OJSC PASHA Bank

Consolidated financial statements

Year ended 31 December 2023
together with independent auditor's report

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Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor,
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 70 20
Fax: +994 (12) 490 70 17
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 70 20
Faks: +994 (12) 490 70 17

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 2023, 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 material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, 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.

6 March 2024

Baku, Azerbaijan

Consolidated statement of financial position

As at 31 December 2023

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022*
Assets			
Cash and cash equivalents	5	1,975,558	3,302,130
Amounts due from credit institutions	6	1,592,657	584,060
Investment securities	7	2,048,777	1,840,316
Derivative financial assets	16	9,349	10,214
Loans to customers	8	3,055,151	3,273,589
Investment properties	19	–	31,229
Right-of-use assets	11	12,297	17,471
Property and equipment	9	11,978	32,560
Intangible assets	10	24,964	31,400
Deferred income tax assets	17	17,011	17,171
Investment in associate	1, 33	30,210	–
Other assets	12	115,476	77,807
Total assets		**8,893,428**	**9,217,947**
Liabilities			
Amounts due to banks and government funds	13	646,713	932,152
Amounts due to customers	14	7,176,452	7,252,655
Derivative financial liabilities	16	9,209	10,302
Current income tax liabilities	17	28,898	22,788
Lease liabilities	11	12,571	17,662
Debt securities issued		–	86,703
Other borrowed funds		–	20,117
Deferred income tax liabilities	17	–	5,327
Provision for guarantees and other commitments	21	11,393	10,610
Subordinated debts	15	96,016	155,589
Other liabilities	12	79,613	55,758
Total liabilities		**8,060,865**	**8,569,663**
Equity			
Share capital	18	354,512	354,512
Additional paid-in capital	18	343	343
Retained earnings		453,080	286,489
Other reserves	18	4,016	2,799
Net unrealised loss on investment securities	18	(3,118)	(5,386)
Foreign currency translation reserve	18	13,839	(36,277)
Total equity attributable to shareholders of the Bank		**822,672**	**602,480**
Non-controlling interests	32	9,891	45,804
Total equity		**832,563**	**648,284**
Total liabilities and equity		**8,893,428**	**9,217,947**

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

Javid Gouliyev Chairman of the Executive Board

Murad Suleymanov Chief Financial Officer

6 March 2024

The accompanying notes on pages 6 to 68 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss

For the year ended 31 December 2023

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	*2023*	*2022*
Interest income			
Loans to customers		300,605	280,819
Investment securities		132,235	75,293
Cash and cash equivalents		78,298	13,124
Amounts due from credit institutions		16,371	11,202
Interest revenue calculated using effective interest rate		**527,509**	**380,438**
Finance lease receivables		8,268	3,878
Other interest revenue		**8,268**	**3,878**
Interest expense			
Amounts due to customers		(51,046)	(39,246)
Amounts due to banks and government funds		(32,413)	(32,515)
Debt securities issued		(5,936)	(6,936)
Subordinated debts		(8,929)	(5,805)
Lease liabilities	11	(1,203)	(1,360)
Other borrowed funds		(5,258)	(724)
		(104,785)	**(86,586)**
Net interest income		**430,992**	**297,730**
Credit loss reversal/(charge) on financial assets	21	2,471	(48,315)
Net interest income after credit loss expense		**433,463**	**249,415**
Net fee and commission income	22	42,518	45,623
- fee and commission income		152,813	119,577
- fee and commission expense		(110,295)	(73,954)
Net losses from investment securities		(3,936)	(14,120)
Net gains from foreign currencies	23	52,313	55,800
Other income		5,490	5,370
Non-interest income		**96,385**	**92,673**
Personnel expenses	24	(119,126)	(79,435)
General and administrative expenses	24	(62,644)	(55,759)
Depreciation and amortisation expenses	9, 10, 11, 19	(22,795)	(23,395)
Net gain/(loss) on modification of financial assets measured at amortised cost	8	7,543	(869)
Net losses on initial recognition of financial instruments		(800)	–
Other Impairment and write-down	25	420	(4,918)
Provision for credit related commitments and other financial assets	21	(2,022)	(9,800)
Other operating expenses		(13)	(11)
Loss on disposal of subsidiary	1	(25,319)	–
Non-interest expenses		**(224,756)**	**(174,187)**
Loss on net monetary position	2	(19,838)	(21,076)
Profit before income tax expense		**285,254**	**146,825**
Income tax expense	17	(59,542)	(44,899)
Profit for the year		**225,712**	**101,926**
Attributable to:			
- shareholders of the Bank		223,792	108,762
- non-controlling interests	32	1,920	(6,836)
		225,712	**101,926**

The accompanying notes on pages 6 to 68 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 31 December 2023

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2023	2022
Profit for the year		**225,712**	**101,926**
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	19,716	(62,585)
Reclassification of cumulative loss on disposal of debt instruments at fair value through other comprehensive income to profit or loss		4,369	13,458
Changes in allowance for expected credit losses of investment securities at fair value through other comprehensive income	21	(22,545)	26,556
Net gain/(losses) on investment securities at fair value through other comprehensive income		**1,540**	**(22,571)**
Income tax relating to components of other comprehensive income	17	(206)	4,464
Currency translation differences reclassified to profit or loss upon disposal of subsidiary	1	46,412	–
Foreign currency translation differences		12,627	31,341
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**60,373**	**13,234**
Total comprehensive income for the year		**286,085**	**115,160**
Attributable to:			
- shareholders of the Bank		278,872	110,740
- non-controlling interests		7,213	4,420
		286,085	**115,160**

The accompanying notes on pages 6 to 68 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2023

(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 2022	**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 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 18)	–	–	(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**
Profit for the year	–	–	223,792	–	–	–	**223,792**	1,920	**225,712**
Other comprehensive income for the year	–	–	–	2,268	–	52,812	**55,080**	5,293	**60,373**
Total comprehensive income for the year	**–**	**–**	**223,792**	**2,268**	**–**	**52,812**	**278,872**	**7,213**	**286,085**
Transfer to reserves	–	–	(968)	–	968	–	**–**	–	**–**
Disposal of subsidiary (Note 1)	–	–	3,767	–	(3,767)	–	**–**	(52,867)	**(52,867)**
Change in non-controlling interests in existing subsidiaries	–	–	–	–	4,016	(2,696)	**1,320**	9,741	**11,061**
Dividends to shareholders of the Bank (Note 18)	–	–	(60,000)	–	–	–	**(60,000)**	–	**(60,000)**
As at 31 December 2023	**354,512**	**343**	**453,080**	**(3,118)**	**4,016**	**13,839**	**822,672**	**9,891**	**832,563**

The accompanying notes on pages 6 to 68 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2023

(Figures in tables are in thousands of Azerbaijani manats)

	Notes	2023	2022
Cash flows from operating activities			
Interest received		538,852	382,977
Interest paid		(104,603)	(88,744)
Fees and commissions received		151,254	119,539
Fees and commissions paid		(107,438)	(75,067)
Realised gains less losses from dealing in foreign currencies and foreign currency derivatives		45,914	53,019
Personnel expenses paid		(94,180)	(74,754)
General and administrative expenses paid		(71,106)	(58,822)
Other operating income received		4,988	6,768
Cash flows from operating activities before changes in operating assets and liabilities		**363,681**	**264,916**
Net (increase)/decrease in operating assets			
Amounts due from credit institutions		(1,050,092)	19,404
Loans to customers		(140,027)	(353,350)
Other assets		(16,800)	(27,366)
Net increase/(decrease) in operating liabilities			
Amounts due to banks and government funds		102,017	2,772
Amounts due to customers		(54,468)	2,121,398
Other borrowed funds		(142)	16,523
Other liabilities		5,639	4,442
Net cash flows (used in) / from operating activities before income tax		**(790,192)**	**2,048,739**
Income tax paid		(60,286)	(42,623)
Net cash flows (used in) / from operating activities		**(850,478)**	**2,006,116**
Cash flows from investing activities			
Proceeds from sale and redemption of investment securities		4,815,358	3,325,157
Purchase of investment securities		(5,073,057)	(3,350,095)
Proceeds from sale of property and equipment		40	52
Purchase and prepayments for property and equipment		(5,806)	(2,319)
Net cash outflow on disposal of subsidiary	1	(50,207)	–
Acquisition of intangible assets		(3,630)	(4,933)
Net cash flows used in investing activities		**(317,302)**	**(32,138)**
Cash flows from financing activities			
Proceeds from bonds issued	30	58,133	178,468
Redemption of bonds issued	30	(90,817)	(243,788)
Payment of subordinated debts	30	(18,700)	–
Proceeds from subordinated debts	30	–	114,512
Proceeds from sale of shares in subsidiary	1	11,061	–
Principal repayments of lease liability		(7,262)	(7,250)
Dividends paid	18	(60,000)	(44,314)
Net cash used in financing activities		**(107,585)**	**(2,372)**
Effect of exchange rates changes on cash and cash equivalents		8,348	11,992
Hyperinflation effect on cash and cash equivalents		(59,257)	(6,822)
Effect of expected credit losses on cash and cash equivalents	21	(298)	(57)
Net (decrease)/increase in cash and cash equivalents		**(1,326,572)**	**1,976,719**
Cash and cash equivalents, beginning	5	3,302,130	1,325,411
Cash and cash equivalents, ending	5	**1,975,558**	**3,302,130**

The accompanying notes on pages 6 to 68 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 subsidiary (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 2023 the Bank has six service points, three branches in Azerbaijan, one subsidiary (31 December 2022: two subsidiaries) of JSC PASHA Bank Georgia located in the Republic of Georgia and one associate (31 December 2022: nil) of PASHA Yatirim Bankasi A.Ş. located in the Republic of Turkey.

The Bank's registered legal address is 15 Yusif Mammadaliyev Street, Baku, AZ1005, Azerbaijan.

As at 31 December 2023 and 2022, 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 2023 and 2022, 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 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. Correspondingly in March 2022 and September 2023 share capital of subsidiary was increased by GEL 26,000 and GEL 7,800 thousand and amounted to GEL 136,800 thousand as at 31 December 2023. 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 LLC 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").

During 2023, the Group and its main shareholder PASHA Holding LLC have reached the agreement about sale and purchase of shares in the Subsidiaries. According to the agreement, shares of PASHA Bank Georgia JSC and PASHA Yatirim Bankası A.Ş. were sold to PASHA Holding LLC.

On 7 July 2023 the transfer of shares of PASHA Bank Georgia JSC to PASHA Holding LLC was settled for a cash consideration of AZN 6,000 thousand and the ratio of shares directly belonging to OJSC PASHA Bank fell from 100% to 90.20%. Furthermore, on 5 September 2023 AZN 5,061 thousand share capital was injected by PASHA Holding LLC in exchange of 7,800,000 common shares issued by PASHA Bank Georgia JSC, as a result of which the ownership in a subsidiary decreased to 85.06%.

The transfer of shares for PASHA Yatirim Bankası A.Ş. was settled on 29 December 2023 for a cash consideration of AZN 46,000 thousand and as a result the ratio of shares for the Group decreased from 50.96% to 28.21%, resulting in the Group losing control over its subsidiary and instead obtaining significant influence over PASHA Yatirim Bankasi A.Ş. As of 31 December 2023, PASHA Yatirim Bankasi A.Ş. is the only associate of the Group.

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities (continued)

As at 31 December 2023 and 2022, the Bank's ownership over the entities is as follows:

Name	*Nature of business*	*Country of registration*	*Percentage of ownership* 31 December 2023	31 December 2022
PASHA Yatirim Bankasi A.Ş.	Banking	Turkey	28.21%	50.96%
PASHA Bank Georgia JSC	Banking	Georgia	85.06%	100%

OJSC PASHA Bank and its subsidiary (together − "the Group") were consolidated in these financial statements. Results of PASHA Yatirim Bankası A.Ş. were consolidated till settlement of the transfer of shares, which was on 29 December 2023.

