OJSC PASHA Bank

Consolidated financial statements

Year ended 31 December 2022
together with independent auditor's report

Contents

Independent auditor's report

Consolidated financial statements

Consolidated statement of financial position ... 1
Consolidated statement of profit or loss ... 2
Consolidated statement of comprehensive income ... 3
Consolidated statement of changes in equity ... 4
Consolidated statement of cash flows ... 5

Notes to the consolidated financial statements

1. Principal activities ... 6
2. Basis of preparation ... 6
3. Summary of accounting policies ... 8
4. Significant accounting judgements and estimates ... 22
5. Cash and cash equivalents ... 24
6. Amounts due from credit institutions ... 24
7. Investment securities ... 26
8. Loans to customers ... 28
9. Investment properties ... 31
10. Property and equipment ... 32
11. Intangible assets ... 33
12. Right-of-use assets and lease liabilities ... 34
13. Other assets and liabilities ... 35
14. Amounts due to banks and government funds ... 36
15. Amounts due to customers ... 37
16. Debt securities issued ... 38
17. Subordinated debts ... 38
18. Derivative financial instruments ... 38
19. Taxation ... 39
20. Equity ... 41
21. Commitments and contingencies ... 41
22. Other borrowed funds ... 45
23. Credit loss expense and other impairment and provisions ... 45
24. Net fee and commission income ... 46
25. Net gains from foreign currencies ... 46
26. Personnel, general and administrative expenses ... 47
27. Impairment and write-down ... 47
28. Risk management ... 47
29. Fair values measurement ... 60
30. Maturity analysis of assets and liabilities ... 63
31. Related party disclosures ... 64
32. Changes in liabilities arising from financing activities ... 65
33. Capital adequacy ... 65
34. Material partly owned subsidiaries ... 66

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Independent auditor's report

To the Shareholders and Supervisory Board of
OJSC PASHA Bank

Opinion

We have audited the consolidated financial statements of OJSC PASHA Bank and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' (IESBA) Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and the Audit Committee for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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. The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

Ernst & Young Holdings (CIS) B.V.

9 March 2023

Baku, Azerbaijan

Consolidated statement of financial position

As at 31 December 2022

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2022	2021
Assets			
Cash and cash equivalents	5	3,302,130	1,325,411
Amounts due from credit institutions	6	584,060	602,608
Investment securities	7	1,840,316	1,883,364
Derivative financial assets	18	10,214	9,904
Loans to customers	8	3,273,589	3,027,305
Investment properties	9	31,229	19,126
Property and equipment	10	32,560	27,938
Intangible assets	11	31,400	39,467
Right-of-use assets	12	17,471	17,640
Current income tax assets	19	–	65
Deferred income tax assets	19	17,171	1,730
Other assets	13	77,807	53,625
Total assets		**9,217,947**	**7,008,183**
Liabilities			
Amounts due to banks and government funds	14	932,152	930,407
Amounts due to customers	15	7,252,655	5,181,851
Derivative financial liabilities	18	10,302	8,044
Lease liabilities	12	17,662	18,241
Debt securities issued	16	86,703	162,465
Other borrowed funds	22	20,117	8,586
Current income tax liabilities	19	22,788	11,802
Deferred income tax liabilities	19	5,327	2,894
Provision for guarantees and other commitments	21	10,610	11,024
Subordinated debts	17	155,589	45,103
Other liabilities	13	55,758	50,328
Total liabilities		**8,569,663**	**6,430,745**
Equity			
Share capital	20	354,512	354,512
Additional paid-in capital	20	343	343
Retained earnings		286,489	222,392
Other reserves	20	2,799	2,448
Net unrealised (loss)/gain on investment securities	20	(5,386)	12,721
Foreign currency translation reserve	20	(36,277)	(56,362)
Total equity attributable to shareholders of the Bank		**602,480**	**536,054**
Non-controlling interests	34	45,804	41,384
Total equity		**648,284**	**577,438**
Total liabilities and equity		**9,217,947**	**7,008,183**

Signed and authorised for release on behalf of the Executive Board of the Bank:

Javid Gouliyev Chairman of the Executive Board

Azərbaycan Respublikası Açıq Səhmdar Cəmiyyəti PAŞA Bank Open Joint Stock Company Azerbaijan Republic

Murad Suleymanov Chief Financial Officer

9 March 2023

The accompanying notes on pages 6 to 66 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2022

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2022*	*2021*
Interest income			
Loans to customers		280,819	231,864
Investment securities		75,293	75,743
Cash and cash equivalents		13,124	1,512
Amounts due from credit institutions		11,202	6,056
Interest revenue calculated using effective interest rate		**380,438**	**315,175**
Finance lease receivables		3,878	3,241
Other interest revenue		**3,878**	**3,241**
Interest expense			
Amounts due to customers		(39,246)	(37,616)
Amounts due to banks and government funds		(32,515)	(33,224)
Debt securities issued		(6,936)	(7,715)
Subordinated debts		(5,805)	(1,486)
Lease liabilities	12	(1,360)	(883)
Other borrowed funds		(724)	(363)
		(86,586)	**(81,287)**
Net interest income		**297,730**	**237,129**
Credit loss expense on financial assets	23	(48,315)	(24,687)
Net interest income after credit loss expense		**249,415**	**212,442**
Net fee and commission income	24	45,623	35,262
- fee and commission income		119,577	83,037
- fee and commission expense		(73,954)	(47,775)
Net (losses)/gains from investment securities		(14,120)	3,131
Net gains from foreign currencies	25	55,800	33,325
Other income		5,370	3,519
Non-interest income		**92,673**	**75,237**
Personnel expenses	26	(79,435)	(68,388)
General and administrative expenses	26	(55,759)	(53,157)
Depreciation and amortisation	9, 10, 11, 12	(23,395)	(21,901)
Net (loss)/gain on modification of financial assets measured at amortised cost	8	(869)	1,398
Net losses on initial recognition of financial instruments	14	–	(3,778)
Impairment and write-down	27	(4,918)	(6,717)
Provision for credit related commitments and other financial assets	23	(9,800)	(1,030)
Other operating expenses		(11)	(631)
Non-interest expenses		**(174,187)**	**(154,204)**
Loss on net monetary position	2	(21,076)	–
Profit before income tax expense		**146,825**	**133,475**
Income tax expense	19	(44,899)	(31,158)
Profit for the year		**101,926**	**102,317**
Attributable to:			
- shareholders of the Bank		108,762	98,814
- non-controlling interests	34	(6,836)	3,503
		101,926	**102,317**

The accompanying notes on pages 6 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2022

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2022*	*2021*
Profit for the year		**101,926**	**102,317**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net change in fair value of investment securities at fair value through other comprehensive income	7	(62,585)	(8,955)
Reclassification of cumulative loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss		13,458	–
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income	23	26,556	(518)
Net unrealised losses on investment securities at fair value through other comprehensive income		**(22,571)**	**(9,473)**
Income tax relating to components of other comprehensive income	19	4,464	1,895
Foreign currency translation differences		31,341	(58,856)
Net other comprehensive income / (loss) to be reclassified to profit or loss in subsequent periods		**13,234**	**(66,434)**
Total comprehensive income for the year		**115,160**	**35,883**
Attributable to:			
- shareholders of the Bank		110,740	62,696
- non-controlling interests		4,420	(26,813)
		115,160	**35,883**

The accompanying notes on pages 6 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2022

(Figures in tables are in thousands of Azerbaijani manats)

	Attributable to shareholders of the Bank								
	Share capital	***Additional paid-in capital***	***Retained earnings***	***Net unrealised gain/(loss) on invest-ment securities***	***Other reserves***	***Foreign currency translation reserve***	***Total***	***Non-controlling interests***	***Total equity***
As at 1 January 2021	**354,512**	**343**	**174,167**	**20,299**	**2,239**	**(27,822)**	**523,738**	**68,197**	**591,935**
Profit for the year	–	–	98,814	–	–	–	**98,814**	3,503	**102,317**
Other comprehensive loss for the year	–	–	–	(7,578)	–	(28,540)	**(36,118)**	(30,316)	**(66,434)**
Total comprehensive income/(loss) for the year	**–**	**–**	**98,814**	**(7,578)**	**–**	**(28,540)**	**62,696**	**(26,813)**	**35,883**
Transfers to reserves	–	–	(209)	–	209	–	**–**	–	**–**
Dividends to shareholders of the Bank (Note 20)	–	–	(50,380)	–	–	–	**(50,380)**	–	**(50,380)**
As at 31 December 2021	**354,512**	**343**	**222,392**	**12,721**	**2,448**	**(56,362)**	**536,054**	**41,384**	**577,438**
Profit for the year	–	–	108,762	–	–	–	**108,762**	(6,836)	**101,926**
Other comprehensive income / (loss) for the year	–	–	–	(18,107)	–	20,085	**1,978**	11,256	**13,234**
Total comprehensive income/(loss) for the year	**–**	**–**	**108,762**	**(18,107)**	**–**	**20,085**	**110,740**	**4,420**	**115,160**
Transfers to reserves	–	–	(351)	–	351	–	**–**	–	**–**
Dividends to shareholders of the Bank (Note 20)	–	–	(44,314)	–	–	–	**(44,314)**	–	**(44,314)**
As at 31 December 2022	**354,512**	**343**	**286,489**	**(5,386)**	**2,799**	**(36,277)**	**602,480**	**45,804**	**648,284**

The accompanying notes on pages 6 to 67 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2022

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2022	2021
Cash flows from operating activities			
Interest received		382,977	316,963
Interest paid		(88,744)	(77,836)
Fees and commissions received		119,539	83,216
Fees and commissions paid		(75,067)	(49,932)
Net gains from investment securities		–	2,446
Realised gains less losses from dealing in foreign currencies and foreign currency derivatives		53,019	36,046
Personnel expenses paid		(74,754)	(69,508)
General and administrative expenses paid		(58,822)	(50,322)
Other operating income received		6,768	4,759
Cash flows from operating activities before changes in operating assets and liabilities		**264,916**	**195,832**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		19,404	(159,007)
Loans to customers		(353,350)	(533,390)
Other assets		(27,366)	(16,099)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and government funds		2,772	(219,965)
Amounts due to customers		2,121,398	1,172,439
Other borrowed funds		16,523	9,289
Other liabilities		4,442	(2,670)
Net cash flows from operating activities before income tax		**2,048,739**	**446,429**
Income tax paid		(42,623)	(35,133)
Net cash from operating activities		**2,006,116**	**411,296**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		3,325,157	1,766,040
Purchase of investment securities		(3,350,095)	(2,010,538)
Proceeds from sale of investment property		–	2,000
Proceeds from sale of property and equipment		52	467
Purchase and prepayments for property and equipment		(2,319)	(7,986)
Acquisition of intangible assets		(4,933)	(7,070)
Net cash flows used in investing activities		**(32,138)**	**(257,087)**
Cash flows from financing activities			
Proceeds from bonds issued	32	178,468	113,921
Redemption of bonds issued	32	(243,788)	(99,220)
Proceeds from subordinated debts	32	114,512	17,827
Principal repayments of lease liability		(7,250)	(6,138)
Dividends paid	20	(44,314)	(50,380)
Net cash used in financing activities		**(2,372)**	**(23,990)**
Effect of exchange rates changes on cash and cash equivalents		11,992	(5,426)
Hyperinflation effect on cash and cash equivalents		(6,822)	–
Effect of expected credit losses on cash and cash equivalents	23	(57)	74
Net increase in cash and cash equivalents		**1,976,719**	**124,867**
Cash and cash equivalents, beginning	5	1,325,411	1,200,544
Cash and cash equivalents, ending	5	**3,302,130**	**1,325,411**

The accompanying notes on pages 6 to 67 are an integral part of these consolidated financial statements.

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities

OJSC PASHA Bank (the "Bank") was established on 18 June 2007, as an open joint stock company under the laws of the Republic of Azerbaijan. The Bank operates under a banking licence No. 250 issued by the Central Bank of the Republic of Azerbaijan (the "CBAR") on 28 November 2007.

The Bank and its subsidiaries (together − "the Group") accept deposits from the public and extend credit, transfer payments, exchange currencies and provide other banking services to its commercial and private customers.

As at 31 December 2022 and 2021 the Bank has six service points, three branches in Azerbaijan and two subsidiaries, JSC PASHA Bank Georgia located in the Republic of Georgia and PASHA Yatirim Bankasi A.Ş. (the "Subsidiaries") located in the Republic of Turkey. The Bank's registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

As at 31 December 2022 and 2021, the following shareholders owned the outstanding shares of the Bank:

Shareholders	***Ownership percentage (%)***
PASHA Holding LLC	57
Bless LLC	28
Mr. Arif Pashayev	10
Mr. Mir Jamal Pashayev	5
Total	**100**

As at 31 December 2022 and 2021, the Group is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva, Mr. Arif Pashayev and Mr. Mir Jamal Pashayev, who exercise collective control over the Group.

PASHA Bank Georgia JSC, a wholly − owned subsidiary, is located in the Republic of Georgia, operating in the banking sector, with registered and paid up share capital of GEL 35,000 thousand as at 31 December 2013. In March 2014 share capital of subsidiary was increased and amounted to GEL 103,000 thousand. In March 2022 share capital of subsidiary was increased by GEL 26,000 thousand and amounted to GEL 139,000 thousand as at 31 December 2022. PASHA Bank Georgia JSC operates under a banking licence issued by the National Bank of Georgia (the "NBG") on 17 January 2013. Legal address of the PASHA Bank Georgia JSC is 37M, Ilia Chavchavadze Avenue, 0179, Tbilisi, Georgia.

TAIB Yatirim Bank A.Ş. was incorporated in 1987 as an investment bank in Turkey with the permission of the Council of Ministers decision No. 6224 which allows the transfer of the banks' net profit after statutory liabilities and in case of liquidation the transfer of capital to foreign shareholders. On 27 January 2015, the Bank acquired 79.47% of the voting common shares of TAIB Yatirim Bank A.Ş. and it was renamed to PASHA Yatirim Bankasi A.Ş. at the registration of the Bank as shareholder. In March 2015, investment in share capital of the subsidiary was increased by TRY 175,000 thousand to TRY 255,000 thousand increasing ownership in subsidiary to 99.92%. On 6 June 2018, share capital of subsidiary was increased by TRY 245,000 thousand to TRY 500,000 thousand. The increase was made based on decision of Supervisory Board of the Bank, according to which newly issued shares were acquired by PASHA Holding LLC. As a result, the Bank's share in the subsidiary decreased from 99.92% to 50.96% and PASHA Holding Ltd became a new non-controlling shareholder with ownership of 49% since 6 June 2018. Head office of PASHA Yatirim Bankasi A.Ş. is located in Istanbul. The activities of the bank are regulated by the Central Bank of the Republic of Turkey (the "CBRT").

OJSC PASHA Bank and its subsidiaries (together − "the Group") were consolidated in these financial statements.

2. Basis of preparation

General

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

The Azerbaijani manat is the functional and presentation currency of OJSC PASHA Bank as the majority of the transactions are denominated, measured, or funded in Azerbaijani manat. Transactions in other currencies are treated as transactions in foreign currencies. The Group is required to maintain its records and prepare its financial statements in Azerbaijani manat and in accordance with IFRS. These consolidated financial statements are presented in thousands of Azerbaijani manat ("AZN"), except per share amounts and unless otherwise indicated. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies, for certain investment securities at FVOCI and derivative financial instruments which have been measured at fair value.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Financial reporting in hyperinflationary economy

IAS 29 Financial Reporting in Hyperinflation Economies has been applied in the consolidated financial statements of the Group because the functional currency of PASHA Yatirim Bankasi A.Ş. (Turkish Lira) is the currency of a hyperinflationary economy as per IAS 29.

As per IAS 29 existence of hyperinflation in Turkish economy is firstly identified in the interim reporting period ending as of the 31 December 2022. Three-year cumulative increase in Consumer Price Index (CPI) as of December 2022 has been 156% in Turkey according to inflation data published by Turkey Statistical Institute.

On the application of IAS 29, the Group used the conversion coefficient derived from the CPI in the Turkey published by Turkey Statistical Institute.

