans to corporate customers	51,758	19%	57,178	24%
Total loans to corporate customers	**51,758**		**57,178**	
Loans to retail customers				
Mortgage loans	174,248	64%	160,192	67%
Entrepreneurs	29,975	11%	14,988	6%
Consumer loans	16,961	6%	6,447	3%
Credit cards	157	0%	691	0%
Auto loans	64	0%	39	0%
Total loans to retail customers	**221,405**		**182,357**	
Gross loans to customers	**273,163**		**239,535**	
Less: allowance for expected credit losses	(12,360)		(13,163)	
Net loans to customers	**260,803**		**226,372**	

As at December 31, 2021, accrued interest income included in loans to customers amounted to AZN 3,694 thousand (December 31, 2020: AZN 3,330 thousand).

Allowance for expected credit loss

The following tables show reconciliations from the opening to the closing balances of the allowance for expected credit loss of loans to customers:

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost*								
Balance at January 1	2,308	550	10,305	13,163	2,860	443	11,984	15,287
Transfer to Stage 1	225	-	(225)	-	-	-	-	-
Transfer to Stage 2	(176)	176	-	-	(517)	517	-	-
Transfer to Stage 3	(1,586)	(74)	1,660	-	(2,918)	(1,431)	4,349	-
Net remeasurement of loss allowance	547	(475)	(5,526)	(5,454)	1,237	989	(3,118)	(892)
New financial assets originated or purchased	1,413	19	2,929	4,361	1,646	32	1,469	3,147
Write-offs	-	-	(53)	(53)	-	-	(6,494)	(6,494)
Unwinding of discount on present value of ECLs	-	-	343	343	-	-	2,115	2,115
Balance at December 31	**2,731**	**196**	**9,433**	**12,360**	**2,308**	**550**	**10,305**	**13,163**

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortized cost-corporate loans*								
Balance at January 1	1,661	6	2,421	4,088	1,307	236	832	2,375
Transfer to Stage 1	221	-	(221)	-	-	-	-	-
Transfer to Stage 2	(173)	173	-	-	(6)	6	-	-
Transfer to Stage 3	(603)	(6)	609	-	(463)	(1,190)	1,653	-
Net remeasurement of loss allowance	169	-	(2,290)	(2,121)	(335)	954	2,660	3,279
New financial assets originated or purchased	1,053	-	2,340	3,393	1,158	-	150	1,308
Write-offs	-	-	-	-	-	-	(3,290)	(3,290)
Unwinding of discount on present value of ECLs	-	-	196	196	-	-	416	416
Balance at December 31	**2,328**	**173**	**3,055**	**5,556**	**1,661**	**6**	**2,421**	**4,088**

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-mortgage loans*								
Balance at January 1	14	4	4,267	4,285	617	178	2,802	3,597
Transfer to Stage 1	-	-	-	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	-	-	-	-
Transfer to Stage 3	(623)	(45)	668	-	(1,787)	(221)	2,008	-
Net remeasurement of loss allowance	610	41	(1,420)	(769)	1,176	43	(2,729)	(1,510)
New financial assets originated or purchased	9	-	360	369	8	4	970	982
Write-offs	-	-	-	-	-	-	(50)	(50)
Unwinding of discount on present value of ECLs	-	-	137	137	-	-	1,266	1,266
Balance at December 31	**10**	**-**	**4,012**	**4,022**	**14**	**4**	**4,267**	**4,285**

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-entrepreneurs*								
Balance at January 1	477	524	2,837	3,838	849	11	5,821	6,681
Transfer to Stage 1	2	-	(2)	-	-	-	-	-
Transfer to Stage 2	-	-	-	-	(502)	502	-	-
Transfer to Stage 3	(254)	(9)	263	-	(513)	(2)	515	-
Net remeasurement of loss allowance	(197)	(514)	(1,581)	(2,292)	271	(8)	(2,109)	(1,846)
New financial assets originated or purchased	216	2	98	316	372	21	187	580
Write-offs	-	-	-	-	-	-	(1,924)	(1,924)
Unwinding of discount on present value of ECLs	-	-	7	7	-	-	347	347
Balance at December 31	**244**	**3**	**1,622**	**1,869**	**477**	**524**	**2,837**	**3,838**

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-consumer loans*								
Balance at January 1	156	16	750	922	86	18	1,543	1,647
Transfer to Stage 1	2	-	(2)	-	-	-	-	-
Transfer to Stage 2	(3)	3	-	-	(9)	9	-	-
Transfer to Stage 3	(106)	(14)	120	-	(154)	(18)	172	-
Net remeasurement of loss allowance	(35)	(2)	(232)	(269)	125	-	(713)	(588)
New financial assets originated or purchased	134	17	131	282	108	7	162	277
Write-offs	-	-	(53)	(53)	-	-	(499)	(499)
Unwinding of discount on present value of ECLs	-	-	3	3	-	-	85	85
Balance at December 31	**148**	**20**	**717**	**885**	**156**	**16**	**750**	**922**

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-auto loans*								
Balance at January 1	-	-	24	24	1	-	745	746
Net remeasurement of loss allowance	-	-	-	-	(1)	-	(152)	(153)
New financial assets originated or purchased	1	-	-	1				
Write-offs	-	-	-	-	-	-	(569)	(569)
Unwinding of discount on present value of ECLs	-	-	-	-	-	-	-	-
Balance at December 31	**1**	**-**	**24**	**25**	**-**	**-**	**24**	**24**

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost-credit cards*								
Balance at January 1	-	-	6	6	-	-	241	241
Transfer to Stage 3	-	-	-	-	(1)	-	1	-
Net remeasurement of loss allowance	-	-	(3)	(3)	1	-	(75)	(74)
Write-offs	-	-	-	-	-	-	(162)	(162)
Unwinding of discount on present value of ECLs	-	-	-	-	-	-	1	1
Balance at December 31	**-**	**-**	**3**	**3**	**-**	**-**	**6**	**6**

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

Significant changes in the gross carrying amount of financial instruments during the period that contributed to changes in loss allowance were as follows:

The following table sets out information about the credit quality of loans to customers measured at amortized cost as at December 31, 2021 and 2020. Unless specially indicated, the amounts in the table represent gross carrying amounts. Explanation of the terms: Stage 1, Stage 2 and Stage 3 are included in Note 3.