The detailed information on disposed assets and liabilities and the amount of remuneration received from PASHA Yatirim Bankasi A.Ş.'s disposal is disclosed below:

	2023
Cash and cash equivalents	96,207
Amounts due from credit institutions	50,147
Investment securities	66,989
Derivative financial assets	71
Loans to customers	321,673
Investment properties	45,050
Property and equipment	15,999
Intangible assets	1,992
Right-of-use assets	55
Deferred income tax assets	3,174
Current income tax assets	256
Other assets	1,266
Assets of subsidiary	**602,879**
Amounts due to banks and government funds	(315,557)
Amounts due to customers	(46,250)
Derivative financial liabilities	(2)
Lease liabilities	(28)
Debt securities issued	(51,146)
Other borrowed funds	(34,735)
Current income tax liabilities	(1,822)
Provision for guarantees and other commitments	(2,313)
Subordinated debts	(42,417)
Other liabilities	(1,520)
Liabilities of subsidiary	**(495,790)**
Net assets of subsidiary	**107,089**
Less: non-controlling interests	(52,867)
Carrying amount of realised net assets	**54,222**
The amount of consideration for disposal of the subsidiary	46,000
Less: cash and cash equivalents of sold subsidiary	(96,207)
Cash outflow on disposal	**(50,207)**

(Figures in tables are in thousands of Azerbaijani manats)

1. Principal activities (continued)

Loss from PASHA Yatirim Bankasi A.Ş.'s disposal is as follows:

	2023
The amount of consideration for disposal of the subsidiary	46,000
Carrying value of retained interest (Note 33)	30,210
Carrying amount of disposed net assets, less non-controlling interests	(54,222)
Currency translation differences reclassified to profit or loss upon disposal of subsidiary	(46,412)
Net unrealised gain on investment securities transferred from other comprehensive income to profit or loss	(895)
Loss from disposal of the subsidiary	**(25,319)**

The Group's management exercised judgment to determine that the subsidiary does not meet the definition of 'discontinued operation' per IFRS 5 requirements as it considered that it does not represent a major geographical operation based on its relative size within the Group.

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.

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 2023. Non-monetary items 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 2023. The Group does not have significant non-monetary items at historical cost that were acquired before 1 January 2015.

(Figures in tables are in thousands of Azerbaijani manats)

2. Basis of preparation (continued)

Financial reporting in hyperinflationary economy (continued)

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 2023, Loss on net monetary position was AZN 19,838 thousand (31 December 2022: 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%	5.46
2015	269.54	8.81%	5.01
2016	292.54	8.53%	4.62
2017	327.41	11.92%	4.13
2018	393.88	20.30%	3.43
2019	440.5	11.84%	3.07
2020	504.81	14.60%	2.68
2021	686.95	36.08%	1.97
2022	1,128.45	64.27%	1.20
2023	1,859.38	64.77%	1.00

3. Material accounting policy information

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 2023. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective:

- IFRS *17 Insurance Contracts;*
- *Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2;*
- *International Tax Reform - Pillar two model rules - Amendment to IAS 1.*
- *Definition of Accounting Estimates - Amendments to IAS 8;*
- *Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12;*

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

New and amended standards and interpretations (continued)

IFRS 17 Insurance Contracts

IFRS 17 *Insurance Contracts* (IFRS 17) is effective for reporting periods beginning on or after 1 January 2023. 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. Limited scope exceptions apply.

The Group has not identified contracts that result in the transfer of significant insurance risk, and therefore it has concluded that IFRS 17 does not have a material impact on the Group financial statements for the year ended 31 December 2023.

As part of this determination, the Group assessed credit cards and similar products. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer. The Group has determined that insurance risk associated with an individual customer has not been assessed in setting the price of the contracts as these products are offered at the same price to all applicants, and therefore they are exempt from IFRS 17. The Group evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available.

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

The amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements provide 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 have had an impact on the Group’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Group’s financial statements.

International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12

The amendments to IAS 12 have been introduced in response to the OECD’s BEPS Pillar Two rules and include:

- ► A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- ► Disclosure requirements for affected entities to help users of the financial statements better understand an entity’s exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

In periods in which Pillar Two legislation is (substantively) enacted but not yet effective, the amendment requires disclosure of known or reasonably estimable information that helps users of financial statements understand the entity’s exposure arising from Pillar Two income taxes including both qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. For example:

a) Qualitative information such as how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist, and

b) Quantitative information such as:
   - ► An indication of the proportion of an entity’s profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
   - ► An indication of how the entity’s overall effective tax rate would have changed if Pillar Two legislation had been effective.

Once the legislation is effective, additional disclosures are required for the current tax expense related to Pillar Two income taxes. The requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

The Group has reviewed its corporate structure in light of the introduction of Pillar Two Model Rules in the various jurisdictions in which it operates. The Group has determined that it will not be subject to Pillar Two taxes once the legislation becomes effective since its effective tax rate is above 15% in all the jurisdictions in which it operates. Therefore, as the related Pillar Two disclosures are not required, the amendments will have no impact on the Group’s consolidated financial statements at 31 December 2023.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

New and amended standards and interpretations (continued)

Other amendments and interpretations apply for the first time in 2023, but do not have an impact on the Group's consolidated financial statements.

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.

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.

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

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.

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.

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.

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which sets out the accounting requirements for contractual rights and obligations that arise from insurance contracts issued and reinsurance contracts held. The Group evaluated whether its contracts contain insurance risk, focusing on performance guarantees and credit cards and concluded that there are no material contracts in scope of IFRS 17 considering practical expedients available.

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 2023 and 2022.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the CBAR, NBG excluding mandatory 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 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.

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 amounts due from credit institutions 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.

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Leases (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Taxation (continued)

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	3-7
Computers and other equipment	2-5
Vehicles	3-7
Other equipment	3-15
Leasehold improvements	7-15

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

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.

Share capital

Share capital

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

Dividends

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

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Recognition of income and expenses (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

3. Material accounting policy information (continued)

Recognition of income and expenses (continued)

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 2023 and 2022, in the preparation of these financial statements:

	2023	*2022*
1 US dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.8766	AZN 1.8114
1 Georgian lari	AZN 0.6326	AZN 0.6298
1 Turkish lira	AZN 0.0576	AZN 0.0909

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 not expected to have a material impact on the Group's financial statements.

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:

Defining discontinued operation

The Group exercised judgement to determine whether disposed subsidiary meets definition of a discontinued operation. Discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations,
- Forms part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation; or
- A subsidiary acquired exclusively with a view to resale

(Figures in tables are in thousands of Azerbaijani manats)

4. Significant accounting judgements and estimates (continued)

Judgements (continued)

The term 'major' in the definition of the discontinued operation refers to both 'line of business' and 'geographical area of operations', i.e., a discontinued operations needs to represent either a major line of business or a major geographical area of operations. Quantitative thresholds from IFRS 8 – Operating segments that are applied to identify a reportable segment were used for determination whether disposed subsidiary represented a separate major line of business or geographical area of operations. Based on the performed analysis, the Group's management concluded that the subsidiary does not meet the definition of 'discontinued operation' per IFRS 5 requirements.

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). As of 31 December 2023, the amount of payments under extension option for which the Group recognized the liability is AZN 4,630 thousand (31 December 2022: AZN 11,939 thousand).

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 27.

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.

More details are provided in Notes 8 and 25.

(Figures in tables are in thousands of Azerbaijani manats)

4. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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 2023, the fair value and related ECL of Russian investment securities were AZN 10,164 thousand (31 December 2022: AZN 34,174 thousand) and AZN 6,557 thousand (31 December 2022: AZN 27,735 thousand), respectively. More details are provided in Notes 26 and 27.

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 13,652 thousand (31 December 2022: AZN 6,934 thousand). More details are provided in Note 12.

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 2023 and 2022 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:

	2023	*2022*
Cash on hand	67,876	91,566
Time deposits with credit institutions up to 3 months	878,672	542,822
Current accounts with the CBAR, the NBG and the CBRT	607,213	1,838,446
Current accounts with other credit institutions	402,165	826,341
Reverse repurchase agreements with credit institutions up to 3 months	19,633	3,002
Less: allowance for impairment	(1)	(47)
Cash and cash equivalents	**1,975,558**	**3,302,130**

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 5,327 thousand (31 December 2022: AZN 7,722 thousand) and AZN 396,838 thousand (31 December 2022: AZN 818,619 thousand), respectively.

As at 31 December 2023, the Group placed AZN 878,672 thousand in time deposits one resident and twelve non-resident banks maturing through March 2024 (31 December 2022: AZN 542,822 thousand in time deposits with CBAR, five resident and eight non–resident banks maturing through January 2023).

(Figures in tables are in thousands of Azerbaijani manats)

5. Cash and cash equivalents (continued)

The Group had entered into reverse repurchase agreements with a number of credit institutions. The subject of these agreements are notes of CBAR and bonds of Ministry of Finance with a fair value of AZN 19,408 (31 December 2022: AZN 2,840 thousand).

All balances of cash equivalents are allocated to Stage 1.

6. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	2023	*2022*
Time deposits with credit institutions for more than 3 months	93,088	70,879
Loans to banks	64,039	28,988
Mandatory reserve with the CBAR, the NBG and the CBRT	1,282,119	330,913
Restricted deposits	158,254	156,633
	1,597,500	**587,413**
Less: allowance for impairment	(4,843)	(3,353)
Amounts due from credit institutions	**1,592,657**	**584,060**

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

As at 31 December 2023, the Bank had outstanding amount of AZN 22,486 thousand of secured loans issued to two resident commercial banks and AZN 41,553 thousand unsecured loan with one resident commercial bank with contractual maturity through December 2024 (31 December 2022: AZN 28,988 thousand of secured loans issued to two resident commercial banks with a contractual maturity through September 2023).

On 20 November 2023, the CBAR made certain updates on the calculation of mandatory reserves and as at 31 December 2023, credit institutions are required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBAR as per new updates. New differentiation criteria were introduced on the basis of which mandatory reserve rates are determined. The differentiation criteria are as follows:

- Whether the deposits of legal entities in local currency are less than AZN 1,000,000 (AZN 750,000 for foreign currency);
- Whether the proportion of connected deposits to total deposits is below than 20%;
- Whether the proportion of Bank's related party deposits to total deposits is below than 20%

Since, the Bank`s average deposits from legal entities exceeds some of above-mentioned thresholds, the applicable mandatory reserve rate was 20% for deposits in both local currency and in foreign currencies as of 31 December 2023.

This is an increase from the previous reserve rates of 4% of previous month average balances of certain liabilities in AZN and 5% of the previous month average balances of certain liabilities in foreign currencies, which were effective until February 15, 2023 when the CBAR made a decision to increase the rates.

The Group's ability to withdraw such deposit is restricted by statutory legislation.

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% (2022: 5.0%) and at a range from 10% to 25% depending on the deposit dollarization rate of a particular commercial bank (31 December 2022: range from 10% to 25%) 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.

As of 31 December 2022, credit institutions in the Republic of Turkey were required to maintain a mandatory interest earning reserve for deposits with the CBRT in the range of 3% to 8.0% and 5.0% to 25.0% of average of funds attracted from customers by a credit institution in TRY and foreign currencies, respectively. As of 31 December 2023, no amounts due from credit institutions relating to PASHA Yatirim Bankasi A.Ş. were included in the Group’s statement of financial position.