To perform the required restatement of financial statements under IAS 29, assets and liabilities are separated into those that are monetary and non–monetary, with non–monetary items further divided into those measured on either a current or historical basis. Monetary items (other than index -linked monetary items) are not restated because they are already expressed in terms of measuring unit as of 31 December 2022. Non-monetary items (items which are not expressed in terms of measuring unit as of 31 December 2021) are restated by applying the relevant index. The restated amount of a non-monetary item is reduced, in accordance with appropriate IFRSs, when it exceeds its recoverable amount.

Non-monetary items measured at historical cost that were acquired or assumed before the time when the Turkey previously ceased to be considered hyperinflationary, i.e. before 1 January 2005, are restated by applying the change in the relevant index from 1 January 2005 to 31 December 2022. The Group does not have significant non-monetary items at historical cost that were acquired before 1 January 2015.

The application of IAS 29 results in an adjustment for the loss of purchasing power of the Turkish Lira recognized in the consolidated statement of profit or loss. In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power and an entity with an excess of monetary liabilities over monetary assets gains purchasing power to the extent the assets and liabilities are not linked to a price level. This gain or loss on the net monetary position is derived as the difference resulting from the restatement of non-monetary assets, owners' equity (on a subsidiary level) and items in the consolidated statement of comprehensive income and the adjustment of index linked assets and liabilities. During 2022, Loss on net monetary position was AZN 21,076 thousand.

IAS 29 and IAS 21 require the closing exchange rate to be applied when translating both the income statement and the balance sheet from the hyperinflationary currency (Turkish Lira), into the presentation currency of the Group, Azerbaijani manat.

Since the Group's presentation currency is non-hyperinflationary, comparatives are not adjusted for the effects of inflation in the current period. The net impact from inflation adjustment of PASHA Yatirim Bankasi A.Ş. net assets is included in other comprehensive income for the year within foreign currency translation differences.

On the application of IAS 29, conversion coefficients derived from the CPI published by Turkey Statistical Institute were used. The following table presents the CPI for current and previous year periods and corresponding conversion factors covering the recent decade.

Year end	***Index numbers***	***Index, %***	***Conversion factor***
2014	247.72	8.17%	4.56
2015	269.54	8.81%	4.19
2016	292.54	8.53%	3.86
2017	327.41	11.92%	3.45
2018	393.88	20.30%	2.86
2019	440.5	11.84%	2.56
2020	504.81	14.60%	2.24
2021	686.95	36.08%	1.64
2022	1,128.45	64.27%	1.00

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies

Changes in accounting policies

New and amended standards and interpretations

The Group applied for the first-time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2022. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Reference to the Conceptual Framework – Amendments to IFRS 3

The amendments replace a reference to a previous version of the IASB's *Conceptual Framework* with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the *Conceptual Framework*, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Bank cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss−making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments had no impact on the consolidated financial statements of the Group, as there were no such onerous contracts identified during the period.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Changes in accounting policies (continued)

New and amended standards and interpretations (continued)

IFRS 1 First−time Adoption of International Financial Reporting Standards – Subsidiary as a first−time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the consolidated financial statements of the Group, as it is not a first time adopter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

In accordance with the transitional provisions, the Bank applies the amendment to financial instruments that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as the fees paid or received by the Group upon contract renegotiations were very insubstantial for each renegotiated financial instrument.

IAS 41 Agriculture – Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the consolidated financial statements of the Group as it did not have assets in scope of IAS 41 as at the reporting date.

Basis of consolidation

Subsidiaries, which are those entities which are controlled by the Group, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in full; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Basis of consolidation (continued)

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree that are present ownership interests either at fair value or at the proportionate share of the acquiree's identifiable net assets and other components of non-controlling interests at their acquisition date fair value. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the acquiree's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI at fair value at each balance sheet date.

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Fair value measurement (continued)

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

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

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

Financial assets and liabilities

Initial recognition

Date of recognition

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

Initial measurement

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

Measurement categories of financial assets and liabilities

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

- ► Amortised cost;
- ► FVOCI;
- ► FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

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

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

The Group only measures amounts due from credit institutions, loans to customers and investment securities at amortised cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Business model assessment

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

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

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

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

The SPPI test

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

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

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

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

Debt instruments at FVOCI

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

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Financial assets and liabilities (continued)

Equity instruments at FVOCI

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

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

Financial guarantees, letters of credit and undrawn loan commitments

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

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

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

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

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Provision for Performance guarantees are measured consistent with the measurement of expected credit losses under IFRS 9.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2022 and 2021.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, NBG and CBRT, excluding obligatory reserves, and amounts due from credit institutions with due on demand or up to 3 months from the date of origination and that are free from contractual encumbrances.

Amounts due from credit institutions

Amounts due from credit institutions include amounts due only from CBAR, NBG, CBRT and commercial banks. The Group considers non-banking credit organizations as customers and loans to non-banking credit organizations are included in loans to customers.

Amounts due to banks and government funds

Amounts due to credit institutions include deposits and loans placed by commercial banks, National Bank of Georgia, Ministry of Finance of Georgia and the government funds.

The Group considers Ministry of Finance as a credit institution, because it provides refinancing facility similar to that of the National Bank of Georgia and long-term deposits as a liquidity support measure.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Repurchase and reverse repurchase agreements

Sale and repurchase agreements ("repos") are treated as secured financing transactions. Securities sold under sale and repurchase agreements are retained in the consolidated statement of financial position and, in case the transferee has the right by contract or custom to sell or re-pledge them, reclassified as securities pledged under sale and repurchase agreements. The corresponding liability is presented within amounts due to credit institutions or other borrowed funds.

Securities purchased under agreements to resell ("reverse repo") are recorded on the consolidated statement of financial position as cash and cash equivalents or investment securities as appropriate depending on their contractual term. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

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

Derivative financial instruments

In the normal course of business, the Group enters into various derivative financial instruments including futures, forwards, swaps and options in the foreign exchange and capital markets. Such financial instruments are held for trading and are recorded at fair value. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative.

Gains and losses resulting from these instruments are included in the consolidated statement of profit or loss as net gains/(losses) from financial instruments at fair value through profit or loss or net gains/(losses) from foreign currencies, depending on the nature of the instrument.

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

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

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

Borrowings

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

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is recognised in profit or loss.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Leases

i. Group as a lessee

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

i. Finance – Group as a lessor

The Group recognises lease receivables at value equal to the net investment in the lease, starting from the date of commencement of the lease term. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the lease receivables.

Offsetting of financial instruments

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

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Renegotiated loans

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

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

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

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

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

Write-off

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

Financial liabilities

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

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Taxation

The current income tax expense is calculated in accordance with the regulations of the Republic of Azerbaijan and of the countries in which the Group has offices and branches and where its subsidiaries are located.

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property and equipment

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

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

Depreciation of an asset, including construction in progress, begins when it is ready and available for use. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

	Years
Buildings	20-50
Furniture and fixtures	4-10
Computers and other equipment	3-10
Vehicles	4-5
Other equipment	3-15
Leasehold improvements	2-7

The asset's residual values, useful lives and methods are reviewed, and adjusted as appropriate, at each financial year-end. Costs related to repairs and renewals are charged when incurred and included in general and administrative expenses, unless they qualify for capitalization.

Investment properties

Investment properties held are land and building with a useful life up to 50 years or a part of building held to earn rental income or for capital appreciation and which is not used by the Group or held for the sale in the ordinary course of business. Property that is being constructed or developed or redeveloped for future use as investment property is also classified as investment property.

Investment property is initially recognized at cost, including transaction costs, and subsequently is stated at cost less accumulated depreciation and any accumulated impairment losses. For disclosure purposes investment property is re-measured at fair value reflecting market conditions at the end of the reporting period. Fair value of the Group's investment property is determined on the base of various sources including reports of independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Investment properties (continued)

Earned rental income is recorded in the consolidated statement of profit or loss within other income.

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with it will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to premises and equipment, and its carrying amount at the date of reclassification becomes its deemed cost to be subsequently depreciated.

Repossessed collaterals

Repossessed collaterals represent non-financial assets acquired by the Group in settlement of overdue loans. These assets are initially recognised at cost when acquired and included within Other assets. Upon legal collection, the collateral is held at a lower of cost and net realisable value, to be sold within a reasonable timeframe. The Group regularly reviews the realization possibility and price and adjusts the balance in cases where cost exceeds net realizable value.

Intangible assets

Intangible assets include internally developed digital products, banking license, other licenses and computer software.

Intangible assets are measured on initial recognition measured at cost, once capitalization criteria is met, less accumulated amortisation and provisions for impairment The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Internally generated assets not fully completed as of reporting date, however meeting capitalisation criteria, are recognised as “Intangible assets in-progress”. Group divides the process of generation of the asset into a research phase and a development phase, after which the cost related internally developed products is capitalised. Only development costs for internally generated asset are capitalised, which are subject to meeting specific criteria, as demonstration of technical feasibility, the effectiveness of performance initially intended by the management and provision of future cash benefit.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of acquired intangible assets are assessed to be indefinite. Acquired intangible assets with definite lives are amortised over the useful economic lives of up to 10 years. The amortization period for the digital products is set at period of 5-10 years at the outset with subsequent reassessment of remaining life at the end of each year. The amortization of internally developed digital products starts when an asset is available for use in the condition necessary to operate as intended by management.

Intangible assets with indefinite useful lives are not amortised and assessed for impairment at least at each financial year-end whenever there is an indication that the intangible asset may be impaired.

Provisions

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

Retirement and other employee benefit obligations

The Group does not have any material pension arrangements separate from the State pension system of the Republic of Azerbaijan, which requires current contributions by the employer calculated as a percentage of current gross salary payments; such expense is charged in the period the related salaries are earned. In addition, the Group has no significant post-employment benefits.

Share capital

Share capital

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

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Share capital (continued)

Dividends

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

Contingencies

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

Recognition of income and expenses

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

Interest and similar income and expense

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

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

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

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

Fee and commission income

The Group earns fee and commission income from several types of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income on guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Recognition of income and expenses (continued)

Fee and commission income (continued)

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party − such as where the Group's performance obligation is the arrangement of the acquisition of shares or other securities − are recognised on completion of the underlying transaction. Fees or components of fees that are linked to certain performance obligations are recognised after fulfilling the corresponding criteria. When the contract provides for a variable consideration, fee and commission income is only recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur until the uncertainty associated with the variable consideration is subsequently resolved. Revenue is recognized when the Group's right to receive the payment is established.

Customer loyalty programs

The Group offers a number customer loyalty programs. Accounting for such programs varies depending on who is identified as the customer, and whether the Group acts as an agent or as a principal under the contract.

The Group has launched a loyalty program for its customers with incentives to sell their banking cards, which is a new product with conditions and a set of privileges unique to the Miles & Smiles Frequent Flyer Programme. According the programme the Group is a principal that obtains control of specified number of miles, so that is an only an inventory risk owner, as well as determines conversion rate of miles. Thus, the nature of Group's promise is a performance obligation to provide the specified miles to the customer, which are initially bought from airlines.

The Group assesses active miles as inventory in the form of materials to be consumed in the rendering of services. At each reporting period and recognizes them at lower cost and net realizable value.

The Group generally recognizes a liability for the accumulated miles that are expected to be utilized by the customers, which is reversed to profit or loss as the points expire. Thus, the revenues from rendering services using loyalty program are allocated to the obligation to satisfy the loyalty points i.e. miles and deferred until those points are accrued to customers individual airline accounts, so that transfers control of miles.

Dividend income

Revenue is recognised when the Group's right to receive the payment is established.

Foreign currency translation

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

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

The Group used the following official exchange rates at 31 December 2022 and 2021, in the preparation of these financial statements:

	2022	*2021*
1 US dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.8114	AZN 1.9265
1 Georgian lari	AZN 0.6298	AZN 0.5489
1 Turkish lira	AZN 0.0909	AZN 0.1329

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non−life, direct insurance and re−insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short−duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is currently in the process of assessing the impact of adopting IFRS 17 on its consolidated financial statements.

Amendments to IAS 1 Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations – Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Group.

(Figures in tables are in thousands of Azerbaijani manats)

3. Summary of accounting policies (continued)

Standards issued but not yet effective (continued)

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 *Making Materiality Judgements*, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

4. Significant accounting judgements and estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Estimation uncertainty

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Additional details are provided in Note 29.

Impairment losses on financial assets

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

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

(Figures in tables are in thousands of Azerbaijani manats)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

More details are provided in Notes 8 and 28.

Impairment losses and fair value assessment of Russian investment securities.

Russia-Ukraine conflict that started on 24 February 2022 and triggered a series of sanctions against Russian government and companies, restricting their ability to settle their obligations to foreign creditors. This required the Group to reassess its views used in estimation of impairment losses and fair value estimation of Russian investment securities held at FVOCI. The Group exercised judgement in determining the key assumptions used in ECL and fair value estimation. As at 31 December 2022, the fair value and related ECL of Russian investment securities were AZN 34,174 thousand (31 December 2021: AZN 73,898 thousand) and AZN 27,735 thousand (31 December 2021: AZN 59 thousand), respectively. More details are provided in Notes 28 and 29.

Impairment of banking license

The recoverable amount of banking license is measured annually, irrespective of whether there is any indication that it may be impaired. This requires an estimation of the value in use of the cash-generating unit. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The Group reviews and validates at the end of each reporting period its decision to classify the useful life of an intangible asset as indefinite. If events and circumstances no longer support an indefinite useful life, the change from indefinite to finite life is accounted for as a change in accounting estimate under IAS 8, which requires such changes to be recognised prospectively. Furthermore, reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. The banking license at 31 December 2022 was fully impaired (31 December 2021: AZN 4,729 thousand), more details are provided in Note 11.

Impairment of digital products

At the end of each reporting period the Group assesses an impairment trigger of each digital product. If any such indication exists, the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. At each reporting date the Group assesses whether the product still complies with the predetermined needs of the Group and whether the value in use corresponds with the carrying value. The impairment assessment requires an estimation of the value in use of the cash-generating unit.

Estimating the value in use requires the Group to make an estimate of the expected future cash flows from each cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Thus, in the measuring value in use the Group:

- Bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of particular digital product;
- Bases cash flow projections on the most recent financial budgets/forecasts approved by management. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified. Only remaining useful life of a product should be taken into account;
- Estimates cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified;
- Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation.

As at 31 December 2022, the carrying amount of digital products was AZN 7,858 thousand (31 December 2021: AZN 10,191 thousand). More details are provided in Note 11.

Net realisable value of repossessed collaterals

The net realisable value of repossessed collaterals is measured each reporting period, to ensure that the collaterals are held at a lower of cost or net realizable value.

The Group developed a strategy for realization of these assets within current year. If no sale of the assets is observed within current year then valuation of net realizable value of the subject assets is performed under more scrutiny and conservatism. Each property is valued separately based on the available market data. The carrying amount of repossessed collaterals at 31 December 2022 was AZN 6,934 thousand (31 December 2021: AZN 10,853 thousand). More details are provided in Note 13.

(Figures in tables are in thousands of Azerbaijani manats)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Leases − estimating the incremental borrowing rate

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

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Group's credit rating).

Taxation

Tax legislation in Azerbaijan, Turkey and Georgia is subject to varying interpretations, and changes can occur frequently. Management believes that as at 31 December 2022 and 2021 its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

5. Cash and cash equivalents

Cash and cash equivalents comprise:

	2022	*2021*
Cash on hand	91,566	84,590
Current accounts with the CBAR, the NBG and the CBRT	1,838,446	1,069,209
Current accounts with other credit institutions	826,341	93,282
Time deposits with credit institutions up to 3 months	542,822	77,841
Reverse repurchase agreements with credit institutions up to 3 months	3,002	500
Less: allowance for impairment	(47)	(11)
Cash and cash equivalents	**3,302,130**	**1,325,411**

Current accounts with other credit institutions consist of non-interest bearing correspondent account balances with resident and non-resident banks in the amount of AZN 7,722 thousand (31 December 2021: AZN 4,230 thousand) and AZN 818,619 thousand (31 December 2021: AZN 89,052 thousand), respectively.

