Bank BTB OJSC

Consolidated Financial Statements for the year ended 31 December 2019

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Independent Auditors' Report

To the Shareholders and Supervisory Board 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 31 December 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Key Audit Matters

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

Credit loss allowance for loans to customers

Please refer to the Notes 14 and 24 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
Loans to customers represent 68% of total assets and are stated net of allowance for expected credit losses ("ECL") that are estimated on a regular basis and are sensitive to the assumptions used. The estimation of expected credit losses requires Management to apply significant judgments and estimation techniques to determine probability of default (PD), projected exposure at default (EAD) and loss arising at default (LGD) , considering observed historical data, current economic situation and available forward-looking information. Credit loss allowance for loans to customers is a key audit matter due to the significance of the balances to the Group's consolidated financial position, and the complexity and judgement related to the estimation of ECL under IFRS 9 *Financial Instruments*.	We engaged our own specialists in financial risk management to analyse the key aspects of the Group's methodology and policies related to ECL estimate for compliance with the requirements of IFRS 9 Financial Instruments. To analyze the adequacy of professional judgement and assumptions made by the management in relation to allowance for ECL estimate we performed the following procedures: For loans to legal entities, for which potential changes in ECL may have a significant impact on the consolidated financial statements, we tested whether the appropriate Stages are correctly assigned by the Group by analyzing financial and non-financial information, as well as assumptions and professional judgements, applied by the Group. For a sample of loans to legal entities, we tested the correctness of data inputs for PD, LGD and EAD calculation. For a sample of Stage 3 loans to legal entities, where ECL are assessed individually we critically assessed assumptions used by the Group to forecast future cash flows, including estimated proceeds from realizable collateral and their expected disposal terms based on our understanding and publicly available market information. For loans to individuals we tested the correctness of data inputs for PD, LGD and EAD calculation, timely reflection of delinquency events and loan repayments in the underlying systems and allocation of loans into the appropriate Stages. We agreed input data to supporting documents on a sample basis. We also assessed whether the consolidated financial statements disclosures appropriately reflect the Group's exposure to credit risk.

Going concern considerations related to the COVID-19 outbreak	
Please refer to the Note 2(c) in the consolidated financial statements.	
The key audit matter	**How the matter was addressed in our audit**
The Group's consolidated financial statements are prepared on a going concern basis. The COVID-19 pandemic is an unprecedented challenge for the global economy, which together with the decrease in oil prices and its potential effect for the Azerbaijani economy, has resulted in increased uncertainty for the Group's financial and liquidity position, and future operations. The Group's use of the going concern basis of accounting is a key audit matter due to high level of management judgment required and inherent uncertainty involved in forecasting and evaluating financial impact of current economic environment and measures planned by the Group. The Group's going concern assessment was based on both cash flow forecasts and statutory net profit forecasts which in management's view support the assertion that the Group will have sufficient resources to continue in operational existence for the foreseeable future and the Banks's total statutory capital will be above the minimum required levels for the foreseeable future. The main assumptions in these forecasts were related to the expected statutory loan allowances, and customer account balances. The forecasts reflected a number of scenarios, including those considered by management to be severe but plausible. As part of the assessment, management also considered a number of actions aimed at alleviating the potential disruption to the Group's business and liquidity position as discussed in the Note 2(c).	As part of our audit, we performed the following procedures: We analysed management's assessment of the going concern basis of accounting, including their evaluation of business and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating inquiries of the Bank's Chairman of the Management Board and Finance Manager. We tested the reasonableness and feasibility of the plans for future actions in order to alleviate the effects of the outbreak by performing the following: - Challenging the key assumptions used in the determination of the forecast financial information under various scenarios. This primarily included challenging the forecast statutory credit losses on loans to customers and the forecast to financial results; - Performing an analysis of how sensitive the Group's financial position and performance is to reasonably possible changes in the aforementioned key assumptions adopted in the going concern assessment and considering whether there were any indicators of management bias in the assessment; - Performing analysis of liquid assets and unused credit resources, and forecasted level of customer accounts balances, challenging management's assumptions in respect of stability of large deposits balances and effect of possible deterioration of assets quality to liquidity position. We assessed the availability of banking and other financing facilities and arrangements by inspecting the underlying documentation, such as banking facility agreements signed before and after the reporting period end and assessing the impact of any covenants and

	other restrictive terms therein. We also considered whether any additional relevant facts or information have become available since the date on which the management made its assessment. We evaluated the adequacy of the Group's disclosures in respect of the going concern assessment and any related uncertainties in the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

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 scepticism throughout the audit. We also:

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

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

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

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.

The engagement partner on the audit resulting in this independent auditors' report is:

"KPMG Audit Azərbaycan" Məhdud Məsuliyyətli Cəmiyyəti
"KPMG Audit Azerbaijan" Limited Liability Company

Andrey Kouznetsov

KPMG Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

18 May 2020

	Notes	2019 AZN'000	2018* AZN'000
Interest income calculated using the effective interest method	4	22,507	19,572
Interest expense	4	(11,952)	(10,887)
Net interest income		**10,555**	**8,685**
Fee and commission income	5	4,231	4,007
Fee and commission expense	6	(499)	(516)
Net fee and commission income		**3,732**	**3,491**
Net gain on trading in foreign currencies		2,134	2,061
Net foreign exchange gain/(loss)		33	(42)
Government grant	20	816	-
Other operating income		776	520
Operating income		**18,046**	**14,715**
Impairment recovery	7	165	1,038
Personnel expenses	8	(8,787)	(7,504)
Other general administrative expenses	9	(6,391)	(5,749)
Profit before income tax		**3,033**	**2,500**
Income tax expenses	10	-	-
Total comprehensive income for the year		**3,033**	**2,500**
Earnings per share			
Basic and diluted (expressed in AZN)	23	**45.64**	**37.62**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See Note 2(f).

The consolidated financial statements as set out on pages 6 to 76 were approved by management on 15 May 2020 and were signed on its behalf by:

BANK "BTB" AÇIQ SƏHMDAR CƏMİYYƏTİ • BANK "BTB" OPEN JOINT STOCK COMPANY • BANK BTB

Mr. Emil Rzayev
Chairman of the Management Board

Mrs. Yuliya Pasternak
Finance Manager

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2019 AZN'000	2018* AZN'000
ASSETS			
Cash and cash equivalents	11	21,554	20,255
Due from banks	12	14,283	26,674
Investment securities			
- Held by the Group	13	896	3,383
- Pledged under sale and repurchase agreements	13	2,476	-
Loans to customers	14	225,844	192,467
Investment property	15	13,203	13,376
Property, equipment and intangible assets	16	51,326	51,684
Right-of-use assets	27	1,752	-
Other financial assets	17	1,060	1,055
Other assets	17	1,938	961
Total assets		**334,332**	**309,855**
LIABILITIES			
Deposits and balances from banks	18	5,541	5,835
Current accounts and deposits from customers	19	146,021	128,239
Other borrowed funds	20	125,274	123,303
Lease liabilities	27	1,786	-
Other liabilities	21	1,292	1,093
Total liabilities		**279,914**	**258,470**
EQUITY			
Share capital	22	66,450	66,450
Accumulated deficits		(12,032)	(15,065)
Total equity		**54,418**	**51,385**
Total liabilities and equity		**334,332**	**309,855**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See Note 2(f).

Mr. Emil Rzayev
Chairman of the Management Board

Mrs. Yuliya Pasternak
Finance Manager

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Notes	2019 AZN'000	2018* AZN'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		22,214	18,899
Interest payments		(11,687)	(10,251)
Fee and commission receipts		4,231	4,007
Fee and commission payments		(499)	(516)
Net receipts from foreign exchange		2,134	2,061
Other receipts (payments)		776	520
Personnel expenses payments		(8,485)	(7,504)
General administrative expenses payments		(4,819)	(4,014)
(Increase) decrease in operating assets			
Due from banks		12,363	1,338
Loans to customers		(33,081)	(41,626)
Other assets		(218)	(152)
Increase (decrease) in operating liabilities			
Deposits and balances from banks		(290)	290
Current accounts and deposits from customers		17,594	28,571
Other liabilities		(258)	(135)
Cash flows (used in) from operations		**(25)**	**(8,512)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of premises, equipment, investment property and intangible assets		(968)	(891)
Purchases of investment securities		(853)	(850)
Proceeds from repayment of investment securities		850	103
Cash flows used in investing activities		**(971)**	**(1,638)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts of other borrowed funds	20	57,290	33,278
Repayment of other borrowed funds	20	(54,438)	(28,486)
Payment of principal of lease liabilities	20	(502)	-
Cash flows from financing activities		**2,350**	**4,792**
Net (decrease) increase in cash and cash equivalents		**1,354**	**(5,358)**
Effect of changes in exchange rates on cash and cash equivalents		(55)	(104)
Cash and cash equivalents as at the beginning of the year		20,255	25,717
Cash and cash equivalents as at the end of the year	11	**21,554**	**20,255**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See Note 2(f).

Mr. Emil Rzayev
Chairman of the Management Board

Mrs. Yuliya Pasternak
Finance Manager

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

	Share capital AZN'000	Accumulated deficits AZN'000	Total equity AZN'000
Balance as at 1 January 2018*	**66,450**	**(15,034)**	**51,416**
Adjustment on initial application of IFRS 9 (see Note 29)	-	(2,531)	(2,531)
Restated balance as at 1 January 2018	**66,450**	**(17,565)**	**48,885**
Total comprehensive income			
Profit for the year	-	2,500	2,500
Total comprehensive income for the year	-	**2,500**	**2,500**
Balance as at 31 December 2018	**66,450**	**(15,065)**	**51,385**
Balance as at 1 January 2019	66,450	(15,065)	51,385
Total comprehensive income			
Profit for the year	-	3,033	3,033
Total comprehensive income for the year	-	**3,033**	**3,033**
Balance as at 31 December 2019	**66,450**	**(12,032)**	**54,418**

* The Bank initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. See Note 2(f).

Mr. Emil Rzayev
Chairman of the Management Board

Mrs. Yuliya Pasternak
Finance Manager

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements.

1 Background

(a) 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 15 February 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”) since 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.

The Bank has 13 branches (2018: 12) and 3 divisions (2018: 5). The majority of its assets and liabilities are located in the Republic of Azerbaijan.

The principal subsidiary is as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**2019**	**2018**
BTB Capital OJSC	Azerbaijan	Investment	100	100

The Bank is owned by :

	31 December 2019, %	31 December 2018, %
Shareholder		
Mrs. Nigar Mehdiyeva	74.99	74.99
Mr. Rza Sadiq	19.01	19.01
Mrs. Tukazban Mahmudova	6.00	6.00
Total	100.00	100.00

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

(b) Business environment

The Group’s operations are primarily located in Azerbaijan. Consequently, the Group is exposed to the economic and financial markets of Azerbaijan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in Azerbaijan.