(Figures in tables are in thousands of Azerbaijani manats)

6. Amounts due from credit institutions (continued)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying value as at 1 January 2023	**570,003**	**–**	**17,410**	**587,413**
New assets originated or purchased	1,261,214	–	–	**1,261,214**
Assets repaid	(199,396)	–	(3,429)	**(202,825)**
Hyperinflation effect	(11,897)	–	–	**(11,897)**
Foreign exchange adjustments	13,834	–	–	**13,834**
Decrease through disposal of subsidiary	(50,239)	–	–	**(50,239)**
As at 31 December 2023	**1,583,519**	**–**	**13,981**	**1,597,500**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2023	**(541)**	**–**	**(2,812)**	**(3,353)**
New assets originated or purchased	(1,960)	–	–	**(1,960)**
Assets repaid	627	–	2,812	**3,439**
Transfers to Stage 3	–	–		**–**
Impact on period end ECL of exposures transferred between stages during the period	–	–	–	**–**
Changes to model and inputs used for ECL calculation	(246)		(2,899)	**(3,145)**
Hyperinflation effect	5	–	–	**5**
Foreign exchange adjustments	79	–	–	**79**
Decrease through disposal of subsidiary	92			**92**
As at 31 December 2023	**(1,944)**	**–**	**(2,899)**	**(4,843)**

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**
As 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**
As at 31 December 2022	**(541)**	**–**	**(2,812)**	**(3,353)**

As at 31 December 2023 and 31 December 2022, 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:

	2023	*2022*
Debt securities at FVOCI		
Azerbaijan Mortgage Fund bonds	496,518	567,829
Bonds of the Ministry of Finance of the Republic of Azerbaijan	224,924	423,416
Corporate bonds	75,965	86,572
Bonds of financial institutions	14,991	32,403
Other foreign governments' bonds	54	6,809
Notes of the Central Bank of Azerbaijan Republic	–	182,446
Certificate of deposits	–	16,920
US treasury bonds	–	1,735
Debt securities at FVOCI	**812,452**	**1,318,130**

	2023	*2022*
Equity securities at FVOCI		
Corporate Shares	2,003	2,699
Equity securities at FVOCI	**2,003**	**2,699**

	2023	*2022*
Equity securities at FVTPL		
Mutual funds participation certificate	–	3,742
Equity securities at FVTPL	**–**	**3,742**
Debt securities at amortised cost		
Bonds of the Ministry of Finance of the Republic of Azerbaijan	602,621	285,378
Notes of the Central Bank of Azerbaijan Republic	448,387	164,287
Bonds of financial institutions	74,490	19,992
Corporate bonds	70,476	14,734
Other foreign governments' bonds	21,760	32,901
US treasury bonds	17,287	–
	1,235,021	**517,292**
Less: allowance for impairment	(699)	(1,547)
Debt securities at amortised cost	**1,234,322**	**515,745**

As at 31 December 2023, debt securities at FVOCI in total amount of AZN 0 thousand (31 December 2022: AZN 813 thousand) and debt securities at amortised cost in the amount of AZN 0 thousand (31 December 2022: AZN 27,470 thousand) are pledged as collaterals for repurchase agreement. The net investment securities balance as at 31 December 2023 after offset would have been AZN 2,048,777 thousand (31 December 2022: AZN 1,812,033 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 2023	**1,283,956**	**28,355**	**5,819**	**1,318,130**
New assets originated or purchased	60,477	–	–	**60,477**
Assets repaid or sold	(542,886)	(18,515)	(14,299)	**(575,700)**
Foreign exchange adjustments	(1,827)	–	–	**(1,827)**
Change in fair value	10,912	(329)	9,133	**19,716**
Hyperinflation effect	(610)	–	–	**(610)**
Decrease through disposal of subsidiary	(7,734)	–	–	**(7,734)**
As at 31 December 2023	**802,288**	**9,511**	**653**	**812,452**

(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 2023	**(2,474)**	**(9,740)**	**(17,995)**	**(30,209)**
New assets originated or purchased	(598)	–	–	**(598)**
Assets repaid or sold	1,087	4,661	13,644	**19,392**
Changes to models and inputs used for ECL calculations	879	2,419	453	**3,751**
Impact on period end ECL of exposures transferred between stages during the period	–	–	–	**–**
Hyperinflation effect	57	–	–	**57**
Foreign exchange adjustments	30	–	–	**30**
Decrease through disposal of subsidiary	139	–	–	**139**
As at 31 December 2023	**(880)**	**(2,660)**	**(3,898)**	**(7,438)**

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)**
As at 31 December 2022	**1,283,956**	**28,355**	**5,819**	**1,318,130**

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**
As at 31 December 2022	**(2,474)**	**(9,740)**	**(17,995)**	**(30,209)**

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 2023	**517,292**
New assets originated	1,033,161
Assets repaid	(260,340)
Foreign exchange and other movements	12,960
Hyperinflation effect	(13,432)
Decrease through disposal of subsidiary	(54,620)
As at 31 December 2023	**1,235,021**

(Figures in tables are in thousands of Azerbaijani manats)

7. Investment securities (continued)

Debt securities at amortised cost	*Stage 1*
ECL as at 1 January 2023	**(1,547)**
New assets originated	(978)
Assets repaid	178
Changes to models and inputs used for ECL calculation	(11)
Hyperinflation effect	337
Foreign exchange and other movements	297
Decrease through disposal of subsidiary	1,025
As at 31 December 2023	**(699)**

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
As 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
As at 31 December 2022	**(1,547)**

8. Loans to customers

Loans to customers comprise:

	2023	*2022*
Legal entities	2,789,858	2,885,227
Individuals	391,186	502,832
Loans to customers (gross)	**3,181,044**	**3,388,059**
Less: allowance for impairment	(125,893)	(114,470)
Loans to customers (net)	**3,055,151**	**3,273,589**

Loans are made in the following industry sectors:

	2023	*2022*
Trade and services	1,499,756	1,423,440
Individuals	391,187	502,832
Transport and telecommunication	332,953	240,921
Manufacturing	268,503	375,705
Construction	183,862	243,702
Agriculture and food processing	154,217	159,658
Non-banking credit organizations	148,489	192,212
Energy	114,859	136,381
Mining	51,212	34,009
Real estate management	28,769	31,058
Tourism	−	24,511
Rental services	−	15,961
Other	7,237	7,669
Total loans (gross)	**3,181,044**	**3,388,059**

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

As at 31 December 2023, loans granted to top 9 customers (2022: 13 customers) which individually exceeded 5% of the Group's equity, amounted to AZN 807,376 thousand (2022: AZN 957,244 thousand).

Finance lease receivables

Included in loans to legal entities are finance lease receivables. The analysis of finance lease receivables at 31 December 2023 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	9,955	5,958	–	–	–	–
Unearned future finance income on finance leases	(284)	(70)	–	–	–	–
Net investment in finance leases	**9,671**	**5,888**	**–**	**–**	**–**	**–**

Included in loans to legal entities are finance lease receivables. The analysis of finance lease receivables at 31 December 2022 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	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**	**–**	**–**

An analysis of changes in the gross carrying value and corresponding ECL during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
Gross carrying value as at 1 January 2023	**2,328,967**	**904,917**	**147,150**	**7,025**	**3,388,059**
New assets originated or purchased	2,130,039	–	–	7,099	**2,137,138**
Assets repaid (excluding write-offs)	(1,450,535)	(468,682)	(56,890)	–	**(1,976,107)**
Transfers to Stage 1	105,974	(101,607)	(4,367)	–	**–**
Transfers to Stage 2	(599,342)	601,013	(1,671)	–	**–**
Transfers to Stage 3	(36,256)	(61,100)	97,356	–	**–**
Derecognition of loans at substantial modification	–	–	(10,348)	–	**(10,348)**
Amounts written off	–	–	(6,228)	–	**(6,228)**
Recovery	–	–	1,107	–	**1,107**
Changes to contractual cash flows due to modifications not resulting in derecognition	(185)	8,223	(495)	–	**7,543**
Hyperinflation effect	(37,092)	1,544	517	–	**(35,031)**
Foreign exchange adjustments	2,736	(2,608)	(235)	–	**(107)**
Decrease through disposal of subsidiary	(320,741)	(3,447)	(794)		**(324,982)**
As at 31 December 2023	**2,123,565**	**878,253**	**165,102**	**14,124**	**3,181,044**

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

	Stage 1	*Stage 2*	*Stage 3*	*POCI*	*Total*
ECL as at 1 January 2023	**(22,448)**	**(17,987)**	**(74,035)**	**–**	**(114,470)**
Movements with impact on credit loss allowance (charge)/reversal in profit or loss					
New assets originated or purchased	(21,635)	–	–	–	**(21,635)**
Assets repaid	12,670	7,871	28,076	–	**48,617**
Transfers to Stage 1	(6,682)	2,735	3,947	–	**–**
Transfers to Stage 2	6,513	(6,839)	326	–	**–**
Transfers to Stage 3	548	4,563	(5,111)	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	5,485	(13,019)	(40,178)	–	**(47,712)**
Changes to models and inputs used for ECL calculations	4,696	2,270	(3,535)	–	**3,431**
Movements without impact on credit loss allowance (charge)/reversal in profit or loss					
Derecognition of loans at substantial modification	–	–	6,589	–	**6,589**
Unwinding of discount (recognised in interest revenue)	–	–	(10,936)	–	**(10,936)**
Amounts written off	–	–	6,228	–	**6,228**
Recovery	–	–	(1,107)	–	**(1,107)**
Foreign exchange adjustments	880	848	499	–	**2,227**
Hyperinflation effect	(23)	(304)	(106)	–	**(433)**
Decrease through disposal of subsidiary	1,510	1,004	794	–	**3,308**
As at 31 December 2023	**(18,486)**	**(18,858)**	**(88,549)**	**–**	**(125,893)**

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

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)**
As at 31 December 2022	**2,328,967**	**904,917**	**147,150**	**7,025**	**3,388,059**

(Figures in tables are in thousands of Azerbaijani manats)

8. Loans to customers (continued)

	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)**
As 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.*

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.

	2023	*2022*
Loans modified during the period		
Amortised cost before modification	330,796	377,344
Net modification gain/(loss)	7,543	(869)

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 2023, maximum exposure of such individually assessed loans amounted to AZN 143,285 thousand (31 December 2022: AZN 143,958 thousand) for which ECL of AZN 69,587 thousand (31 December 2022: AZN 62,307 thousand) was created. If these loans were not collateralized, ECL amount for these loans would be AZN 115,943 thousand (31 December 2022: AZN 109,862 thousand) based on collective assessment.

(Figures in tables are in thousands of Azerbaijani manats)

9. 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 2022	**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**
Additions	–	1,021	2,380	1,037	133	153	410	**5,134**
Disposals	–	–	(1,401)	(202)	(412)	(8)	(335)	**(2,358)**
Transfer to investment property (Note 19)	(4,595)	(1,685)	–	–	–	–	–	**(6,280)**
Foreign currency translation difference	(5,271)	(209)	(127)	57	(11,450)	16	13	**(16,971)**
Hyperinflation effect	6,276	318	166	–	11,472	–	–	**18,232**
Decrease through disposal of subsidiary	(11,702)	(9,423)	(992)	(1,280)	(422)	(496)	–	(24,315)
31 December 2023	**300**	**5,407**	**29,731**	**12,245**	**2,059**	**709**	**4,786**	**55,237**
Accumulated depreciation								
1 January 2022	**(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	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)**
Depreciation charge	–	(404)	(3,620)	(1,226)	(435)	(103)	(567)	**(6,355)**
Disposals			1,386	180	410	8	272	**2,256**
Transfer to investment property (Note 19)	–	157	–	–	–			**157**
Foreign currency translation difference	2,822	1,027	99	(39)	2,743	(6)	(2)	**6,644**
Hyperinflation effect	(1,976)	(183)	(120)	–	(2,760)	–	(4)	**(5,043)**
Decrease through disposal of subsidiary	3,969	2,118	629	993	387	221	–	8,317
31 December 2023	–	**(2,696)**	**(24,079)**	**(10,345)**	**(1,482)**	**(649)**	**(4,008)**	**(43,259)**
Net book value								
31 December 2023	**300**	**2,711**	**5,652**	**1,900**	**577**	**60**	**778**	**11,978**
31 December 2022	**10,777**	**9,974**	**7,252**	**2,380**	**911**	**275**	**991**	**32,560**

As at 31 December 2023, property and equipment amounting to AZN 24,346 thousand (31 December 2022: AZN 22,392 thousand) were fully depreciated but in use.

(Figures in tables are in thousands of Azerbaijani manats)

10. Intangible assets

The movements in intangible assets were as follows:

	Goodwill	*Banking license*	*Licenses*	*Computer software*	*Digital products*	*Total*
Cost						
1 January 2022	**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**
Additions	–	–	1,487	3,202	–	**4,689**
Disposals	–	–	(3,175)	(2,546)	–	**(5,721)**
Foreign currency translation difference	–	(6,175)	1	17	–	**(6,157)**
Hyperinflation effect	–	–	–	189	–	**189**
Decrease through disposal of subsidiary	(3,642)	(10,681)	–	(5,560)	–	**(19,883)**
31 December 2023	**–**	**–**	**22,690**	**21,625**	**20,392**	**64,707**
Accumulated amortization						
1 January 2022	**(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	–	(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)**
Amortisation charge	–	–	(3,466)	(3,090)	(2,197)	**(8,753)**
Disposals	–	–	3,037	1,973	–	**5,010**
Foreign currency translation difference	–	6,175	–	–	–	**6,175**
Hyperinflation effect	–	–	–	(116)	–	**(116)**
Decrease through disposal of subsidiary	3,642	10,681	–	3,808	–	**18,131**
31 December 2023	**–**	**–**	**(15,187)**	**(9,825)**	**(14,731)**	**(39,743)**
Net book value						
31 December 2023	**–**	**–**	**7,503**	**11,800**	**5,661**	**24,964**
31 December 2022	**–**	**–**	**9,619**	**13,923**	**7,858**	**31,400**

As at 31 December 2023, intangible assets amounting to AZN 8,372 thousand (31 December 2022: AZN 6,537 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 2023 and 2022, 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.