As at 31 December 2022, the Group placed AZN 542,822 thousand in time deposits with CBAR, five resident and eight non-resident banks maturing through January 2023 (31 December 2021: AZN 77,841 thousand in time deposits with one resident and six non–resident banks maturing through January 2022).

All balances of cash equivalents are allocated to Stage 1.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2022	*2021*
Time deposits with credit institutions for more than 3 months	70,879	323,240
Loans to banks	28,988	37,070
Obligatory reserve with the CBAR, the NBG and the CBRT	330,913	90,195
Restricted deposits	156,633	152,964
	587,413	**603,469**
Less: allowance for impairment	(3,353)	(861)
Amounts due from credit institutions	**584,060**	**602,608**

As at 31 December 2022, time deposits with credit institutions mature between April 2023 and December 2024 (31 December 2021: between January 2022 and August 2023).

(Figures in tables are in thousands of Azerbaijani manats)

6. Amounts due from credit institutions (continued)

As at 31 December 2022, the Bank had outstanding amount of AZN 15,007 thousand of secured loans issued to one resident commercial bank and AZN 13,981 thousands of unsecured loans issued to one resident commercial bank with contractual maturity through September 2023 (31 December 2021: AZN 37,070 thousand of secured loans issued to four resident commercial banks with a contractual maturity through September 2023).

Credit institutions in the Republic of Azerbaijan are required to maintain a non-interest earning cash deposit (obligatory reserve with restriction on withdrawal) with the CBAR at the level of 4.0% (2021: 0.5%) and 5.0% (2021: 1.0%) of the previous month average of funds attracted from customers by a credit institution in AZN and foreign currencies, respectively.

Credit institutions in the Republic of Georgia are required to maintain a mandatory interest earning cash deposit with the NBG at the level of 5.0% (2021: 5.0%) and 25.0% (2021: 25.0%) of the average of funds attracted from customers and non-resident financial institutions for the appropriate two-week period in GEL and foreign currencies, respectively.

Credit institutions in the Republic of Turkey are required to maintain a mandatory interest earning reserve for deposits with the CBRT in the range of 3.0% and 8.0% (2021: 3.0% and 8.0%) and 5.0% and 25.0% (2021: 5.0% and 25.0%) of average of funds attracted from customers by a credit institution in TRY and foreign currencies, respectively.

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2022	**589,488**	**–**	**13,981**	**603,469**
New assets originated or purchased	118,257	–	–	**118,257**
Assets repaid	(135,559)	–	–	**(135,559)**
Transfers to Stage 3	(3,429)	–	3,429	**–**
Hyperinflation effect	(9,924)	–	–	**(9,924)**
Foreign exchange adjustments	11,170	–	–	**11,170**
At 31 December 2022	**570,003**	**–**	**17,410**	**587,413**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(861)**	**–**	**–**	**(861)**
New assets originated or purchased	(601)	–	–	**(601)**
Assets repaid	831	–	48	**879**
Transfers to Stage 3	24	–	(24)	**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	(2,836)	**(2,836)**
Hyperinflation effect	46	–	–	**46**
Foreign exchange adjustments	20	–	–	**20**
At 31 December 2022	**(541)**	**–**	**(2,812)**	**(3,353)**

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**442,929**	**–**	**13,981**	**456,910**
New assets originated or purchased	378,770	–	–	**378,770**
Assets repaid	(230,467)	–	–	**(230,467)**
Foreign exchange adjustments	(1,744)	–	–	**(1,744)**
At 31 December 2021	**589,488**	**–**	**13,981**	**603,469**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2021	**(485)**	**–**	**–**	**(485)**
New assets originated or purchased	(787)	–	–	**(787)**
Assets repaid	365	–	–	**365**
Foreign exchange adjustments	46	–	–	**46**
At 31 December 2021	**(861)**	**–**	**–**	**(861)**

As at 31 December 2022 and 31 December 2021, credit-impaired loan in the amount of AZN 13,981 thousand is fully covered with a real estate property pledged under mortgage agreement.

(Figures in tables are in thousands of Azerbaijani manats)

7. Investment securities

Investment securities comprise:

	2022	*2021*
Debt securities at FVOCI		
Azerbaijan Mortgage Fund bonds	567,829	592,843
Bonds of the Ministry of Finance of the Republic of Azerbaijan	423,416	616,722
Notes of the Central Bank of Azerbaijan Republic	182,446	16,563
Corporate bonds	86,572	216,142
Bonds of financial institutions	32,403	70,659
Certificate of deposits	16,920	93,741
Other foreign governments' bonds	6,809	58,187
US treasury bonds	1,735	142,186
Debt securities at FVOCI	**1,318,130**	**1,807,043**

	2022	*2021*
Equity securities at FVOCI		
Corporate Shares	2,699	3,021
Equity securities at FVOCI	**2,699**	**3,021**

	2022	*2021*
Equity securities at FVTPL		
Mutual funds participation certificate	3,742	2,785
Equity securities at FVTPL	**3,742**	**2,785**
Debt securities at amortised cost		
Bonds of the Ministry of Finance of the Republic of Azerbaijan	285,378	–
Notes of the Central Bank of Azerbaijan Republic	164,287	–
Other foreign governments' bonds	32,901	28,234
Bonds of financial institutions	19,992	28,871
Corporate bonds	14,734	14,159
	517,292	**71,264**
Less: allowance for impairment	(1,547)	(749)
Debt securities at amortised cost	**515,745**	**70,515**

As at 31 December 2022, debt securities at FVOCI in total amount of AZN 813 thousand (31 December 2021: AZN 6,753 thousand) and debt securities at amortised cost in the amount of AZN 27,470 thousand (31 December 2021: AZN 22,880 thousand) are pledged as collaterals for repurchase agreement (Note 22). The net investment securities balance as at 31 December 2022 after offset would have been AZN 1,812,033 thousand (31 December 2021: AZN 1,853,731 thousand) if net-off rights were exercised.

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at FVOCI is as follows:

Debt securities at FVOCI	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying value as at 1 January 2022	**1,807,043**	**–**	**–**	**1,807,043**
New assets originated or purchased	375,639	–	–	**375,639**
Assets repaid or sold	(799,800)	(465)	(61)	**(800,326)**
Transfers to Stage 2	(40,729)	40,729	–	**–**
Transfers to Stage 3	(22,267)	–	22,267	**–**
Change in fair value	(34,289)	(11,909)	(16,387)	**(62,585)**
Hyperinflation effect	592	–	–	**592**
Foreign exchange adjustments	(2,233)	–	–	**(2,233)**
At 31 December 2022	**1,283,956**	**28,355**	**5,819**	**1,318,130**

(Figures in tables are in thousands of Azerbaijani manats)

7. Investment securities (continued)

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	**(3,693)**	**–**	**–**	**(3,693)**
New assets originated or purchased	(502)	–	–	**(502)**
Assets repaid or sold	1,095	–	–	**1,095**
Transfers to Stage 2	63	(63)	–	**–**
Transfers to Stage 3	12	–	(12)	**–**
Changes to models and inputs used for ECL calculations	511	–	–	**511**
Impact on period end ECL of exposures transferred between stages during the period	–	(9,677)	(17,983)	**(27,660)**
Hyperinflation effect	15	–	–	**15**
Foreign exchange adjustments	25	–	–	**25**
At 31 December 2022	**(2,474)**	**(9,740)**	**(17,995)**	**(30,209)**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**1,595,448**	**–**	**–**	**1,595,448**
New assets originated or purchased	253,692	–	–	**253,692**
Assets repaid or sold	(29,256)	–	–	**(29,256)**
Unwinding of discount (recognised in interest income)	(98)	–	–	**(98)**
Change in fair value	(8,955)	–	–	**(8,955)**
Foreign exchange adjustments	(3,788)	–	–	**(3,788)**
At 31 December 2021	**1,807,043**	**–**	**–**	**1,807,043**

Debt securities at FVOCI	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECl allowance as at 1 January 2021	**(4,246)**	**–**	**–**	**(4,246)**
New assets originated or purchased	(1,567)	–	–	**(1,567)**
Assets repaid or sold	2,097	–	–	**2,097**
Changes to models and inputs used for ECL calculations	(12)	–	–	**(12)**
Foreign exchange adjustments	35	–	–	**35**
At 31 December 2021	**(3,693)**	**–**	**–**	**(3,693)**

An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortised cost is as follows:

Debt securities at amortised cost	*Stage 1*
Gross carrying value as at 1 January 2022	**71,264**
New assets originated	484,237
Assets repaid	(39,071)
Hyperinflation effect	(6,483)
Foreign exchange and other movements	7,345
At 31 December 2022	**517,292**

Debt securities at amortised cost	*Stage 1*
ECL as at 1 January 2022	**(749)**
New assets originated	(1,521)
Assets repaid	280
Changes to models and inputs used for ECL calculation	90
Hyperinflation effect	204
Foreign exchange and other movements	149
At 31 December 2022	**(1,547)**

(Figures in tables are in thousands of Azerbaijani manats)

7. Investment securities (continued)

Debt securities at amortised cost	***Stage 1***
Gross carrying value as at 1 January 2021	**51,137**
New assets originated	48,893
Assets repaid	(3,886)
Unwinding of discount (recognised in interest revenue)	735
Foreign exchange and other movements	(25,615)
At 31 December 2021	**71,264**

Debt securities at amortised cost	***Stage 1***
ECL as at 1 January 2021	**(621)**
New assets originated	(379)
Assets repaid	2
Changes to models and inputs used for ECL calculation	(32)
Foreign exchange and other movements	281
At 31 December 2021	**(749)**

8. Loans to customers

Loans to customers comprise:

	2022	***2021***
Legal entities	2,885,227	2,808,078
Individuals	502,832	315,391
Loans to customers (gross)	**3,388,059**	**3,123,469**
Less: allowance for impairment	(114,470)	(96,164)
Loans to customers (net)	**3,273,589**	**3,027,305**

Loans are made in the following industry sectors:

	2022	***2021***
Trade and services	1,423,440	1,460,654
Individuals	502,832	315,391
Manufacturing	375,705	360,062
Transport and telecommunication	240,921	201,356
Construction	243,702	328,149
Non-banking credit organizations	192,212	119,700
Agriculture and food processing	159,658	154,859
Energy	136,381	70,896
Mining	34,009	41,706
Real estate management	31,058	30,759
Tourism	24,511	–
Rental services	15,961	25,616
Other	7,669	14,321
Total loans (gross)	**3,388,059**	**3,123,469**

As at 31 December 2022, loans granted to top 13 customers (2021: 16 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 957,244 thousand (2021: AZN 1,027,958 thousand).

Finance lease receivables

Included in loans to legal entities are finance lease receivables. The analysis of finance lease receivables at 31 December 2022 is as follows:

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

	Not later than 1 year	*Between 1 and 2 years*	*Between 2 and 3 years*	*Between 3 and 4 years*	*Between 4 and 5 years*	*Later than 5 years*
Gross investment in finance leases	23,555	12,511	7,150	342	–	–
Unearned future finance income on finance leases	(2,888)	(1,095)	(336)	(2)	–	–
Net investment in finance leases	**20,667**	**11,416**	**6,814**	**340**	**–**	**–**

Included in loans to legal entities are finance lease receivables. The analysis of finance lease receivables at 31 December 2021 is as follows:

	Not later than 1 year	*Between 1 and 2 years*	*Between 2 and 3 years*	*Between 3 and 4 years*	*Between 4 and 5 years*	*Later than 5 years*
Gross investment in finance leases	18,533	22,187	7,728	7,996	356	–
Unearned future finance income on finance leases	(3,051)	(2,459)	(1,220)	(396)	(2)	–
Net investment in finance leases	**15,482**	**19,728**	**6,508**	**7,600**	**354**	**–**

An analysis of changes in the gross carrying value and corresponding ECL during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2022	**1,947,209**	**969,378**	**206,882**	**–**	**3,123,469**
New assets originated or purchased	2,100,122	–	–	7,025	**2,107,147**
Assets repaid (excluding write-offs)	(1,209,983)	(454,984)	(140,163)	–	**(1,805,130)**
Transfers to Stage 1	134,291	(134,125)	(166)	–	**–**
Transfers to Stage 2	(553,643)	556,548	(2,905)	–	**–**
Transfers to Stage 3	(54,157)	(34,446)	88,603	–	**–**
Amounts written off	–	–	(9,084)	–	**(9,084)**
Recovery	–	–	3,188	–	**3,188**
Hyperinflation effect	(23,476)	375	693	–	**(22,408)**
Foreign exchange adjustments	(11,396)	2,171	102	–	**(9,123)**
At 31 December 2022	**2,328,967**	**904,917**	**147,150**	**7,025**	**3,388,059**

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2022	**(19,957)**	**(23,498)**	**(52,709)**	**–**	**(96,164)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss					
New assets originated or purchased	(15,397)	–	–	–	**(15,397)**
Assets repaid	7,639	6,372	25,411	–	**39,422**
Transfers to Stage 1	(6,707)	6,698	9	–	**–**
Transfers to Stage 2	3,169	(3,885)	716	–	**–**
Transfers to Stage 3	2,826	3,824	(6,650)	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	5,491	(8,990)	(42,672)	–	**(46,171)**
Changes to models and inputs used for ECL calculations	(318)	630	3,841	–	**4,153**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss					
Unwinding of discount (recognised in interest revenue)	–	–	(7,860)	–	**(7,860)**
Amounts written off	–	–	9,084	–	**9,084**
Recovery	–	–	(3,188)	–	**(3,188)**
Foreign exchange adjustments	345	1,054	428	–	**1,827**
Hyperinflation effect	461	(192)	(445)	–	**(176)**
At 31 December 2022	**(22,448)**	**(17,987)**	**(74,035)**	**–**	**(114,470)**

** The effect of Recovery line on consolidated statement of profit or loss is included within Assets repaid line.*

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

An analysis of changes in the gross carrying value and corresponding ECL during the year ended 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2021	**1,434,825**	**1,087,661**	**160,370**	**2,682,856**
New assets originated or purchased	1,907,613	–	–	**1,907,613**
Assets repaid (excluding write-offs)	(968,978)	(276,456)	(25,121)	**(1,270,555)**
Transfers to Stage 1	192,947	(190,568)	(2,379)	**–**
Transfers to Stage 2	(393,695)	409,907	(16,212)	**–**
Transfers to Stage 3	(45,837)	(49,316)	95,153	**–**
Amounts written off	–	–	(7,130)	**(7,130)**
Recovery	–	–	5,975	**5,975**
Foreign exchange adjustments	(179,666)	(11,850)	(3,774)	**(195,290)**
At 31 December 2021	**1,947,209**	**969,378**	**206,882**	**3,123,469**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**(14,034)**	**(32,547)**	**(27,457)**	**(74,038)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss				
New assets originated or purchased	(47,855)	–	–	**(47,855)**
Assets repaid	6,330	7,952	8,527	**22,809**
Transfers to Stage 1	(4,146)	3,926	220	**–**
Transfers to Stage 2	13,281	(16,393)	3,112	**–**
Transfers to Stage 3	21,562	7,057	(28,619)	**–**
Impact on period end ECL of exposures transferred between stages during the period	2,328	850	(7,491)	**(4,313)**
Changes to models and inputs used for ECL calculations	1,435	3,753	(277)	**4,911**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss				
Unwinding of discount (recognised in interest revenue)	–	–	(4,123)	**(4,123)**
Amounts written off	–	–	7,130	**7,130**
Recovery	–	–	(5,975)	**(5,975)**
Foreign exchange adjustments	1,142	1,904	2,244	**5,290**
At 31 December 2021	**(19,957)**	**(23,498)**	**(52,709)**	**(96,164)**

* *The effect of Recovery line on consolidated statement of profit or loss is included within Assets repaid line.*

Modified and restructured loans

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

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

The table below includes assets that were modified during the year, with the related modification gain / (loss) recognized by the Group.

	2022	*2021*
Loans modified during the period		
Amortised cost before modification	377,344	164,957
Net modification (loss)/gain	(869)	1,398

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, cash, securities, equipment and trade receivables;
- For retail lending, mortgages over residential properties and life endowment insurance account;
- Guarantees from parent company for both commercial and retail lending.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for loan impairment.