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Corporate customers				
Not overdue	31,096	-	753	31,849
Overdue less than 30 days	9,861	-	3,361	13,222
Overdue 30-89 days	-	680	29	709
Overdue 90-179 days	-	-	1,748	1,748
Overdue 180-360 days	-	-	957	957
Overdue more than 360 days	-	-	3,273	3,273
Total	**40,957**	**680**	**10,121**	**51,758**
Less: allowance for expected credit losses	(2,328)	(173)	(3,055)	(5,556)
Carrying amount	**38,629**	**507**	**7,066**	**46,202**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Corporate customers				
Not overdue	36,401	-	1,323	37,724
Overdue less than 30 days	14,742	-	789	15,531
Overdue 30-89 days	-	33	290	323
Overdue 90-179 days	-	-	453	453
Overdue 180-360 days	-	-	311	311
Overdue more than 360 days	-	-	2,836	2,836
Total	**51,143**	**33**	**6,002**	**57,178**
Less: allowance for expected credit losses	(1,661)	(6)	(2,421)	(4,088)
Carrying amount	**49,482**	**27**	**3,581**	**53,090**

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Mortgage loans				
Not overdue	151,784	667	3,278	155,729
Overdue less than 30 days	5,007	111	1,853	6,971
Overdue 30-89 days	-	728	349	1,077
Overdue 90-179 days	-	-	649	649
Overdue 180-360 days	-	-	2,807	2,807
Overdue more than 360 days	-	-	7,015	7,015
Total	**156,791**	**1,506**	**15,951**	**174,248**
Less: allowance for expected credit losses	(10)	-	(4,012)	(4,022)
Carrying amount	**156,781**	**1,506**	**11,939**	**170,226**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Mortgage loans				
Not overdue	127,432	2,701	6,271	136,404
Overdue less than 30 days	6,000	468	2,886	9,354
Overdue 30-89 days	-	1,111	1,112	2,223
Overdue 90-179 days	-	-	5,066	5,066
Overdue 180-360 days	-	-	4,825	4,825
Overdue more than 360 days	-	-	2,320	2,320
Total	**133,432**	**4,280**	**22,480**	**160,192**
Less: allowance for expected credit losses	(14)	(4)	(4,267)	(4,285)
Carrying amount	**133,418**	**4,276**	**18,213**	**155,907**

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Entrepreneurs				
Not overdue	25,773	27	241	26,041
Overdue less than 30 days	798	-	114	912
Overdue 30-89 days	-	16	343	359
Overdue 90-179 days	-	8	36	44
Overdue 180-360 days	-	-	228	228
Overdue more than 360 days	-	-	2,391	2,391
Total	**26,571**	**51**	**3,353**	**29,975**
Less: allowance for expected credit losses	(244)	(3)	(1,622)	(1,869)
Carrying amount	**26,327**	**48**	**1,731**	**28,106**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Entrepreneurs				
Not overdue	7,541	1,306	429	9,276
Overdue less than 30 days	1,093	-	171	1,264
Overdue 30-89 days	-	143	18	161
Overdue 90-179 days	-	-	467	467
Overdue 180-360 days	-	-	1,091	1,091
Overdue more than 360 days	-	-	2,729	2,729
Total	**8,634**	**1,449**	**4,905**	**14,988**
Less: allowance for expected credit losses	(477)	(524)	(2,837)	(3,838)
Carrying amount	**8,157**	**925**	**2,068**	**11,150**

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Consumer loans				
Not overdue	15,218	2	57	15,277
Overdue less than 30 days	472	388	46	906
Overdue 30-89 days	-	41	15	56
Overdue 90-179 days	-	-	70	70
Overdue 180-360 days	-	-	207	207
Overdue more than 360 days	-	-	445	445
Total	**15,690**	**431**	**840**	**16,961**
Less: allowance for expected credit losses	(148)	(20)	(717)	(885)
Carrying amount	**15,542**	**411**	**123**	**16,076**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Consumer loans				
Not overdue	5,123	46	93	5,262
Overdue less than 30 days	345	-	92	437
Overdue 30-89 days	-	43	44	87
Overdue 90-179 days	-	-	104	104
Overdue 180-360 days	-	-	125	125
Overdue more than 360 days	-	-	432	432
Total	**5,468**	**89**	**890**	**6,447**
Less: allowance for expected credit losses	(156)	(16)	(750)	(922)
Carrying amount	**5,312**	**73**	**140**	**5,525**

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Credit cards				
Not overdue	147	-	1	148
Overdue less than 30 days	6	-	-	6
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	3	3
Total	**153**	**-**	**4**	**157**
Less: allowance for expected credit losses	-	-	(3)	(3)
Carrying amount	**153**	**-**	**1**	**154**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Credit cards				
Not overdue	631	-	1	632
Overdue less than 30 days	54	-	-	54
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	5	5
Total	**685**	**-**	**6**	**691**
Less: allowance for expected credit losses	-	-	(6)	(6)
Carrying amount	**685**	**-**	**-**	**685**

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Auto loans				
Not overdue	40	**-**	**-**	**40**
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	24	24
Total	**40**	**-**	**24**	**64**
Less: allowance for expected credit losses	(1)	-	(24)	(25)
Carrying amount	**39**	**-**	**-**	**39**

	December 31, 2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortized cost – Auto loans				
Not overdue	15	-	-	15
Overdue less than 30 days	-	-	-	-
Overdue 30-89 days	-	-	-	-
Overdue 90-179 days	-	-	-	-
Overdue 180-360 days	-	-	-	-
Overdue more than 360 days	-	-	24	24
Total	**15**	**-**	**24**	**39**
Less: allowance for expected credit losses	-	-	(24)	(24)
Carrying amount	**15**	**-**	**-**	**15**

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

				Fair value of collateral held				
	Gross carrying amount	Allowance for expected credit losses	Carrying amount	Cash and deposits	Real estate	Precious metal	Motor vehicles	Total
Loans to corporate customers								
Loans to corporate customers	10,121	(3,055)	7,066	-	35,384	-	101	35,485
Loans to retail customers								
Mortgage loans	15,951	(4,012)	11,939	-	40,614	-	-	40,614
Entrepreneurs	3,353	(1,622)	1,731	-	3,782	19	-	3,801
Consumer loans	840	(717)	123	31	-	12	-	43
Auto loans	24	(24)	-	-	-	-	1,050	1,050
Credit cards	4	(3)	1	-	-	-	-	-
Total credit-impaired loans to customers	**30,293**	**(9,433)**	**20,860**	**31**	**79,780**	**31**	**1,151**	**80,993**

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

				Fair value of collateral held				
	Gross carrying amount	Allowance for expected credit losses	Carrying amount	Cash and deposits	Real estate	Precious metal	Motor vehicles	Total
Loans to corporate customers								
Loans to corporate customers	6,002	(2,421)	3,581	-	23,470	-	137	23,607
Loans to retail customers								
Mortgage loans	22,480	(4,267)	18,213	-	57,807	-	199	58,006
Entrepreneurs	4,905	(2,837)	2,068	-	6,392	17	66	6,475
Consumer loans	890	(750)	140	-	675	81	-	756
Auto loans	24	(24)	-	-	-	-	30	30
Credit cards	6	(6)	-	-	-	-	-	-
Total credit-impaired loans to customers	**34,307**	**(10,305)**	**24,002**	**-**	**88,344**	**98**	**432**	**88,874**

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at December 31, 2021:

				Fair value of collateral held					
	Gross carrying amount	Loss allowance	Carrying amount	Cash and deposits	Real estate	Precious metals	Equip-ment	Motor Vehicle	Total
Loans to corporate customers									
Loans to corporate customers	51,758	(5,556)	46,202	1,920	88,134	3,287	-	904	94,245
Loans to retail customers									
Mortgage loans	174,248	(4,022)	170,226	-	348,113	-	-	-	348,113
Entrepreneurs	29,975	(1,869)	28,106	-	51,737	368	-	1,184	53,289
Consumer loans	16,961	(885)	16,076	5,214	451	7,131	-	62	12,858
Auto loans	64	(25)	39	-	-	-	-	1,166	1,166
Credit cards	157	(3)	154	249	-	-	-	-	249
Total loans to customers	**273,163**	**(12,360)**	**260,803**	**7,383**	**488,435**	**10,786**	**-**	**3,316**	**509,920**

The following table provides information on total amount of loans to customers, net of impairment, by types of collateral as at December 31, 2020:

				Fair value of collateral held					
	Gross carrying amount	Loss allowance	Carrying amount	Cash and deposits	Real estate	Precious metals	Equip-ment	Motor Vehicles	Total
Loans to corporate customers									
Loans to corporate customers	57,178	(4,088)	53,090	6,635	88,755	-	-	3,058	98,448
Loans to retail customers									
Mortgage loans	160,192	(4,285)	155,907	-	333,254	-	-	199	333,453
Entrepreneurs	14,988	(3,838)	11,150	-	16,492	121	-	779	17,392
Consumer loans	6,447	(922)	5,525	2,647	1,960	2,936	-	-	7,543
Auto loans	39	(24)	15	-	-	-	-	139	139
Credit cards	691	(6)	685	2,500	-	-	-	-	2,500
Total loans to customers	**239,535**	**(13,163)**	**226,372**	**11,782**	**440,461**	**3,057**	**-**	**4,175**	**459,475**

As at December 31, 2021 the Bank held loans (corporate, consumer, mortgage, credit cards) in the amount of AZN 7,383 thousand (2020: AZN 11,782 thousand) for which no loss allowance was recognized as they are collateralized by cash. During the reporting period, there were no changes in the Bank’s collateral policies.

Repossessed collateral

During the year ended December 31, 2021, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 3,508 thousand (2020: AZN 464 thousand) and recognized them as assets held for sale. The Bank’s policy is to sell these as soon as possible. Assets held for sale are comprized of real estates and other assets. See Note 17.

Significant credit exposures

As at December 31, 2021, the Bank had 15 borrowers or groups of connected borrowers (2020: 15 borrowers) with gross loan balances exceeding AZN 1,000 thousand. The gross value of these loans as at December 31, 2021 was AZN 41,623 thousand or 16% of the total gross loans to customers (2020: AZN 51,035 thousand or 21%).

Loan maturities

The maturity of the loan portfolio is presented in Note 25, which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 INVESTMENT PROPERTY

Investment property comprises 4 floors covering 2,046 square meters of the building in the head office of the Group. The Group transferred the aforementioned property into investment property to rent out under lease agreements to collect rental income.

The following table provides the reconciliation between the carrying amounts of investment property at the beginning and end of the period:

	Investment property
Cost	
Balance at January 1, 2020	14,081
Balance at December 31, 2020	**14,081**
Depreciation	
Balance at January 1, 2020	(878)
Depreciation charge	(197)
Balance at December 31, 2020	**(1,075)**
Carrying amount	
At December 31, 2020	**13,006**
Cost	
Balance at January 1, 2021	14,081
Balance at December 31, 2021	**14,081**
Depreciation	
Balance at January 1, 2021	(1,075)
Depreciation charge	(197)
Balance at December 31, 2021	**(1,272)**
Carrying amount	
At December 31, 2021	**12,809**

As at December 31, 2021, investment property was carried at cost. Management believes that the fair value of investment property as at December 31, 2021 approximated its carrying amount. The fair value of the Group's investment property is categorized into level 3 of the fair value hierarchy.

Rental income and direct operating expenses arising from investment property were as follows:

	2021	**2020**
Rental income	184	223
Expense arising from the lease of property	(197)	(197)
Net (loss)/gain from investment property	**(13)**	**26**

16 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and land	Computers and communication equipment	Furniture and fixtures	Vehicles	Total property and equipment	Computer software	Total property, equipment and intangible assets
Cost							
Balance at January 1, 2021	50,921	2,243	4,463	1,342	58,969	671	59,640
Additions	29	63	36	-	128	52	180
Disposals	(154)	(436)	(574)	(848)	(2,012)	(2)	(2,014)
Balance at December 31, 2021	**50,796**	**1,870**	**3,925**	**494**	**57,085**	**721**	**57,806**
Depreciation and amortisation							
Balance at January 1, 2021	(3,129)	(1,284)	(3,164)	(791)	(8,368)	(334)	(8,702)
Depreciation and amortisation for the year	(465)	(344)	(401)	(108)	(1,318)	(58)	(1,376)
Disposals	17	421	474	549	1,461	2	1,463
Balance at December 31, 2021	**(3,577)**	**(1,207)**	**(3,091)**	**(350)**	**(8,225)**	**(390)**	**(8,615)**
Carrying amount							
At December 31, 2021	**47,219**	**663**	**834**	**144**	**48,860**	**331**	**49,191**
Cost							
Balance at January 1, 2020	50,911	1,237	4,436	1,736	58,320	627	58,947
Additions	10	1,006	27	-	1,043	44	1,087
Disposals	-	-	-	(394)	(394)	-	(394)
Balance at December 31, 2020	**50,921**	**2,243**	**4,463**	**1,342**	**58,969**	**671**	**59,640**
Depreciation and amortisation							
Balance at January 1, 2020	(2,641)	(971)	(2,699)	(1,036)	(7,347)	(274)	(7,621)
Depreciation and amortisation for the year	(488)	(313)	(465)	(149)	(1,415)	(60)	(1,475)
Disposals	-	-	-	394	394	-	394
Balance at December 31, 2020	**(3,129)**	**(1,284)**	**(3,164)**	**(791)**	**(8,368)**	**(334)**	**(8,702)**
Carrying amount							
At December 31, 2020	**47,792**	**959**	**1,299**	**551**	**50,601**	**337**	**50,938**

As at December 31, 2021 and 2020 included in property and equipment were fully depreciated assets of AZN 1,819 thousand and AZN 2,269 thousand, respectively. Buildings and land owned by the Group are carried at cost. As at December 31, 2021 and 2020, no property and equipment were pledged as collateral for borrowings.

17 OTHER ASSETS

	December 31, 2021	December 31, 2020
Due from payment systems	1,565	1,140
Credit and debit cards receivables	28	33
Other receivables	174	105
Total other financial assets	**1,767**	**1,278**
Assets held for sale	4,581	1,114
Prepaid expenses	150	302
Deferred expenses	114	111
Prepayments for property and equipment	71	119
Other	72	8
Total other non-financial assets	**4,988**	**1,654**
Total other assets	**6,755**	**2,932**

As at December 31, 2021 and 2020, the Group did not have any overdue other financial assets. All other financial assets are in Stage 1 and their ECL is not material as for December 31, 2021 and 2020. All other financial assets are non-rated.