(Figures in tables are in thousands of Azerbaijani manats)

11. 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 2023 were as follows:

	Right-of-use assets	*Lease liabilities*
As at 1 January 2023	**17,471**	**17,662**
Additions	1,455	1,455
Lease modifications	776	776
Depreciation expense	(7,381)	–
Interest expense	–	1,203
Payments	–	(8,465)
Foreign currency translation difference	31	(15)
Decrease through disposal of subsidiary	(55)	(45)
As at 31 December 2023	**12,297**	**12,571**

	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**

Future lease payments for each of the next five years for the year ended 31 December 2023 and 2022 are as follows:

	2023	*2022*
Within one year	5,759	7,963
Between 1 and 2 years	4,812	9,004
Between 2 and 3 years	3,183	3,030
Between 3 and 4 years	238	71
Between 4 and 5 years	102	47
Total future lease payments	**14,094**	**20,115**

12. Other assets and liabilities

Other assets comprise:

	2023	*2022*
Other financial assets		
Settlements on money transfers	82,338	53,363
Accrued commission receivable on guarantees and letters of credit	2,000	1,716
Clearance cheque accounts	–	1,217
Other	493	350
	84,831	**56,646**
Less: allowance for impairment of other financial assets	(1,677)	(945)
Total other financial assets	**83,154**	**55,701**
Other non-financial assets		
Repossessed collateral	13,652	6,934
Deferred expenses	7,383	5,714
Purchased miles under loyalty programme	6,565	2,998
Other prepayments	3,623	5,226
Prepayments for acquisition of property, equipment and intangible assets	653	1,166
Taxes, other than income tax	446	68
	32,322	**22,106**
Other assets	**115,476**	**77,807**

(Figures in tables are in thousands of Azerbaijani manats)

12. Other assets and liabilities (continued)

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

As at 31 December 2023 deferred expenses of AZN 2,617 thousand (31 December 2022: AZN 2,510 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.

Repossessed collaterals comprise:

	2023	*2022*
Commercial real estate	10,952	5,891
Residential real estate	2,263	147
Land	121	-
Other	316	896
Repossessed collaterals	**13,652**	**6,934**

Other liabilities comprise:

	2023	*2022*
Other financial liabilities		
Settlements on money transfer	11,328	5,696
Accrued expenses	10,014	8,433
Clearance cheque accounts	-	1,217
Other	1,092	1,282
	22,434	**16,628**
Other non-financial liabilities		
Payable to employees	55,255	33,250
Deferred income	1,037	3,339
Taxes, other than income tax	831	2,523
Other	56	18
	57,179	**39,130**
Other liabilities	**79,613**	**55,758**

13. Amounts due to banks and government funds

Amounts due to banks and government funds comprise:

	2023	*2022*
Long-term deposits from banks	204,594	296,337
Entrepreneurship Development Fund of the Republic of Azerbaijan	171,642	208,738
Azerbaijan Mortgage and Credit Guarantee Fund	154,327	103,654
Correspondent accounts with other banks	42,421	46,014
Short-term deposits from banks	30,701	180,707
Long-term loans from banks	12,097	56,415
Agro Credit and Development Agency	10,919	12,128
Deposits from the Ministry of Finance of Georgia	7,913	7,246
Amount due to IT Development Fund	102	538
Loans from the National Bank of Georgia	–	10,105
Repurchase agreements	–	910
Other	11,997	9,360
Amounts due to banks and government funds	**646,713**	**932,152**

As at 31 December 2023, the Group attracted long-term deposits from two resident commercial banks comprising AZN 204,594 thousand (31 December 2022: AZN 296,337 thousand) maturing through November 2025 with interest rate ranging between 1.5% and 4.3% (31 December 2022: November 2025 with interest rate ranging between 1.5% and 4.3%).

(Figures in tables are in thousands of Azerbaijani manats)

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

As at 31 December 2023, Entrepreneurship Development Fund of the Republic of Azerbaijan had current account amounting to AZN 1,443 thousand (31 December 2022: AZN 2,629 thousand). The Group had loans received from the Entrepreneurship Development Fund of the Republic of Azerbaijan amounting to AZN 170,199 thousand (31 December 2022: AZN 206,109 thousand), maturing through September 2032 (31 December 2022: through September 2032) and bearing interest rate of 1.0% (31 December 2022: 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 2022: not higher than 6.0%).

As at 31 December 2023, the Group had loans refinanced from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 154,327 thousand (31 December 2022: AZN 92,596 thousand), maturing through October 2052 (31 December 2022: through October 2052) and bearing interest rate of 1.0% and 4.0% (31 December 2022: 1.0% and 4.0%). The loans have been granted to borrowers at interest rate not higher than 8.0% (31 December 2022: not higher than 8.0%). Also, the Group had short-term deposit from the Azerbaijan Mortgage and Credit Guarantee Fund amounting to AZN 0 thousand (31 December 2022: AZN 11,058 thousand).

As at 31 December 2023, the Group attracted short-term deposits from two resident commercial banks (31 December 2022: six resident and nineteen non-residents) comprising AZN 30,701 thousand (31 December 2022: AZN 180,707 thousand) maturing through February 2024 (31 December 2022: February 2023) and with interest rates ranging between 3.0% and 5.0% (31 December 2022: ranging between 3.0% and 26.0%).

As at 31 December 2023, the Group received long-term loan from one resident and one non-resident commercial banks (31 December 2022: one resident and one non-resident commercial banks) comprising AZN 12,097 thousand (31 December 2022: 56,415 thousand), maturing through August 2026 (31 December 2022: through August 2026) and with interest rates ranging between 3.0% and 10.50% (31 December 2022: ranging between 3.0% and 10.50%).

As at 31 December 2023, the Group had loans received from the Agro Credit and Development Agency amounting to AZN 10,919 thousand (31 December 2022: AZN 12,128 thousand), maturing through November 2028 (31 December 2022: September 2027) and bearing interest rate between 2.0% and 3.6% (31 December 2022: 2.0% and 4.0%). The loans have been granted to local entrepreneurs at interest rate of 7.0% (31 December 2022: 7.0%).

As at 31 December 2023, the Group had deposit from Ministry of Finance of Georgia amounting to AZN 7,913 thousand (31 December 2022: AZN 7,246 thousand) maturing through January 2028 (31 December 2022: January 2028) and with interest rates ranging between 9.87% and 11.30% (31 December 2022: 9.9% and 12.10%).

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

As at 31 December 2023, the Group had loans refinanced from the IT Development Fund amounting to AZN 102 thousand (31 December 2022: AZN 538 thousand), maturing through October 2028 (31 December 2022: through June 2024) and bearing interest rate of 1.0% (31 December 2022: 1.0%). The loans have been granted to local entrepreneurs at interest rate of 5.0%.

14. Amounts due to customers

The amounts due to customers include the following:

	2023	*2022*
Demand deposits	5,258,474	5,481,292
Time deposits	1,917,978	1,771,363
Amounts due to customers	**7,176,452**	**7,252,655**
Held as security against guarantees issued (Note 20)	32,216	63,643

(Figures in tables are in thousands of Azerbaijani manats)

14. Amounts due to customers (continued)

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

	2023	*2022*
Individuals	1,678,876	1,595,734
Mining	1,560,964	1,009,907
Trade and services	1,297,734	1,932,414
Transport and communication	787,616	846,590
Investment holding companies	656,834	506,153
Manufacturing	325,945	473,844
Insurance	191,196	220,354
Construction	154,883	166,066
Energy	149,046	186,858
Agriculture	65,643	45,733
Public organizations	59,021	85,528
Non banking credit organizations	45,157	34,637
Hotel business	44,373	37,621
Other	159,164	111,216
Amounts due to customers	**7,176,452**	**7,252,655**

As at 31 December 2023, customer deposits included balances with eleven (31 December 2022: fourteen) largest customers with balances above AZN 100,000 thousand comprised AZN 4,227,561 thousand or 59% of the total customer deposits portfolio (31 December 2022: 4,352,437 thousand or 62% of the total customer deposits portfolio).

As at 31 December 2023, deposits of the customers in the amount of AZN 771,360 thousand (31 December 2022: AZN 546,040 thousand) are pledged as collateral for loans to customers in the amount of AZN 782,840 thousand (31 December 2022: AZN 848,748). The net amounts due to customers balance after offset would have been AZN 6,405,092 thousand (31 December 2022: AZN 6,707,271 thousand) if net-off rights were exercised.

15. Subordinated debts

As of 31 December 2023, the amount of subordinated debts represent USD denominated subordinated loan of AZN 96,016 thousand (31 December 2022: AZN 155,589 thousand) borrowed by the Group maturing through August 2027 and April 2029 (31 December 2022: August 2027 and September 2032). Subordinated debt in the amount of AZN 18,700 thousand was repaid on 20 October 2023 before maturity date of 8 August 2027.

16. 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.

	2023			*2022*		
	Notional	***Fair values***		***Notional***	***Fair value***	
	amount	***Asset***	***Liability***	***amount***	***Asset***	***Liability***
Interest rate contracts						
Forwards and swaps – foreign	97,833	412	(498)	103,251	246	(590)
Foreign exchange contracts						
Forwards and swaps – foreign	304,995	4,092	(4,170)	356,230	1,657	(6,893)
Forwards and swaps − domestic	565,733	4,291	(4,092)	313,641	7,040	(1,628)
Options – domestic	53,498	85	−	40,726	53	−
Futures – foreign	8,551	58	(394)	45,126	1,218	−
Futures – domestic	111,688	411	(55)	45,154	−	(1,191)
Total derivative assets/ (liabilities)		**9,349**	**(9,209)**		**10,214**	**(10,302)**

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

(Figures in tables are in thousands of Azerbaijani manats)

16. Derivative financial instruments (continued)

As at 31 December 2023 and 2022, 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.

17. Taxation

The corporate income tax expense comprises:

	2023	*2022*
Current tax charge	(67,222)	(53,988)
Deferred tax credit − origination and reversal of temporary differences	7,474	13,553
Less: deferred tax recognised in other comprehensive income	206	(4,464)
Income tax expense	**(59,542)**	**(44,899)**

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

	2023	*2022*
Net (gain)/loss on investment securities FVOCI	(206)	4,464
Income tax (reverse)/charged to other comprehensive income	**(206)**	**4,464**

The Group has zero current income tax assets as of 31 December 2023.