The Group calculates LGD rate of certain Legal entities in Stage 3 using discounted value of collaterals. As at 31 December 2022, maximum exposure of such individually assessed loans amounted to AZN 143,958 thousand (31 December 2021: AZN 179,185 thousand) for which ECL of AZN 62,307 thousand (31 December 2021: AZN 38,443 thousand) was created. If these loans were not collateralized, ECL amount for these loans would be AZN 109,862 thousand (31 December 2021: AZN 83,796 thousand) based on collective assessment.

9. Investment properties

The movements in investment properties were as follows:

	2022	***2021***
Opening balance at 1 January	**19,126**	**34,981**
Disposals	–	(2,000)
Depreciation for the period	(167)	(188)
Impairment reversal (Note 27)	1,063	410
Hyperinflation effect	17,251	–
Foreign translation difference	(6,044)	(14,077)
Closing balance	**31,229**	**19,126**

As at 31 December 2022, the Group has a real estate classified as investment property amounting to AZN 31,229 thousand (31 December 2021: AZN 19,126 thousand) with fair value of AZN 31,229 thousand (2021: AZN 21,397 thousand).

(Figures in tables are in thousands of Azerbaijani manats)

10. Property and equipment

The movements in property and equipment were as follows:

	Land	*Buildings*	*Furniture and fixtures*	*Computers and other equipment*	*Vehicles*	*Other equipment*	*Leasehold improve-ments*	*Total*
Cost								
1 January 2021	**13,834**	**14,409**	**22,940**	**15,829**	**2,514**	**1,037**	**4,908**	**75,471**
Additions	–	28	4,090	1,412	214	4	–	**5,748**
Disposals	–	–	(546)	(5,505)	(454)	(90)	(441)	**(7,036)**
Transfers	–	–	491	(491)	–	–	–	**–**
Foreign currency translation difference	(5,730)	(3,822)	(226)	(264)	(145)	(117)	106	**(10,198)**
31 December 2021	**8,104**	**10,615**	**26,749**	**10,981**	**2,129**	**834**	**4,573**	**63,985**
Additions	–	–	2,787	930	386	18	9	**4,130**
Disposals	–	–	(358)	(187)	(1)	(11)	(166)	**(723)**
Foreign currency translation difference	(2,466)	(1,646)	44	208	(32)	(17)	282	**(3,627)**
Hyperinflation effect	9,954	6,416	483	701	256	220	–	**18,030**
31 December 2022	**15,592**	**15,385**	**29,705**	**12,633**	**2,738**	**1,044**	**4,698**	**81,795**
Accumulated depreciation								
1 January 2021	**(2,215)**	**(3,242)**	**(14,481)**	**(11,437)**	**(1,367)**	**(564)**	**(2,399)**	**(35,705)**
Depreciation charge	–	(411)	(3,917)	(1,811)	(436)	(96)	(712)	**(7,383)**
Disposals	–	–	307	4,301	447	43	160	**5,258**
Transfers	–	–	(491)	491	–	–	–	**–**
Foreign currency translation difference	938	623	60	102	60	26	(26)	**1,783**
31 December 2021	**(1,277)**	**(3,030)**	**(18,522)**	**(8,354)**	**(1,296)**	**(591)**	**(2,977)**	**(36,047)**
Depreciation charge	–	(388)	(3,931)	(1,405)	(404)	(92)	(689)	**(6,909)**
Disposals	–	–	285	166	–	9	120	**580**
Transfers	–	–	3	–	–	(3)	–	**–**
Impairment expense (Note 27)	313	224	–	–	–	–	–	**537**
Foreign currency translation difference	403	278	(87)	(224)	7	(14)	(161)	**202**
Hyperinflation effect	(4,254)	(2,495)	(201)	(436)	(134)	(78)	–	**(7,598)**
31 December 2022	**(4,815)**	**(5,411)**	**(22,453)**	**(10,253)**	**(1,827)**	**(769)**	**(3,707)**	**(49,235)**
Net book value								
31 December 2022	**10,777**	**9,974**	**7,252**	**2,380**	**911**	**275**	**991**	**32,560**
31 December 2021	**6,827**	**7,585**	**8,227**	**2,627**	**833**	**243**	**1,596**	**27,938**

As at 31 December 2022, property and equipment amounting to AZN 22,392 thousand (31 December 2021: AZN 16,278 thousand) were fully depreciated but in use.

(Figures in tables are in thousands of Azerbaijani manats)

11. Intangible assets

The movements in intangible assets were as follows:

	Goodwill	*Banking license*	*Licenses*	*Computer software*	*Digital products*	*Total*
Cost						
1 January 2021	**3,642**	**23,362**	**17,844**	**18,922**	**20,392**	**84,162**
Additions	–	–	4,718	5,297	–	**10,015**
Disposals	–	–	(336)	(602)	–	**(938)**
Foreign currency translation difference	–	(5,012)	6	(1,138)	–	**(6,144)**
31 December 2021	**3,642**	**18,350**	**22,232**	**22,479**	**20,392**	**87,095**
Additions	–	–	2,759	2,464	–	**5,223**
Disposals	–	–	(86)	(1,385)	–	**(1,471)**
Internal transfers	–	–	(544)	544	–	**–**
Foreign currency translation difference	–	(1,494)	16	15	–	**(1,463)**
Hyperinflation effect	–	–	–	2,206	–	**2,206**
31 December 2022	**3,642**	**16,856**	**24,377**	**26,323**	**20,392**	**91,590**
Accumulated amortization						
1 January 2021	**(3,642)**	**(11,526)**	**(8,642)**	**(7,186)**	**(7,547)**	**(38,543)**
Amortisation charge	–	–	(2,944)	(2,650)	(2,654)	**(8,248)**
Disposals	–	–	139	576	–	**715**
Impairment	–	(2,810)	–	–	–	**(2,810)**
Foreign currency translation difference	–	715	(3)	546	–	**1,258**
31 December 2021	**(3,642)**	**(13,621)**	**(11,450)**	**(8,714)**	**(10,201)**	**(47,628)**
Amortisation charge	–	–	(3,612)	(2,972)	(2,333)	**(8,917)**
Disposals	–	–	86	803	–	**889**
Internal transfers	–	–	217	(217)	–	**–**
Impairment expense (Note 27)	–	(3,235)	–	–	–	**(3,235)**
Foreign currency translation difference	–	–	1	52	–	**53**
Hyperinflation effect	–	–	–	(1,352)	–	**(1,352)**
31 December 2022	**(3,642)**	**(16,856)**	**(14,758)**	**(12,400)**	**(12,534)**	**(60,190)**
Net book value						
31 December 2022	**–**	**–**	**9,619**	**13,923**	**7,858**	**31,400**
31 December 2021	**–**	**4,729**	**10,782**	**13,765**	**10,191**	**39,467**

As at 31 December 2022, intangible assets amounting to AZN 6,537 thousand (31 December 2021: AZN 4,952 thousand) were fully amortised but in use.

Digital products represent the Group's internally developed software that is being used starting from 2019 and acquired digital lending tool that is being used starting from 2020. As at 31 December 2022 and 2021, recoverable amount of cash generating unit have been determined based on value in use method. The valuation is based on discounted cashflow information which is regularly updated in line with the most recent projections and forecasts.

Impairment testing of intangible assets with indefinite lives

Banking license acquired through business combination with indefinite lives has been allocated to one individual cash-generating unit for impairment testing which is PASHA Yatirim Bankasi A.Ş.

The carrying amount of the banking license acquired allocated to the cash-generating unit was AZN 4,729 thousand as at 31 December 2021. The license is fully impaired as at 31 December 2022.

Key assumptions used in value in use calculation

As at 31 December 2022 and 2021, recoverable amount of cash generating unit have been determined based on value in use method. The valuation is based on the information about historical and prospective financials and strategic initiatives of the PASHA Yatirim Bankasi A.S. and other third party information available on the market.

(Figures in tables are in thousands of Azerbaijani manats)

11. Intangible assets (continued)

Key assumptions used in value in use calculation (continued)

The calculation of value in use is most sensitive to the following assumptions:

- Financial performance (including current and forecasted results);
- Cost of equity;
- ROE (including current and forecasted results);
- Growth rate of loan portfolio;
- GDP growth rate in Turkey;
- Leverage ratio;
- Period of discounted cash flow of 8 years;
- Long term inflation growth rate.

As a result of the valuation, the license was fully impaired (2021: AZN 4,729 thousand). As at December 2022 and 2021, the impairment loss was mainly due to increase in cost of equity.

12. Right-of-use assets and lease liabilities

The leases of the Group are represented by buildings used as office premises. The movement in right-of-use assets and lease liabilities during the year ended 31 December 2022 were as follows:

	Right-of-use assets	***Lease liabilities***
As at 1 January 2022	**17,640**	**18,241**
Additions	3,540	3,540
Lease modifications	3,440	3,440
Disposals and write offs	(145)	(145)
Depreciation expense	(7,402)	–
Interest expense	–	1,360
Payments	–	(8,610)
Foreign currency translation difference	398	(164)
As at 31 December 2022	**17,471**	**17,662**

(Figures in tables are in thousands of Azerbaijani manats)

12. Right-of-use assets and lease liabilities (continued)

	Right-of-use assets	*Lease liabilities*
As at 1 January 2021	**12,300**	**13,339**
Additions	4,600	4,600
Lease modifications	7,434	7,434
Disposals and write offs	(779)	(944)
Depreciation expense	(6,082)	–
Interest expense	–	883
Payments	–	(7,021)
Rent concessions	–	(52)
Foreign currency translation difference	167	2
As at 31 December 2021	**17,640**	**18,241**

Future lease payments for each of the next five years for the year ended 31 December 2022 and 2021 are as follows:

	2022	*2021*
Within one year	7,963	7,620
Between 1 and 2 years	9,004	9,642
Between 2 and 3 years	3,030	2,140
Between 3 and 4 years	71	1,029
Between 4 and 5 years	47	–
Total future lease payments	**20,115**	**20,431**

13. Other assets and liabilities

Other assets comprise:

	2022	*2021*
Other financial assets		
Settlements on money transfers	53,363	27,772
Accrued commission receivable on guarantees and letters of credit	1,716	1,774
Clearance cheque accounts	1,217	2,695
Other	350	101
	56,646	**32,342**
Less: allowance for impairment of other financial assets	(945)	(358)
Total other financial assets	**55,701**	**31,984**
Other non-financial assets		
Repossessed collateral	6,934	10,853
Deferred expenses	5,714	2,833
Other prepayments	5,226	1,836
Purchased miles under loyalty programme	2,998	3,788
Prepayments for acquisition of property, equipment and intangible assets	1,166	2,301
Taxes, other than income tax	68	30
	22,106	**21,641**
Other assets	**77,807**	**53,625**

All balances of other financial assets are allocated to Stage 1.

As at 31 December 2022 and 2021 clearance cheque accounts consist of receivables from other banks for which cheques stand as collateral.

As at 31 December 2022 deferred expenses of AZN 2,510 thousand (31 December 2021: AZN 1,552 thousand) related to long term software support.

The repossessed collaterals are represented by non-financial assets acquired by the Group in settlement of overdue loans. The repossessed collaterals are recorded at a lower of cost and net realizable value as at the end of year.

(Figures in tables are in thousands of Azerbaijani manats)

13. Other assets and liabilities (continued)

Other liabilities comprise:

	2022	*2021*
Other financial liabilities		
Accrued expenses	8,433	11,348
Settlements on money transfer	5,696	1,287
Clearance cheque accounts	1,217	2,695
Other	1,282	1,255
	16,628	**16,585**
Other non-financial liabilities		
Payable to employees	33,250	28,676
Deferred income	3,339	3,059
Taxes, other than income tax	2,523	1,995
Other	18	13
	39,130	**33,743**
Other liabilities	**55,758**	**50,328**

14. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	2022	*2021*
Long-term deposits from banks	296,337	319,961
Entrepreneurship Development Fund of the Republic of Azerbaijan	208,738	273,940
Short-term deposits from banks	180,707	108,000
Azerbaijan Mortgage and Credit Guarantee Fund	103,654	82,674
Long-term loans from banks	56,415	59,394
Correspondent accounts with other banks	46,014	22,711
Agro Credit and Development Agency	12,128	12,923
Loans from the National Bank of Georgia	10,105	10,992
Deposits from the Ministry of Finance of Georgia	7,246	5,762
Repurchase agreements	910	5,378
Amount due to IT Development Fund	538	1,067
Other	9,360	27,605
Amounts due to banks and government funds	**932,152**	**930,407**

As at 31 December 2022, the Group attracted long-term deposits from two resident commercial banks comprising AZN 296,337 thousand (31 December 2021: AZN 319,961 thousand) maturing through November 2025 with interest rate ranging between 1.5% and 4.3% (31 December 2021: September 2023 with interest rate ranging between 0.1% and 4.3%).

As at 31 December 2022, Entrepreneurship Development Fund of the Republic of Azerbaijan had current account amounting to AZN 2,629 thousand (31 December 2021: AZN 25,317 thousand) and time deposits amounting to AZN 0 thousand (31 December 2021: AZN 13,089 thousand maturing through April 2022 with interest rate of 6.5%). The Group had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 206,109 thousand (31 December 2021: AZN 235,534 thousand), maturing through September 2032 (31 December 2021: through June 2030) and bearing interest rate of 1.0% (31 December 2021: 1.0%). The loans were acquired for the purposes of assistance in gradually improving entrepreneurship environment in Azerbaijan under the government program. The loans have been granted to local entrepreneurs at interest rate not higher than 6.0% (31 December 2021: not higher than 6.0%).

As at 31 December 2022, the Group attracted short-term deposits from six resident and nineteen non-resident commercial banks (31 December 2021: non-residents) comprising AZN 180,707 thousand (31 December 2021: AZN 108,000 thousand) maturing through February 2023 (31 December 2021: November 2022) and with interest rates ranging between 3.0% and 26.0% (31 December 2021: ranging between 0.01% and 19.0%).

As at 31 December 2022, the Group had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 92,596 thousand (31 December 2021: AZN 67,181 thousand), maturing through October 2052 (31 December 2021: through January 2051) and bearing interest rate of 1.0% and 4.0% (31 December 2021: 1.0% and 4.0%). The loans have been granted to borrowers at interest rate not higher than 8.0% (31 December 2021: not higher than 8.0%). Also, the Group had short-term deposit from the Azerbaijan Mortgage and Credit Guarantee Fund amounting AZN 11,058 thousand (31 December 2021: AZN 15,493 thousand), maturing through August 2023 (31 December 2021: June 2022) with interest rate ranging between 5.0% and 9% (31 December 2021: ranging between 5.0% and 5.5%)

(Figures in tables are in thousands of Azerbaijani manats)

14. Amounts due to banks and government funds (continued)

As at 31 December 2022, the Group received long-term loan from one resident and one non resident commercial banks (31 December 2021: one resident and one non-resident commercial banks) comprising AZN 56,415 thousand (31 December 2021: 59,394 thousand), maturing through August 2026 (31 December 2021: through August 2026) and with interest rates ranging between 3.0% and 10.50% (31 December 2021: ranging between 3.0% and 11.0%). During 2021, a fair value loss of AZN 3,778 thousand arose on initial recognition of the loan from the resident bank.

As at 31 December 2022, the Group had loans received from the Agro Credit and Development Agency amounting to AZN 12,128 thousand (31 December 2021: AZN 12,923 thousand), maturing through September 2027 (31 December 2021: December 2026) and bearing interest rate between 2.0% and 4.0% (31 December 2021: 2.0% and 4.0%). The loans have been granted to local entrepreneurs at interest rate of 7.0% (31 December 2021: 7.0%).

As at 31 December 2022, the Group had loans from National Bank of Georgia amounting to AZN 10,105 thousand (31 December 2021: AZN 10,992 thousand) maturing through January 2023 (31 December 2021: January 2022) and with interest rates 11.17% (31 December 2021: 11.0%).

As at 31 December 2022, the Group had deposit from Ministry of Finance of Georgia amounting to AZN 7,246 thousand (31 December 2021: AZN 5,762 thousand) maturing through January 2028 (31 December 2021: January 2028) and with interest rates ranging between 9.9% and 12.10% (31 December 2021: 9.9% and 11.0%).