During the year ended December 31, 2021, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of 3,508 AZN thousand (2020: AZN 464 thousand) and recognized them as assets held for sale.

18 DEPOSITS AND BALANCES FROM BANKS

	December 31, 2021	December 31, 2020
Correspondent accounts and overnight placements of other banks	160	2
Placements of other banks	-	5,730
Total deposits and balances from banks	**160**	**5,732**

Deposits and balances from banks comprise term placements of banks.

As at December 31, 2021 the Group has no bank (2020: 1 bank), whose balance exceeded 10% of equity. The gross value of this balance as at December 31, 2021 is nil (2020: AZN 5,526 thousand).

As at December 31, 2021, accrued interest expenses included in deposits and balances from banks amounted to nil (December 31, 2020: nil).

19 CURRENT ACCOUNTS AND DEPOSITS FROM CUSTOMERS

	December 31, 2021	December 31, 2020
Current accounts and demand deposits		
- Retail	8,068	8,801
- Corporate	4,243	11,274
Term deposits		
- Retail	130,386	98,323
- Corporate	2,869	21,795
Total current accounts and deposits from customers	**145,566**	**140,193**

As at December 31, 2021, the Group has no customer (2020: 1 customer), whose total balances exceeded 10 % of equity. The total amount of this balance as at December 31, 2020 was AZN 21,249 thousand.

As at December 31, 2021, the Bank maintained customer deposit balances of AZN 7,383 thousand (2020: AZN 11,782 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Group.

As at December 31, 2021, accrued interest expenses included in current accounts and deposits from customers amounted to AZN 1,529 thousand (2020: AZN 1,095 thousand).

20 OTHER BORROWED FUNDS

	December 31, 2021	December 31, 2020
Other borrowed funds		
Azerbaijan Mortgage and Credit Guarantee Fund	133,920	118,651
Entrepreneurship Development Fund of the Republic of Azerbaijan	12,342	16,852
Agrarian Credit and Development Agency under the MoA	8,235	3,421
Central Bank of the Republic of Azerbaijan	1,683	2,174
Total other borrowed funds	**156,180**	**141,098**

Azerbaijan Mortgage and Credit Guarantee Fund

As at December 31, 2021, AZN 133,920 thousand (2020: AZN 118,651 thousand) out of term borrowings represented funds borrowed from the Azerbaijan Mortgage and Credit Guarantee Fund, a program under the auspices of the CBAR, for granting long-term mortgage loans to individuals. Under this program, funds are made available to the Group at an interest rate of 1-4% p.a. and the Group further lends these funds to eligible borrowers at rates not higher than 8% p.a. These borrowings mature between January 2022 and July 2051.

Entrepreneurship Development Fund of the Republic of Azerbaijan

As at December 31, 2021, AZN 12,342 thousand (2020: AZN 16,852 thousand) out of term borrowings represented funds borrowed from the Entrepreneurship Development Fund of the Republic of Azerbaijan, which was established for the purpose to improve the support mechanism for entrepreneurship development, create new production and processing enterprises based on innovative technologies in the non-oil sector, ensure the financing of export operations, accelerate investments in the real sector and expand access to financial resources of business units operating in the private sector. Under this program, funds are made available to the Group at an interest rate of 1% p.a. and the Group further on lends these funds to eligible borrowers at rates not higher than 6% p.a. These borrowings mature between May 2022 and April 2026.

Agrarian Credit and Development Agency

As at December 31, 2021, AZN 8,235 thousand (2020: AZN 3,421 thousand) out of term borrowings represented funds borrowed from the Agrarian Credit and Development Agency, which was established for the purpose of development of the agricultural industry. Under this program, funds are made available to the Group at an interest rate of 3.9% p.a. and the Group further lends these funds to the eligible borrowers at rates not higher than 8% p.a. These borrowings mature between January 2022 and December 2026.

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

As at December 31, 2021, accrued interest expenses included in other borrowed funds amounted to AZN 851 thousand (December 31, 2020: AZN 585 thousand).

Central Bank of the Republic of Azerbaijan

As at December 31, 2019, AZN 1,781 thousand out of term borrowings represented funds borrowed from the CBAR in 2019 with an annual interest rate of 0.1% and 5-year maturity, according to the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed on February 28, 2019 by the President of the Republic of Azerbaijan. These low-interest-rate loans were provided by the CBAR for restructuring problem loans and were measured at fair value on initial recognition. Difference between the consideration received and the fair value of the loans was recognized as a government grant in the amount of AZN 864 thousand.

In 2020, the Group received an additional AZN 216 thousand from the CBAR with an annual interest rate of 0.1%. These loans were recorded at fair value on initial recognition. The difference between the consideration received and the fair value of the loans in the amount of AZN 48 thousand was recognized as a government grant.

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

	2021			2020		
	Other borrowed funds	Lease liabilities	Total	Other borrowed funds	Lease liabilities	Total
Balance at January 1	**141,098**	**907**	**142,005**	**125,274**	**1,786**	**127,060**
Changes from financing cash flows						
Receipts of other borrowed funds	37,313	-	37,313	37,365	-	37,365
Repayment of other borrowed funds	(22,497)	-	(22,497)	(21,859)	-	(21,859)
Payment of lease liability	-	(365)	(365)	-	(392)	(392)
Total changes from financing cash flows	**14,816**	**(365)**	**14,451**	**15,506**	**(392)**	**15,114**
Changes in fair value	**-**	**-**	**-**	**(48)**	**-**	**(48)**
Other changes						
Interest expense	3,899	79	3,978	3,754	104	3,858
Interest paid	(3,633)	(79)	(3,712)	(3,388)	(104)	(3,492)
New leases	-	253	253	-	18	18
Derecognition	-	(148)	(148)	-	(505)	(505)
Total liability-related other changes	**266**	**105**	**371**	**366**	**(487)**	**(121)**
Balance at December 31	**156,180**	**647**	**156,827**	**141,098**	**907**	**142,005**

21 DEBT SECURITIES ISSUED

	December 31, 2021	December 31, 2020
Debt securities issued	-	1,512
Total debt securities issued	**-**	**1,512**

On March 5, 2020, the Group issued debt securities in the amount of AZN 2,000 thousand. The debt beared an annual interest rate of 9% and matured on March 5, 2021.

As at December 31, 2021, accrued interest expenses included in debt securities issued amounted to nil (December 31, 2020: AZN 12 thousand).

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

	2021	2020
Balance at January 1	**1,512**	**-**
Changes from financing cash flows		
Proceeds from debt securities issued	-	2,000
Repayment of debt securities issued	(1,500)	(500)
Total changes from financing cash flows	**(1,500)**	**1,500**
Other changes		
Interest expense	8	135
Interest paid	(20)	(123)
Balance at December 31	**-**	**1,512**

22 OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Advances received from customers	2,179	-
Settlement on other operations	294	482
Allowances for guarantee letters	520	440
Accrued expenses	166	123
Settlement on plastic card operations	55	140
Others	63	270
Total other financial liabilities	**3,277**	**1,455**
Settlement on employee benefits	239	216
Taxes payable	401	353
Total other non-financial liabilities	**640**	**569**
Total other liabilities	**3,917**	**2,024**

23 SHARE CAPITAL

The authorized, issued and outstanding share capital comprises 66,450 ordinary shares (2020: 66,450). All shares have a nominal value of AZN 1,000 per share.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Group.