In addition, the first months of 2020 have seen significant global market turmoil triggered by the outbreak of the coronavirus. Together with other factors, this has resulted in a sharp decrease in the oil price and the stock market indices. These developments are further increasing the level of uncertainty in the Azerbaijani business environment.

The consolidated financial statements reflect management’s assessment of the impact of the Azerbaijani business environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

2 Basis of preparation

(a) Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* has been applied. Changes to significant accounting policies are described in Note 2(f).

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis (in 2018: on the historical cost basis).

(c) Going concern – the COVID-19 outbreak

On 11 March 2020, the World Health Organization declared the coronavirus outbreak a pandemic. Responding to the potentially serious threat the COVID-19 presents to public health, the Azerbaijani government authorities have taken measures to contain the outbreak, including imposing restrictions on the cross-borders movement of people, entry restrictions for foreign visitors and instructing business community to transfer employees to working from home. During March 2020, the authorities gradually introduced additional measures to enhance social distancing, including closing schools, universities, restaurants, cinemas, theaters and museums and sport facilities. In order to ensure the sanitary and epidemiological well-being of the population, the authorities declared a special quarantine regime from 24 March 2020 until 20 April 2020, which was later extended until 31 May 2020. Beginning from 27 April 2020, the government of Azerbaijan has announced a partial easing of the special quarantine rules to allow for the partial re-opening of a number of business and previously restricted services.

Due to lockdown and business disruption in many countries, global oil demand has drastically decreased leading to oversupply and sharp fall in oil prices. On 12 April 2020, major global oil producers agreed to a record cut in crude oil production for stabilizing the oil market, which, however, has not been able to reverse the downward pressure on the oil market. Sharp decrease in oil prices and production volumes result in corresponding decrease of oil producers' income and payments to the budget, which is likely to have major economic and social consequences and unavoidably affect public sector spending.

These events will have wider adverse effects on the economy, including:

- Disruption to business operations and economic activity, with a negative impact on supply chains and breach of contracts;
- Significant disruption to businesses in certain sectors, both operating on domestic market and export-oriented businesses with high reliance on foreign markets. Mostly affected sectors include retail, travel and tourism, entertainment and hospitality sector, transportation, oil industry, construction, automotive, insurance and financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

On 19 March 2020, the President of Azerbaijan Republic issued an order to allocate AZN 1 billion from the state budget to the Cabinet of Ministers for the implementation of measures to reduce the negative impact of the COVID-19 pandemic on the economy, to ensure macroeconomic stability, to support employment and entrepreneurship. On 30 March 2020, the Minister of Economy announced the government's plan to implement programs for AZN 2.5 billion (3% of GDP) to support effected businesses and people, after more in-depth study of the problem. These measures include, among others, compensation for the damages to the entrepreneurs for preserving the salaries of the hired workers, payment of lump-sum amounts to unemployed citizens within the framework of social package, implementation of credit and guarantee support program which enables businesses to get loans with preferential terms under government guarantees, subsidization of 10% of the interest expense for the first year of existing entrepreneur loans in the coronavirus affected sectors, tax benefits and holidays for businesses operating in the areas affected by the pandemic. The list of heavily affected industries is closely monitored and may be adjusted based on further developments.

In making the going concern assessment, the management focused on the forecasted statutory capital adequacy and the liquidity position of the Bank, which are the two main areas which will be affected by the current situation in the foreseeable future.

Prior to making stress tests under various assumptions on these two main areas, the management firstly assessed the current and the expected economic situation, based on country risk analysis done by S&P Global rating agency.

Assessment of economic situation

Azerbaijan derives about 40% of its GDP, 50% of government revenues, and more than 90% of exports from the hydrocarbons sector. This makes Azerbaijan's undiversified economy and credit profile vulnerable to a steep and sustained decline in oil prices, notwithstanding government's policy to encourage non-oil private-sector growth. On Azerbaijan's state budget for 2020, the oil price was projected to be at 50 USD per barrel (pb), and during the first two month of 2020, the national "Azeri Light" crude oil was sold on average 58-59 USD pb. However, starting from March 2020, global oil prices sharply decreased, after the average daily demand for global oil dropped by 29%, due to events triggered by COVID-19 outbreak. Similarly, the price of Azeri Light crude oil also decreased sharply, reaching a minimum of 15.81 USD pb on 21 April 2020 and trading on average 27-29 USD at the date the financial statements are authorized for issue. S&P Global analytics on their updated outlook for Azerbaijan on 26 March 2020, expect that lower oil prices will weigh on Azerbaijan's economic prospects. Risks to growth in the short term could be exacerbated by reduced activity due to the COVID-19 pandemic, which could exert significant pressure on the economy, specifically the trade, retail, and hospitality sectors. They expect a mild economic contraction in 2020 and project a rebound with growth averaging about 2.5% over the remainder of their forecast period 2020-2023. In their economic outlook, the Brent oil prices are assumed to average 30$ pb in 2020, 50$ pb in 2021 and 55$ pb from 2022. They anticipate a recovery in both GDP and oil demand through the second half of 2020 and into 2021, as the most severe effects from the coronavirus outbreak moderate. Overall, S&P Global affirmed Azerbaijan's rating at 'BB+/B', acknowledging that Azerbaijan's strong external balance is a core rating strength, reinforced by the large amount of foreign assets accumulated in the sovereign wealth fund, SOFAZ. In their view, amid the volatile oil price environment, pressure on AZN has increased. Nonetheless, they assume Azerbaijan will retain the AZN's de facto peg to the U.S dollar at AZN 1.7 to $1, supported by the authorities' regular interventions in the foreign currency market. However, should oil prices remain low for a prolonged period, the authorities could allow the exchange rate to adjust to avoid a similar substantial loss of foreign currency reserves as in 2015.

Statutory capital adequacy

As at year end 31 December 2019, the Bank's total statutory capital was AZN 62,099 thousand (unaudited, see Note 25), which was above the minimum required level of AZN 50,000 thousand. At 30 April 2020, the total statutory capital was boosted further by AZN 714 thousand statutory net profits for the first quarter of 2020 (unaudited). The management assesses that the forecasted statutory net result is the main variable for estimation of total statutory capital. Thus, management analysed the possible deterioration of the Bank's future statutory net results based on a worst-case scenario, by using the following assumptions:

The management assumes under the worst-case scenario, average oil prices would be less than 30 USD pb for a prolonged period of time (not reaching an average of 50 USD pb in 2021), government and the CBAR support measures will not be realised, the CBAR would drop fixing the national currency and special quarantine regime would not be lifted before second half of 2020. The management used its past financial information from 2015-2016 period, where global oil prices decreased sharply by more than 50% for a long-term period and national currency devalued significantly, for estimating its statutory net results for the subsequent 12 month period. Based on the worst-case scenario, management assumes that for the subsequent 12 month period, the Bank's interest income will be approximately 13% less than the budgeted amount, where the budgeted amounts were based on extrapolation of the first quarter results of 2020 for the subsequent 12 month period. The management assumes interest expense will be ~3% more, net fee and commission income will be ~7% less, and personnel expenses will be ~8% less than the budgeted amounts. Foreign exchange translation losses were estimated to be zero, as the Bank was keeping its currency position at least on break-even, if not on long position. For credit loss allowances, management assumes that the statutory loan allowance balance would increase by ~123% during the subsequent 12 month period, reducing the net statutory results by AZN 12,223 thousand, under the worst-case scenario. Under this scenario, the Group would incur a net statutory loss of ~AZN 11,602 thousand, resulting in total statutory capital of AZN 50,657 thousand. The statutory loan loss allowance would be the main factor affecting the net statutory results of the Group. Management believes that the realistic increase in statutory loan allowances would be less under this worst-case scenario, considering that since the last events of 2015-2016, the Bank was implementing a number of measures, aimed at improving the quality of its loan portfolio. These measures mainly included, substantially increasing the staff numbers in the risk management department, improving the credit underwriting and approval processes, attracting more experience credit specialists and reducing the share of foreign currency loans in its portfolio.

Liquidity position

As set out in the contractual maturity table in Note 22, as at 31 December 2019 the Group had a negative cumulative liquidity gap of AZN 40,642 thousand in the period up to twelve months. On 31 March 2020, based on the statutory figures, the Group’s negative cumulative liquidity gap was AZN 42,423 thousand (unaudited).

Management believes that although current accounts balance of AZN 47,615 thousand as at 31 December 2019 is included under on demand category in maturity table, apparently not all of these amounts will be withdrawn in period of one month. Similarly, the negative cumulative liquidity gap as at 31 March 2020, also included on demand current accounts balance of AZN 45,600 (unaudited). AZN 26,325 thousand part of these current accounts at 31 March 2020, belonged to one corporate customer (unaudited). The Group was offering 6.25% interest rate on this current account balance, and this customer historically has been prolonging its agreement after its 6 month maturity, for the last 18 month period. Based on its understanding of the customer’s business and their professional relationships, the management believes that this amount will not be withdrawn until 30 September 2021. Past experience demonstrates that current account average balances, excluding the specific top customer, have not decreased below AZN 26,000 thousand for the period of last three years. In addition, the Group has an overdraft agreement with the CBAR in amount of AZN 6,000 thousand with maturity date of 2022 in order to manage liquidity risk. Considering these, management believes that the Group will have sufficient liquidity for the foreseeable future, even under the worst-case scenarios, where the collections from loan to customers decreases and outflows of customer accounts increases.

Subsequent to 31 December 2019, the Bank attracted new term deposits from individual and corporate customers as well as prolonged term deposits originally maturing during period from January to April 2020 for the total amount of AZN 18,796 thousand and AZN 3,281 thousand for a contractual maturity of one year and more respectively (unaudited). The Group will be supported with the shareholders’ capital injections if it faces liquidity or statutory capital adequacy problems.

In management’s view, the above analysis supports the assertion that the Group will have sufficient resources and statutory capital to continue for the foreseeable future. Management concluded that the range of possible outcomes considered at arriving at this judgment does not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern.

(d) 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.

At 31 December 2019, the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.7000 and EUR 1 = AZN 1.9035 (31 December 2018: USD 1 = AZN 1.7000 and EUR 1 = AZN 1.9468).

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.

(e) 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 recognised 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 recognised 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(f)(i).
- establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL – Note 24 (e)(i).

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 31 December 2019 is included in the following notes:

- impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information – Note 24 (e)(i).
- estimates of fair values of financial assets and liabilities – Note 30.

(f) Changes in accounting policies and presentation

IFRS 16

The Group initially applied IFRS 16 Leases from 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 3(o).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

As a lessee, the Group leases many assets including property and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019 (see Note 2(f). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Group applied this approach to its all property lease.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. IT equipment).

As a lessor

The Group leases out certain property and equipment. The Group had classified these leases as follows:

- operating leases of investment property: see Notes 15 and 27.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

Impact on consolidated financial statements

Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities. Transition to IFRS 16 did not have any effect on retained earnings. The impact on transition is summarised below.

AZN'000	**1 January 2019**
Right-of-use assets	1,475
Lease liabilities	1,475

For the details of accounting policies under IFRS 16 and IAS 17, see Note 3(o).