As at 31 December 2022, the Group had loans refinanced from the IT Development Fund amounting to AZN 538 thousand (31 December 2021: AZN 1,067 thousand), maturing through June 2024 (31 December 2021: through June 2024) and bearing interest rate of 1.0% (31 December 2021: 1.0%). The loans have been granted to local entrepreneurs at interest rate of 5.0%.

15. Amounts due to customers

The amounts due to customers include the following:

	2022	*2021*
Demand deposits	5,481,292	3,647,812
Time deposits	1,771,363	1,534,039
Amounts due to customers	**7,252,655**	**5,181,851**
Held as security against guarantees issued (Note 21)	63,643	51,317

An analysis of customer accounts by economic sector is as follows:

	2022	*2021*
Trade and services	1,932,414	1,119,964
Individuals	1,595,734	1,651,084
Mining	1,009,907	502,764
Transport and communication	846,590	360,886
Investment holding companies	506,153	453,777
Manufacturing	473,844	382,238
Insurance	220,354	121,780
Energy	186,858	131,830
Construction	166,066	250,994
Public organizations	85,528	68,939
Agriculture	45,733	29,197
Hotel business	37,621	16,137
Non banking credit organizations	34,637	23,573
Other	111,216	68,688
Amounts due to customers	**7,252,655**	**5,181,851**

As at 31 December 2022, customer deposits included balances with fourteen (31 December 2021: thirteen) largest customers comprised AZN 4,352,437 thousand or 62% of the total customer deposits portfolio (31 December 2021: AZN 2,757,218 thousand or 53% of the total customer deposits portfolio).

As at 31 December 2022, deposits of the customers in the amount of AZN 546,040 thousand (31 December 2021: AZN 628,246 thousand) are pledged as collateral for loans to customers in the amount of AZN 848,748 thousand (31 December 2021: AZN 769,964). The net amounts due to customers balance after offset would have been AZN 6,707,271 thousand (31 December 2021: AZN 4,553,605 thousand) if net-off rights were exercised.

(Figures in tables are in thousands of Azerbaijani manats)

16. Debt securities issued

As at 31 December 2022, PASHA Yatirim Bankasi A.S. had issued interest-bearing bonds with carrying amount of AZN 86,703 thousand (31 December 2021: AZN 162,465 thousand) maturing through June 2024 (31 December 2021: February 2023). Bonds issued by the Group as at 31 December 2022, bear annual interest rates ranging from 1.8% to 24.5% (31 December 2021: from 1.8% to 18.4%).

17. Subordinated debts

As of 31 December 2022, the amount of subordinated debts represent USD denominated subordinated loan of AZN 155,589 thousand (31 December 2021: AZN 45,103 thousand) borrowed by the Group maturing through August 2027 and September 2032 (31 December 2021: August 2024 and December 2028).

18. Derivative financial instruments

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

	2022			***2021***		
	Notional amount	***Fair values***		***Notional amount***	***Fair value***	
		Asset	***Liability***		***Asset***	***Liability***
Interest rate contracts						
Forwards and swaps – foreign	103,251	246	(590)	39,828	102	(183)
Foreign exchange contracts						
Forwards and swaps – foreign	356,230	1,657	(6,893)	356,704	1,868	(7,801)
Forwards and swaps − domestic	313,641	7,040	(1,628)	334,764	7,835	(60)
Options – domestic	40,726	53	−	54,474	99	−
Futures – foreign	45,126	1,218	−			
Futures – domestic	45,154	−	(1,191)	−	−	−
Total derivative assets/ (liabilities)		**10,214**	**(10,302)**		**9,904**	**(8,044)**

Foreign and domestic in the table above stand for counterparties where foreign means non-Azerbaijani entities and domestic means Azerbaijani entities.

As at 31 December 2022 and 2021, the Group has positions in the following types of derivatives:

Forwards and futures

Forwards and futures contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Futures contracts are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements.

Swaps

Swaps are contractual agreements between two parties to exchange movements in interest and foreign currency rates and equity indices, and (in the case of credit default swaps) to make payments with respect to defined credit events based on specified notional amounts.

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

(Figures in tables are in thousands of Azerbaijani manats)

19. Taxation

The corporate income tax expense comprises:

	2022	*2021*
Current tax charge	(53,988)	(34,532)
Deferred tax credit − origination and reversal of temporary differences	13,553	5,269
Less: deferred tax recognised in other comprehensive income	(4,464)	(1,895)
Income tax expense	**(44,899)**	**(31,158)**

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

	2022	*2021*
Net loss/(gains) on investment securities FVOCI	4,464	1,895
Income tax charged to other comprehensive income	**4,464**	**1,895**

Current income tax assets of AZN 0 thousand as at 31 December 2022 (31 December 2021: AZN 65 thousand) represents cumulative amount of income tax prepaid by the Group.

Current income tax liabilities of AZN 22,788 thousand as at 31 December 2022 (31 December 2021: AZN 11,802 thousand) represents cumulative amount of income tax payable of the Group.

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

	2022	*2021*
Profit before income tax expense	**146,825**	**133,475**
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	**(29,365)**	**(26,695)**
Tax effect of non-deductible expenses	(2,863)	(3,301)
Tax rate change effects	279	39
Effect of difference in tax rate in foreign country	(632)	(749)
Tax effect of tax-exempt income	218	75
Unrecognised tax losses carried forward	(257)	(556)
Expired tax losses carried forward, not recognized previously	−	358
Hyperinflation effect	(12,363)	−
Other	84	(329)
Income tax expense	**(44,899)**	**(31,158)**

(Figures in tables are in thousands of Azerbaijani manats)

19. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2022 and 2021 and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*			
	2020	***In the statement of profit or loss***	***In other compre-hensive income***	***Translation difference***	***2021***	***In the statement of profit or loss***	***In other compre-hensive income***	***Translation difference***	***2022***
Tax effect of deductible temporary differences									
Tax losses carried forward	–	358	–	13	371	(257)	–	35	149
Subordinated debt	5	22	–	–	27	35	–	7	69
Amounts due from credit institutions	17	3	–	(6)	14	29	–	1	44
Amounts due to banks and government funds	–	751	–	2	753	–	–	(232)	521
Loans to customers	1,503	789	–	(852)	1,440	8,814	–	570	10,824
Investment securities	140	(56)	94	47	225	–	3,050	(127)	3,148
Investment properties	2,026	(112)	–	(792)	1,122	(1,122)	–	–	–
Property and equipment	153	15	–	4	172	19	–	21	212
Right of use assets	323	185	–	26	534	239	–	95	868
Intangible assets	340	(198)	–	–	142	(137)	–	–	5
Other assets	12	1	–	–	13	–	2	–	15
Derivative financial liabilities	1,352	(1,404)	–	55	3	384	–	1	388
Lease liabilities	1,567	1,393	–	–	2,960	81	–	–	3,041
Provision for guarantees and letters of credit	–	–	–	–	–	249	–	–	249
Other liabilities	5,490	(663)	–	(70)	4,757	1,357	–	349	6,463
Deferred tax asset	**12,928**	**1,084**	**94**	**(1,573)**	**12,533**	**9,691**	**3,052**	**720**	**25,996**
Amounts due from credit institutions	(2,872)	293	–	–	(2,579)	1,378	–	(1)	(1,202)
Derivative financial assets	(1,520)	1,088	–	129	(303)	1	–	(103)	(405)
Investment securities	(4,298)	(104)	1,801	–	(2,601)	1,189	1,412	–	–
Loans to customers	(1,492)	1,296	–	(29)	(225)	140	–	(472)	(557)
Investment properties	–	–	–	–	–	(3,524)	–	(704)	(4,228)
Property and equipment	(727)	(248)	–	380	(595)	(2,157)	–	(178)	(2,930)
Intangible assets	(59)	(14)	–	(4)	(77)	(18)	–	(13)	(108)
Other assets	(1,871)	889	–	(1)	(983)	287	–	–	(696)
Lease liabilities	(184)	(259)	–	(20)	(463)	(323)	–	(91)	(877)
Right of use assets	(1,526)	(1,395)	–	–	(2,921)	(77)	–	–	(2,998)
Amounts due to banks and government funds	(38)	38	–	–	–	(18)	–	(2)	(20)
Amounts due to customers	–	–	–	–	–	(131)	–	–	(131)
Provision for guarantees and letters of credit	(2,148)	144	–	–	(2,004)	2,004	–	–	–
Banking license	(2,367)	562	–	859	(946)	647	–	299	–
Deferred tax liabilities	**(19,102)**	**2,290**	**1,801**	**1,314**	**(13,697)**	**(602)**	**1,412**	**(1,265)**	**(14,152)**
Net deferred tax assets/(liabilities)	**(6,174)**	**3,374**	**1,895**	**(259)**	**(1,164)**	**9,089**	**4,464**	**(545)**	**11,844**

(Figures in tables are in thousands of Azerbaijani manats)

19. Taxation (continued)

Deferred taxes in the consolidated statement of financial position as at 31 December 2022 and 2021 can be reconciled as follows:

	2022	***2021***
Deferred tax assets	17,171	1,730
Deferred tax liabilities	(5,327)	(2,894)
Net deferred tax liabilities	**11,844**	**(1,164)**

20. Equity

As at 31 December 2022 and 31 December 2021, the Bank's authorized, issued and fully paid capital amounted to AZN 354,512 thousand comprising of 10,646 ordinary shares with a par value of AZN 33,300 per ordinary share. Each ordinary share entitles one vote to the shareholder.

On 3 May 2021 Shareholders of the Bank declared dividends totalling AZN 50,380 thousand on ordinary shares (AZN 4,733 per share) which was paid as at 31 December 2021.

On 20 April 2022 and 2 September 2022 Shareholders of the Bank declared dividends totalling AZN 44,314 thousand on ordinary shares (AZN 4,163 per share) which was paid as at 31 December 2022.

Additional paid-in capital

As at 31 December 2022 and 2021, additional paid-in capital of AZN 343 thousand represents gain from fair value measurement at initial recognition of subordinated debts of AZN 8,531 thousand, borrowed from entities under common control.

Foreign currency translation reserve

Foreign currency translation reserve is used to record exchange difference arising from the translation of the financial statements of foreign subsidiaries. Additionally, it includes the net impact from inflation adjustment of PASHA Yatirim Bankasi A.Ş. net assets (Note 2).

Other reserves

Other reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital but may be used to absorb losses in the event that the reserve is exhausted.

As of 31 December 2022, other reserves amounted to AZN 2,799 thousand (31 December 2021: AZN 2,448 thousand).

Unrealised gains/losses on investment securities

This reserve records fair value changes on investment securities at FVOCI which amounted to loss of AZN 5,386 thousand (31 December 2021: gain of AZN 12,721 thousand).

21. Commitments and contingencies

Operating environment

The disruption of the global supply chains, conflict between the Russian Federation and Ukraine (Note 4) as well as rising consumer demand for goods lead to significant inflationary pressures to the global economy in 2022, including soaring commodity prices. Effect on economies in which the Group operates is presented as follows.

The Republic of Azerbaijan

The Bank conducts all of its operations in the Republic of Azerbaijan. The economy of Azerbaijan is particularly sensitive to oil and gas prices. During recent years, the Azerbaijani Government has initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce dependence on the oil and gas sector.

(Figures in tables are in thousands of Azerbaijani manats)

21. Commitments and contingencies (continued)

Operating environment (continued)

During 2022, oil and gas prices reached multi−year highs, contributing to significant trade surplus, and increased foreign currency inflows into the Azerbaijani economy. The prices declined towards the end of the year, but still remained high compared to previous few years. These global trends contributed to inflationary pressures in the country.

With inflation at multi−decade highs in many countries, policymakers in advanced economies have pivoted toward tightening of their monetary policies through reduction of their balance sheets and aggressive interest rate hikes. In the event of global recession, which might be triggered by such tightening, demand for hydrocarbons will fall, which would negatively impact Azerbaijan economy.

During 2021 and 2022, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period. During 2022, the CBAR continued to tighten its monetary policy, and, as a result, refinancing rate reached 8.25% as at 31 December 2022 (31 December 2021: 7.25%).

During 2022, global rating agencies have revised up growth forecast for Azerbaijan and upgraded Azerbaijani Government’s credit rating by one notch. The upgrade reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future disruptions during the post pandemic period. Fiscal performance remains strong and is improving faster than expected, thanks to prudent fiscal management amid economic recovery and high hydrocarbon prices.

The Bank considers its current liquidity position to be sufficient for its sustainable functioning. The Bank monitors its liquidity position on a daily basis.

The Republic of Georgia

The economic policies of Georgia in the last decade have been mostly consistent and effective in terms of investment and increasing short−term economic growth rates. Nevertheless, these policies failed for the most part in laying the foundations for increasing the competitiveness of the Georgian economy and ensuring long−term economic growth. Moreover, the rates of economic growth have not been sufficient to reach significant part of Georgian population and failed to have an impact on reducing unemployment and poverty levels. According to Georgia’s socio−economic development strategy, the economic policy of Georgia is based on the principles of fast and efficient economic growth driven by development of the real sector of economy, implementation of economic policies that would facilitate inclusive economic growth and rational use of natural resources, ensuring environmental safety and sustainability. Georgia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Georgian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As published by the National Statistics Office of Georgia, the level of inflation reached 9.8% year−on−year in December 2022. High inflation is a global economic challenge. In the post-pandemic period, Russia-Ukraine conflict has further increased energy and food prices on international markets. As a result, consumer prices rose sharply all over the world. These globally increased prices were also transmitted to the Georgian market and remain the main reason for high inflation in the country. At the same time, economic activity in Georgia has been high, largely facilitated by the restoration of tourism against the backdrop of an increase in long-term visits by Russians and Belarusians. Strong economic activity increases the risk of demand-side inflationary pressure, although this has been partly offset by the recent appreciation of the GEL exchange rate.

The management maintains strong liquidity positions supported by the NBG’s measures to strengthen banking sector resilience amidst the crisis.

The Republic of Turkey

Price growth in Turkey has reached a two-decade peak in 2022. Inflation in the country started increasing rapidly in 2021 after the CBRT decided to cut interest rates based on the government decree. It then refused to reverse course despite global supply disruptions and an increase in energy prices caused by Russia-Ukraine conflict. As a result, according to inflation data published by Turkey Statistical Institute, the three-year cumulative increase in Consumer Price Index (CPI) as of December 2022 has been 156% in Turkey. This index substantially exceeds 100%, which is a criterion for defining Turkish economy as hyperinflationary in line with IAS 29.

(Figures in tables are in thousands of Azerbaijani manats)

21. Commitments and contingencies (continued)

Operating environment (continued)

Based on CBRT projections, the disinflationary process is expected to start with the steps taken to achieve a price stability. Accordingly, inflation is projected to fall to 19.2% at the end of 2023 and sustain the downward trend by receding to 8.8% by the end of 2024.

The Group's management is monitoring developments in the current environment and taking precautionary measures it considers necessary to support the sustainability and development of the Group's business in the foreseeable future. The Group monitors its liquidity position daily and considers it to be sufficient for its sustainable functioning.

Legal

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

Taxation

Azerbaijani tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Recent events within the Azerbaijan suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review.

Management believes that its interpretation of the relevant legislation as at 31 December 2022 is appropriate and that the Group's tax, currency and customs positions will be sustained.

Compliance with the Regulators' ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2022 and 2021, the Bank was in compliance with these ratios except for the followings:

a) Ratio of the share in one legal entity which should not exceed 10% of total capital. As at 31 December 2022, the Bank's ratio was 18.43% (31 December 2021: 23.98%). This breach was caused by investment injections to the subsidiaries of the Bank.

b) Ratio of maximum credit exposure of a bank per a single borrower or a group of related borrowers on unsecured loan that should not exceed 10% of Tier 1 capital. As at 31 December 2022, the Bank's ratio was 12.29% (31 December 2021: 13.42%). This breach was caused by the issuance of the specific loans for government related projects.

c) Ratio of maximum credit exposure to one related party legal entity of the bank or their representatives should not exceed 10% of total capital. As at 31 December 2022, the Bank's ratio was 14.82% (31 December 2021: 19.28%). This breach was caused by issuance of cash covered loans to related parties.

d) Ratio of maximum credit exposure of total related party loans of the bank or their representatives should not exceed 20% of total capital. As at 31 December 2022, the Bank's ratio was 30.13% (31 December 2021: 42.81%). This breach was caused by issuance of cash covered loans to related parties.