24 LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic loss per share as at December 31, 2021 is based on the loss attributable to ordinary shareholders of AZN 853 thousand (2020: loss of AZN 3,254 thousand), and a weighted average number of ordinary shares outstanding of 66,450 (2020: 66,450) calculated as follows.

	2021	2020
Net (loss)/profit attributable to ordinary shareholders	(853)	(3,254)
Weighted average number of ordinary shares for the year ended December 31 (shares)	66,450	66,450
Basic and diluted loss per share (AZN)	**(12.92)**	**(49.30)**

25 RISK MANAGEMENT, CORPORATE GOVERNANCE AND INTERNAL CONTROL

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

Corporate governance framework

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

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

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

As at December 31, 2021 the Supervisory Board includes:

- Rza Sadig **-** Chairman of the Supervisory Board;
- Ikram Humbatov **-** Member of the Supervisory Board;
- Alish Taghiyev**-** Member of the Supervisory Board.

General activities of the Bank are managed by the collective executive body of the Bank. The General Shareholders’ meeting elects the Management Board. The executive body of the Bank is responsible for the implementation of decisions of the General Shareholders’ meeting and the Supervisory Board of the Bank. The executive body of the Bank reports to the Supervisory Board of the Bank and to the General Shareholders’ meeting.

As at December 31, 2021 the Management Board includes:

- Emil Rzayev **-** Chairman of the Management Board;
- Rovshan Farhadzade **-** Deputy Chairman of the Management Board;
- Eldaniz Huseynov **-** Member of the Management Board;
- Rauf Gurbanov **-** Member of the Management Board;
- Kamran Guliyev **-** Member of the Management Board.

Internal control policies and procedures

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

The purpose of internal controls is to ensure:

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

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

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

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

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

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

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

- assessment of economic reasonability and efficiency of operations and other deals;
- audit of internal control processes and procedures;
- audit of internal control service and risk management service.

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

The internal control system in the Group comprises:

- the Supervisory Board and its committees;
- the Chief Executive officer and the Management Board;
- the Chief Accountant;
- the risk management function;
- the security function, including IT security;
- the human resource function;
- the Internal Audit service;
- other employees, divisions and functions that are responsible for compliance with the established standards, policies and procedures, including:
- heads of branches and heads of business units;
- business processes managers;
- division responsible for compliance with anti-money laundering requirements;
- the legal officer – an employee responsible for compliance with the legal and regulatory requirements;
- other employees with control responsibilities.

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

Risk management policies and procedures

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

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

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

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

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

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

Market risk

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

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

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

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Interest rate gap analysis

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

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Overdue	Non-interest bearing	Carrying amount
December 31, 2021								
ASSETS								
Cash and cash equivalents	1,284	-	-	-	-	-	13,102	14,386
Due from banks	1,655	-	8,028	-	-	-	-	9,683
Investment securities	-	-	-	2,448	-	-	-	2,448
Loans to customers	11,047	14,009	33,125	97,973	97,382	7,267	-	260,803
Other financial assets	-	-	-	-	-	-	1,767	1,767
	13,986	**14,009**	**41,153**	**100,421**	**97,382**	**7,267**	**14,869**	**289,087**
LIABILITIES								
Deposits and balances from banks	160	-	-	-	-	-	-	160
Current accounts and deposits from customers	25,106	12,769	84,416	23,275	-	-	-	145,566
Other borrowed funds	1,078	2	591	23,214	131,295	-	-	156,180
Lease liabilities	25	50	224	348	-	-	-	647
Other financial liabilities	-	-	-	-	-	-	3,277	3,277
	26,369	**12,821**	**85,231**	**46,837**	**131,295**	**-**	**3,277**	**305,830**
Net liquidity gap	**(12,383)**	**1,188**	**(44,078)**	**53,584**	**(33,913)**	**7,267**	**11,593**	**(16,742)**

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Overdue	Non-interest bearing	Carrying amount
December 31, 2020								
ASSETS								
Cash and cash equivalents	9,000	-	-	-	-	-	22,425	31,425
Due from banks	-	-	9,499	-	-	-	1,214	10,713
Investment securities	-	-	3,815	2,502	-	-	-	6,317
Loans to customers	6,515	11,866	41,504	77,074	84,900	4,513	-	226,372
Other financial assets	-	-	-	-	-	-	1,278	1,278
	15,515	**11,866**	**54,818**	**79,576**	**84,900**	**4,513**	**24,917**	**276,105**
LIABILITIES								
Deposits and balances from banks	2	116	-	5,614	-	-	-	5,732
Current accounts and deposits from customers	1,534	10,710	83,960	23,914	-	-	20,075	140,193
Other borrowed funds	1,097	270	15,530	21,660	102,541	-	-	141,098
Lease liabilities	28	56	254	569	-	-	-	907
Debt securities issued	-	1,512	-	-	-	-	-	1,512
Other financial liabilities	-	-	-	-	-	-	1,455	1,455
	2,661	**12,664**	**99,744**	**51,757**	**102,541**	-	**21,530**	**290,897**
Net liquidity gap	**12,854**	**(798)**	**(44,926)**	**27,819**	**(17,641)**	**4,513**	**3,387**	**(14,792)**

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

Average effective interest rates

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

	2021 Average effective interest rate, %			2020 Average effective interest rate, %		
	AZN	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Interest-bearing assets						
Due from banks	12.00%	-	-	12.00%	-	-
Investment securities	6.00%	4.28%	-	7.21%	5.00%	-
Loans to customers	10.51%	10.96%	-	10.28%	9.34%	-
Interest-bearing liabilities						
Deposits and balances from banks	0.1%	-	-	8.80%	3.00%	-
Current accounts and deposits from customers	10.96%	2.26%	-	9.91%	3.57%	-
Other borrowed funds	2.22%	-	-	2.65%	-	-
Lease liabilities	10.00%	-	-	10.00%	-	-
Debt securities issued	-	-	-	9.00%	-	-

Interest rate sensitivity analysis

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

	December 31, 2021	December 31, 2020
100 bp parallel fall	20,000	15,520
100 bp parallel rise	(20,000)	(15,520)

Currency risk

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

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

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

	AZN	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	6,985	6,541	656	204	14,386
Due from banks	8,856	723	66	38	9,683
Investment securities	-	2,448	-	-	2,448
Loans to customers	255,288	5,515	-	-	260,803
Other financial assets	1,687	71	6	3	1,767
Total financial assets	**272,816**	**15,298**	**728**	**245**	**289,087**
LIABILITIES					
Deposits and balances from banks	160	-	-	-	160
Current accounts and deposits from customers	121,706	23,103	698	59	145,566
Other borrowed funds	156,180	-	-	-	156,180
Lease liabilities	647	-	-	-	647
Other financial liabilities	3,175	59	31	12	3,277
Total financial liabilities	**281,868**	**23,162**	**729**	**71**	**305,830**
Net position	**(9,052)**	**(7,864)**	**(1)**	**174**	