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 10.00%.

AZN'000	**1 January 2019**
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Bank's financial statements	-
Discounted using the incremental borrowing rate at 1 January 2019	1,899
- Recognition exemption for leases with less than 12 months of lease term at transition	(424)
Lease liabilities recognised at 1 January 2019	1,475

3 Significant accounting policies

Except for the changes disclosed in Note 2(f), the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) 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 amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

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

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

(b) Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

Calculation of interest income and expense

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

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

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

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

Presentation

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

- interest on financial assets measured at amortised cost;

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

- financial liabilities measured at amortised cost;
- interest expense on lease liabilities

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

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

A contract with a customer that results in a recognised 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.

(d) Cash and cash equivalents

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

(e) 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.

(f) Financial assets and financial liabilities

(i) Classification

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

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

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

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

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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 realised.

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the 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 amortised 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 recognised on an effective yield basis.

Reclassification

Financial liabilities are not reclassified subsequent to their initial recognition.

(ii) Derecognition

Financial assets

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

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

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

The Group enters into transactions whereby it transfers assets recognised 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 derecognised. 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.

(iii) Modification of financial assets and financial liabilities

Financial assets

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

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

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

(iv) Impairment

See also Note 24(e)(i).

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 24(e)(i)).

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

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

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

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as ‘Stage 3’ financial instruments.

Measurement of ECL

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

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

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 24(e)(i).

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 24(e)(i)).
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost 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 a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, 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 are 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 recognised 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 amortised 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 recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-offs

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

Recoveries of amounts previously written off are included in '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.

(v) Fair value measurement principles

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

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

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

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

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.

(vi) Offsetting

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

(g) Loans to customers

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

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

(h) Investment securities

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

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

(i) Property and equipment

(i) 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.

(ii) Depreciation

Depreciation is recognised 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 straightline 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 year ended 31 December 2019
- buildings	30%	50 years
- furniture and equipment	-	8 years
- computers	-	4 years
- vehicles	-	8 years

(j) Intangible assets

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

Acquired computer software licenses are capitalised 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.

(k) 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 line 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.

(l) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in 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 derecognised 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 derecognised.

When the use of a 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.

(i) Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straightline 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 year ended 31 December 2019
- buildings	30%	50 years

(m) Provisions

A provision is recognised 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.

(n) 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(f)(iv)) and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

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

For other loan commitments:

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

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

(o) Lease

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

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

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

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

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

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

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

– fixed payments, including in-substance fixed payments;

– variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

– amounts expected to be payable under a residual value guarantee; and

– the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

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

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

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

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(iii) As a lessee

The Group did not have any finance leases under IAS 17.

Assets held under other leases were classified as operating leases and were not recognised in the Group’s consolidated statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(iv) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised 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.

(q) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised 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 recognised 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 recognised 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 recognised 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 utilised. 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 realised; such reductions are reversed when the probability of future taxable profits improves.

(r) Comparative information

The Group changed presentation of certain captions in the primary forms of the consolidated financial statements. Comparative information is reclassified to conform to changes in presentation in the current period.

The effect of main changes in presentation of the consolidated statement of financial position as at 31 December 2018 is as follows:

- “Due from banks and other financial institutions” were renamed to “Due from banks” line item;

The effect of main changes in presentation of consolidated statement of cash flows for the year ended 31 December 2018 is as follows:

- Changes in “Due from banks and other financial institutions” were renamed to “Due from banks” line item.

There were no changes in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

(s) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following new and amended standards are not expected to have a significant impact on the Group’s financial statements:

– _Amendments to References to Conceptual Framework in IFRS Standards;_
– _Definition of a Business (Amendments to IFRS 3);_
– _Definition of Material (Amendments to IAS 1 and IAS 8)_
– _IFRS 17 Insurance Contracts_

4 Net interest income

	2019 AZN'000	2018 AZN'000
Interest income calculated using the effective interest method		
Loans to customers	22,176	19,220
Investment securities	163	211
Due from banks	168	141
	22,507	**19,572**
Interest expense		
Current accounts and deposits from customers	8,089	7,029
Other borrowed funds	3,428	3,608
Deposits and balances from banks	285	250
Lease liabilities	150	-
	11,952	**10,887**
	10,555	**8,685**

5 Fee and commission income

	2019 AZN'000	2018 AZN'000
Settlements	1,749	1,801
Plastic card operations	980	699
Cash withdrawal	773	774
Guarantees	647	649
Other	82	84
	4,231	**4,007**

Performance obligations and revenue recognition policies

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

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, including 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 transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	The Group charges comission 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

	2019 AZN'000	2018 AZN'000
Settlements	394	370
Cash withdrawal	90	140
Other	15	6
	499	**516**

7 Impairment recovery

	2019 AZN'000	2018 AZN'000
Recovery for impairment of loans to customers	656	1,384
(Charge) recovery for impairment of others	(491)	(346)
	165	**1,038**

8 Personnel expenses

	2019 AZN'000	2018 AZN'000
Employee compensation	7,568	6,151
Payments to Social Security Fund	1,219	1,353
	8,787	**7,504**

9 Other general administrative expenses

	2019 AZN'000	2018 AZN'000
Depreciation and amortisation expense	1,326	1,348
Expenses related to cheques and other valuables	778	637
Professional service fees	575	427
Depreciation of right-of-use assets	536	-
Lease expense (2018: rent expense)	462	866
Security expense	411	354
Communication expense	361	292
Taxes other than income tax	353	384
Fees paid to Deposit Insurance Fund	350	346
Membership fee	312	351
Advertising expense	138	156
Utility expense	123	127
Repair and maintenance expenses	96	85
Other operating expenses	570	376
	6,391	**5,749**

10 Income tax expense

	2019 AZN'000	2018 AZN'000
Movement in deferred tax assets and liabilities due to origination and reversal of temporary differences	638	(544)
Recognition of previously unrecognized tax losses	(638)	-
Unrecognized deferred tax assets	-	544
Total income tax expense	-	-

In 2019, the applicable tax rate for current and deferred tax is 20% (2018: 20%).

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

	2019 AZN'000	%	2018 AZN'000	%
Profit before income tax	3,033		2,500	
Income tax at the applicable tax rate	607	20.0	500	20.0
Recognition of previously unrecognized tax losses	(638)	(21.0)		
Unrecognised deferred tax assets	-	-	(544)	(21.8)
Non-deductable costs	31	1.0	44	1.8
Total income tax expense	-	-	-	-

Deferred 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 31 December 2019 and 2018. These deferred tax assets are not recognised in these consolidated financial statements for the year ended 31 December 2019 and 31 December 2018. Future tax benefits will only be realised if profits will be available against which unused tax losses can be utilised 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 recognised due to uncertainties concerning their realisation. The Group did not recognise income tax expense for the year ended at 31 December 2019 and 2018.

The deductible temporary differences do not expire under current tax legislation. The tax loss carry-forwards expire in 5 years (2021-2023).

Movements in temporary differences during the years ended 31 December 2019 and 2018 are presented as follows:

2019 **AZN'000**	**1 January 2019**	**Recognised in profit or loss**	**31 December 2019**
Tax loss carry-forwards	5,303	(1,128)	4,175
Loans to customers	82	959	1,041
Other financial assets	-	44	44
Right-of-use assets	-	30	30
Other liabilities	(17)	44	27
Due from banks	-	20	20
Intangible assets	5	3	8
Other assets	-	(60)	(60)
Other borrowed funds	-	(170)	(170)
Property and equipment	(1,903)	(380)	(2,283)
Unrecognised deferred tax assets	(3,470)	638	(2,832)
	-	-	-

2018 **AZN'000**	**1 January 2018**	**Recognised in profit or loss**	**31 December 2018**
Tax loss carry-forwards	4,509	794	5,303
Loans to customers	28	54	82
Intangible assets	3	2	5
Other liabilities	(17)	-	(17)
Property and equipment	(1,597)	(306)	(1,903)
Unrecognised deferred tax assets	(2,926)	(544)	(3,470)
	-	-	-

11 Cash and cash equivalents

	2019 **AZN'000**	**2018** **AZN'000**
Cash on hand	**10,543**	**13,178**
Nostro accounts with the CBAR	**4,243**	**-**
Nostro accounts with other banks		
- rated from A- to A+	3,326	-
- rated from BBB- to BBB+	2,350	1,030
- rated from BB- to BB+	-	57
- rated from B- to B+	434	1,141
- rated from CCC- to CCC+	58	-
- not rated	600	144
Total nostro accounts with other banks	**6,768**	**2,372**
Term deposits with the CBAR	**-**	**4,705**
	21,554	**20,255**

No cash and cash equivalents are credit impaired or 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 31 December 2019 and 2018 the Group had no bank whose balance exceeded 10% of equity.

All cash and cash equivalent balances are in Stage 1 and their ECL is not material as for 31 December 2019 and 31 December 2018.

12 Due from banks

	2019 AZN'000	2018 AZN'000
Mandatory reserve with the CBAR	871	772
Correspondent accounts with the CBAR	-	17,102
Loans and deposits with other banks		
- rated from A- to A+	381	-
- rated from BBB- to BBB+	51	51
- rated from B- to B+	13,123	4,463
- rated from CCC- to CCC+	-	-
- not rated	3	4,286
Total loans and deposits with other banks	**13,558**	**8,800**
Loss allowance	(146)	-
Net due from banks	**14,283**	**26,674**

As at 31 December 2019, included in due from banks was blocked correspondent account in the CBAR is nil (2018: AZN 17,102 thousand).

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.

Impairment allowance

There was no significant movement in due from banks during 2019 contributing to changes in the loss allowance. The following tables show reconciliations from the opening to the closing balances of the loss allowance of due from banks.

	2019		2018	
AZN'000	**Stage 1**	**Total**	**Stage 1**	**Total**
Cash and cash equivalents				
Balance at 1 January	-	-	-	-
Net remeasurement of loss allowance	146	**146**	-	-
Balance at 31 December	**146**	**146**	-	-

Concentration of due from banks

As at 31 December 2019 the Group had one bank (2018: one), whose total balances exceeded 10% of equity. The gross value of these balances as at 31 December 2019 is AZN 8,539 thousand (2018: AZN 17,874 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% (2018: 0.5% and 1%) of the average qualifying customer accounts balances denominated in AZN and foreign currency, respectively.

13 Investment securities

	2019 AZN'000	2018 AZN'000
Investment securities measured at amortised cost	3,372	3,383
Total investment securities	**3,372**	**3,383**

At 31 December 2019, debt securities mainly represented traded redeemable bonds of the State oil Company of Azerbaijan Republic. SOCAR bonds were in the quantity of 1,876 and an average par value of USD 1,008 which are redeemable, carry 5% annual interest rate payable quarterly and mature in October 2021.

The part of SOCAR bonds for AZN 2,476 thousand were pledged under repurchase agreements with corporate customers included in Note 19.