Throughout the year the Bank submitted information regarding these breaches to the regulator on a monthly basis. The Bank is in continuous discussions with the CBAR to agree the remediation measures for each of these breaches. No sanctions have been imposed on the Bank in relation to these breaches as at 31 December 2022. Management believes that the Bank will not face any sanctions in the foreseeable future in respect of these breaches.

(Figures in tables are in thousands of Azerbaijani manats)

21. Commitments and contingencies (continued)

Compliance with the Regulators' ratios (continued)

NBG requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2021 PASHA Bank Georgia was in compliance with these ratios except for the following:

a) Ratio of maximum credit exposure of a bank to a single borrower should not exceed 15% of regulatory capital:the Bank's ratio was 17.52%.

b) Ratio of exposure to a single related party which should not exceed 5% of regulatory capital:the Bank's ratio was 5.87%.

c) Ratio of exposure to group of related borrowers loan that should not exceed 25% of regulatory capital:the Bank's ratio was 26.57%.

No sanction was imposed for these breaches by NBG as at 31 December 2022 on PASHA Bank Georgia. As at 31 December 2022, PASHA Bank Georgia was in compliance with these ratios.

Financial commitments and contingencies

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

Financial commitments and contingencies comprise:

	2022	*2021*
Credit-related commitments		
Guarantees issued	238,976	291,260
Unused credit lines	364,982	340,472
Letters of credit	20,047	34,981
	624,005	**666,713**
Performance guarantees	456,240	386,381
Less: provisions for ECL for credit related commitments	(7,235)	(6,119)
Less: provisions for performance guarantees	(3,375)	(4,905)
Commitments and contingencies (before deducting collateral)	**1,069,635**	**1,042,070**
Less: cash held as security against guarantees issued (Note 15)	(63,643)	(51,317)
Commitments and contingencies	**1,005,992**	**990,753**

An analysis of changes in the ECLs during the year ended 31 December 2022 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(2,387)**	**(3,494)**	**(238)**	**(6,119)**
New exposures	(4,833)	–	–	**(4,833)**
Exposures derecognised or matured (excluding write-offs)	1,544	914	224	**2,682**
Transfers to Stage 1	(711)	711	–	**–**
Transfers to Stage 2	595	(595)	–	**–**
Transfers to Stage 3	2,442	1,207	(3,649)	**–**
Impact on period end ECL of exposures transferred between stages during the period	661	(589)	(8,472)	**(8,400)**
Changes to inputs used for ECL calculations	(63)	(126)	(3)	**(192)**
Amounts paid/Conversion into loan	–	–	9,342	**9,342**
Foreign exchange adjustments	239	46	–	**285**
At 31 December 2022	**(2,513)**	**(1,926)**	**(2,796)**	**(7,235)**

(Figures in tables are in thousands of Azerbaijani manats)

21. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

An analysis of changes in the ECLs during the year ended 31 December 2021 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2021	**(2,456)**	**(4,676)**	**(184)**	**(7,316)**
New exposures	(4,876)	–	–	**(4,876)**
Exposures derecognised or matured (excluding write-offs)	1,851	3,311	70	**5,232**
Transfers to Stage 1	(425)	391	34	**–**
Transfers to Stage 2	2,386	(2,443)	57	**–**
Transfers to Stage 3	108	3	(111)	**–**
Impact on period end ECL of exposures transferred between stages during the period	331	(436)	(104)	**(209)**
Changes to inputs used for ECL calculations	287	159	–	**446**
Foreign exchange adjustments	407	197	–	**604**
At 31 December 2021	**(2,387)**	**(3,494)**	**(238)**	**(6,119)**

22. Other borrowed funds

As at 31 December 2022, the Group entered into repurchase agreements with individual and corporate customers with the carrying amount of AZN 20,117 thousand (31 December 2021: AZN 8,586 thousand) maturing through July 2023 (31 December 2021: July 2022) and with interest rates ranging between 0.1% and 23.0% (31 December 2021: ranging between 0.02% and 18.4%). As at 31 December 2022, the Group pledged its debt securities in total amount of AZN 28,283 thousand (31 December 2021: AZN 29,633 thousand) as collateral (Note 7).

23. Credit loss expense and other impairment and provisions

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents		(57)	–	–	**(57)**
Amounts due from credit Institutions	6	254	–	(2,812)	**(2,558)**
Investment securities at FVOCI	7	1,179	(9,740)	(17,995)	**(26,556)**
Investment securities at amortised cost	7	(1,151)	–	–	**(1,151)**
Loans to customers	8	(3,297)	4,649	(19,345)	**(17,993)**
Credit loss on financial assets		**(3,072)**	**(5,091)**	**(40,152)**	**(48,315)**
Credit related commitments	21	(365)	1,522	(11,900)	**(10,743)**
Total credit loss expense		**(3,437)**	**(3,569)**	**(52,052)**	**(59,058)**

Allowance for impairment of other assets is deducted from the carrying amounts of the related assets, Provision for ECL for credit related commitments are recorded in liabilities.

(Figures in tables are in thousands of Azerbaijani manats)

23. Credit loss expense and other impairment and provisions (continued)

The table below shows the ECL charges on financial instruments recorded in the consolidated statement of profit or loss for the year ended 31 December 2021:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents		74	–	–	**74**
Amounts due from credit Institutions	6	(422)	–	–	**(422)**
Investment securities at FVOCI	7	518	–	–	**518**
Investment securities at amortised cost	7	(409)	–	–	**(409)**
Loans to customers	8	(7,065)	7,145	(24,528)	**(24,448)**
Credit loss on financial assets		**(7,304)**	**7,145**	**(24,528)**	**(24,687)**
Credit related commitments	21	(338)	985	(54)	**593**
Total credit loss expense		**(7,642)**	**8,130**	**(24,582)**	**(24,094)**

The movements in provisions for other financial assets and performance guarantees were as follows:

	Other financial assets	*Performance guarantees*	*Total*
1 January 2021	**(410)**	**(3,230)**	**(3,640)**
Credit/(charge)	52	(1,675)	**(1,623)**
Recoveries of amounts previously written off	–	–	**–**
31 December 2021	**(358)**	**(4,905)**	**(5,263)**
Credit/(charge)	(587)	1,530	**943**
31 December 2022	**(945)**	**(3,375)**	**(4,320)**

24. Net fee and commission income

Net fee and commission income comprise:

	2022	*2021*
Servicing plastic card operations	66,549	41,458
Settlements operations	24,291	20,993
Guarantees and letters of credit	17,771	14,791
Cash operations	10,232	4,905
Other	734	890
Fee and commission income	**119,577**	**83,037**
Servicing plastic card operations	(59,341)	(36,106)
Settlements operations	(10,241)	(8,699)
Guarantees and letters of credit	(2,843)	(1,631)
Cash operations	(1,244)	(1,199)
Securities operations	(110)	(22)
Other	(175)	(118)
Fee and commission expense	**(73,954)**	**(47,775)**
Net fee and commission income	**45,623**	**35,262**

25. Net gains from foreign currencies

Net gains from foreign currencies comprise:

	2022	*2021*
Dealing	51,865	31,868
Translation differences	(1,314)	(7,430)
Operations with foreign currency derivatives	5,249	8,887
Total net gains from foreign currencies	**55,800**	**33,325**

(Figures in tables are in thousands of Azerbaijani manats)

26. Personnel, general and administrative expenses

Personnel expenses comprise:

	2022	*2021*
Salaries and bonuses	(65,532)	(56,635)
Social security costs	(9,324)	(8,001)
Other employee related expenses	(4,579)	(3,752)
Personnel expenses	**(79,435)**	**(68,388)**

General and administrative expenses comprise:

	2022	*2021*
Software cost	(9,414)	(6,829)
Charity and sponsorship	(8,088)	(10,347)
Professional services	(8,066)	(9,587)
Insurance	(7,883)	(7,222)
Loyalty miles	(4,732)	(4,477)
Advertising costs	(4,669)	(2,680)
Communications	(2,485)	(2,162)
Utilities	(2,067)	(1,816)
Taxes, other than income tax	(2,010)	(1,490)
Repair and maintenance	(1,319)	(1,513)
Stationery	(1,151)	(1,155)
Security expenses	(1,068)	(947)
Transportation and business trip expenses	(865)	(866)
Entertainment	(666)	(612)
Membership fees	(547)	(641)
Leases	(130)	(349)
Printing expenses	(43)	(34)
Other expenses	(556)	(430)
General and administrative expenses	**(55,759)**	**(53,157)**

27. Impairment and write-down

Impairment and write-down for the year ended 31 December comprise the following:

	2022	*2021*
Reversal of impairment on Investment property (Note 9)	1,063	410
Reversal of impairment on Property and equipment (Note 10)	537	–
Reversal of write-down of miles under loyalty program	–	691
Impairment of license (Note 11)	(3,235)	(2,810)
Write-down of repossessed collaterals	(3,283)	(5,008)
Total impairment and write-down	**(4,918)**	**(6,717)**

28. Risk management

Introduction

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

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Introduction (continued)

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

Risk management structure

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

Supervisory Board

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

Audit Committee

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

Risk Committee

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

Executive Board

The Executive Board has the responsibility to monitor the overall risk process within the Group.

Asset-Liability Management Committee (ALCO)

An ALCO is responsible for managing the Group's assets and liabilities to ensure that the Group maintains healthy financial position and meets its financial objectives.

Risk Management

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

Bank Treasury

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

Internal Audit

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

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Introduction (continued)

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models, The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment.

The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

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

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

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

Risk mitigation

Group actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

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

Credit risk

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

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

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

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

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts. Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

For more detail on the maximum exposure to credit risk for each class of financial instrument, references shall be made to the specific notes. The effect of collateral and other risk mitigation techniques is shown in Note 8.

Impairment assessment

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

PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral, It is usually expressed as a percentage of the EAD.

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

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

Stage 1: When loans are first recognized, the Group recognizes an allowance based on 12m ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest revenue is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the lifetime expected credit losses.

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Definition of default and cure

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

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

Such events include:

- Default and Credit-impaired assets:
  - Loans with principal amount and/or accrued interest and/or any of other payment overdue by more than 90 days from the date specified in the contract;
  - 2 times within three years restructured loans that have been overdue (in principal amount and/or accrued interest and/or any of other payment) less than 30 days from the date specified in the contract at the moment of each particular restructuring;
  - “Non-healthy” restructured loans that were PAR 30 at the moment of restructuring; (originally in Stage 3), when NPV loss restructuring is more than 10%;
  - Any loan considered by management as non-performing (except non-performing loans that meet Stage 2 criteria).
- Existing of information that borrower will/has enter bankruptcy, insolvency or a similar condition.
- Default (according to IRB and External Rating).
- Default on other financial instruments of the same borrower.

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

Internal rating and PD estimation process

The Group’s Risk Department operates its internal rating models. The Group runs separate models for its key portfolios in which its corporate borrowers are rated based on Moody’s model. Small and medium enterprises and consumer loans are scored from 1 to 20 and from 1 to 4 using internal grades, respectively. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower’s behaviour. Where practical, they also build on information from the national and international external rating agencies. PDs, incorporating forward looking information and the IFRS 9 stage classification of the exposure, are assigned for each grade. This is repeated for each economic scenario as appropriate.

Impairment assessment of Russian investment securities

As at 31 December 2022, ECL for Russian investment securities is estimated based on qualitative and quantitative factors for Stage determination:

- Presence/absence of sanctions imposed on investment security issuer and ownership structure of the issuer;
- Coupons’ collection and overdue days on latest coupon;
- Technical ability of the Group to recover the payments timely.

The Group estimates PD using a pre-default (Ca) rating, whereas LGD is based on historical recovery rates.

Treasury and interbank relationships

The Group’s treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- ► Historical financial information together with forecasts and budgets prepared by the borrower. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the borrower's financial performance.
- ► Any publicly available information on the borrowers from external parties. This includes external rating grades issued by rating agencies.
- ► Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the borrower operates.
- ► Any other objectively supportable information on the quality and abilities of the borrower's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the borrower. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by debt to income (DTI) and payment to income (PTI) ratios. Other key inputs into the models are GDP growth, changes in personal income/salary levels, personal indebtedness.

The Group's internal credit rating grades are as follows:

Internal rating grade for SME	*Moody's based internal/external ratings for Corporate and Financial institutions*	*Internal rating description*
1	Aaa	
2-4	Aa1 to Aa3	High grade
5-7	A1 to A3	
8-10	Baa1 to Baa3	
11-13	Ba1 to Ba3	Standard grade
14-16	B1 to B3	
17-19	Caa1 to Caa3	Sub-standard grade
20	Ca	
Default	C	Impaired

Internal rating for loans is based on quantitative and qualitive factors. High grade rating is used for Central Bank, Ministry of Finance of the Republic of Azerbaijan and other cash covered financial assets.

Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the Group assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Group determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Group's models.

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

Loss given default

For corporate lending assets, LGD values are assessed semi-annually.

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

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

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

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

Significant increase in credit risk

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

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, the account becoming restructured due to credit event, or credit rating downgrade. In certain cases, the Group may also consider that events explained in "Definition of default" section above are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. When estimating ECLs on a collective basis for a group of similar assets, the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

Grouping financial assets measured on a collective basis

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

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

- PD for all corporate and small business lending;
- LGD for Stage 3 corporate and small business lending which are above predetermined threshold and are collateralized.

Asset classes where the Group calculates ECL on a collective basis include:

- PD and LGD for all consumer lending;
- LGD for all corporate and small business lending which are in Stage 1 and Stage 2;
- LGD for corporate and small business lending which are in Stage 3, neither are above predetermined threshold nor are collateralized.

Forward-looking information and multiple economic scenarios

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

- GDP growth rates;
- Inflation;
- Monetary policy rate;
- Dynamics of real and nominal effective exchange rates;
- Real estate price.

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

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

The Group obtains the forward-looking information from third party sources (external rating agencies, governmental bodies e,g, central Groups, and international financial institutions). Experts of the Group's Credit Risk Department determine the weights attributable to the multiple scenarios with the values of the key forward looking economic variables/assumptions used in each of the economic scenarios for the ECL calculations.

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

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system for the year ended 31 December 2022.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	2,925,832	274,141	10,638	–	**3,210,611**
Amounts due from credit institutions	6	Stage 1	362,898	203,072	4,033	–	**570,003**
		Stage 3	–	–	–	17,410	**17,410**
Loans to customers	8	Stage 1	135,057	1,934,498	259,412	–	**2,328,967**
		Stage 2	426,958	191,759	286,200	–	**904,917**
		Stage 3	–	–	–	147,150	**147,150**
		POCI	–	–	–	7,025	**7,025**
Investment securities	7						
- Measured at FVOCI		Stage 1	1,175,425	108,531	–	–	**1,283,956**
		Stage 2	–	–	28,355	–	**28,355**
		Stage 3	–	–	–	5,819	**5,819**
- Measured at amortised cost		Stage 1	449,665	67,627	–	–	**517,292**
Unused credit lines	21	Stage 1	53,257	222,090	73,287	–	**348,634**
		Stage 2	562	4,293	9,821	–	**14,676**
		Stage 3	–	–	–	1,672	**1,672**
Letters of credit	21	Stage 1	–	15,183	2,415	–	**17,598**
		Stage 2	–	2,332	117	–	**2,449**
Guarantees issued	21	Stage 1	1,101	202,772	11,059	–	**214,932**
		Stage 2	–	2,030	18,146	–	**20,176**
		Stage 3	–	–	–	3,868	**3,868**
Other financial assets	13	Stage 1	–	56,646	–	–	**56,646**
Total			**5,530,755**	**3,284,974**	**703,483**	**182,944**	**9,702,156**

The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system for the year ended 31 December 2021.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	1,174,681	66,151	–	–	**1,240,832**
Amounts due from credit institutions	6	Stage 1	183,754	405,734	–	–	**589,488**
		Stage 3	–	–	–	13,981	**13,981**
Loans to customers	8	Stage 1	127,726	1,665,217	154,266	–	**1,947,209**
		Stage 2	418,567	167,862	382,949	–	**969,378**
		Stage 3	–	–	–	206,882	**206,882**
Investment securities	7						
- Measured at FVOCI		Stage 1	1,522,268	284,775	–	–	**1,807,043**
- Measured at amortised cost		Stage 1	–	71,264	–	–	**71,264**
Unused credit lines	21	Stage 1	30,860	262,634	20,108	–	**313,602**
		Stage 2	165	9,527	16,787	–	**26,479**
		Stage 3	–	–	–	391	**391**
Letters of credit	21	Stage 1	2,888	26,915	2,628	–	**32,431**
		Stage 2	–	–	2,550	–	**2,550**
Guarantees issued	21	Stage 1	227	236,955	14,839	–	**252,021**
		Stage 2	971	2,435	35,580	–	**38,986**
		Stage 3	–	–	–	253	**253**
Other financial assets	13	Stage 1	–	32,342	–	–	**32,342**
Total			**3,462,107**	**3,231,811**	**629,707**	**221,507**	**7,545,132**

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Credit risk (continued)

See Note 8 for more detailed information with respect to the allowance for impairment of loans to customers.