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

	AZN	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	19,706	10,608	827	284	31,425
Due from banks	10,016	434	194	69	10,713
Investment securities	3,815	2,502	-	-	6,317
Loans to customers	212,411	13,884	77	-	226,372
Other financial assets	1,032	207	9	30	1,278
Total financial assets	**246,980**	**27,635**	**1,107**	**383**	**276,105**
LIABILITIES					
Deposits and balances from banks	2	5,614	-	116	5,732
Current accounts and deposits from customers	110,693	28,346	1,056	98	140,193
Other borrowed funds	141,098	-	-	-	141,098
Lease liabilities	907	-	-	-	907
Debt securities issued	1,512	-	-	-	1,512
Other financial liabilities	1,233	137	67	18	1,455
Total financial liabilities	**255,445**	**34,097**	**1,123**	**232**	**290,897**
Net position	**(8,465)**	**(6,462)**	**(16)**	**151**	

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

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

	December 31, 2021	December 31, 2020
20% appreciation of USD against AZN	(1,258)	(1,034)
20% appreciation of EUR against AZN	-	(3)

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

Credit risk

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

The credit policy establishes:

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

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

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

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

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets in the consolidated statement of financial position and unrecognized contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.
The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	December 31, 2021	December 31, 2020
ASSETS		
Cash and cash equivalents (excluding cash on hand)	6,885	21,314
Due from banks	9,683	10,713
Investment securities	2,448	6,317
Loans to customers	260,803	226,372
Other financial assets	1,767	1,278
Commitments on loans and unused credit lines	4,922	6,317
Guarantees issued and similar commitments	16,880	19,534
Total maximum exposure	**303,388**	**291,845**

For the analysis of collateral held against loans to customers and concentration of credit risk in respect of loans to customers refer to Note 14.

The maximum exposure to credit risk from unrecognized contractual commitments at the reporting date is presented in Note 25.

In these consolidated financial statements, ratings of financial assets and financial liabilities are disclosed in terms of Fitch ratings.

Offsetting financial assets and financial liabilities

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

December 31, 2021

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans and advances to customers	7,383	7,383	-	7,383	-
Total financial assets	**7,383**	**7,383**	-	**7,383**	**-**
Current accounts and deposits from customers	(7,383)	(7,383)	7,383	-	-
Total financial liabilities	**(7,383)**	**(7,383)**	**7,383**	**-**	**-**

December 31, 2020

Types of financial assets/liabilities	Gross amounts of recognized financial asset/liability	Net amount of financial assets/liabilities presented in the statement of financial position	Related amounts not offset in the statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans and advances to customers	11,782	11,782	-	(11,782)	-
Total financial assets	**11,782**	**11,782**	**-**	**(11,782)**	**-**
Current accounts and deposits from customers	(11,782)	(11,782)	11,782	-	-
Total financial liabilities	**(11,782)**	**(11,782)**	**11,782**	**-**	**-**

Credit risk - Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

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

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

Generating the term structure of PD

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

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

Determining whether credit risk has increased significantly

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

As a general indicator, the credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group’s quantitative criteria:

- the presence of the fact of overdue debt for 31-90 days for all segments except transactions with financial institutions and issuers of securities;
- the presence of the fact of debt overdue by 2-10 working days for transactions with financial institutions and issuers of securities;
- deterioration of external counterparty rating;
- For the retail segment- Default on another financial instrument of the counterparty, the amount of which exceeds 100 AZN (“infecting” assets that do not have overdue debt at the counterparty level);
- For the remaining segments, the criteria of default are applied at the level of the Counterparty, therefore the “contamination” of assets, that do not directly have the criteria of default, transfers them immediately to the 3rd stage.
- If a default event was implemented for a financial instrument according to several criteria, then the minimum (earliest) date of commencement of default is used as the default date.
- If recovery has taken place for the defaulted financial instrument, then the earliest default date after the recovery event is taken as the default date. If after the date of recovery there was no re-entry into default, then the contract for the current date is considered to be non-defaulted.
- Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower; and quantitative criteria (only for financial institutions and issuers of securities):
- the relative change in the external rating at the reporting date compared to the external rating at the recognition date according to the criteria given in Table 1.

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

External rating at the date of initial recognition	Threshold value (the number of steps to downgrade)	The value of the rating (as of the date of the evaluation of the ECL), indicating the transition to Stage 2
AAA	≥ 3	Aa3and below
Aa1	≥ 3	A1 and below
Aa2	≥ 3	A2 and below
Aa3	≥ 3	A3 and below
A1	≥ 3	Baa1 and below
A2	≥ 3	Baa2 and below
A3	≥ 3	Baa3 and below
Baa1	≥ 3	Ba1 and below
Baa2	≥ 3	Ba2 and below
Baa3	≥ 3	Ba3 and below
Ba1	≥ 2	B1 and below
Ba2	≥ 2	B1 and below
Ba3	≥ 2	B2 and below
B1	≥ 1	B3 and below
B2	≥ 1	Caa1 and below
B3	≥ 1	Caa1 and below
Caa1	≥ 1	Caa2 and below
Caa2	≥ 1	Caa3 and below
Caa3	≥ 1	Ca-C

In case of downgrading by the number of steps exceeding the threshold value, the financial instrument moves to Stage 2. The Group can apply expert adjustments when there is a justification that the downgrade, which caused the threshold to be exceeded, was not associated with the deterioration of the counterparty credit profile.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as a 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

A financial instrument returns from the Stage 2 to the Stage 1 if the criteria listed in the SICR criteria are missing.

The observation period for Stage 2 does not apply.

For financial instruments entered in Stage 3, the observation period applies. During this period, the financial instrument continues to be in Stage 3, to confirm that the event/impairment does not happen and that the improvement in credit quality has taken place and is stable.

Subsequently, if a financial instrument located in Stage 3 does not have impairment criteria, but has one or more criteria for a significant increase in credit risk, it falls into Stage 2 after the observation period.

In the event of the absence/termination of both the impairment criteria and the criteria for a significant increase in credit risk, the Financial Instrument returns to Stage 1, after the observation period. The observation period applies only to Stage 3.

The follow-up/recovery period applies to Financial Instruments in Stage 3 and is 3 months from the disappearance of the default criteria (s) to transfer to Stage 1 or Stage 2.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that**:**

- the criteria are capable of identifying significant increases in credit risk before exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month ECL (stage 1) and lifetime ECL measurements (stage 2).