All investment securities balances are in Stage 1 and their ECL is not material as for 31 December 2019 and 31 December 2018.

Investment securities measured at amortised cost

	2019 AZN'000	2018 AZN'000
Corporate bonds		
- rated from AAA- to AAA+	68	2,533
- rated from BB- to BB+	3,304	-
- not rated	-	850
Total investment securities	**3,372**	**3,383**

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

14 Loans to customers

	2019 AZN'000	% of total gross loans	2018 AZN'000	% of total gross loans
Loans to corporate customers				
Loans to corporate customers	64,950	27%	54,397	26%
Total loans to corporate customers	**64,950**		**54,397**	
Loans to retail customers				
Mortgage loans	148,781	62%	118,933	56%
Entrepreneurs	17,065	7%	20,954	10%
Consumer loans	8,610	4%	15,633	7%
Credit cards	935	0%	871	0%
Auto loans	790	0%	938	1%
Total loans to retail customers	**176,181**		**157,329**	
Gross loans to customers	**241,131**		**211,726**	
Loss allowance	(15,287)		(19,259)	
Net loans to customers	**225,844**		**192,467**	

(a) Loss allowance

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

AZN'000	2019					2018			
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost*									
Balance at 1 January	1,774	498	16,987	-	19,259	740	57	17,171	17,968
Transfer to Stage 1	238	(2)	(236)	-	-	2,491	(8)	(2,483)	-
Transfer to Stage 2	(549)	678	(129)	-	-	(452)	1,024	(572)	-
Transfer to Stage 3	-	(506)	506	-	-	-	(454)	454	-
Net remeasurement of loss allowance	(677)	(397)	(1,916)	-	(2,990)	(1,710)	(121)	(258)	(2,089)
New financial assets originated or purchased	2,074	172	88	-	2,334	705	-	-	705
Financial assets that have been derecognized	-	-	(2,587)	-	(2,587)	-	-	-	-
Write-offs	-	-	(1,994)	-	(1,994)	-	-	(80)	(80)
Unwinding of discount on present value of ECLs	-	-	1,265	-	1,265	-	-	2,755	2,755
Balance at 31 December	**2,860**	**443**	**11,984**	**-**	**15,287**	**1,774**	**498**	**16,987**	**19,259**

AZN'000	2019					2018			
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans to customers at amortised cost-corporate loans*									
Balance at 1 January	393	1	1,205	-	1,599	480	-	266	746
Transfer to Stage 1	-	-	-	-	-	97	-	(97)	-
Transfer to Stage 2	(37)	37	-	-	-	(70)	70	-	-
Transfer to Stage 3	-	(1)	1	-	-	-	(68)	68	-
Net remeasurement of loss allowance	38	90	(413)	-	(285)	(378)	(1)	904	525
New financial assets originated or purchased	913	109	-	-	1,022	264	-	-	264
Write-offs	-	-	-	-	-	-	-	(80)	(80)
Unwinding of discount on present value of ECLs	-	-	39	-	39	-	-	144	144
Balance at 31 December	**1,307**	**236**	**832**	**-**	**2,375**	**393**	**1**	**1,205**	**19,259**

AZN'000	2019					2018			
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost-mortgage loans*									
Balance at 1 January	988	484	2,190	-	3,662	140	15	3,349	3,504
Transfer to Stage 1	224	(1)	(223)	-	-	1,987	(7)	(1,980)	-
Transfer to Stage 2	(426)	548	(122)	-	-	(307)	879	(572)	-
Transfer to Stage 3	-	(429)	429	-	-	-	(313)	313	-
Net remeasurement of loss allowance	(525)	(487)	308	-	(704)	(1,140)	(90)	821	(455)
New financial assets originated or purchased	356	63	88	-	507	308	-	-	308
Financial assets that have been derecognized	-	-	(6)	-	(6)	-	-	-	-
Write-offs	-	-	(66)	-	(66)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	204	-	204	-	-	259	259
Balance at 31 December	**617**	**178**	**2,802**	**-**	**3,597**	**988**	**484**	**2,190**	**3,662**

AZN'000	2019					2018			
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost-entrepreneurs*									
Balance at 1 January	46	-	9,845	-	9,891	76	3	9,498	9,577
Transfer to Stage 1	8	-	(8)	-	-	35	-	(35)	-
Transfer to Stage 2	(29)	34	(5)	-	-	(31)	31	-	-
Transfer to Stage 3	-	(29)	29	-	-	-	(34)	34	-
Net remeasurement of loss allowance	147	6	(1,567)	-	(1,414)	(103)	-	(1,397)	(1,500)
New financial assets originated or purchased	677	-	-	-	677	69	-	-	69
Financial assets that have been derecognized	-	-	(1,718)	-	(1,718)	-	-	-	-
Write-offs	-	-	(1,464)	-	(1,464)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	709	-	709	-	-	1,745	1,745
Balance at 31 December	**849**	**11**	**5,821**	**-**	**6,681**	**46**	**-**	**9,845**	**9,891**

AZN'000	2019					2018			
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost-consumer loans*									
Balance at 1 January	346	13	2,624	-	2,983	40	39	2,661	2,740
Transfer to Stage 1	6	(1)	(5)	-	-	345	(1)	(344)	-
Transfer to Stage 2	(57)	59	(2)	-	-	(44)	44	-	-
Transfer to Stage 3	-	(47)	47	-	-	-	(39)	39	-
Net remeasurement of loss allowance	(337)	(6)	(85)	-	(428)	(59)	(30)	(190)	(279)
New financial assets originated or purchased	128	-	-	-	128	64	-	-	64
Financial assets that have been derecognized	-	-	(861)	-	(861)	-	-	-	-
Write-offs	-	-	(384)	-	(384)	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	209	-	209	-	-	458	458
Balance at 31 December	**86**	**18**	**1,543**	**-**	**1,647**	**346**	**13**	**2,624**	**2,983**

AZN'000	2019					2018			
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost-auto loans*									
Balance at 1 January	-	-	765	-	765	3	-	959	962
Transfer to Stage 1	-	-	-	-	-	27	-	(27)	-
Net remeasurement of loss allowance	1	-	(77)	-	(76)	(30)	-	(256)	(286)
Financial assets that have been derecognized	-	-	(2)	-	(2)	-	-	-	-
Write-offs	-	-	(14)	-	(14)				
Unwinding of discount on present value of ECLs	-	-	73	-	73	-	-	89	89
Balance at 31 December	**1**	**-**	**745**	**-**	**746**	**-**	**-**	**765**	**765**

AZN'000	2019					2018			
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	Total
Loans to customers at amortised cost-credit cards*									
Balance at 1 January	1	-	358	-	359	1	-	438	439
Net remeasurement of loss allowance	(1)	-	(82)	-	(83)	-	-	(140)	(140)
Write-offs	-	-	(66)	-	(66)				
Unwinding of discount on present value of ECLs	-	-	31	-	31	-	-	60	60
Balance at 31 December	**-**	**-**	**241**	**-**	**241**	**1**	**-**	**358**	**359**

* 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:

- Newly issued corporate loans at the amount of AZN 33,169 thousand during the year 2019 increased the loan loss allowance measured at 12 month basis by AZN 913 thousand. AZN 22,500 thousand repayment made by borrowers of corporate loans during the year 2019 reduced the net loss allowance by AZN 285 thousand.
- Newly issued mortgage loans at the amount of AZN 58,362 thousand during the year 2019 increased the loan loss allowance by AZN 356 thousand. AZN 28,502 thousand repayment made by borrowers of mortgage loans during the year 2019 reduced the net loss allowance for Stage 1 and Stage 2 loans by AZN 1,012 thousand.
- Newly issued entrepreneur loans at the amount of AZN 9,753 thousand during the year 2019 increased the loan loss allowance by AZN 677 thousand. AZN 11,207 thousand repayment of entrepreneur loans during the year 2019 reduced the net loss allowance by AZN 1,414 thousand.
- During the year 2019, AZN 1,470 thousand loan repayments (of which AZN 1,340 thousand relates to entrepreneur loans) were made directly by the government as a compensation of a devaluation effect on foreign currency loan balances, based on the decree of the President signed on 28 February 2019 (see Note 20). The outstanding gross accrued interest balance on these loans for AZN 501 thousand was written-off and the remaining outstanding gross principal balance for AZN 2,845 thousand was derecognised, as a result of substantial modification leading to the decrease in the loss allowance by AZN 2,587 thousand. As a result of restructuring the Group recognized POCI assets of AZN 117 thousand and loss on derecognition of AZN 48 thousand (see Note 20).

The following table sets out information about the credit quality of loans to customers measured at amortised cost as at 31 December 2019 and as at 31 December 2018. 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(e)(iv)).

AZN'000	31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – corporate customers					
Not overdue	57,784	-	157	-	57,941
Overdue less than 30 days	1,668	-	-	-	1,668
Overdue 30-89 days	-	3,531	57	-	3,588
Overdue 90-179 days	-	-	425	-	425
Overdue 180-360 days	-	-	194	-	194
Overdue more than 360 days	-	-	1,134	-	1,134
	59,452	**3,531**	**1,967**	**-**	**64,950**
Loss allowance	**(1,307)**	**(236)**	**(832)**	**-**	**(2,375)**
Carrying amount	**58,145**	**3,295**	**1,135**	**-**	**62,575**

AZN'000	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – corporate customers					
Not overdue	47,749	-	186	-	47,935
Overdue less than 30 days	838	-	431	-	1,269
Overdue 30-89 days	-	544	48	-	592
Overdue 90-179 days	-	-	378	-	378
Overdue 180-360 days	-	-	1,222	-	1,222
Overdue more than 360 days	-	-	3,001	-	3,001
	48,587	**544**	**5,266**	**-**	**54,397**
Loss allowance	**(393)**	**(1)**	**(1,205)**	**-**	**(1,599)**
Carrying amount	**48,194**	**543**	**4,061**	**-**	**52,798**

AZN'000	31 December 2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – Mortgage loans					
Not overdue	139,519	609	1,373	-	141,501
Overdue less than 30 days	1,886	68	475	-	2,429
Overdue 30-89 days	-	1,038	268	-	1,306
Overdue 90-179 days	-	-	560	-	560
Overdue 180-360 days	-	-	705	-	705
Overdue more than 360 days	-	-	2,280	-	2,280
	141,405	**1,715**	**5,661**	**-**	**148,781**
Loss allowance	**(617)**	**(178)**	**(2,802)**	**-**	**(3,597)**
Carrying amount	**140,788**	**1,537**	**2,859**	**-**	**145,184**

AZN'000	31 December 2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
Loans to customers at amortised cost – Mortgage loans					
Not overdue	105,619	1,378	2,712	-	109,709
Overdue less than 30 days	2,299	104	2,782	-	5,185
Overdue 30-89 days	-	630	332	-	962
Overdue 90-179 days	-	-	301	-	301
Overdue 180-360 days	-	-	771	-	771
Overdue more than 360 days	-	-	2,005	-	2,005
	107,918	**2,112**	**8,903**	**-**	**118,933**
Loss allowance	**(988)**	**(484)**	**(2,190)**	**-**	**(3,662)**
Carrying amount	**106,930**	**1,628**	**6,713**	**-**	**115,271**