Financial guarantees, unused credit lines and letters of credit are assessed and a provision for expected credit losses is calculated in similar manner as for loans adjusted to credit conversion factor. See Note 21.

The geographical concentration of the Group's monetary assets and liabilities is set out below:

	2022				*2021*			
	The Republic of Azerbaijan	*OECD countries*	*CIS and other non-OECD countries*	*Total*	*The Republic of Azerbaijan*	*OECD countries*	*CIS and other non-OECD countries*	*Total*
Financial assets								
Cash and cash equivalents	1,995,497	1,245,837	60,796	**3,302,130**	1,158,302	117,765	49,344	**1,325,411**
Amounts due from credit institutions	305,324	208,338	70,398	**584,060**	67,364	415,349	119,895	**602,608**
Investment securities	1,713,685	47,913	78,718	**1,840,316**	1,323,448	367,081	192,835	**1,883,364**
Derivative financial assets	7,093	2,875	246	**10,214**	7,934	1,868	102	**9,904**
Loans to customers	2,728,304	287,333	257,952	**3,273,589**	2,556,361	247,500	223,444	**3,027,305**
Other financial assets	53,933	1,287	481	**55,701**	29,105	2,715	164	**31,984**
	6,803,836	**1,793,583**	**468,591**	**9,066,010**	**5,142,514**	**1,152,278**	**585,784**	**6,880,576**
Financial liabilities								
Amounts due to banks and government funds	801,087	61,590	69,475	**932,152**	810,755	38,995	80,657	**930,407**
Amounts due to customers	7,080,214	52,281	120,160	**7,252,655**	5,104,166	12,635	65,050	**5,181,851**
Other borrowed funds	5,169	14,868	80	**20,117**	2,073	6,513	–	**8,586**
Derivative financial liabilities	2,820	6,893	589	**10,302**	60	7,802	182	**8,044**
Debt securities issued	71,244	15,459	–	**86,703**	153,924	8,541	–	**162,465**
Subordinated debts	155,589	–	–	**155,589**	45,103	–	–	**45,103**
Lease liabilities	15,206	80	2,376	**17,662**	14,795	72	3,374	**18,241**
Other financial liabilities	14,136	1,534	958	**16,628**	11,954	3,312	1,319	**16,585**
	8,145,465	**152,705**	**193,638**	**8,491,808**	**6,142,830**	**77,870**	**150,582**	**6,371,282**
Net assets/(liabilities)	**(1,341,629)**	**1,640,878**	**274,953**	**574,202**	**(1,000,316)**	**1,074,408**	**435,202**	**509,294**

Liquidity risk and funding management

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains obligatory reserves with the CBAR, NBG and Banking Regulation and Supervision Agency ("BRSA"), the amount of which depends on the level of customer funds attracted.

The liquidity position is assessed and managed by the Bank on a standalone basis based on certain liquidity ratios established by the CBAR, As at 31 December, these ratios were as follows:

	2022, %	*2021, %*
Instant Liquidity Ratio (30% is the minimum required by the CBAR) (assets receivable or realisable within one day/liabilities repayable on demand)	82	61

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Liquidity risk and funding management (continued)

The liquidity position is assessed and managed by the PASHA Bank Georgia primarily on a standalone basis, based on the certain liquidity ratios established by the NBG.

	2022, %	*2021, %*
Liquidity Coverage Ratio (100% is the minimum required by the NBG for foreign currency and 75% is the minimum required by the NBG for national currency) (high-quality liquid assets / net cash outflow)		
Foreign currency	200	251
Combined	211	222

	2022, %	*2021, %*
Net Stable Funding Ratio (stabile ratio is required by the NBG) (available amount of stable funding/the required amount of stable funding)	130	114

As at 31 December 2022, liquidity ratio of PASHA Yatirim Bankasi A.S. on a standalone basis based on requirements established by the BRSA was 140% (31 December 2021: 210%). Minimum required level of liquidity by BRSA is 100%.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, Repayments which are subject to notice are treated as if notice were to be given immediately, However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total 2022*
As at 31 December 2022					
Amounts due to banks and government funds	335,180	91,183	453,553	194,044	**1,073,960**
Amounts due to customers	5,639,631	1,281,553	383,305	–	**7,304,489**
Other borrowed funds	17,578	2,636	–	–	**20,214**
Debt securities issued	22,192	44,408	23,518	–	**90,118**
Subordinated debts	2,875	7,526	51,446	154,826	**216,673**
Net settled derivative financial liabilities	1,191	–	–	–	**1,191**
Gross settled derivative financial instruments:					
- Contractual amounts payable	116,551	44,214	303,402	–	**464,167**
- Contractual amounts receivable	(118,543)	(46,948)	(303,372)	–	**(468,863)**
Lease liabilities	2,074	5,889	12,152	–	**20,115**
Other financial liabilities	16,628	–	–	–	**16,628**
Total undiscounted financial liabilities	**6,035,357**	**1,430,461**	**924,004**	**348,870**	**8,738,692**

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Liquidity risk and funding management (continued)

Financial liabilities	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Total 2021*
As at 31 December 2021					
Amounts due to banks and government funds	208,004	321,873	349,963	115,817	**995,657**
Amounts due to customers	3,825,685	407,386	921,614	94,287	**5,248,972**
Other borrowed funds	7,856	783	–	–	**8,639**
Debt securities issued	9,922	105,888	52,023	–	**167,833**
Subordinated debts	310	2,251	35,670	19,276	**57,507**
Net settled derivative financial liabilities	–	–	–	–	**–**
Gross settled derivative financial instruments:					
- Contractual amounts payable	82,896	346,647	–	–	**429,543**
- Contractual amounts receivable	(87,151)	(349,161)	–	–	**(436,312)**
Lease liabilities	1,764	5,856	12,811	–	**20,431**
Other financial liabilities	16,585	–	–	–	**16,585**
Total undiscounted financial liabilities	**4,065,871**	**841,523**	**1,372,081**	**229,380**	**6,508,855**

The table below shows the contractual expiry by maturity of the Group's credit related commitments.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Maturity undefined*	*Total*
As at 31 December 2022	405,637	161,061	57,307	–	–	**624,005**
As at 31 December 2021	400,653	188,613	77,447	–	–	**666,713**

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

The Group's capability to repay its liabilities relies on its ability to realise an equivalent amount of assets within the same period of time. There is a significant concentration of deposits from organizations of related parties in the period of one year. Any significant withdrawal of these funds would have an adverse impact on the operations of the Group.

This level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Included in amounts due to customers are term deposits of individuals. In accordance with the legislation, the Group is obliged to repay such deposits upon demand of a depositor.

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchanges, and equity prices. The Group manages exposures to market risk based of sensitivity analysis. The Group has no significant concentration of market risk.

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The sensitivity of current year profit is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2022. The Group does not have substantial amount of floating rate non-trading financial instruments as at 31 December 2022 and 2021.

Currency risk

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

The Assets and Liabilities Management Committee controls currency risk by management of the open currency position on the estimated basis of local currency devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations toward its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the local regulators.

As at 31 December 2022, the Group had the following exposure to foreign currency exchange rate risk:

	AZN	*USD*	*EUR*	*GEL*	*TRY*	*Other*	*Total 2022*
Financial assets							
Cash and cash equivalents	905,387	2,038,601	299,388	18,161	3,777	36,816	**3,302,130**
Amounts due from credit institutions	153,079	319,473	94,256	3	205	17,044	**584,060**
Investment securities	1,474,957	324,829	13,187	22,845	4,498	–	**1,840,316**
Derivative financial assets	488	7,843	1,831	52	–	–	**10,214**
Loans to customers	1,546,200	1,058,067	394,115	88,915	104,161	82,131	**3,273,589**
Other financial assets	27,885	23,626	1,881	448	1,277	584	**55,701**
Total financial assets	**4,107,996**	**3,772,439**	**804,658**	**130,424**	**113,918**	**136,575**	**9,066,010**
The effect of derivatives	20,000	186,338	150,190	16,166	1,040	100,472	**474,206**
Financial liabilities							
Amounts due to banks and government funds	377,958	260,243	144,834	20,074	46,011	83,032	**932,152**
Amounts due to customers	3,367,301	3,215,169	553,955	55,641	6,092	54,497	**7,252,655**
Other borrowed funds	–	12,102	6,335	–	1,680	–	**20,117**
Derivative financial liabilities	–	8,255	1,958	89	–	–	**10,302**
Debt securities issued	–	65,432	5,812	–	15,459	–	**86,703**
Subordinated debts	–	155,589	–	–	–	–	**155,589**
Lease liabilities	15,206	2,376	–	–	80	–	**17,662**
Other financial liabilities	10,056	3,150	1,511	251	1,531	129	**16,628**
Total financial liabilities	**3,770,521**	**3,722,316**	**714,405**	**76,055**	**70,853**	**137,658**	**8,491,808**
The effect of derivatives	–	105,453	215,055	7,736		101,678	**429,922**
Net position after the effect of derivatives	**357,475**	**131,008**	**25,388**	**62,799**	**44,105**	**(2,289)**	**618,486**

(Figures in tables are in thousands of Azerbaijani manats)

28. Risk management (continued)

Currency risk (continued)

As at 31 December 2021, the Group had the following exposure to foreign currency exchange rate risk:

	AZN	*USD*	*EUR*	*GEL*	*TRY*	*Other*	*Total 2021*
Financial assets							
Cash and cash equivalents	843,814	306,886	135,447	8,939	1,007	29,318	**1,325,411**
Amounts due from credit institutions	58,237	414,743	110,204	1	344	19,079	**602,608**
Investment securities	1,037,459	793,591	29,847	15,936	6,531	–	**1,883,364**
Derivative financial assets	147	2,064	–	73	1,808	5,812	**9,904**
Loans to customers	1,368,300	919,624	496,984	58,040	87,453	96,904	**3,027,305**
Other financial assets	20,305	7,265	1,445	162	2,705	102	**31,984**
Total financial assets	**3,328,262**	**2,444,173**	**773,927**	**83,151**	**99,848**	**151,215**	**6,880,576**
The effect of derivatives	15,100	200,863	124,652	1,700	–	84,455	**426,770**
Financial liabilities							
Amounts due to banks and government funds	450,721	225,200	111,619	18,402	30,742	93,723	**930,407**
Amounts due to customers	2,632,619	1,871,303	600,214	21,354	5,179	51,182	**5,181,851**
Other borrowed funds	–	3,369	5,194	–	23	–	**8,586**
Derivative financial liabilities	–	2,050	4	178	–	5,812	**8,044**
Debt securities issued	–	147,494	6,430	–	8,541	–	**162,465**
Subordinated debts	–	45,103	–	–	–	–	**45,103**
Lease liabilities	14,592	3,577	–	–	72	–	**18,241**
Other financial liabilities	5,940	3,854	3,242	219	3,286	44	**16,585**
Total financial liabilities	**3,103,872**	**2,301,950**	**726,703**	**40,153**	**47,843**	**150,761**	**6,371,282**
The effect of derivatives	–	43,350	203,610	11,645	10,620	89,775	**359,000**
Net position after the effect of derivatives	**239,490**	**299,736**	**(31,734)**	**33,053**	**41,385**	**(4,866)**	**577,064**

Currency risk sensitivity

The tables below indicate the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Azerbaijani manats, with all other variables held constant on the consolidated statement of profit or loss and equity. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for specified changes in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A negative amount in the table reflects a potential net reduction in the consolidated statement of profit or loss or equity, while a positive amount reflects a net potential increase. Impact on profit before tax and other comprehensive income based on assets value as at 31 December 2022 and 2021:

	2022		***2021***	
	USD/AZN +20%	***USD/AZN -3%***	***USD/AZN +20%***	***USD/AZN -3%***
Impact on profit before tax	26,202	(3,930)	59,947	(8,992)

	2022		***2021***	
	EUR/AZN +21%	***EUR/AZN -9%***	***EUR/AZN +21%***	***EUR/AZN -9%***
Impact on profit before tax	5,331	(2,285)	(6,664)	2,856

	2022		***2021***	
	GEL/AZN +15%	***GEL/AZN -15%***	***GEL/AZN +15%***	***GEL/AZN -15%***
Impact on Other Comprehensive Income	9,420	(9,420)	4,958	(4,958)

	2022		***2021***	
	TRY/AZN +15%	***TRY/AZN -20%***	***TRY/AZN +15%***	***TRY/AZN -20%***
Impact on Other Comprehensive Income	6,616	(8,821)	6,208	(8,277)

(Figures in tables are in thousands of Azerbaijani manats)

29. Fair values measurement

Fair value hierarchy

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

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

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy:

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Assets measured at fair value					
Investment securities − at FVOCI	31 December 2022	72,736	1,248,093	−	**1,320,829**
Investment securities – at FVTPL	31 December 2022	327	1,412	2,003	**3,742**
Derivative financial assets	31 December 2022	−	10,214	−	**10,214**
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2022	39,412	453,069	23,501	**515,982**
Loans to customers	31 December 2022	−	−	3,248,958	**3,248,958**
Investment properties	31 December 2022	−	−	31,229	**31,229**

		Fair value measurement using			
	Date of valuation	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*	*Total*
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2022	−	10,302	−	**10,302**
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2022	−	605,474	317,030	**922,504**
Amounts due to customers	31 December 2022	−	70,165	7,171,313	**7,241,478**
Debt securities issued	31 December 2022	−	−	86,291	**86,291**
Subordinated debts	31 December 2022	−	−	155,528	**155,528**

(Figures in tables are in thousands of Azerbaijani manats)

29. Fair values measurement (continued)

Fair value hierarchy (continued)

	Date of valuation	*Fair value measurement using* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	*Total*
Assets measured at fair value					
Investment securities − at FVOCI	31 December 2021	417,927	1,392,137	−	**1,810,064**
Investment securities – at FVTPL	31 December 2021	356	426	2,003	**2,785**
Derivative financial assets	31 December 2021	−	9,904	−	**9,904**
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2021	47,652	2,930	20,604	**71,186**
Loans to customers	31 December 2021	−	−	3,018,272	**3,018,272**
Investment properties	31 December 2021	−	−	19,126	**19,126**

	Date of valuation	*Fair value measurement using* Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	*Total*
Liabilities measured at fair value					
Derivative financial liabilities	31 December 2021	−	8,044	−	**8,044**
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2021	−	918,349	−	**918,349**
Amounts due to customers	31 December 2021	−	−	5,181,042	**5,181,042**
Debt securities issued	31 December 2021	−	162,812	−	**162,812**
Subordinated debt	31 December 2021	−	−	45,103	**45,103**

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

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

	Carrying value 2022	*Fair value 2022*	*Unrecognized gain/(loss) 2022*	*Carrying value 2021*	*Fair value 2021*	*Unrecognized gain/(loss) 2021*
Financial assets						
Investment securities measured at amortised cost	515,745	515,982	237	70,515	71,186	671
Loans to customers	3,273,589	3,248,958	(24,631)	3,027,305	3,018,272	(9,033)
Financial liabilities						
Amounts due to banks and government funds	932,152	922,504	9,648	930,407	918,349	12,058
Amounts due to customers	7,252,655	7,241,478	11,177	5,181,851	5,181,042	809
Subordinated debts	155,589	155,528	61	45,103	45,103	−
Debt securities issued	86,703	86,291	412	162,465	162,812	(347)
Total unrecognised change in unrealised fair value			**(3,096)**			**4,158**

(Figures in tables are in thousands of Azerbaijani manats)

29. Fair values measurement (continued)

Valuation techniques and assumptions

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

Assets for which fair value approximates carrying value

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

Derivatives

Derivatives valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. Derivatives valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts. These derivatives are valued using the binomial models. The models incorporate various non-observable assumptions, which include market rate volatilities.