Current income tax liabilities of AZN 28,898 thousand as at 31 December 2023 (31 December 2022: AZN 22,788 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:

	2023	*2022*
Profit before income tax expense	**285,254**	**146,825**
Statutory tax rate	20%	20%
Theoretical tax expense at the statutory rate	**(57,051)**	**(29,365)**
Tax effect of non-deductible expenses	(1,526)	(2,863)
Tax rate change effects	141	279
Effect of difference in tax rate in foreign country	(927)	(632)
Tax effect of tax-exempt income	105	218
Unrecognised tax losses utilized/(carried forward)	154	(257)
Non-deductible loss on disposal of subsidiary	(4,945)	−
Hyperinflation tax effect	3,720	(12,363)
Other	787	84
Income tax expense	**(59,542)**	**(44,899)**

(Figures in tables are in thousands of Azerbaijani manats)

17. Taxation (continued)

Deferred tax assets and liabilities as at 31 December 2023 and 2022 and their movements for the respective years comprise:

		Origination and reversal of temporary differences				*Origination and reversal of temporary differences*				
	2021	*In the statement of profit or loss*	*In other compre-hensive income*	*Transla-tion difference*	*2022*	*In the statement of profit or loss*	*In other compre-hensive income*	*Transla-tion difference*	*Dec-rease through dis-posal of subsidi-ary*	*2023*
Tax effect of deductible temporary differences										
Tax losses carried forward	371	(257)	−	35	149	(154)	−	5	−	−
Subordinated debt	27	35	−	7	69	30	−	2	−	101
−Amounts due to banks and government funds	753	(18)	−	(234)	501	−	−	−	−	501
Amounts due to customers	−	(131)	−	−	(131)	392	−	170	−	431
Loans to customers	1,215	8,954	−	98	10,267	(1,959)	−	40	(942)	7,406
Investment securities	(2,376)	1,189	4,462	(127)	3,148	(2,697)	(206)	(36)	785	994
Derivative financial liabilities	3	384	−	1	388	1,432	−	(72)	−	1,748
Lease liabilities	2,497	(242)	−	(91)	2,164	(415)	−	(25)	−	1,724
Provision for guarantees and letters of credit	(2,004)	2,253	−	−	249	(196)	−	162	−	215
Other liabilities	4,757	1,357	−	349	6,463	4,010	−	(30)	(84)	10,359
Deferred tax asset	**5,243**	**13,524**	**4,462**	**38**	**23,267**	**443**	**(206)**	**216**	**(241)**	**23,479**
Amounts due from credit institutions	(2,565)	1,407	−	−	(1,158)	(1,148)	−	2	(78)	(2,382)
Investment properties	1,122	(4,646)	−	(704)	(4,228)	2,261	−	4,845	(2,878)	−
Property and equipment	(423)	(2,138)	−	(157)	(2,718)	6,681	−	(3,987)	(4)	(28)
Intangible assets	65	(155)	−	(13)	(103)	114	−	(211)	−	(200)
Other assets	(970)	287	2	−	(681)	268	−	(36)	27	(422)
Right of use assets	(2,387)	162	−	95	(2,130)	444	−	37	−	(1,649)
Derivative financial assets	(303)	1	−	(103)	(405)	(1,383)	−	1	−	(1,787)
Banking license	(946)	647	−	299	−	−	−	−	−	−
Deferred tax liabilities	**(6,407)**	**(4,435)**	**2**	**(583)**	**(11,423)**	**7,237**	**−**	**651**	**(2,933)**	**(6,468)**
Net deferred tax assets/(liabilities)	**(1,164)**	**9,089**	**4,464**	**(545)**	**11,844**	**7,680**	**(206)**	**867**	**(3,174)**	**17,011**

The Group's accumulated tax losses as at 31 December 2023 equal AZN 23,554 thousand (31 December 2022: AZN 17,408 thousand) on which the Group has tax loss carried forward AZN 4,711 thousand at 20% tax rate (31 December 2022: AZN 2,611 thousand at 15% tax rate) related to operations in the Republic of Georgia, and respective allowance of AZN 3,439 thousand (31 December 2022: AZN 2,335 thousand). The Group has been accumulating tax losses since 2019. In 2023 the PASHA Bank Georgia JCS has generated net profit and utilized only AZN 154 thousand accumulated tax losses carried forward for this period. The Group has not recognized any deferred tax asset towards remaining accumulated tax losses as at 31 December 2023. There is no expiry period for tax losses.

(Figures in tables are in thousands of Azerbaijani manats)

17. Taxation (continued)

Deferred taxes in the consolidated statement of financial position as at 31 December 2023 and 2022 can be reconciled as follows:

	2023	***2022***
Deferred tax assets	17,011	17,171
Deferred tax liabilities	–	(5,327)
Net deferred tax assets	**17,011**	**11,844**

18. Equity

As at 31 December 2023 and 31 December 2022, 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 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.

On 8 June 2023 and 28 August 2023 Shareholders of the Bank declared dividends totalling AZN 60,000 thousand on ordinary shares (AZN 5,636 per share) which was paid as at 31 December 2023.

Additional paid-in capital

As at 31 December 2023 and 2022, 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

As at 31 December 2022, 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 2023, other reserves of AZN 4,016 thousand represents difference between cash consideration received and transfer of portion of net assets of PASHA Bank Georgia JSC to non-controlling interests adjusted for foreign currency translation reserve at the date of transaction (Note 1).

Unrealised gains/losses on investment securities

This reserve records fair value changes on investment securities at FVOCI which amounted to loss of AZN 3,118 thousand (31 December 2022: AZN 5,386 thousand).

(Figures in tables are in thousands of Azerbaijani manats)

19. Investment properties

The movements in investment properties were as follows:

	2023	*2022*
Opening balance at 1 January	**31,229**	**19,126**
Depreciation for the period	(306)	(167)
Impairment reversal	–	1,063
Transfer from Property and equipment (Note 9)	6,123	–
Hyperinflation effect	19,256	17,251
Foreign translation difference	(11,252)	(6,044)
Decrease through disposal of a subsidiary	(45,050)	–
Closing balance at 31 December	**–**	**31,229**

As at 31 December 2022, the Group has a real estate classified as investment property amounting to AZN 31,229 thousand with fair value of AZN 31,229 thousand.

20. Commitments and contingencies

Operating environment

The year 2023 presented a challenging year for the global economy. Ongoing conflict between Russia and Ukraine, significantly disrupted supply chains, fueled inflation, and raised concerns about a potential recession. Despite these headwinds, some economies, including Azerbaijan, demonstrated resilience and even experienced positive growth.

The Republic of Azerbaijan

General overview

The Bank conducts all of its operations in the Republic of Azerbaijan. The economy of Azerbaijan is particularly sensitive to hydrocarbon prices. However, 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 hydrocarbon sector, which currently accounts for almost half of the country's GDP.

Economic performance

GDP of Azerbaijan grew by 4.6% in 2022, driven by strong growth in the oil and non-oil sector, which is largely due to increased foreign currency inflows as the high global prices of hydrocarbon export revenues. Increased money supply, as a result of these factors, led to surplus liquidity and record high profits in banking sector during 2023, coupled with considerable decrease in default rates.

Global hydrocarbon prices experienced decline during the second half of 2022 and most of 2023, before slightly rebounding during September – October period of 2023. The country's GDP grew by only 1.8% in 2023.

The high average hydrocarbon prices during 2022 and 2023 added additional stability to the local currency.

Monetary policy

During 2022 and 2023 the CBAR actively controlled the refinancing rate and mandatory reserve requirements to promptly react to inflation and liquidity levels in the banking sector. In 2022, which was marked with high inflation rates, the refinancing rate was increased from 7.5% to 8.25%. During 2023, however, the inflation slowed down considerably, from 13.9% in the previous year to 8.8% at the conclusion of 2023. The CBAR reduced the refinancing rate to 8.00% as at 31 December 2023. In contrast, the CBAR's mandatory reserve ratios have been tightened in 2023 in response to considerable increase in surplus liquidity in the banking sector.

During 2022 and 2023, the CBAR continued to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period.

During 2023 global rating agencies assessed Azerbaijani Government`s credit rating as "Ba1". Assessment reflects the effectiveness of economic policy in recent years, expressed in better fiscal management and greater ability to absorb future shocks despite 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.

(Figures in tables are in thousands of Azerbaijani manats)

20. Commitments and contingencies (continued)

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. 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.

According to the current macroeconomic forecast, the annual inflation rate is expected to fall below the target in the short term and then to stabilize at around 3% in the medium term. After a prolonged period of high inflation, below the target inflation in the short run will help a further normalization of long-term inflation expectations, which is a prerequisite for price stability. The National Bank of Georgia has begun a gradual exit from its tight monetary policy and has reduced the policy rate to 9% as of issuance date.

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

The Republic of Turkey

Inflation in the country started increasing rapidly in 2022 after the CBRT decided to cut interest rates based on the government decree. During the second half of 2023, CBRT gradually increased the refinancing rate, which was 8.5% in the beginning of the year, to 42.50% at the end of the year. Despite these measures taken inflation remained on a relatively high level. According to inflation data published by Turkey Statistical Institute on 31 December 2023, the cumulative 12-month inflation rate in Turkey was 64.90%, compared to 64.30% last year.

The three-year cumulative increase in CPI as of June 2023 has been 164% in Turkey. This index substantially exceeds 100%, which is a criterion for defining Turkish economy as hyperinflationary in line with IAS 29.

Based on CBRT projections, inflation is projected to fall to 36% at the end of 2024; and sustain the downward trend by receding to 14% by the end of 2025.

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 2023 is appropriate and that the Group's tax, currency and customs positions will be sustained.

(Figures in tables are in thousands of Azerbaijani manats)

20. Commitments and contingencies (continued)

Compliance with the Regulators' ratios

CBAR requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2023 and 2022, the Bank was in compliance with these ratios except for the followings:

a) 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 2023, the Bank's ratio was 17.24% (31 December 2022: 12.29%). As at 31 December 2023 this breach was caused by the issuance of the specific loans for government related projects and loans to one group of related borrowers (31 December 2022: specific loans for government related projects).

There is a waiver granted by the CBAR for the breach caused by the issuance of the specific loans for government related projects and another breach was resolved within regulatory timeframe subsequently in 2024.

b) 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 2023, the Bank's ratio was 10.77% (31 December 2022: 14.82%).

c) 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 2023, the Bank's ratio was 28.38% (31 December 2022: 30.13%).

Both breaches were caused by the issuance of cash covered loan to the related party.

d) As at 31 December 2022, the Group was in breach of the ratio of share in one legal entity which should not exceed 10% of total capital. The ratio fell from 18.43% as at 31 December 2022 to 7.33% as of 31 December 2023. The breach has therefore been resolved as at 31 December 2023.

Throughout the year the Bank submitted information regarding abovementioned 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 2023. Management believes that the Bank will not face any sanctions in the foreseeable future in respect of these breaches.

NBG requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at 31 December 2023 and 2022, PASHA Bank Georgia JSC was in compliance with these ratios.

As discussed in Note 34, CBAR adopted new "Rules on the Operations with Related Parties" effective 13 March 2024. Based on these rules the Bank should apply new guidelines in calculation of respective ratios since the effective date. The new rules revised definition of the related party for ratio calculation purposes and may provide result that will differ from existing calculated ratios. The Bank is currently assessing the impact of these rules.

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:

	2023	***2022***
Credit-related commitments		
Guarantees issued	256,824	238,976
Unused credit lines	311,420	364,982
Letters of credit	13,664	20,047
	581,908	**624,005**
Performance guarantees	433,172	456,240
Commitments and contingencies	**1,015,080**	**1,080,245**
Provisions for ECL for credit related commitments	(6,368)	(7,235)
Provisions for ECL performance guarantees	(5,025)	(3,375)
Cash held as security against guarantees issued (Note 14)	(32,216)	(63,643)

(Figures in tables are in thousands of Azerbaijani manats)

20. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

An analysis of changes in the ECLs of credit related commitments excluding performance guarantees during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**(2,513)**	**(1,926)**	**(2,796)**	**(7,235)**
New exposures	(4,474)	–	–	**(4,474)**
Exposures derecognised or matured	1,649	1,609	2,667	**5,925**
Transfers to Stage 1	(53)	53	–	**–**
Transfers to Stage 2	1,675	(1,675)	–	**–**
Transfers to Stage 3	491	--	(491)	**–**
Impact on period end ECL of exposures transferred between stages during the period	4	(452)	(14)	**(462)**
Changes to inputs used for ECL calculations	(786)	170	(13)	**(629)**
Foreign exchange adjustments	12	36	–	**48**
Hyperinflation effect	(106)	25	–	**(81)**
Decrease through disposal of subsidiary	515	25	–	**540**
As at 31 December 2023	**(3,586)**	**(2,135)**	**(647)**	**(6,368)**

An analysis of changes in the ECL for performance guarantees during the year ended 31 December 2023 is as follows:

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2023	**(2,564)**	**(707)**	**(104)**	**(3,375)**
New exposures	(829)	–	–	**(829)**
Exposures derecognised or matured	1,404	385	37	**1,826**
Transfers to Stage 1	(28)	28	–	**–**
Transfers to Stage 2	399	(399)	–	**–**
Transfers to Stage 3	37	–	(37)	**–**
Impact on period end ECL of exposures transferred between stages during the period	28	(259)	(3,281)	**(3,512)**
Changes to inputs used for ECL calculations	653	219	(7)	**865**
As at 31 December 2023	**(900)**	**(733)**	**(3,392)**	**(5,025)**

An analysis of changes in the ECLs of credit related commitments excluding performance guarantees 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	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**
As at 31 December 2022	**(2,513)**	**(1,926)**	**(2,796)**	**(7,235)**

(Figures in tables are in thousands of Azerbaijani manats)

20. Commitments and contingencies (continued)

Financial commitments and contingencies (continued)

An analysis of changes in the ECL for performance guarantees during the year ended 31 December 2022 is as follows::

	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL as at 1 January 2022	**(1,313)**	**(2,706)**	**(886)**	**(4,905)**
New exposures	(2,165)	–	–	**(2,165)**
Exposures derecognised or matured	478	1,527	837	**2,842**
Transfers to Stage 1	(58)	58	–	**–**
Transfers to Stage 2	339	(339)	–	**–**
Transfers to Stage 3	–	–	–	**–**
Impact on period end ECL of exposures transferred between stages during the period	55	(72)	–	**(17)**
Changes to inputs used for ECL calculations	100	825	(55)	**870**
As at 31 December 2022	**(2,564)**	**(707)**	**(104)**	**(3,375)**

21. 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 2023:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Cash and cash equivalents		(298)	–	–	**(298)**
Amounts due from credit Institutions	6	(1,579)	–	(87)	**(1,666)**
Investment securities at FVOCI	7	1,368	7,080	14,097	**22,545**
Investment securities at amortised cost	7	(811)	–	–	**(811)**
Loans to customers	8	1,595	(2,419)	(16,475)	**(17,299)**
Credit loss on financial assets		**275**	**4,661**	**(2,465)**	**2,471**

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.