AZN'000	31 December 2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Entrepreneurs					
Not overdue	9,411	56	81	53	9,601
Overdue less than 30 days	550	-	16	12	578
Overdue 30-89 days	-	68	14	9	91
Overdue 90-179 days	-	-	45	5	50
Overdue 180-360 days	-	-	47	-	47
Overdue more than 360 days	-	-	6,698	-	6,698
	9,961	**124**	**6,901**	**79**	**17,065**
Loss allowance	**(849)**	**(11)**	**(5,821)**	**-**	**(6,681)**
Carrying amount	**9,112**	**113**	**1,080**	**79**	**10,384**

AZN'000	31 December 2018				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Entrepreneurs					
Not overdue	9,530	-	90	-	9,620
Overdue less than 30 days	27	-	54	-	81
Overdue 30-89 days	-	41	200	-	241
Overdue 90-179 days	-	-	76	-	76
Overdue 180-360 days	-	-	121	-	121
Overdue more than 360 days	-	-	10,815	-	10,815
	9,557	**41**	**11,357**	**-**	**20,954**
Loss allowance	**(46)**	**-**	**(9,845)**	**-**	**(9,891)**
Carrying amount	**9,511**	**41**	**1,512**	**-**	**11,063**

AZN'000	31 December 2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Consumer loans					
Not overdue	6,778	6	22	27	6,833
Overdue less than 30 days	160	-	2	5	167
Overdue 30-89 days	-	43	38	4	85
Overdue 90-179 days	-	-	45	2	47
Overdue 180-360 days	-	-	70	-	70
Overdue more than 360 days	-	-	1,408	-	1,408
	6,938	**49**	**1,585**	**38**	**8,610**
Loss allowance	**(86)**	**(18)**	**(1,543)**	**-**	**(1,647)**
Carrying amount	**6,852**	**31**	**42**	**38**	**6,963**

AZN'000	31 December 2018				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Consumer loans					
Not overdue	12,126	6	30	-	12,162
Overdue less than 30 days	256	-	5	-	261
Overdue 30-89 days	1	64	20	-	85
Overdue 90-179 days	-	-	65	-	65
Overdue 180-360 days	-	-	341	-	341
Overdue more than 360 days	-	-	2,719	-	2,719
	12,383	**70**	**3,178**	**-**	**15,633**
Loss allowance	**(346)**	**(13)**	**(2,624)**	**-**	**(2,983)**
Carrying amount	**12,037**	**57**	**554**	**-**	**12,650**

AZN'000	**31 December 2019**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Auto loans					
Not overdue	40	-	-	-	40
Overdue less than 30 days	-	-	-	-	-
Overdue 30-89 days	-	-	-	-	-
Overdue 90-179 days	-	-	22	-	22
Overdue 180-360 days	-	-	-	-	-
Overdue more than 360 days	-	-	728	-	728
	40	**-**	**750**	**-**	**790**
Loss allowance	**(1)**	**-**	**(745)**	**-**	**(746)**
Carrying amount	**39**	**-**	**5**	**-**	**44**

AZN'000	**31 December 2018**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Auto loans					
Not overdue	101	-	-	-	101
Overdue less than 30 days	53	-	-	-	53
Overdue 30-89 days	-	-	5	-	5
Overdue 90-179 days	-	-	11	-	11
Overdue 180-360 days	-	-	6	-	6
Overdue more than 360 days	-	-	762	-	762
	154	**-**	**784**	**-**	**938**
Loss allowance	**-**	**-**	**(765)**	**-**	**(765)**
Carrying amount	**154**	**-**	**19**	**-**	**173**

AZN'000	**31 December 2019**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Credit cards					
Not overdue	677	3	-	-	680
Overdue less than 30 days	3	-	-	-	3
Overdue 30-89 days	-	-	-	-	-
Overdue 90-179 days	-	-	13	-	13
Overdue 180-360 days	-	-	-	-	-
Overdue more than 360 days	-	-	239	-	239
	680	**3**	**252**	**-**	**935**
Loss allowance	**-**	**-**	**(241)**	**-**	**(241)**
Carrying amount	**680**	**3**	**11**	**-**	**694**

AZN'000	**31 December 2018**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Loans to customers at amortised cost – Credit cards					
Not overdue	445	-	-	-	445
Overdue less than 30 days	71	-	-	-	71
Overdue 30-89 days	-	9	-	-	9
Overdue 90-179 days	-	-	13	-	13
Overdue 180-360 days	-	-	-	-	-
Overdue more than 360 days	-	-	333	-	333
	516	**9**	**346**	**-**	**871**
Loss allowance	**(1)**	**-**	**(358)**	**-**	**(359)**
Carrying amount	**515**	**9**	**(12)**	**-**	**512**

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2019:

				Fair value of collateral held			
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Real estate**	**Motor vehicles**	**Total**
Loans to corporate customers							
Loans to corporate customers	1,967	(832)	1,135	-	957	-	957
Loans to retail customers							
Mortgage loans	5,661	(2,802)	2,859	-	2,821	-	2,821
Entrepreneurs	6,901	(5,821)	1,080	-	858	-	858
Consumer loans	1,585	(1,543)	42	10	-	-	10
Auto loans	750	(745)	5	-	-	2	2
Credit cards	252	(241)	11	13	-	-	13
Total credit-impaired loans to customers	**17,116**	**(11,984)**	**5,132**	**23**	**4,636**	**2**	**4,661**

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2018:

				Fair value of collateral held			
AZN'000	**Gross carrying amount**	**Loss allowance**	**Carrying amount**	**Cash and deposits**	**Real estate**	**Motor vehicles**	**Total**
Loans to corporate customers							
Loans to corporate customers	5,266	(1,205)	4,061	-	4,049	-	4,049
Loans to retail customers							
Mortgage loans	8,903	(2,190)	6,713	-	5,276	-	5,276
Entrepreneurs	11,357	(9,845)	1,512	-	1,049	-	1,049
Consumer loans	3,178	(2,624)	554	23	-	3	26
Auto loans	784	(765)	19	-	-	19	19
Credit cards	346	(358)	(12)	-	-	-	-
Total credit-impaired loans to customers	**29,834**	**(16,987)**	**12,847**	**23**	**10,374**	**22**	**10,419**

The following table provides information on collateral securing loans to customers, net of impairment, by types of collateral as at 31 December 2019:

				Fair value of collateral held					
AZN'000	**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	64,950	(2,375)	62,575	14,363	26,885	-	1,039	-	42,287
Loans to retail customers									
Mortgage loans	148,781	(3,597)	145,184	-	135,852	2	-	-	135,854
Entrepreneurs	17,065	(6,681)	10,384	-	4,799	1	291	-	5,091
Consumer loans	8,610	(1,647)	6,963	1,364	933	1,497	-	-	3,794
Auto loans	790	(746)	44	-	-	-	42	-	42
Credit cards	935	(241)	694	601	-	-	-	-	601
Total loans to customers	**241,131**	**(15,287)**	**225,844**	**16,328**	**168,469**	**1,500**	**1,372**	**-**	**187,669**

The following table provides information on total amount of loans to customers, net of impairment, by types of collateral as at 31 December 2018:

				Fair value of collateral held					
AZN'000	**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	54,397	(1,599)	52,798	14,185	17,404	-	1,358	-	32,947
Loans to retail customers									
Mortgage loans	118,933	(3,662)	115,271	683	103,540	1	-	-	104,224
Entrepreneurs	20,954	(9,891)	11,063	-	6,460	-	126	-	6,586
Consumer loans	15,633	(2,983)	12,650	7,736	288	1,066	-	5	9,095
Auto loans	938	(765)	173	-	51	-	-	121	172
Credit cards	871	(359)	512	153	139	16	-	-	308
Total loans to customers	**211,726**	**(19,259)**	**192,467**	**22,757**	**127,882**	**1,083**	**1,484**	**126**	**153,332**

As at 31 December 2019 the Bank held loans (corporate, consumer, mortgage, credit cards) in the amount of 16,328 thousand (31 December 2018: AZN 22,757 thousand) for which no loss allowance was recognised 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 31 December 2019, the Bank obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 949 thousand (2018: 601 thousand) and recognised them as assets held for sale. The Bank's policy is to sell these as soon as possible. Assets held for sale are comprised of real estates and other assets. See Note 17.

(b) Significant credit exposures

As at 31 December 2019, the Bank had twenty one borrowers or groups of connected borrowers (31 December 2018: nineteen borrowers) with gross loan balances exceeding AZN 1,000 thousand. The gross value of these loans as at 31 December 2019 was AZN 62,458 thousand or 26% of the total gross loans to customers (31 December 2018: AZN 55,409 thousand or 26%).

(c) Loan maturities

The maturity of the loan portfolio is presented in Note 24, which shows the remaining period from the reporting date to the contractual maturity of the loans.

15 Investment property

Investment property is comprised of 4 floors covering 2,046 square-meters of Head office of the Group. The Group transferred 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:

AZN'000	**Investment property**
Cost	
Balance at 1 January 2018	14,056
Balance at 31 December 2018	**14,056**
Depreciation	
Balance at 1 January 2018	(482)
Depreciation charge	(198)
Balance at 31 December 2018	**(680)**
Carrying amount	
At 31 December 2018	**13,376**
Cost	
Balance at 1 January 2019	14,056
Additions	25
Balance at 31 December 2019	**14,081**
Depreciation	
Balance at 1 January 2019	(680)
Depreciation charge	(198)
Balance at 31 December 2019	**(878)**
Carrying amount	
At 31 December 2019	13,203

As at 31 December 2019, investment property was carried at cost. Management believes that the fair value of investment property as at 31 December 2019 approximated its carrying amount. The fair value of the Group's investment property is categorised into level 3 of the fair value hierarchy.