Definition of default

A financial instrument impairment event is determined at the borrower level for all portfolios except for the retail borrower's portfolio. For retail borrowers, the impairment event is determined at the financial instrument level. The Group considers a financial asset to be in default when:

- More than 90 calendar days of overdue debt at the reporting date for all segments except transactions with financial institutions and issuers of securities;
- More than 10 working days of overdue debt at the reporting date for transactions with financial institutions and issuers of securities;
- The counterparty/issuer was declared bankrupt by the court, or the court introduced bankruptcy procedures in relation to the borrower. This criterion applies to all portfolios with the exception of the portfolio of retail borrowers;
- Assignment of a regulatory quality category 4 or 5 to the contract at the reporting date;
- Default/forced restructuring due to the financial difficulties of the borrower (applicable except for transactions with financial institutions and securities). Default/forced restructuring refers to a change in the terms of a contract recognized as a forced restructuring by the Group, which are a consequence of the borrower's inability to perform the obligations specified in the contract, and are caused by a deterioration in the credit quality of the borrower;
- Revocation of the license and the introduction of an interim administration (applicable to financial institutions and issuers of securities);
- In assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative – e.g. breaches of the covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

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

Incorporation of forward-looking information

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

The Group formulates one economic scenario: a base case. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The historical data of defaults use the statistics of CBAR on the share of overdue loans in total loans to individuals in the banking system. The assessment of the impact of macroeconomic information should be made at least on an annual basis.

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

The key driver is the Real GDP growth forecast. The economic scenarios used as at December 31, 2021 included the following key indicators for the Republic of Azerbaijan for the years ending December 31, 2021 through 2026.

	2022	**2023**	**2024**	**2025**
Real GDP growth	1.60%	1.70%	1.70%	1.70%

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysis of historical data over the past 14 years.

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

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(iii).

The modification of contractual terms of a financial asset is an indicator of a significant increase in credit risk unless the modification is default/forced restructuring which is an indicator of default of the financial asset. A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL.

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that exposure is credit-impaired (see Note 3(f)(iv)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to a 12-month ECL.

Measurement of ECL

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

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

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

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

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

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

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

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

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

		External benchmarks used	
	Exposure	**PD**	**LGD**
Cash and cash equivalents (excluding cash on hand)	6,885	Moody's default study	S&P recovery studies
Due from banks	9,683	Moody's default study	S&P recovery studies
Investment securities	2,448	Moody's default study	S&P recovery studies

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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

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

The liquidity management policy requires:

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

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

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

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

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

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative liabilities							
Deposits and balances from banks	161	-	-	-	-	161	160
Current accounts and deposits from customers	26,142	14,642	89,130	25,164	-	155,078	145,566
Other borrowed funds	1,368	580	3,175	36,376	145,452	186,951	156,180
Lease liabilities	29	58	251	370	-	708	647
Other financial liabilities	3,277	-	-	-	-	3,277	3,277
Total financial liabilities	**30,976**	**15,280**	**92,556**	**61,910**	**145,452**	**345,174**	**305,830**
Credit related commitments	**21,802**	**-**	**-**	**-**	**-**	**21,802**	**21,802**

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

	Demand and less than 1 month	**From 1 to 3 months**	**From 3 to 12 months**	**From 1 to 5 years**	**More than 5 years**	**Total gross amount outflow**	**Carrying amount**
Non-derivative liabilities							
Deposits and balances from banks	16	145	124	5,694	-	5,979	5,732
Current accounts and deposits from customers	22,460	12,329	88,180	26,521	-	149,490	140,193
Other borrowed funds	1,374	833	17,886	33,518	115,391	169,002	141,098
Lease liabilities	36	70	307	634	-	1,047	907
Debt securities issued	504	1,008	-	-	-	1,512	1,512
Other financial liabilities	1,455	-	-	-	-	1,455	1,455
Total financial liabilities	**25,845**	**14,385**	**106,497**	**66,367**	**115,391**	**328,485**	**290,897**
Credit related commitments	**25,851**	**-**	**-**	**-**	**-**	**25,851**	**25,851**

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

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
Cash and cash equivalents	14,386	-	-	-	-	-	14,386
Due from banks	1,655	-	8,028	-	-	-	9,683
Investment securities	-	-	-	2,448	-	-	2,448
Loans to customers	11,047	14,009	33,125	97,973	97,382	7,267	260,803
Other financial assets	1,767	-	-	-	-	-	1,767
Total financial assets	**28,855**	**14,009**	**41,153**	**100,421**	**97,382**	**7,267**	**289,087**
Deposits and balances from banks	160	-	-	-	-	-	160
Current accounts and deposits from customers	25,106	12,769	84,416	23,275	-	-	145,566
Other borrowed funds	1,078	2	591	23,214	131,295	-	156,180
Lease liabilities	25	50	224	348	-	-	647
Other financial liabilities	3,276	-	-	-	-	-	3,277
Total financial liabilities	**29,645**	**12,821**	**85,231**	**46,837**	**131,295**	**-**	**305,830**
Net position	**(790)**	**1,188**	**(44,078)**	**53,584**	**(33,913)**	**7,267**	**(16,743)**
Cumulative liquidity gap	**(790)**	**398**	**(43,680)**	**9,904**	**(24,009)**	**(16,743)**	

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

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Overdue	Total
Cash and cash equivalents	31,425	-	-	-	-	-	31,425
Due from banks	1,214	-	9,499	-	-	-	10,713
Investment securities	-	3,815	2,502	-	-	-	6,317
Loans to customers	6,515	11,866	41,504	77,074	84,900	4,513	226,372
Other financial assets	1,278	-	-	-	-	-	1,278
Total financial assets	**40,432**	**15,681**	**53,505**	**77,074**	**84,900**	**4,513**	**276,105**
Deposits and balances from banks	2	116	-	5,614	-	-	5,732
Current accounts and deposits from customers	21,609	10,710	83,960	23,914	-	-	140,193
Other borrowed funds	1,097	270	15,530	21,660	102,541	-	141,098
Lease liabilities	28	56	254	569	-	-	907
Debt securities issued	-	1,512	-	-	-	-	1,512
Other financial liabilities	1,455	-	-	-	-	-	1,455
Total financial liabilities	**24,191**	**12,664**	**99,744**	**51,757**	**102,541**	**-**	**290,897**
Net position	**16,241**	**3,017**	**(46,239)**	**25,317**	**(17,641)**	**4,513**	**(14,792)**
Cumulative liquidity gap	**16,241**	**19,258**	**(26,981)**	**(1,664)**	**(19,305)**	**(14,792)**	

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

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

The Bank was in compliance with these ratios as at December 31, 2021 and 2020. The following table shows the mandatory liquidity ratios calculated as at December 31, 2021 and 2020 *(unaudited)*.

	Requirement	**2021, %**	**2020, %**
Instant liquidity ratio	Not less than 30%	66.27	61.36

Operational risk

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

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

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

26 CAPITAL MANAGEMENT

The CBAR sets and monitors capital requirements for the Bank.

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

The Bank maintains capital adequacy at the level appropriate to the nature and volume of its operations.

The Bank provides the CBAR with information on mandatory ratios in accordance with set form. Risk Department controls on daily basis compliance with capital adequacy ratios. In case values of capital adequacy ratios become close to limits set by the CBAR and the Bank's internal policy this information is communicated to the Supervisory Board.