The table below shows the ECL charges on credit related commitments and other financial assets recorded in the consolidated statement of profit or loss for the year ended 31 December 2023:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Credit related commitments excluding performance guarantees	20	(1,494)	(295)	2,149	**360**
Other financial assets	12	(732)	–	–	**(732)**
Performance guarantees	20	1,664	(26)	(3,288)	**(1,650)**
Total provision on credit related commitments and other financial assets		**(562)**	**(321)**	**(1,139)**	**(2,022)**

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)**

(Figures in tables are in thousands of Azerbaijani manats)

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

The table below shows the ECL charges on credit related commitments and other financial assets recorded in the consolidated statement of profit or loss for the year ended 31 December 2022:

	Note	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Credit related commitments excluding performance guarantees	20	(365)	1,522	(11,900)	**(10,743)**
Other financial assets	12	(587)	–	–	**(587)**
Performance guarantees	20	(1,251)	1,999	782	**1,530**
Total provision on credit related commitments and other financial assets		**(2,203)**	**3,521**	**(11,118)**	**(9,800)**

22. Net fee and commission income

Net fee and commission income comprise for the year ended 31 December:

	2023	*2022*
Servicing plastic card operations	95,499	66,549
Settlements operations	29,384	24,291
Guarantees and letters of credit	18,127	17,771
Cash operations	8,455	10,232
Other	1,348	734
Fee and commission income	**152,813**	**119,577**
Servicing plastic card operations	(94,677)	(59,341)
Settlements operations	(9,889)	(10,241)
Guarantees and letters of credit	(2,051)	(2,843)
Cash operations	(1,166)	(1,244)
Securities operations	(320)	(110)
Other	(2,192)	(175)
Fee and commission expense	**(110,295)**	**(73,954)**
Net fee and commission income	**42,518**	**45,623**

23. Net gains from foreign currencies

Net gains from foreign currencies comprise for the year ended 31 December comprise the following:

	2023	*2022*
Dealing	48,697	51,865
Translation differences	3,060	(1,314)
Operations with foreign currency derivatives	556	5,249
Total net gains from foreign currencies	**52,313**	**55,800**

24. Personnel, general and administrative expenses

Personnel expenses comprise for the year ended 31 December comprise the following:

	2023	*2022*
Salaries and bonuses	(98,437)	(65,532)
Social security costs	(14,118)	(9,324)
Other employee related expenses	(6,571)	(4,579)
Personnel expenses	**(119,126)**	**(79,435)**

(Figures in tables are in thousands of Azerbaijani manats)

24. Personnel, general and administrative expenses (continued)

General and administrative expenses for the year ended 31 December comprise the following:

	2023	*2022*
Professional services	(13,784)	(8,066)
Software cost	(13,048)	(9,414)
Insurance	(8,950)	(7,883)
Advertising costs	(6,557)	(4,669)
Loyalty miles	(5,911)	(4,732)
Communications	(2,959)	(2,485)
Taxes, other than income tax	(2,142)	(2,010)
Utilities	(2,059)	(2,067)
Stationery	(1,400)	(1,151)
Transportation and business trip	(1,277)	(865)
Security expenses	(979)	(1,068)
Charity and sponsorship	(886)	(8,088)
Repair and maintenance	(884)	(1,319)
Entertainment	(721)	(666)
Membership fees	(634)	(547)
Leases	(15)	(130)
Printing expenses	(15)	(43)
Other expenses	(423)	(556)
General and administrative expenses	**(62,644)**	**(55,759)**

The compensation of fees charged to the Group for the provision of services by all EY member practices during the year covered by the consolidated financial statements are AZN 417 (excluding VAT) and AZN 121 (excluding VAT) for audit and non-audit services, respectively.

25. Other impairment and write-down

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

	2023	*2022*
Reversal of impairment on Investment property	–	1,063
Reversal of impairment on Property and equipment (Note 9)	–	537
Impairment of license (Note 10)	–	(3,235)
Reversal of write-down/(write down) of repossessed collaterals	420	(3,283)
Total other impairment and write-down	**420**	**(4,918)**

26. 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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Introduction (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Introduction (continued)

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.

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:

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Credit risk (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Credit risk (continued)

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 2023, 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)

26. 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	High grade
2-4	Aa1 to Aa3	
5-7	A1 to A3	
8-10	Baa1 to Baa3	Standard grade
11-13	Ba1 to Ba3	
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.

Loss given default

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

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Credit risk (continued)

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.

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.

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Credit risk (continued)

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 2023.

	Note		*High grade*	*Standard grade*	*Sub-standard grade*	*Impaired*	*Total*
Cash and cash equivalents, except for cash on hand	5	Stage 1	1,464,872	434,704	8,107	–	**1,907,683**
Amounts due from credit institutions	6	Stage 1	1,411,351	168,521	3,647	–	**1,583,519**
		Stage 3	–	–	–	13,981	**13,981**
Loans to customers	8	Stage 1	180,143	1,456,304	487,118	–	**2,123,565**
		Stage 2	425,467	141,822	310,964	–	**878,253**
		Stage 3	–	–	–	165,102	**165,102**
		POCI	–	–	–	14,124	**14,124**
Investment securities	7						
- Measured at FVOCI		Stage 1	721,488	80,800	–	–	**802,288**
		Stage 2	–	–	9,511	–	**9,511**
		Stage 3	–	–	–	653	**653**
- Measured at amortised cost		Stage 1	1,106,631	128,390	–	–	**1,235,021**
Unused credit lines	20	Stage 1	38,560	202,886	38,086	–	**279,532**
		Stage 2	5,592	13,718	11,513	–	**30,823**
		Stage 3	–	–	–	1,065	**1,065**
Letters of credit	20	Stage 1	1,013	8,255	208	–	**9,476**
		Stage 2	1,508	–	2,680	–	**4,188**
Guarantees issued	20	Stage 1	1,060	118,045	119,203	–	**238,308**
		Stage 2	70	6,013	11,558	–	**17,641**
		Stage 3	–	–	–	875	**875**
Performance guarantees	20	Stage 1	15,645	251,364	93,512	–	**360,521**
		Stage 2	11,393	21,953	32,583	–	**65,929**
		Stage 3	–	–	–	6,722	**6,722**
Other financial assets	12	Stage 1	–	84,831	–	–	**84,831**
Total			**5,384,793**	**3,117,606**	**1,128,690**	**202,522**	**9,833,611**

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

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**
	8	Stage 1	135,057	1,934,498	259,412	–	**2,328,967**
		Stage 2	426,958	191,759	286,200	–	**904,917**
Loans to customers		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**
	20	Stage 1	53,257	222,090	73,287	–	**348,634**
Unused credit lines		Stage 2	562	4,293	9,821	–	**14,676**
		Stage 3	–	–	–	1,672	**1,672**
Letters of credit	20	Stage 1	–	15,183	2,415	–	**17,598**
		Stage 2	–	2,332	117	–	**2,449**
Guarantees issued	20	Stage 1	1,101	202,772	11,059	–	**214,932**
		Stage 2	–	2,030	18,146	–	**20,176**
		Stage 3	–	–	–	3,868	**3,868**
		Stage 1	11,327	236,321	139,135	–	**386,783**
		Stage 2	–	14,163	50,900	–	**65,063**
Performance guarantees	20	Stage 3	–	–	–	4,394	**4,394**
Other financial assets	12	Stage 1	–	56,646	–	–	**56,646**
Total			**5,542,082**	**3,535,458**	**893,518**	**187,338**	**10,158,396**

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:

	2023				*2022*			
	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	746,137	1,173,507	55,914	**1,975,558**	1,995,497	1,245,837	60,796	**3,302,130**
Amounts due from credit institutions	1,334,275	192,606	65,776	**1,592,657**	305,324	208,338	70,398	**584,060**
Investment securities	1,873,356	123,993	51,428	**2,048,777**	1,713,685	47,913	78,718	**1,840,316**
Derivative financial assets	4,777	4,160	412	**9,349**	7,093	2,875	246	**10,214**
Loans to customers	2,842,530	–	212,621	**3,055,151**	2,728,304	287,333	257,952	**3,273,589**
Other financial assets	82,369	–	785	**83,154**	53,933	1,287	481	**55,701**
	6,883,444	**1,494,266**	**386,936**	**8,764,646**	**6,803,836**	**1,793,583**	**468,591**	**9,066,010**
Financial liabilities								
Amounts due to banks and government funds	506,796	47,807	92,110	**646,713**	801,087	61,590	69,475	**932,152**
Amounts due to customers	7,042,173	2,505	131,774	**7,176,452**	7,080,214	52,281	120,160	**7,252,655**
Other borrowed funds	–	–	–	**–**	5,169	14,868	80	**20,117**
Derivative financial liabilities	4,147	4,565	497	**9,209**	2,820	6,893	589	**10,302**
Debt securities issued	–	–	–	**–**	71,244	15,459	–	**86,703**
Subordinated debts	96,016	–	–	**96,016**	155,589	–	–	**155,589**
Lease liabilities	10,588	–	1,983	**12,571**	15,206	80	2,376	**17,662**
Other financial liabilities	20,038	–	2,396	**22,434**	14,136	1,534	958	**16,628**
	7,679,758	**54,877**	**228,760**	**7,963,395**	**8,145,465**	**152,705**	**193,638**	**8,491,808**
Net assets/(liabilities)	**(796,314)**	**1,439,389**	**158,176**	**801,251**	**(1,341,629)**	**1,640,878**	**274,953**	**574,202**

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

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 mandatory reserves with the CBAR and NBG 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:

	2023, %	*2022, %*
Instant Liquidity Ratio (30% is the minimum required by the CBAR) (assets receivable or realisable within one day/liabilities repayable on demand)	67	82

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

	2023, %	*2022, %*
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	146	200
Combined	140	211

	2023, %	*2022, %*
Net Stable Funding Ratio (stabile ratio is required by the NBG) (available amount of stable funding/the required amount of stable funding)	124	130

As at 31 December 2022, liquidity ratio of PASHA Yatirim Bankasi A.Ş. on a standalone basis based on requirements established by the BRSA was 140%. 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 2023*
As at 31 December 2023					
Amounts due to banks and government funds	125,367	44,735	406,491	176,348	**752,941**
Amounts due to customers	6,042,584	1,299,486	535,998	–	**7,878,068**
Subordinated debts	1,903	5,245	30,609	88,633	**126,390**
Gross settled derivative financial instruments:					
- Contractual amounts payable	202,689	57,466	293,138	–	**553,293**
- Contractual amounts receivable	(204,116)	(50,611)	(293,264)	–	**(547,991)**
Lease liabilities	2,024	3,736	8,334	–	**14,094**
Other financial liabilities	22,434	–	–	–	**22,434**
Total undiscounted financial liabilities	**6,192,885**	**1,360,057**	**981,306**	**264,981**	**8,799,229**

(Figures in tables are in thousands of Azerbaijani manats)

26. 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 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**

The table below shows the contractual expiry by maturity of the Group's credit related commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down and all financial guarantees, letter of credits and performance guarantees are shown based on contractual expiry by maturity.