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

AZN'000	**2019**	**2018**
Rental income	248	304
Expense arising from lease of property	(203)	(202)
Net gain from investment property	45	102

16 Property, equipment and intangible assets

AZN'000	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 1 January 2019	50,728	1,041	4,088	1,757	57,614	605	58,219
Additions	183	204	352	25	764	28	792
Disposals	-	(8)	(4)	(46)	(58)	(6)	(64)
Balance at 31 December 2019	50,911	1,237	4,436	1,736	58,320	627	58,947
Depreciation and amortisation							
Balance at 1 January 2019	(2,154)	(910)	(2,336)	(916)	(6,316)	(219)	(6,535)
Depreciation and amortisation for the year	(488)	(68)	(367)	(150)	(1,073)	(55)	(1,128)
Disposals	1	7	4	30	42	-	42
Balance at 31 December 2019	(2,641)	(971)	(2,699)	(1,036)	(7,347)	(274)	(7,621)
Carrying amount							
At 31 December 2019	48,270	266	1,737	700	50,973	353	51,326

AZN'000	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 1 January 2018	50,723	916	3,957	1,422	57,018	483	57,501
Additions	5	125	132	502	764	122	886
Disposals	-	-	(1)	(167)	(168)	-	(168)
Balance at 31 December 2018	**50,728**	**1,041**	**4,088**	**1,757**	**57,614**	**605**	**58,219**
Depreciation and amortisation							
Balance at 1 January 2018	(1,669)	(856)	(1,958)	(831)	(5,314)	(168)	(5,482)
Depreciation and amortisation for the year	(485)	(54)	(378)	(182)	(1,099)	(51)	(1,150)
Disposals	-	-	-	97	97	-	97
Balance at 31 December 2018	**(2,154)**	**(910)**	**(2,336)**	**(916)**	**(6,316)**	**(219)**	**(6,535)**
Carrying amount							
At 31 December 2018	**48,574**	**131**	**1,752**	**841**	**51,298**	**386**	**51,684**

As at 31 December 2019 and 2018 included in property and equipment were fully depreciated assets of AZN 2,439 thousand and AZN 2,174 thousand, respectively.

Buildings and land owned by the Group are carried at cost.

17 Other assets

	2019 AZN'000	2018 AZN'000
Due from payment systems	797	784
Credit and debit cards receivables	233	239
Other receivables	30	32
Total other financial assets	**1,060**	**1,055**
Assets held for sale	1,128	601
Prepaid expenses	452	164
Prepayments for property and equipment	277	126
Deferred expenses	38	20
Other	43	50
Total other non-financial assets	**1,938**	**961**
	2,998	**2,016**

As at 31 December 2019 and 2018, the Group did not have overdue other financial assets. All other financial assets are in Stage 1 and their ECL is not material as for 31 December 2019 and 31 December 2018. All other financial assets are non-rated.

During the year 2019, the Group wrote-off receivables from payment system operator for AZN 219 thousand, after it declared its bankruptcy.

Loss allowance

	2019	
AZN'000	**Stage 3**	**Total**
Other assets		
Balance at 1 January	-	-
Net remeasurement of loss allowance	219	219
Write-offs	(219)	(219)
Balance at 31 December	**-**	**-**

During the year ended 31 December 2019, the Group obtained certain assets by taking possession of collateral for loans to customers with a net carrying amount of AZN 949 thousand (2018: 601 thousand) and recognised them as assets held for sale.

18 Deposits and balances from banks

	2019 AZN'000	2018 AZN'000
Placements of other banks	5,526	5,526
Correspondent accounts and overnight placements of other banks	15	309
	5,541	**5,835**

Deposits and balances from banks comprise term placements of banks.

As at 31 December 2019 the Group has one bank (2018: one bank), whose balance exceeded 10% of equity. The gross value of this balance as at 31 December 2019 is AZN 5,526 thousand (2018: AZN 5,526 thousand).

19 Current accounts and deposits from customers

	2019 AZN'000	2018 AZN'000
Current accounts and demand deposits		
- Retail	13,697	11,775
- Corporate	33,918	20,077
Term deposits		
- Retail	88,063	91,676
- Corporate	7,986	4,711
Payables under repurchase agreements with corporate customers	2,357	-
	146,021	**128,239**

As at 31 December 2019, the Group has 1 customer (2018: 4 customers), whose total balances exceeded 10% of equity. The total amount of these balances as at 31 December 2019 is AZN 12,991 thousand (2018: AZN 31,177 thousand).

As at 31 December 2019, the Bank maintained customer deposit balances of AZN 18,914 thousand (2018: AZN 27,116 thousand) that serve as collateral for loans and unrecognized credit instruments granted by the Group.

20 Other borrowed funds

	2019 AZN'000	2018 AZN'000
Other borrowed funds		
Azerbaijan Mortgage and Credit Guarantee Fund	101,251	90,272
Entrepreneurship Development Fund Of The Republic Of Azerbaijan	17,217	15,027
Central Bank of the Republic of Azerbaijan	4,782	18,004
Agrarian Credit and Development Agency	2,024	-
Total other borrowed funds	**125,274**	**123,303**

Azerbaijan Mortgage Fund

As at 31 December 2019, AZN 101,250 thousand (2018: AZN 90,272 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 made available to the Bank at an interest rate of 1-4% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 8% p.a. These borrowings mature between February 2020 and December 2049.

Entrepreneurship Development Fund of the Republic of Azerbaijan

As at 31 December 2019, AZN 17,217 thousand (2018: AZN 15,027 thousand) out of term borrowings represented funds borrowed from 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 made available to the Bank at an interest rate of 1% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 6% p.a. These borrowings mature between July 2021 and April 2026.

Central Bank of the Republic of Azerbaijan

As at 31 December 2019, AZN 3,001 thousand (2018: AZN 18,004 thousand) out of term borrowings represented funds borrowed from Central Bank of the Republic of Azerbaijan with annual interest rate of 9%.

As at 31 December 2019, AZN 1,781 thousand out of term borrowings represented funds borrowed from the CBAR in 2019 with 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 28 February 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 recognised as a government grant in the amount of AZN 864 thousand. Based on this decree, the Group restructured eligible gross loans to customers for AZN 2,845 thousand with net carrying amount of AZN 171 thousand, by prolonging its maturity to 5 years, reducing the annual interest rate to 1% and changing its currency to AZN. The Group recognized a loss on derecognition of AZN 48 thousand from substantial modification of these loans to customers (see Note 14).

Agrarian Credit and Development Agency

As at 31 December 2019, AZN 2,024 thousand (2018: nil) out of term borrowings represented funds borrowed from Agrarian Credit and Development Agency, which was established for the purpose of development of agricultural industry. Under this program, funds made available to the Bank at an interest rate of 2% p.a. and the Bank further lends these funds to the eligible borrowers at rates not higher than 8% p.a.These borrowings mature between April 2022 and November 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 business as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

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

	2019			2018
’AZN 000	**Other borrowed funds**	**Lease liabilities**	**Total**	**Other borrowed funds**
Balance at 1 January	**123,303**	**1,475**	**124,778**	**108,516**
Changes from financing cash flows				
Receipts of other borrowed funds	57,290	-	57,290	33,278
Repayment of other borrowed funds	(54,438)	-	(54,438)	(28,486)
Payment of lease liability	-	(502)	(502)	
Total changes from financing cash flows	**2,852**	**(502)**	**2,350**	**4,792**
Changes in fair value	**(864)**	**-**	**(864)**	**-**
Other changes				
Lease additions	-	813	813	
Interest expense	3,428	150	3,578	3,608
Interest paid	(3,445)	(150)	(3,595)	(3,550)
Transfer of mortgage loan portfolio from liquidated bank	-	-	-	9,937
Total liability-related other changes	**(17)**	**813**	**796**	
Balance at 31 December	**125,274**	**1,786**	**127,060**	**123,303**

21 Other liabilities

	2019 AZN'000	2018 AZN'000
Settlement on other operations	349	506
Settlement on plastic card operations	213	294
Other	277	136
Total other financial liabilities	**839**	**936**
Settlement on employee benefits	302	-
Other taxes payable	151	157
Total other non-financial liabilities	**453**	**157**
	1,292	**1,093**

22 Share capital

The authorised, issued and outstanding share capital comprises 66,450 ordinary shares (31 December 2018: 66,450). All shares have a nominal value of AZN 1,000 per share. During 2019 there were no any issued shares (2018: 0).

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.

23 Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share as at 31 December 2019 is based on the profit attributable to ordinary shareholders of AZN 3,033 thousand (2018: profit of AZN 2,500 thousand), and a weighted average number of ordinary shares outstanding of 66,450 (2018: 66,450) calculated as follows.

	2019	2018
Net profit attributable to ordinary shareholders (AZN'000)	3,033	2,500
Weighted average number of ordinary shares for the year ended 31 December (shares)	66,450	66,450
Basic and diluted earnings per share (AZN)	**45.64**	**37.62**

24 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.

(a) 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 31 December 2019 the Supervisory Board includes:

Rza Sadiq **-** Chairman of the Supervisory Board

Alish Tagiyev **-** Member of the Supervisory Board

Ikram Humbatov **-** Member of the Supervisory Board

During the year ended 31 December 2019, the following changes occurred in composition of the Supervisory Board:

Resignation of Samir Gojayev from Supervisory Board	2 December 2019

On 29 January 2020, Ikram Humbatov was appointed as a member of 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 implementation of decisions of the General Shareholders' meeting and the Supervisory Board of the Bank. Executive body of the Bank reports to the Supervisory Board of the Bank and to the General Shareholders' meeting.

As at 31 December 2019 the Management Board includes:

Emil Rzayev **-** Chairman of the Management Board

Rufat Abbasov **-** Deputy Chairman of the Management Board

Rovshan Farhadzade **-** Member of the Management Board

During the year ended 31 December 2019, the following changes occurred in composition of the Management Board:

Resignation of Vusal Shahverdiyev from the Management Board	6 December 2019
Appointment of Rovshan Farhadzade as Deputy Chairman of the Management Board	18 November 2019

(b) 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 are 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 Internal Audit service include the following:

- audit and efficiency assessment of the system of internal control as a whole, fulfillment of the decisions of key management structures
- audit of efficiency of methodology of assessment of banking risks and risk management procedures, regulated by internal documents in credit 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 (until 28 November 2019: Financial Market Supervisory Authority of the Republic of Azerbaijan, the "FIMSA") requirements related to risk management and internal control systems, including requirements related to the Internal Audit function, and that risk management and internal control systems are appropriate for the scale, nature and complexity of operations.

(c) Risk management policies and procedures

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

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

Both external and internal risk factors are identified and managed throughout the 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.

(d) 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.