Total statutory capital risk-weighted assets and capital adequacy based on requirements set by the CBAR were as follows:

	December 31, 2021 (unaudited)	December 31, 2020 (unaudited)
Total statutory capital	53,575	52,727
Risk-weighted assets, net	225,788	224,089
Capital adequacy ratio (%)	23.73%	23.53%

27 CREDIT RELATED COMMITMENTS

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

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

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

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

	December 31, 2021	December 31, 2020
Contracted amount		
Non-financial guarantees	14,102	13,642
Financial guarantees	2,778	6,332
Undrawn credit lines	4,922	6,317
	21,802	**26,291**
Provisions		
Guarantees	(520)	(440)
	(520)	**(440)**

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

The following tables show reconciliations from the opening to the closing balances of provisions. All balances relate to Stage 1 as at December 31, 2021 (December 2020: Stage 1).

	2021	
	Stage 1	**Total**
Provisions		
Balance at 1 January	(440)	(440)
Net remeasurement of loss allowance	(80)	(80)
Balance at December 31	**(520)**	**(520)**

	2020	
	Stage 1	**Total**
Provisions		
Balance at 1 January	(230)	(230)
Net remeasurement of loss allowance	(210)	(210)
Balance at December 31	**(440)**	**(440)**

28 LEASES

Leases as lessee

The Group mainly leases a number of branch and office premises. The leases typically run for a period of 1-5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets mainly relate to leased branch and office premises that do not meet the definition of investment property.

	Branch and office premises	**IT equipment**	**Total**
2021			
Balance at January 1	927	-	927
Depreciation charge for the year	(318)	-	(318)
Additions	253	-	253
Disposals	(156)	-	(156)
Balance at December 31	**706**	**-**	**706**

	Branch and office premises	**IT equipment**	**Total**
2020			
Balance at January 1	1,372	380	1,752
Depreciation charge for the year	(350)	-	(350)
Additions	18	-	18
Disposals	(113)	-	(113)
Transfer to property,equipment and intangible assets	-	(380)	(380)
Balance at December 31	**927**	**-**	**927**

See Note 25 for maturity analysis of lease liabilities as at December 31, 2021 and 2020.

Amounts recognized in profit or loss

	2021	**2020**
Interest on lease liabilities	79	104
Expenses relating to short-term leases	160	313

Amounts recognized in the consolidated statement of cash flows

	2021	**2020**
Total cash outflow for leases	(446)	(496)

Leases as lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 15 sets out information about the operating leases of investment property.

Rental income recognized by the Group during the year ended December 31, 2021 was AZN 184 thousand (2020: AZN 223 thousand).

29 CONTINGENCIES

Insurance

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

Litigation

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

Taxation contingencies

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

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

30 RELATED PARTY TRANSACTIONS

Control relationships

The Group is controlled by Ms. Nigar Mehdiyeva.

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

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

	December 31, 2021	December 31, 2020
Short term employee benefits	520	361
	520	**361**

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

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

	December 31, 2021	Average effective interest rate, %	December 31, 2020	Average effective interest rate, %
Statement of financial position				
Loans issued (gross)	3,560	16.40%	433	13.50%
Current accounts	49	-	119	-
Term deposits	17	2.25%	98	4.00%
Commitments on loans and unused credit lines	66	19.80%	96	20.25%

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

	December 31, 2021	December 31, 2020
Profit or loss		
Interest income	44	7
Interest expense	4	9

Transactions with other related parties

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

	Ultimate controlling party		Shareholders		Other		Total
		Average interest rate, %		Average interest rate, %		Average interest rate, %	
Consolidated statement of financial position							
ASSETS							
Loans to customers							
Principal balance	-	-	-	-	-	-	-
Impairment allowance	-	-	-	-	-	-	-
LIABILITIES							
Customer accounts	-	-	2	-	47	-	49
Term deposits	-	-	-	-	17	2.25%	17
Items not recognized in the statement of consolidated financial position							
Guarantees given (up to 0.5% commission income)	-	-	-	-	147	5%	147
Commitments on loans and unused credit lines	-	-	66	20.00%	1,092	16.71%	1,158
Profit or loss							
Interest income	-	-	-	-	319	-	319
Interest expense	-	-	-	-	6	-	6

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

	Ultimate controlling party		Shareholders		Other		Total
		Average interest rate, %		Average interest rate, %		Average interest rate, %	
Consolidated statement of financial position							
ASSETS							
Loans to customers							
Principal balance	-	-	93	20.00%	340	7.00%	433
Impairment allowance	-	-	-	-	-	-	-
LIABILITIES							
Customer accounts	5	-	1	-	2,197	-	2,203
Term deposits	-	-	-	-	673	10.00%	673
Items not recognized in the statement of consolidated financial position							
Guarantees given (up to 0.5% commission income)	-	-	-	-	-	-	-
Commitments on loans and unused credit lines	-	-	48	20.00%	355	14.94%	403
Profit or loss							
Interest income	-	-	4	-	3	-	7
Interest expense	-	-	-	-	217	-	217

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

31 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

Accounting classifications and fair values

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

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

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

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

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments. Observable prices and model inputs are usually available in the market for listed debt and equity securities.

Fair value hierarchy

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

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

There were no financial instruments measured at fair value at December 31, 2021 and 2020.

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

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
ASSETS					
Cash and cash equivalents	-	14,386	-	14,386	14,386
Due from banks	-	9,683	-	9,683	9,683
Investment securities	2,448	-	-	2,448	2,448
Loans to customers	-	-	260,803	260,803	260,803
Other financial assets	-	1,767	-	1,767	1,767
LIABILITIES					
Deposits and balances from banks	-	160	-	160	160
Current accounts and deposits from customers	-	145,566	-	145,566	145,566
Other borrowed funds	-	156,180	-	156,180	156,180
Lease liabilities	-	647	-	647	647
Other financial liabilities	-	3,277	-	3,277	3,277

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

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
ASSETS					
Cash and cash equivalents	-	31,425	-	31,425	31,425
Due from banks	-	10,713	-	10,713	10,713
Investment securities	6,317	-	-	6,317	6,317
Loans to customers	-	-	226,372	226,372	226,372
Other financial assets	-	1,278	-	1,278	1,278
LIABILITIES					
Deposits and balances from banks	-	5,732	-	5,732	5,732
Current accounts and deposits from customers	-	140,193	-	140,193	140,193
Other borrowed funds	-	141,098	-	141,098	141,098
Lease liabilities	-	907	-	907	907
Debt securities issued	-	1,512	-	1,512	1,512
Other financial liabilities	-	1,455	-	1,455	1,455

32 ANALYSIS BY SEGMENT

The Group has one reportable segment and one strategic business unit which includes loans, deposits and other transactions with customers. The Chief Operating Decision Maker, in the case of the Group, the Management Board, only reviews the information on the Group as a whole.

The majority of income from external customers relates to residents of the Republic of Azerbaijan.

The majority of non-current assets are located in the Republic of Azerbaijan.

33 EVENTS AFTER REPORTING DATE

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

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

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