	Less than 3 months	*3 to 12 months*	*1 to 5 years*	*Over 5 years*	*Maturity undefined*	*Total*
As at 31 December 2023	487,083	409,863	117,226	908	–	**1,015,080**
As at 31 December 2022	549,599	338,249	191,945	452	–	**1,080,245**

Financial guarantees, letter of credits and performance guarantees could be called anytime throughout the period of agreement upon request of borrower, however 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.

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

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.

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 2023. The Group does not have substantial amount of floating rate non-trading financial instruments as at 31 December 2023 and 2022.

The sensitivity of equity is calculated by revaluing fixed rate debt financial assets measured at FVOCI at 31 December 2023 for the effects of the assumed changes in interest rates based on the assumption that there are parallel shifts in the yield curve.

Currency	*Increase in basis points 2023*	*Sensitivity of equity 2023*
National currency	*100 bp*	*(24,495)*
Foreign currency	*100 bp*	*(1,606)*

Currency	*Decrease in basis points 2023*	*Sensitivity of equity 2023*
National currency	*100 bp*	*24,495*
Foreign currency	*100 bp*	*1,606*

Currency	*Increase in basis points 2022*	*Sensitivity of equity 2022*
National currency	*100 bp*	*(27,182)*
Foreign currency	*100 bp*	*(5,288)*

Currency	*Decrease in basis points 2022*	*Sensitivity of equity 2022*
National currency	*100 bp*	*27,182*
Foreign currency	*100 bp*	*5,288*

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

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 2023, the Group had the following exposure to foreign currency exchange rate risk:

	AZN	*USD*	*EUR*	*GEL*	*TRY*	*Other*	***Total 2023***
Financial assets							
Cash and cash equivalents	701,885	890,019	323,167	7,848	–	52,639	**1,975,558**
Amounts due from credit institutions	817,038	683,772	91,847	–			**1,592,657**
Investment securities	1,644,653	349,971	54	35,791	–	18,308	**2,048,777**
Derivative financial assets	241	4,604	4,092	412	–	–	**9,349**
Loans to customers	1,755,568	851,285	269,318	93,245	–	85,735	**3,055,151**
Other financial assets	41,334	35,857	3,963	625	–	1,375	**83,154**
Total financial assets	**4,960,719**	**2,815,508**	**692,441**	**137,921**	**–**	**158,057**	**8,764,646**
The effect of derivatives	10,000	311,135	232,503	16,238	–	82,243	**652,119**
Financial liabilities							
Amounts due to banks and government funds	499,508	52,757	86,354	8,094	–	–	**646,713**
Amounts due to customers	4,063,628	2,398,355	598,377	77,122	22	38,948	**7,176,452**
Derivative financial liabilities	–	4,821	4,299	88	1	–	**9,209**
Debt securities issued	–	–	–	–	–	–	**–**
Subordinated debts	–	96,016	–	–	–	–	**96,016**
Lease liabilities	10,588	1,983	–	–	–	–	**12,571**
Other financial liabilities	17,042	2,375	2,624	392	1	–	**22,434**
Total financial liabilities	**4,590,766**	**2,556,307**	**691,654**	**85,696**	**24**	**38,948**	**7,963,395**
The effect of derivatives	–	211,852	112,629	7,771	–	82,899	**415,151**
Net position after the effect of derivatives	**379,953**	**358,484**	**120,661**	**60,692**	**(24)**	**118,453**	**1,038,219**

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Currency risk (continued)

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**

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 2023 and 2022:

	2023		*2022*	
	USD/AZN +10%	*USD/AZN −10%*	*USD/AZN +20%*	*USD/AZN −3%*
Impact on profit before tax	35,848	(35,848)	26,202	(3,930)

	2023		*2022*	
	EUR/AZN +10%	*EUR/AZN −10%*	*EUR/AZN +21%*	*EUR/AZN −9%*
Impact on profit before tax	12,295	(12,295)	5,331	(2,285)

	2023		*2022*	
	GEL/AZN +15%	*GEL/AZN −15%*	*GEL/AZN +15%*	*GEL/AZN −15%*
Impact on Other Comprehensive Income	9,103	(9,103)	9,420	(9,420)

(Figures in tables are in thousands of Azerbaijani manats)

26. Risk management (continued)

Currency risk (continued)

	2023		*2022*	
	TRY/AZN +33%	***TRY/AZN −33%***	***TRY/AZN +15%***	***TRY/AZN −20%***
Impact on Other Comprehensive Income	−	−	6,616	(8,821)

27. 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 2023	42,350	772,105	−	**814,455**
Investment securities – at FVTPL	31 December 2023	−	−	−	**−**
Derivative financial assets	31 December 2023	−	9,349	−	**9,349**
Assets for which fair values are disclosed					
Investment securities measured at amortised cost	31 December 2023	17,287	1,179,266	37,624	**1,234,177**
Loans to customers	31 December 2023	−	−	3,102,718	**3,102,718**
Investment properties	31 December 2023	−	−	−	**−**

		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 2023	−	9,209	−	**9,209**
Liabilities for which fair values are disclosed					
Amounts due to banks and government funds	31 December 2023	−	597,231	48,920	**646,151**
Amounts due to customers	31 December 2023	−	69,976	7,121,129	**7,191,105**
Debt securities issued	31 December 2023	−	−	−	**−**
Subordinated debts	31 December 2023	−	−	95,846	**95,846**

(Figures in tables are in thousands of Azerbaijani manats)

27. 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 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**

	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 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**

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 2023	*Fair value 2023*	*Unrecog-nized gain/(loss) 2023*	*Carrying value 2022*	*Fair value 2022*	*Unrecog-nized gain/(loss) 2022*
Financial assets						
Investment securities measured at amortised cost	1,234,322	1,234,177	(145)	515,745	515,982	237
Loans to customers	3,055,151	3,102,718	47,567	3,273,589	3,248,958	(24,631)
Financial liabilities						
Amounts due to banks and government funds	646,713	646,151	562	932,152	922,504	9,648
Amounts due to customers	7,176,452	7,191,105	(14,653)	7,252,655	7,241,478	11,177
Subordinated debts	96,016	95,846	170	155,589	155,528	61
Debt securities issued	−	−	−	86,703	86,291	412
Total unrecognised change in unrealised fair value			**33,501**			**(3,096)**

(Figures in tables are in thousands of Azerbaijani manats)

27. 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.

(Figures in tables are in thousands of Azerbaijani manats)

28. 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 26 "Risk management" for the Group's contractual undiscounted repayment obligations.

	2023			*2022*		
	Within one year	*More than one year*	*Total*	*Within one year*	*More than one year*	*Total*
Cash and cash equivalents	1,975,558	–	**1,975,558**	3,302,130	–	**3,302,130**
Amounts due from credit institutions	1,592,657	–	**1,592,657**	520,883	63,177	**584,060**
Investment securities	1,055,774	993,003	**2,048,777**	839,700	1,000,616	**1,840,316**
Derivative financial assets	1,490	7,859	**9,349**	1,714	8,500	**10,214**
Loans to customers	1,675,696	1,379,455	**3,055,151**	1,749,026	1,524,563	**3,273,589**
Investment properties	–	–	**–**	–	31,229	**31,229**
Investment in associate	–	30,210	**30,210**	–	–	**–**
Property and equipment	–	11,978	**11,978**	–	32,560	**32,560**
Intangible assets	–	24,964	**24,964**	–	31,400	**31,400**
Right-of-use assets	–	12,297	**12,297**	–	17,471	**17,471**
Deferred income tax assets	–	17,011	**17,011**	–	17,171	**17,171**
Other assets	105,536	9,940	**115,476**	77,426	381	**77,807**
Total assets	**6,406,711**	**2,486,717**	**8,893,428**	**6,490,879**	**2,727,068**	**9,217,947**
Amounts due to banks and government funds	252,138	394,575	**646,713**	408,062	524,090	**932,152**
Amounts due to customers	6,664,518	511,934	**7,176,452**	6,894,010	358,645	**7,252,655**
Other borrowed funds	–	–	–	20,117	–	**20,117**
Debt securities issued	–	–	–	63,842	22,861	**86,703**
Derivative financial liabilities	1,438	7,771	**9,209**	2,039	8,263	**10,302**
Current income tax liability	28,898	–	**28,898**	22,788	–	**22,788**
Deferred income tax liabilities	–	–	–	–	5,327	**5,327**
Subordinated debts	1,443	94,573	**96,016**	1,471	154,118	**155,589**
Lease liabilities	3,716	8,855	**12,571**	5,821	11,841	**17,662**
Provision for credit related guarantees and other assets	11,393	–	**11,393**	10,610	–	**10,610**
Other liabilities	78,699	914	**79,613**	52,046	3,712	**55,758**
Total liabilities	**7,042,243**	**1,018,622**	**8,060,865**	**7,480,806**	**1,088,857**	**8,569,663**
Net assets	**(635,532)**	**1,468,095**	**832,563**	**(989,927)**	**1,638,211**	**648,284**

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 67% 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, ALM functions and ALCO, which are responsible for overseeing the Group's liquidity on day-to-day basis.

29. 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.

(Figures in tables are in thousands of Azerbaijani manats)

29. Related party disclosures (continued)

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be affected 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:

	2023					*2022*				
	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	−	5,735	−	−	**5,735**	−	1,417	−	−	**1,417**
Loans outstanding at 1 January, gross	**−**	**517,056**	**3,623**	**52,283**	**572,962**	**−**	**668,349**	**3,283**	**22,826**	**694,458**
Loans issued during the year	−	381,645	3,954	278,310	**663,909**	−	448,042	3,617	139,581	**591,240**
Loan repayments during the year	−	(424,308)	(3,865)	(260,018)	**(688,191)**	−	(591,774)	(3,575)	(108,425)	**(703,774)**
Interest accrual	−	−	101	589	**690**	−	592	5	351	**948**
Foreign currency translation difference	−	(13,641)	1,549	3,881	**(8,211)**	−	(8,153)	452	(2,050)	**(9,751)**
Loans outstanding at 31 December, gross	**−**	**460,752**	**5,362**	**75,045**	**541,159**	**−**	**517,056**	**3,782**	**52,283**	**573,121**
Less: allowance for impairment at 31 December	−	(2,487)	(34)	(6,966)	**(9,487)**	−	(3,224)	(38)	(3,233)	**(6,495)**
Loans outstanding at 31 December, net	**−**	**458,265**	**5,328**	**68,079**	**531,672**	**−**	**513,832**	**3,744**	**49,050**	**566,626**
Interest income on loans	−	13,652	472	6,902	**21,026**	−	27,994	165	4,594	**32,753**
Other assets	−	78	−	32	**110**	−	8,347	−	−	**8,347**
Investment securities	−	2,003	−	−	**2,003**	−	2,003	−	−	**2,003**
Amounts due to banks and government funds	4,925	9,259	3,791	539	**18,514**	−	65,221	−	6,217	**71,438**
Time Deposits	330,851	1,086,420	9,132	577,623	**2,004,026**	85,973	484,674	3,118	28,915	**602,680**
Demand deposits	378,498	386,632	12,539	537,872	**1,315,541**	376,324	568,186	7,615	435,827	**1,387,952**
Subordinated debts	17,873	9,895	8,376	65	**36,209**	78,620	46,971	1,105	1,230	**127,926**
Debt securities issued	−	−	−	−	−	32,744	22,119	−	−	**54,863**
Other liabilities	3,250	6,875	−	−	**10,125**	53	8,282	−	693	**9,028**
Lease liabilities	−	11,448	−	−	**11,448**	−	11,725	−	−	**11,725**
Derivative financial liabilities	−	49	−	−	**49**	−	1,657	−	−	**1,657**
Derivative financial assets	−	8,263	−	−	**8,263**	−	6,606	−	−	**6,606**
Other Borrowed Funds	−	−	−	−	−	−	−	3,249	−	**3,249**
Guarantees issued	−	28,906	−	20,468	**49,374**	−	81,997	−	8,022	**90,019**
Letters of credit issued	−	2,521	−	6,556	**9,077**	−	4,967	−	3,002	**7,969**
Unused credit lines	−	38,434	128	15,178	**53,740**	−	33,685	429	33,628	**67,742**
Interest income (except loans)	158	2,489	−	−	**2,647**	−	27	−	−	**27**
Interest expense	(6,386)	(11,638)	(339)	(3,931)	**(22,294)**	(3,931)	(17,812)	(245)	(514)	**(22,502)**
Fee and commission income	591	18,664	148	4,542	**23,945**	156	11,849	23	2,857	**14,885**
Fee and commission expense	(8)	(24,794)	−	(44)	**(24,846)**	−	(15,150)	−	(49)	**(15,199)**
Net gains/(losses) from foreign currencies: dealing	712	5,101	63	2,057	**7,933**	1,051	3,969	7	1,950	**6,977**
Net gains/(losses) from foreign currencies: translation differences	(194)	8,299	−	−	**8,105**	(81)	(17,200)	−	−	**(17,281)**
Net gains/(losses) from foreign currencies: operations with foreign currency derivatives	−	13,217	−	587	**13,804**	−	690	−	239	**929**
Gain at initial recognition of financial instruments	−	1,265	−	−	**1,265**	−	−	−	−	**−**
General and administrative expenses	(53)	(9,721)	(14)	(23)	**(9,811)**	−	−	−	−	**−**
Net gain on modification of financial assets measured at amortised cost	−	9,314	−	−	**9,314**	−	−	−	−	**−**
Other operating expenses	(53)	(9,830)	(14)	(23)	**(9,920)**	(15)	(6,608)	−	−	**(6,623)**
Other income	−	524	−	−	**524**	−	259	−	−	**259**