(i) *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:

AZN '000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Overdue	Non-interest bearing	Carrying amount
31 December 2019								
ASSETS								
Cash and cash equivalents	-	-	-	-	-	-	21,554	21,554
Due from banks	-	-	12,776	-	-	-	1,507	14,283
Investment securities	68	-	-	3,252	-	-	52	3,372
Loans to customers	5,426	9,758	39,590	89,156	80,762	1,152	-	225,844
Other financial assets	-	-	-	-	-	-	1,060	1,060
	5,494	**9,758**	**52,366**	**92,408**	**80,762**	**1,152**	**24,173**	**266,113**
LIABILITIES								
Deposits and balances from banks	-	-	-	5,526	-	-	15	5,541
Current accounts and deposits from customers	23,234	14,524	52,276	25,353	-	-	30,734	146,021
Other borrowed funds	1,354	1,827	6,826	30,696	84,571	-	-	125,274
Lease liabilities	68	137	609	972	-	-	-	1,786
Other financial liabilities	-	-	-	-	-	-	839	839
	24,656	**16,488**	**59,711**	**62,447**	**84,571**	**-**	**31,588**	**279,461**
	(19,162)	**(6,730)**	**(7,345)**	**29,961**	**(3,809)**	**1,152**	**(7,415)**	**(13,348)**
31 December 2018								
ASSETS								
Cash and cash equivalents	4,705	-	-	-	-	-	15,550	20,255
Due from banks	3	-	4,420	4,250	-	-	18,001	26,674
Investment securities	39	-	850	2,494	-	-	-	3,383
Loans to customers	8,192	8,874	30,467	56,881	83,633	4,420	-	192,467
Other financial assets	-	-	-	-	-	-	1,055	1,055
	12,939	**8,874**	**35,737**	**63,625**	**83,633**	**4,420**	**34,606**	**243,834**

AZN '000	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Overdue	Non-interest bearing	Carrying amount
LIABILITIES								
Deposits and balances from banks	-	-	-	5,815	-	-	20	5,835
Current accounts and deposits from customers	3,996	12,430	44,950	33,897	-	-	32,966	128,239
Other borrowed funds	2,211	3,853	7,702	24,629	84,908	-	-	123,303
Other financial liabilities	-	-	-	-	-	-	936	936
	6,207	**16,283**	**52,652**	**64,341**	**84,908**	**-**	**33,922**	**258,313**
	6,732	**(7,409)**	**(16,915)**	**(716)**	**(1,275)**	**4,420**	**684**	**(14,479)**

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 31 December 2019 and 2018. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2019 Average effective interest rate, %			2018 Average effective interest rate, %		
	AZN	**USD**	**EUR**	**AZN**	**USD**	**EUR**
Interest bearing assets						
Due from banks	-	1.19%	-	8.92%	1.62%	-
Investment securities	-	4.94%	-	-	5.26%	-
Loans to customers	12.73%	7.69%	-	11.27%	12.10%	-
Interest bearing liabilities						
Deposits and balances from banks	6.00%	3.00%	-	6.00%	3.00%	-
Current accounts and deposits from customers	9.89%	3.42%	-	11.96%	4.32%	-
Other borrowed funds	2.69%	-	-	2.98%	-	-
Lease liabilities	10.00%	-	-	-	-	-

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 31 December 2019 and 2018 is as follows:

	2019 AZN'000	2018 AZN'000
100 bp parallel fall	21,539	6,095
100 bp parallel rise	(21,539)	(6,095)

(ii) 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 31 December 2019:

	AZN AZN'000	USD AZN'000	EUR AZN'000	Other currencies AZN'000	Total AZN'000
ASSETS					
Cash and cash equivalents	8,940	10,439	1,932	243	21,554
Due from banks	428	13,474	381	-	14,283
Investment securities	-	3,372	-	-	3,372
Loans to customers	206,683	19,130	31	-	225,844
Other financial assets	725	291	17	27	1,060
Total financial assets	**216,776**	**46,706**	**2,361**	**270**	**266,113**
LIABILITIES					
Deposits and balances from banks	15	5,526	-	-	5,541
Current accounts and deposits from customers	97,115	46,670	2,181	55	146,021
Other borrowed funds	125,274	-	-	-	125,274
Lease liabilities	1,786	-	-	-	1,786
Other financial liabilities	638	179	2	20	839
Total financial liabilities	**224,828**	**52,375**	**2,183**	**75**	**279,461**
Net position	**(8,052)**	**(5,669)**	**178**	**195**	

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2018:

	AZN AZN'000	USD AZN'000	EUR AZN'000	Other currencies AZN'000	Total AZN'000
ASSETS					
Cash and cash equivalents	10,395	7,773	1,820	267	20,255
Due from banks	297	26,377	-	-	26,674
Investment securities	-	3,383	-	-	3,383
Loans to customers	171,616	20,851	-	-	192,467
Other financial assets	615	371	27	42	1,055
Total financial assets	**182,923**	**58,755**	**1,847**	**309**	**243,834**
LIABILITIES					
Deposits and balances from banks	309	5,526	-	-	5,835
Current accounts and deposits from customers	74,192	52,120	1,764	163	128,239
Other borrowed funds	123,303	-	-	-	123,303
Other financial liabilities	597	308	6	25	936
Total financial liabilities	**198,401**	**57,954**	**1,770**	**188**	**258,313**
Net position	**(14,881)**	**1,109**	**83**	**146**	

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 31 December 2019 and 2018, 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.

	2019 AZN'000	**2018 AZN'000**
20% appreciation of USD against AZN	(907)	177
20% appreciation of EUR against AZN	28	13

A strengthening of the AZN against the above currencies at 31 December 2019 and 2018 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.

(e) 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 recognised financial assets and unrecognised 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 a 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 unrecognised 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:

	2019 AZN'000	**2018 AZN'000**
ASSETS		
Cash and cash equivalents (excluding cash on hand)	11,011	7,077
Due from banks	14,283	26,674
Investment securities	3,372	3,383
Loans to customers	225,844	192,467
Other financial assets	1,060	1,055
Commitments on loans and unused credit lines	9,449	9,507
Guarantees issued and similar commitments	30,005	14,195
Total maximum exposure	295,024	**254,358**

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 unrecognised contractual commitments at the reporting date is presented in Note 24.

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

31 December 2019

AZN'000

			Related amounts not offset in the statement of financial position		
Types of financial assets/liabilities	**Gross amounts of recognised financial asset/liability**	**Net amount of financial assets/liabilities presented in the statement of financial position**	**Financial instruments**	**Cash collateral received**	**Net amount**
Loans and advances to customers	16,328	16,328	-	(16,328)	-
Total financial assets	**16,328**	**16,328**	**-**	**(16,328)**	**-**
Current accounts and deposits from customers	(16,328)	(16,328)	16,328	-	-
Payables under repurchase agreements with corporate customers	(2,357)	(2,357)	2,357	-	-
Total financial liabilities	**(18,685)**	**(18,685)**	**18,685**	**-**	**-**

31 December 2018

AZN'000

Types of financial assets/liabilities	**Gross amounts of recognised 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	22,757	22,757	-	(22,757)	-
Total financial assets	**22,757**	**22,757**	**-**	**(22,757)**	**-**
Current accounts and deposits from customers	(22,757)	(22,757)	22,757	-	-
Total financial liabilities	**(22,757)**	**(22,757)**	**22,757**	**-**	**-**

(i) ***Credit risk - Amounts arising from ECL***

Inputs, assumptions and techniques used for estimating impairment

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

Significant increase in credit risk

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

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

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

The Group uses 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, 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;
- deteoriation 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 a 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 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 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 demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently.

A financial instrument returns from 2 to 1 stage if the criteria listed in 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 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 an 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 borrowers 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 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, requirements for financial institutions), using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key driver is Real GDP growth forecast. The economic scenarios used as at 31 December 2019 included the following key indicators for the Republic of Azerbaijan for the years ending 31 December 2020 through 2024.

	2020	**2021**	**2022**	**2023**	**2024**
Real GDP growth	2.10%	2.10%	2.10%	2.20%	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 is 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 a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(iii).

The modification of contractual terms of a financial asset is an indicator of 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 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, 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 an exposure is credit-impaired (see Note 3(f)(iv)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Measurement of ECL

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

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

ECL 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 measurement of ECL are as follows.

		External benchmarks used	
	Exposure	**PD**	**LGD**
Cash and cash equivalents	11,011	Moody's default study	S&P recovery studies
Due from banks	14,283	Moody's default study	S&P recovery studies
Investment securities	3,372	Moody's default study	S&P recovery studies

(ii) 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 the 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 31 December 2019 is as follows:

AZN'000	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	29	28	124	5,863	-	6,044	5,541
Current accounts and deposits from customers	54,267	15,974	55,970	27,442	33	153,686	146,021
Other borrowed funds	1,592	2,311	8,936	40,306	100,637	153,782	125,274
Lease liabilities	80	159	710	1,110	-	2,059	1,786
Other financial liabilities	839	-	-	-	-	839	839
Total financial liabilities	**55,768**	**19,714**	**59,160**	**66,406**	**140,173**	**341,221**	**279,461**
Credit related commitments	**39,454**	**-**	**-**	**-**	**-**	**39,454**	**39,454**

The maturity analysis for financial liabilities as at 31 December 2018 is as follows:

AZN'000	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	35	31	137	6,368	-	6,571	5,835
Current accounts and deposits from customers	37,608	13,600	48,817	36,212	-	136,237	128,239
Other borrowed funds	2,448	4,325	9,661	33,572	99,675	149,681	123,303
Other financial liabilities	936	-	-	-	-	936	936
Total financial liabilities	**41,027**	**17,956**	**58,615**	**76,152**	**126,129**	**293,425**	**258,313**
Credit related commitments	**23,702**	**-**	**-**	**-**	**-**	**23,702**	**23,702**

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

The table below shows an analysis, by contractual maturities, of the amounts recognised in the consolidated statement of financial position as at 31 December 2019:

AZN'000	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	21,554	-	-	-	-	-	21,554
Due from banks	1,507	-	12,776	-	-	-	14,283
Investment securities	103	-	-	3,269	-	-	3,372
Loans to customers	5,426	9,758	39,590	89,156	80,762	1,152	225,844
Other financial assets	1,060	-	-	-	-	-	1,060
Total financial assets	**29,650**	**9,758**	**52,366**	**92,425**	**80,762**	**1,152**	**266,113**
Deposits and balances from banks	15	-	-	5,526	-	-	5,541
Current accounts and deposits from customers	53,548	14,640	52,553	25,280	-	-	146,021
Other borrowed funds	1,354	1,827	6,826	30,696	84,571	-	125,274
Lease liabilities	68	137	609	972	-	-	1,786
Other financial liabilities	839	-	-	-	-	-	839
Total financial liabilities	**55,824**	**16,604**	**59,988**	**62,474**	**84,571**	**-**	**279,461**
Net position	**(26,174)**	**(6,846)**	**(7,622)**	**29,951**	**(3,809)**	**1,152**	**(13,348)**
Cumulative liquidity gap	**(26,174)**	**(33,020)**	**(40,642)**	**(10,691)**	**(14,500)**	**(13,348)**	

The Group has an overdraft agreement with the CBAR in amount AZN 6,000 thousand with maturity date of 2022 in order to manage liquidity risk.

Subsequent to 31 December 2019, the Group attracted new term deposits from individual and corporate customers, as well as prolonged term deposits originally maturing during period from January to April for the total amount of AZN 18,796 thousand and AZN 3,281 thousand for a contractual maturity of one year and more, respectively. For reference please see Note 2(c), Going concern.