Investment securities

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

The Group estimates a fair value of Russian investment securities using a two-step approach:

- Step One – direct observations which is focused on trades, executable levels and indicative quotes on the target investment security;
- Step Two – uses direct observations on comparable investment securities to derive a relative value price on the target investment security when direct market observations are insufficient.

To derive a final fair value, the results are then appropriately weighted and aggregated based on the relative strength of each observation.

Financial assets and financial liabilities carried at amortised cost

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

Transfers between levels of the fair value hierarchy

During the year ended 31 December 2022, the Group transferred certain financial instruments from level 1 to level 2 of the fair value hierarchy. As at 31 December 2022, the fair value of the total assets transferred was AZN 26,698. The reason for this transfer is a significant decrease in the volume or level of activity in the market for Russian bonds, which has led to a change in the method used to determine their fair value, which is described above.

(Figures in tables are in thousands of Azerbaijani manats)

30. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities according to when they are expected to be recovered or settled See Note 28 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2022			*2021*		
	Within one year	***More than one year***	***Total***	***Within one year***	***More than one year***	***Total***
Cash and cash equivalents	3,302,130	–	**3,302,130**	1,325,411	–	**1,325,411**
Amounts due from credit institutions	520,883	63,177	**584,060**	516,112	86,496	**602,608**
Investment securities	839,700	1,000,616	**1,840,316**	376,046	1,507,318	**1,883,364**
Derivative financial assets	1,714	8,500	**10,214**	9,904	–	**9,904**
Loans to customers	1,749,026	1,524,563	**3,273,589**	1,572,824	1,454,481	**3,027,305**
Investment properties	–	31,229	**31,229**	–	19,126	**19,126**
Property and equipment	–	32,560	**32,560**	–	27,938	**27,938**
Intangible assets	–	31,400	**31,400**	–	39,467	**39,467**
Right-of-use assets	–	17,471	**17,471**	–	17,640	**17,640**
Current income tax assets	–	–	**–**	65	–	**65**
Deferred income tax assets	–	17,171	**17,171**	–	1,730	**1,730**
Other assets	77,426	381	**77,807**	53,399	226	**53,625**
Total assets	**6,490,879**	**2,727,068**	**9,217,947**	**3,853,761**	**3,154,422**	**7,008,183**
Amounts due to banks and government funds	408,062	524,090	**932,152**	512,635	417,772	**930,407**
Amounts due to customers	6,894,666	358,645	**7,252,655**	4,203,610	978,241	**5,181,851**
Other borrowed funds	20,117	–	**20,117**	8,586	–	**8,586**
Debt securities issued	63,842	22,861	**86,703**	111,763	50,702	**162,465**
Derivative financial liabilities	2,039	8,263	**10,302**	8,044	–	**8,044**
Current income tax liability	22,788	–	**22,788**	11,802	–	**11,802**
Deferred income tax liabilities	–	5,327	**5,327**	–	2,894	**2,894**
Subordinated debts	1,471	154,118	**155,589**	–	45,103	**45,103**
Lease liabilities	5,821	11,841	**17,662**	6,514	11,727	**18,241**
Provision for credit related guarantees and other assets	10,610	–	**10,610**	11,024	–	**11,024**
Other liabilities	52,046	3,712	**55,758**	47,300	3,028	**50,328**
Total liabilities	**7,480,806**	**1,088,857**	**8,569,663**	**4,921,278**	**1,509,467**	**6,430,745**
Net assets	**(989,927)**	**1,638,211**	**648,284**	**(1,067,517)**	**1,644,955**	**577,438**

The matching and controlled mismatching of the maturities of assets and liabilities is fundamental to management of the Group. An unmatched position potentially enhances profitability and leverage but can also increase the risk of unexpected losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest−bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and exchange rates.

Negative gap is due to significant concentration of amounts due to customers represented by related parties in the period of one year and these customers have a long-established history as the Group's customers. Management believes that this level of funding will remain with the Group for the foreseeable future and that in the event of withdrawal of funds, the Group would be given sufficient notice so as to realise its liquid assets to enable repayment.

The CBAR's minimum liquidity norm for banks of 30% (the Bank's actual ratio is 82%) is a reasonable precautionary measure taken by the regulator, which is based on the nature and established normal business practice in banking industry. The Group has a reasonably high headroom above the minimum required liquidity ratio.

Although the Group holds considerable amounts of investment securities maturing in more than one year, the Group is able to sell a substantial portion of such securities on an open market in case of urgent liquidity needs.

The Group has established Treasury Department and ALCO, which are responsible for overseeing the Group's liquidity on day-to-day basis.

(Figures in tables are in thousands of Azerbaijani manats)

31. Related party disclosures

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Other related parties include entities which are associates of the entities under common control or shareholders.

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

	2022					*2021*				
	Share-Holders/ Ultimate owners	*Entities under common control*	*Key manage-ment personnel*	*Other*	*Total*	*Share-Holders/ Ultimate owners*	*Entities under common control*	*Key manage-ment personnel*	*Other*	*Total*
Cash and cash equivalents	–	1,417	–	–	**1,417**	–	609	–	–	**609**
Loans outstanding at 1 January, gross	**–**	**668,349**	**3,283**	**22,826**	**694,458**	**–**	**647,313**	**3,415**	**43,213**	**693,941**
Loans issued during the year	–	448,042	3,617	139,581	**591,240**	–	128,270	7,101	87,080	**222,451**
Loan repayments during the year	–	(591,774)	(3,575)	(108,425)	**(703,774)**	–	(95,608)	(8,026)	(107,694)	**(211,328)**
Interest accrual	–	592	5	351	**948**	–	2,302	21	–	**2,323**
Foreign currency translation difference	–	(8,153)	452	(2,050)	**(9,751)**	–	(13,928)	772	227	**(12,929)**
Loans outstanding at 31 December, gross	**–**	**517,056**	**3,782**	**52,283**	**573,121**	**–**	**668,349**	**3,283**	**22,826**	**694,458**
Less: allowance for impairment at 31 December	–	(3,224)	(38)	(3,233)	**(6,495)**	–	(3,729)	(12)	(309)	**(4,050)**
Loans outstanding at 31 December, net	**–**	**513,832**	**3,744**	**49,050**	**566,626**	**–**	**664,620**	**3,271**	**22,517**	**690,408**
Interest income on loans	–	27,994	165	4,594	**32,753**	–	29,519	330	3,855	**33,704**
Other assets	–	8,347	–	–	**8,347**	–	275	–	–	**275**
Investment securities	–	2,003	–	–	**2,003**	–	2,003	–	–	**2,003**
Amounts due to banks and government funds	–	65,221	–	6,217	**71,438**	–	89,324	–	1,390	**90,714**
Time Deposits	85,973	484,674	3,118	28,915	**602,680**	87,995	673,803	6,550	28,268	**796,616**
Demand deposits	376,324	568,186	7,615	435,827	**1,387,952**	623,328	309,521	7,400	357,966	**1,298,215**
Subordinated debts	78,620	46,971	1,105	1,230	**127,926**	18,923	12,739	850	–	**32,512**
Debt securities issued	32,744	22,119	–	–	**54,863**	78,749	51,868	–	–	**130,617**
Other liabilities	53	8,282	–	693	**9,028**	12	7,904	–	487	**8,403**
Lease liabilities	–	11,725	–	–	**11,725**	–	8,100	–	–	**8,100**
Derivative financial liabilities	–	1,657	–	–	**1,657**	–	61	–	–	**61**
Derivative financial assets	–	6,606	–	–	**6,606**	–	7,786	–	–	**7,786**
Other Borrowed Funds	–	–	3,249	–	**3,249**	–	–	50	–	**50**
Guarantees issued	–	81,997	–	8,022	**90,019**	–	22,292	–	15,382	**37,674**
Letters of credit issued	–	4,967	–	3,002	**7,969**	–	2,995	–	6,894	**9,889**
Unused credit lines	–	33,685	429	33,628	**67,742**	–	30,536	772	33,235	**64,543**
Interest income (except loans)	–	27	–	–	**27**	–	4	–	–	**4**
Interest expense	(3,931)	(17,812)	(245)	(514)	**(22,502)**	(6,496)	(15,160)	(482)	(2,719)	**(24,857)**
Fee and commission income	156	11,849	23	2,857	**14,885**	209	9,147	94	3,530	**12,980**
Fee and commission expense	–	(15,150)	–	(49)	**(15,199)**	(3)	(7,706)	(1)	(641)	**(8,351)**
Net gains/(losses) from foreign currencies: dealing	1,051	3,969	7	1,950	**6,977**	416	3,265	32	1,724	**5,437**
Net gains/(losses) from foreign currencies: translation differences	(81)	(17,200)	–	–	**(17,281)**	581	(9,895)	–	–	**(9,314)**
Net gains/(losses) from foreign currencies: operations with foreign currency derivatives	–	690	–	239	**929**	–	14,059	–	–	**14,059**
Other operating expenses	(15)	(6,608)	–	–	**(6,623)**	(23)	(3,910)	–	–	**(3,933)**
Other income	–	259	–	–	**259**	–	467	–	–	**467**
Loss on initial recognition of financial instruments at fair value	–	–	–	–	**–**	–	(3,778)	–	–	**(3,778)**

(Figures in tables are in thousands of Azerbaijani manats)

31. Related party disclosures (continued)

As at 31 December 2022, the Group has guarantees from its parent received as a collateral in respect of loans issued to borrowers in the amount of AZN 135,975 thousand (2021: AZN 332,320 thousand) and the Group incurred guarantee fee in the amount of AZN 1,470 (2021 AZN 1,763) thousand which was accounted as a part of effective interest rate.

Compensation to members of key management personnel was comprised of the following:

	2022	*2021*
Salaries and other benefits	(16,945)	(19,206)
Social security costs	(2,490)	(2,635)
Total key management compensation	**(19,435)**	**(21,841)**

32. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Subordinated debts*	*Total*
Carrying amount at 1 January 2021		**149,137**	**27,165**	**176,302**
Proceeds from issue		113,921	17,827	**131,748**
Redemption		(99,220)	–	**(99,220)**
Fair value adjustment		–	145	**145**
Foreign currency translation		(1,798)	(6)	**(1,804)**
Other		425	(28)	**397**
Carrying amount at 31 December 2021	16, 17	**162,465**	**45,103**	**207,568**
Hyperinflation effect		(13,930)	(3,398)	**(17,328)**
Proceeds from issue		178,468	114,512	**292,980**
Redemption		(243,788)	–	**(243,788)**
Foreign currency translation		3,465	(628)	**2,837**
Other		23	–	**23**
Carrying amount at 31 December 2022	16, 17	**86,703**	**155,589**	**242,292**

33. Capital adequacy

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the ratios established by the CBAR, NBG and BRSA.

During the past year, the Group had complied in full with all its externally imposed capital requirements.

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

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

(Figures in tables are in thousands of Azerbaijani manats)

33. Capital adequacy (continued)

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6% (2021: 6%) and 12% (2021: 12%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

	2022	*2021*
Tier 1 capital	456,310	417,676
Tier 2 capital	259,748	156,891
Less: deductions from capital	(165,365)	(151,305)
Total regulatory capital	**550,693**	**423,262**
Risk-weighted assets	**3,214,522**	**3,161,218**
Capital adequacy ratio (Tier 1)	14.2%	13.2%
Capital adequacy ratio (Total Capital)	17.1%	13.4%

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 18.53% (31 December 2021: 15.08%) and Tier 1 Capital ratio of 13.63% (31 December 2021: 6.8%) of risk-weighted assets, computed based on Basel III requirements. As at 31 December 2022 the PASHA Bank Georgia’s capital adequacy ratio on this basis was 18.97% (31 December 2021: 18.7%) and Tier 1 / Core Tier 1 Capital ratio was 15.91% (31 December 2021: 13.7%).

BRSA capital adequacy ratio

The BRSA requires banks to maintain a minimum total capital adequacy ratio of 8.0% (31 December 2021: 8.0%) of risk-weighted assets for regulatory capital. Capital adequacy standard ratio of PASHA Yatirim Bankasi is calculated in accordance with BRSA. As at 31 December 2022 the bank’s capital adequacy ratio was 23.4% (31 December 2021: 17.4%).

34. Material partly owned subsidiaries

The Group’s subsidiary with material non-controlling interests is PASHA Yatirim Bankas A.S.

	2022			
	Ownership/ voting rights held by non-controlling interests, %	***Profit/(loss) allocated to non-controlling interests during the year***	***Accumulated non-controlling interests at the end of the year***	***Dividends paid to non-controlling interests during the year***
PASHA Yatirim Bankasi	49%	(6,836)	45,804	–

	2021			
	Ownership/ voting rights held by non-controlling interests, %	***Profit/(loss) allocated to non-controlling interests during the year***	***Accumulated non-controlling interests at the end of the year***	***Dividends paid to non-controlling interests during the year***
PASHA Yatirim Bankasi	49%	3,503	41,384	–

(Figures in tables are in thousands of Azerbaijani manats)

34. Material partly owned subsidiaries (continued)

The summarised financial information of these subsidiaries is presented below. This information is based on amounts before inter-company eliminations.

PASHA Yatirim Bankasi	***2022***	***2021***
Cash and cash equivalents	91,760	23,256
Amounts due from credit institutions	64,516	42,290
Derivative financial assets	–	1,808
Loans to customers	324,448	312,517
Investment securities	50,276	56,950
Investment property	31,229	19,126
Property and equipment	18,469	11,626
Intangible assets	1,608	1,034
Right-of-use assets	108	66
Deferred income tax assets	–	1,730
Current income tax assets	–	64
Other assets	1,830	2,995
Total assets	**584,244**	**473,462**
Amounts due to banks and government funds	275,952	201,634
Amounts due to customers	52,434	13,129
Derivative financial liabilities	288	15
Debt securities issued	86,703	162,465
Deferred income tax liability	5,327	–
Current income tax liability	1,544	701
Subordinated debt	42,518	–
Other borrowed funds	20,117	8,586
Provision for guarantees and other commitments	659	906
Lease liabilities	80	72
Other liabilities	5,140	5,288
Total liabilities	**490,762**	**392,796**
Equity	**93,478**	**80,666**

PASHA Yatirim Bankasi	***2022***	***2021***
Interest revenue	47,201	42,622
Interest expense	(24,133)	(20,645)
Allowance for loan impairment	(507)	(5,940)
Non-interest income	9,378	6,393
Non-interest expense	(9,383)	(9,687)
Income tax expense	(12,834)	(3,345)
Loss on net monetary position	(21,076)	–
Profit for the year	**(11,354)**	**9,398**
Other comprehensive income	557	(367)
Total comprehensive income for the year	**(10,797)**	**9,031**
Net cash flows from operating activities	77,884	(5,598)
Net cash flows from investing activities	1,559	(27,725)
Net cash flows from financing activities	(19,542)	14,672
Effect of exchange rate changes on cash and cash equivalents	12,695	4,121
Effect of expected losses on cash and cash equivalents	(39)	(15)
Effect of restricted balances and accruals	–	146
Hyperinflation effect on cash and cash equivalents	(6,842)	–
Net increase/(decrease) in cash and cash equivalents	**65,715**	**(14,399)**