(Figures in tables are in thousands of Azerbaijani manats)

29. Related party disclosures (continued)

As at 31 December 2023, the Group has guarantees from its parent received as a collateral in respect of loans issued to borrowers in the amount of AZN 199,533 thousand (2022: AZN 135,975 thousand) and the Group incurred guarantee fee in the amount of AZN 803 (2022: AZN 1,470) thousand which was accounted as a part of effective interest rate.

The terms and conditions of transactions with related parties, such as the range of interest rates, are as follows for each class of related parties:

	2023				2022			
	Share-holders / ultimate owners	Entities under common control	Other related parties	Key mana-gement personnel	Share-holders / ultimate owners	Entities under common control	Other related parties	Key mana-gement personnel
Loans to customers	−	10%−13%	10−17%	4%−30%	−	11%−15%	10%−17%	4%−27%
Investment securities	−	11%	−	−	−	3%−11%	−	−
Due from Credit Institutions	−	4%−5%	−	−	−	4%−11%	−	−
Debt securities issued	7%	−	−	6%	7%	−	−	6%
Lease liability	−	10%−11%	10%	−	−	10%−11%	10%	−
Other amounts owed to credit institutions	−	11%	−	−	−	−	−	−
Subordinated debt	5%	5%	−	−	5%	5%	−	−
Deposits	1%−8%	3%−7%	2%−6%	0%−9%	1%−8%	3%−7%	6%	0%−8%

The terms and conditions of transactions with related parties, such as maximum remaining maturities with years, are as follows for each class of related parties:

	2023				2022			
	Share-holders / ultimate owners	Entities under common control	Other related parties	Key mana-gement personnel	Share-holders / ultimate owners	Entities under common control	Other related parties	Key mana-gement personnel
Loans to customers	−	25	27	25	−	25	27	25
Investment securities	−	−	−	−	−	−	−	−
Due from Credit Institutions	−	2	−	−	−	1	−	−
Debt securities issued	−	−	−	−	−	−	−	−
Lease liability	−	2	−	−	−	3	−	−
Other amounts owed to credit institutions	−	25	26	25	−	3	−	−
Subordinated debt	7	3	6	6	5	3	6	3
Deposits	7	2	0	0	3	3	0	0

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

	2023	2022
Salaries and other benefits	(10,957)	(11,460)
Social security costs	(1,288)	(1,420)
Total key management compensation	**(12,245)**	**(12,880)**

(Figures in tables are in thousands of Azerbaijani manats)

30. Changes in liabilities arising from financing activities

	Note	*Debt securities issued*	*Subordinated debts*	*Total*
Carrying amount as at 1 January 2022		**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 as at 31 December 2022	15	**86,703**	**155,589**	**242,292**
Hyperinflation effect		(20,472)	(9,953)	**(30,425)**
Proceeds from issue		58,133	–	**58,133**
Redemption		(90,817)	(18,700)	**(109,517)**
Foreign currency translation		17,132	11,497	**28,629**
Other		467	–	**467**
Decrease through disposal of subsidiary		(51,146)	(42,417)	**(93,563)**
Carrying amount as at 31 December 2023	15	**–**	**96,016**	**96,016**

31. 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 and NBG.

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.

CBAR capital adequacy ratio

The CBAR requires banks to maintain a minimum capital adequacy ratio of 6% (2022: 6%) and 12% (2022: 12%) for Tier 1 Capital and Total Capital, respectively, based on its guidelines.

	2023	*2022*
Tier 1 capital	544,698	456,310
Tier 2 capital	326,096	259,748
Less: deductions from capital	(113,365)	(165,365)
Total regulatory capital	**757,429**	**550,693**
Risk-weighted assets	**3,916,710**	**3,214,522**
Capital adequacy ratio (Tier 1)	13.91%	14.2%
Capital adequacy ratio (Total Capital)	19.34%	17.1%

(Figures in tables are in thousands of Azerbaijani manats)

31. Capital adequacy (continued)

NBG capital adequacy ratio

The NBG requires banks to maintain a minimum total capital adequacy ratio of 19.82% (31 December 2022: 18.53%) and Tier 1 Capital ratio of 15.91% (31 December 2022: 13.63%) of risk-weighted assets, computed based on Basel III requirements. As at 31 December 2023 the PASHA Bank Georgia's capital adequacy ratio on this basis was 20.85% (31 December 2022: 18.97%) and Tier 1 / Core Tier 1 Capital ratio was 18.10% (31 December 2022: 15.91%).

32. Material partly owned subsidiaries

During 2023, the Group has sold 14.94% and 22.75% of its shares in PASHA Bank Georgia JSC, previously a wholly owned subsidiary, and PASHA Yatirim Bankasi A.Ş., respectively. The resulting ratio of shares in PASHA Yatirim Bankasi A.Ş. and PASHA Bank Georgia JSC for the Group decreased to 28.21% (investment in associate) and 85.06%, respectively. As of 31 December 2023, PASHA Bank Georgia JSC is considered as the material partly owned subsidiary (31 December 2022: PASHA Yatirim Bankasi A.Ş.). During 2023, profit of PASHA Yatirim Bankasi A. Ş. allocated to NCI prior to the disposal of a subsidiary on 29 December 2023 was AZN 1,520 thousand.

	2023			
	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 Bank Georgia JSC	15%	400	9,891	–

	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 A.Ş.	49%	(6,836)	45,804	–

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

PASHA Bank Georgia JSC	***2023***	***2022***
Cash and cash equivalents	40,983	39,389
Amounts due from credit institutions	23,273	29,555
Derivative financial assets	412	246
Loans to customers	212,621	220,987
Investment securities	41,264	27,624
Property and equipment	1,216	1,524
Intangible assets	3,097	3,310
Right-of-use assets	1,928	2,372
Other assets	11,984	1,551
Total assets	**336,778**	**326,558**
Amounts due to banks and government funds	57,022	67,191
Amounts due to customers	182,730	171,325
Derivative financial liabilities	497	589
Subordinated debt	17,533	16,727
Provision for guarantees and other commitments	578	224
Lease liabilities	1,983	2,376
Other liabilities	5,385	3,372
Total liabilities	**265,728**	**261,804**
Equity	**71,050**	**64,754**

(Figures in tables are in thousands of Azerbaijani manats)

32. Material partly owned subsidiaries (continued)

PASHA Bank Georgia JSC	***2023***	***2022***
Interest revenue	35,140	25,448
Interest expense	(12,322)	(9,934)
Allowance for loan impairment	(3,286)	(2,743)
Non-interest income	7,721	6,336
Non-interest expense	(26,153)	(20,437)
Profit/(loss) for the year	**1,100**	**(1,330)**
Other comprehensive income	–	–
Total comprehensive income/(loss) for the year	**1,100**	**(1,330)**
Net cash flows from operating activities	12,723	13,027
Net cash flows used in investing activities	(14,735)	(15,087)
Net cash flows from financing activities	3,755	3,846
Effect of exchange rate changes on cash and cash equivalents	(326)	(335)
Effect of expected losses on cash and cash equivalents	2	2
Effect of restricted balances and accruals	–	–
Net increase in cash and cash equivalents	**1,419**	**1,453**

PASHA Yatirim Bankasi A.Ş.	***2023***	***2022***
Cash and cash equivalents	96,207	91,760
Amounts due from credit institutions	50,147	64,516
Derivative financial assets	71	–
Loans to customers	321,673	324,448
Investment securities	66,989	50,276
Investment property	45,050	31,229
Property and equipment	15,999	18,469
Intangible assets	1,992	1,608
Right-of-use assets	55	108
Deferred income tax assets	3,174	–
Current income tax assets	256	–
Other assets	1,266	1,830
Total assets	**602,879**	**584,244**
Amounts due to banks and government funds	315,557	275,952
Amounts due to customers	46,250	52,434
Derivative financial liabilities	2	288
Debt securities issued	51,146	86,703
Deferred income tax liability	–	5,327
Current income tax liability	1,822	1,544
Subordinated debt	42,417	42,518
Other borrowed funds	34,735	20,117
Provision for guarantees and other commitments	2,313	659
Lease liabilities	28	80
Other liabilities	1,520	5,140
Total liabilities	**495,790**	**490,762**
Equity	**107,089**	**93,482**

(Figures in tables are in thousands of Azerbaijani manats)

32. Material partly owned subsidiaries (continued)

PASHA Yatirim Bankasi A.Ş.	***2023***	***2022***
Interest revenue	53,430	47,201
Interest expense	(30,443)	(24,133)
Allowance for loan impairment	(353)	(507)
Non-interest income	12,975	9,378
Non-interest expense	(15,133)	(9,383)
Income tax expense	2,462	(12,834)
Loss on net monetary position	(19,838)	(21,076)
Profit/(loss) for the year	**3,100**	**(11,354)**
Other comprehensive income	–	557
Total comprehensive income/(loss) for the year	**3,100**	**(10,797)**
Net cash flows from operating activities	101,716	77,884
Net cash (used in)/flows from investing activities	(19,585)	1,559
Net cash flows used in financing activities	(32,728)	(19,542)
Effect of exchange rate changes on cash and cash equivalents	14,325	12,695
Effect of expected losses on cash and cash equivalents	(169)	(39)
Effect of restricted balances and accruals	145	–
Hyperinflation effect on cash and cash equivalents	(59,257)	(6,842)
Net increase in cash and cash equivalents	**4,447**	**65,715**

33. Investment in associate

The following associate is accounted for under equity method:

Associate	***Ownership/ voting, %***	***Principal place of business***	***Country of incorporation***	***Nature of activities***	***Carrying value***
31 December 2023					
PASHA Yatirim Bankasi A.Ş.	28.21%	Turkey	Turkey	Banking	30,210

The Group initially recognized the investment in associate in PASHA Yatirim Bankasi A.Ş. at its share in fair value of its net assets (which was estimated, based on provisional purchase price allocation that has not yet been finalized, to be above the fair value of the investment as a whole estimated at AZN 27,239), which became the cost on initial recognition of the investment. Excess of the Group's share of the net fair value of the investee's identifiable assets and liabilities over the fair value of the investment is included as reduction of loss from disposal of subsidiary recognized in profit or loss for 2023.

The following table illustrates summarized financial information of associates:

Assets and liabilities of the associate (PASHA Yatirim Bankasi A.Ş.)	***2023***	***2022***
Assets	602,879	–
Liabilities	(495,790)	–
Net assets	**107,089**	–
Percentage of net assets owned by the Group	**30,210**	

No profit or loss for the share in an associate has been recorded in the consolidated statement of profit or loss.

34. Events after the reporting period

Based on CBAR decision dated 31 January 2024, new "Rules on the Operations with Related Parties" were adopted and will be effective since 13 March 2024.