The table below shows an analysis, by contractual maturities, of the amounts recognised in the statement of financial position as at 31 December 2018:

AZN'000	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	20,255	-	-	-	-	-	20,255
Due from banks	899	-	21,522	4,250	-	3	26,674
Investment securities	39	-	850	2,494	-	-	3,383
Loans to customers	5,982	8,592	29,695	54,874	88,904	4,420	192,467
Other financial assets	1,055	-	-	-	-	-	1,055
Total financial assets	**28,230**	**8,592**	**52,067**	**61,618**	**88,904**	**4,423**	**243,834**
Deposits and balances from banks	20	-	-	5,815	-	-	5,835
Current accounts and deposits from customers	36,962	12,430	44,950	33,897	-	-	128,239
Other borrowed funds	2,211	3,853	7,702	24,629	84,908	-	123,303
Other financial liabilities	936	-	-	-	-	-	936
Total financial liabilities	**40,129**	**16,283**	**52,652**	**64,341**	**84,908**	**-**	**258,313**
Net position	**(11,899)**	**(7,691)**	**(585)**	**(2,723)**	**3,996**	**4,423**	**(14,479)**
Cumulative liquidity gap	**(11,899)**	**(19,590)**	**(20,175)**	**(22,898)**	**(18,902)**	**(14,479)**	

The key measure used by the Group for managing liquidity risk is the liquidity ratio stipulated by the CBAR (until 28 November 2019: the FIMSA).

The Bank calculates this mandatory liquidity ratio on a daily basis in accordance with the requirement of the CBAR (until 28 November 2019: the FIMSA). 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 31 December 2019 and 2018. The following table shows the mandatory liquidity ratios calculated as at 31 December 2019 and 2018 *(unaudited)*.

	Requirement	2019, %	2018, %
Instant liquidity ratio	Not less than 30%	36.15	52.72

(iii) 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.

25 Capital management

The CBAR (until 28 November 2019: the FIMSA) 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 (until 28 November 2019: the FIMSA), 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 (2018: AZN 50,000 thousand). As at 31 December 2019, the minimum statutory capital ratio was 10% (2018: 10%). The Bank was in compliance with the statutory capital requirement of AZN 50,000 thousand and with the statutory capital ratio as at 31 December 2019 and 2018 *(unaudited)*.

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

The Bank provides the CBAR (until 28 November 2019: the FIMSA) with information on mandatory ratios in accordance with set form. Risk Department controls on a daily basis compliance with capital adequacy ratios.

In case values of capital adequacy ratios become close to limits set by the CBAR (until 28 November 2019: the FIMSA) and the Bank's internal policy this information is communicated to the Supervisory Board.

The following table shows the composition of the capital position calculated in accordance with the requirements of the Basel Accord, as at 31 December:

	2019 AZN'000	**2018 AZN'000**
Tier 1 capital		
Share capital	66,450	66,450
Accumulated deficit	(12,032)	(15,065)
Total tier 1 capital	**54,418**	**51,385**
Risk-weighted assets		
On-balance	197,059	176,002
Off-balance	19,727	11,851
Total risk-weighted assets	**216,786**	**187,853**
Total capital expressed as a percentage of risk-weighted assets (total capital ratio)	**25.10%**	**27.35%**
Total tier 1 capital expressed as a percentage of risk-weighted assets (tier 1 capital ratio)	**25.10%**	**27.35%**

Reconciliation of total statutory capital to IFRS equity

The following unaudited supplementary information is intended to provide additional information to users of the consolidated financial statements of the Group for the year ended 31 December 2019 and 31 December 2018, and is not required under International Financial Reporting Standards (IFRS).

The table below provides an overview of the differences in composition of the net assets as at 31 December 2019 and 31 December 2018, presented in the Group's consolidated financial statements prepared under IFRS and total statutory capital determined under the rules and regulations of the CBAR (until 28 November 2019: the FIMSA).

	31 December 2019 AZN'000 (unaudited)	**31 December 2018 AZN'000 (unaudited)**
Total statutory capital	**62,099**	**54,730**
Reconcilation of total statutory capital and IFRS equity:		
- accumulated deficit	(1,636)	(3,495)
- current year profit/(loss)	(4,492)	1,796
- loan loss allowance	(4,802)	1,764
- net interest income	341	492
- other income	230	26
- net fee and commission income	(483)	(56)
- personnel expenses	(310)	(54)
- other general administrative expenses	(284)	(376)
- net gain on financial instruments recognition	816	
- differences arising from deductions	1,295	676
- equity investment	1,000	350
- intangible assets	295	326
- general allowances	(2,848)	(2,322)
Total IFRS equity	**54,418**	**51,385**

26 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, 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 recognised at the reporting date if counterparties failed completely to perform as contracted.

	2019 AZN'000	2018 AZN'000
Contracted amount		
Non-financial guarantees	24,949	10,444
Financial guarantees	5,102	3,751
Undrawn credit lines	9,633	9,507
	39,684	**23,702**
Provisions		
Financial guarantees	(46)	(69)
Undrawn credit lines	(184)	-
	(230)	**(69)**

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 31 December 2019 (31 December 2018: Stage 1).

	2019	
AZN'000	**Stage 1**	**Total**
Provisions		
Balance at 1 January	69	69
Net remeasurement of loss allowance	161	161
Balance at 31 December	**230**	**230**

27 Leases

Leases as lessee (IFRS 16)

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.

Previously, these leases were classified as operating leases under IAS 17.

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

(i) 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.

AZN'000	**Branch and office premises**	**IT equipment**	**Total**
2019			
Balance at 1 January	1,475	-	1,475
Depreciation charge for the year	(441)	(95)	(536)
Additions	338	475	813
Balance at 31 December	1,372	**380**	**1,752**

See Note 24 for maturity analysis of lease liabilities as at 31 December 2019.

(ii) Amounts recognised in profit or loss

AZN'000	**2019**
2019 – Leases under IFRS 16	
Interest on lease liabilities	150
Expenses relating to short-term leases	446
2018 – Operating leases under IAS 17	
Lease expense	866

(iii) Amounts recognised in the consolidated statement of cash flows

AZN'000	**2019**
Total cash outflow for leases	(652)

(b) 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 recognised by the Group during the year ended 31 December 2019 was AZN 248 thousand (2018: AZN 304 thousand).

28 Contingencies

(a) 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.

(b) 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.

(c) Taxation contingencies

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

These circumstances may create tax risks in the 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.

29 Related party transactions

(a) Control relationships

The Bank is controlled by Ms. Nigar Mehdiyeva.

(b) Transactions with the members of the Supervisory Board and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2019 and 2018 is as follows:

	2019 AZN'000	**2018 AZN'000**
Short term employee benefits	512	437
	512	**437**

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 31 December 2019 and 2018 for transactions with the members of the Supervisory Board and the Management Board are as follows:

	2019 AZN'000	**Average effective interest rate, %**	**2018 AZN'000**	**Average effective interest rate, %**
Statement of financial position				
Loans issued (gross)	-	-	62	19.55%
Loan loss allowance	-	-	-	-
Current accounts	434	-	133	-
Term deposits	89	10.00%	-	-
Commitments on loans and unused credit lines	62	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 year ended 31 December are as follows:

	2019 AZN'000	**2018 AZN'000**
Profit or loss		
Interest income calculated using the effective interest method	-	8
Interest expense	3	-
Impairment losses	-	3

(c) Transactions with other related parties

The outstanding balances and the related average effective interest rates as at 31 December 2019 and related profit or loss amounts of transactions for the year ended 31 December 2019 with other related parties are as follows:

	Ultimate controlling party		Shareholders		Other		Total
	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000
Consolidated statement of financial position							
ASSETS							
Loans to customers							
Principal balance	-	-	1	20.00%	1,758	13.60%	1,759
Impairment allowance	-	-	-	-	(22)	-	(22)
LIABILITIES							
Customer accounts	67	-	2	-	900	-	969
Term deposits	-	-	3,158	6.00%	7,519	6.95%	10,677
Items not recognised in the statement of consolidated financial position							
Guarantees given (up to 0.5% commission income)	-	-	-	-	1,207	3.00%	1,207
Commitments on loans and unused credit lines	88	20.00%	45	20.00%	970	16.51%	1,103
Profit or loss							
Interest income calculated using the effective interest method	-	-	-	-	106	-	106
Interest expense	-	-	174	-	487	-	661

The outstanding balances and the related average effective interest rates as at 31 December 2018 and related profit or loss amounts of transactions for the year ended 31 December 2018 with other related parties are as follows:

	Ultimate controlling party		Shareholders		Other		Total
	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000	Average interest rate, %	AZN'000
Consolidated statement of financial position							
ASSETS							
Loans to customers							
Principal balance	21	20.00%	97	4.00%	148	18.67%	266
Impairment allowance	-	-	-	-	(20)	-	(20)
LIABILITIES							
Customer accounts	2	-	1	-	289	-	292
Term deposits	-	-	589	5.96%	4,640	9.07%	5,229
Profit or loss							
Interest income calculated using the effective interest method	4	-	4	-	19	-	27
Interest expense	-	-	35	-	366	-	401

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.

30 Financial assets and liabilities: fair values and accounting classifications

(a) 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 recognised 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.

The following assumptions are used by management to estimate the fair values of financial instruments as at 31 December 2019:

- discount rates of 3.67%-8.97% (2018: 3.29%-9.46%) and 4.74%-16.63% (2018: 6.13%-17.11%) are used for discounting future cash flows from due from banks and loans to customers, respectively.
- discount rates of 1.10%-9.68% (2018: 1.43%-10.01%) are used for discounting future cash flows from current accounts and deposits from customers.
- discount rate of 3.67%-8.97% (2018: 3.29%-9.46%) are used for discounting future cash flows from due to banks.

In estimating the discount rates for term borrowings funds the Group considers this market as a separate market from other commercial borrowing business due to different terms, purposes, conditions and credit risk exposures related to these term borrowings, except for the loan from CBAR, where market rate is applied.

(b) 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.

No financial instruments measured at fair value at 31 December 2019 and 31 December 2018.

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 categorised as at 31 December 2019:

AZN'000	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
ASSETS					
Cash and cash equivalents	-	21,554	-	21,554	21,554
Due from banks	-	14,137	-	14,137	14,283
Investment securities	3,404	-	-	3,404	3,372
Loans to customers	-	-	227,176	227,176	225,844
Other financial assets	-	1,060	-	1,060	1,060
LIABILITIES					
Deposits and balances from banks	-	5,427	-	5,427	5,541
Current accounts and deposits from customers	-	146,625	-	146,625	146,021
Other borrowed funds	-	125,274	-	125,274	125,274
Lease liabilities	-	1,786	-	1,786	1,786
Other financial liabilities	-	839	-	839	839

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 categorised as at 31 December 2018:

AZN'000	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Total carrying amount**
ASSETS					
Cash and cash equivalents	-	20,255	-	20,255	**20,255**
Due from banks	-	26,621	-	26,621	**26,674**
Investment securities	3,460	-	-	3,460	**3,383**
Loans to customers	-	-	192,089	192,089	**192,467**
Other financial assets	-	1,055	-	1,055	**1,055**
LIABILITIES					
Deposits and balances from banks	-	5,714	-	5,714	**5,835**
Current accounts and deposits from customers	-	129,736	-	129,736	**128,239**
Other borrowed funds	-	123,303	-	123,303	**123,303**
Other financial liabilities	-	936	-	936	**936**

31 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 relate to residents of the Republic of Azerbaijan.

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

32 Events after reporting period

Subsequent to the year end, the Bank opened a new branch in Azadliq avenue, Bakikhanov street.