

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

**The International Financial Reporting
Standards Financial Statements and
Independent Auditors' Report**
For the Year Ended December 31, 2021

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

The following statement is made with a view to distinguishing respective responsibilities of the management and those of the independent auditors in relation to the financial statements of "Bank Eurasia" OJSC (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2021, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:


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

Management is also responsible for:

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


The financial statements for the year ended December 31, 2021 were authorized for issue on May 4, 2022 by the Management Board of the Bank.

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan




Chingiz Amirjanov
Chief Accountant

May 4, 2022
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of "Bank Eurasia" Open Joint-Stock Company:

Qualified Opinion

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

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

According to IAS 24 "Related Party Disclosures", paragraph 13, the Bank should disclose the name of its ultimate controlling party. In the financial statements subject to audit, this information has not been disclosed. We were not able to obtain any evidence regarding the ultimate controlling party of the Bank.

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

Responsibilities of Management and the Audit Committee for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with 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.

Baker Tilly Azerbaijan

May 4, 2022

Baku, the Republic of Azerbaijan

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

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

(In Azerbaijani Manats)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Interest income	6, 27	10,825,800	10,807,176
Interest expense	6, 27	(1,872,302)	(1,966,722)
Net interest income before expected credit loss		8,953,498	8,840,454
Charge of expected credit losses	7, 27	(3,133,652)	(2,862,927)
Net interest income		5,819,846	5,977,527
Net gain on foreign exchange operations	8	386,879	324,705
Fee and commission income	9	1,602,125	1,160,684
Fee and commission expense	9	(1,474,827)	(863,210)
Change in the fair value of repossessed assets	20	(117,042)	(996,801)
Change in the fair value of investment properties	18	(18,174)	(19,709)
Other income, net		247,279	30,015
Net non-interest income/(expense)		626,240	(364,316)
Operating income		6,446,086	5,613,211
Operating expenses	10, 27	(4,487,312)	(4,101,837)
Profit before income tax		1,958,774	1,511,374
Income tax expense	11	(408,275)	(317,711)
Net profit for the year		1,550,499	1,193,663
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Movement in fair value reserves			
- Investment securities – net change in fair value		-	(34,121)
- Income tax effect of net change in fair value		-	6,824
Other comprehensive loss for the year		-	(27,297)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,550,499	1,166,366
Earnings per share			
Basic and diluted (AZN)	12	77.52	59.68

On behalf of the Management Board:

Rufat Karimov
Chairman of the Management Board



Chingiz Amirjanov
Chief Accountant

May 4, 2022
Baku, the Republic of Azerbaijan

May 4, 2022
Baku, the Republic of Azerbaijan

The notes on pages 9-82 form an integral part of these financial statements.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2021

(In Azerbaijani Manats)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and balances with the Central Bank of the Republic of Azerbaijan	13	33,832,099	29,184,188
Due from banks and other financial institutions	14	14,328,569	12,067,949
Investment securities	15	14,817,668	11,316,803
Loans to customers	16, 27	98,014,538	98,331,366
Property and equipment	17	2,519,760	2,935,954
Investment property	18	2,725,704	343,691
Intangible assets	19	336,080	304,595
Other assets	20	1,811,486	4,609,462
TOTAL ASSETS		168,385,904	159,094,008
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks, government and other financial institutions	21	44,319,044	42,339,729
Customer accounts	22, 27	50,526,975	45,319,203
Lease liabilities	23	239,493	259,650
Deferred income tax liability	11	250,482	180,223
Other liabilities	24	1,313,289	809,081
Total liabilities		96,649,283	88,907,886
EQUITY:			
Share capital	25	50,000,000	50,000,000
Retained earnings		21,736,621	20,186,122
Total equity		71,736,621	70,186,122
TOTAL LIABILITIES AND EQUITY		168,385,904	159,094,008

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan




Chingiz Amirjanov
Chief Accountant

May 4, 2022
Baku, the Republic of Azerbaijan

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“BANK EURASIA” OPEN JOINT-STOCK COMPANY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2021

(In Azerbaijani Manats)

	Share capital	Fair value reserve	Retained earnings	Total equity
January 1, 2020	50,000,000	27,297	18,992,459	69,019,756
Net profit for the year	-	-	1,193,663	1,193,663
Other comprehensive loss for the year	-	(27,297)	-	(27,297)
December 31, 2020	50,000,000	-	20,186,122	70,186,122
Net profit for the year	-	-	1,550,499	1,550,499
December 31, 2021	50,000,000	-	21,736,621	71,736,621

On behalf of the Management Board:

Rufat Karimov
Chairman of the Management Board



Chingiz Amirjanov
Chief Accountant

May 4, 2022
Baku, the Republic of Azerbaijan

May 4, 2022
Baku, the Republic of Azerbaijan

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“BANK EURASIA” OPEN JOINT-STOCK COMPANY

STATEMENT OF CASH FLOWS **FOR THE YEAR ENDED DECEMBER 31, 2021** *(In Azerbaijani Manats)*

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		1,958,774	1,511,374
Adjustments for non-cash items:			
Charge of expected credit losses	7	3,133,652	2,862,927
Change in the fair value of repossessed assets	20	117,042	996,801
Change in the fair value of investment properties	18	18,174	19,709
Depreciation and amortization	17, 19	647,191	683,142
Loss on disposal of property		1,031	348
Foreign exchange translation loss, net	8	10,172	5,678
Change in interest accruals, net		(1,279,772)	(440,633)
Cash inflow from operating activities before changes in operating assets and liabilities		4,606,264	5,639,346
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit with the CBRA		(76,439)	72,029
Due from banks and other financial institutions		(7,109,534)	(4,151,774)
Loans to customers		(833,792)	(3,315,220)
Other assets		(337,824)	(672,983)
Increase/(decrease) in operating liabilities:			
Due to banks, government and other financial institutions		1,955,101	(118,975)
Customer accounts		5,543,001	(12,289,628)
Other liabilities		90,009	(33,272)
Cash inflow/(outflow) from operating activities before income		3,836,786	(14,870,477)
Income tax paid		-	(1,143,975)
Net cash inflow/(outflow) from operating activities		3,836,786	(16,014,452)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net (payment for)/proceeds from sale of investment securities		(3,601,036)	9,167,302
Payment for property and equipment		(95,028)	(473,298)
Payment for intangible assets		(83,207)	(86,621)
Net cash (outflow)/inflow from investing activities		(3,779,271)	8,607,383
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of principal portion on lease liabilities	23	(69,883)	(53,396)
Net cash outflow from financing activities		(69,883)	(53,396)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

	Notes	Year ended December 31, 2021	Year ended December 31, 2020
Effect of exchange rate changes on cash and cash equivalents		(114,230)	129,758
NET DECREASE IN CASH AND CASH EQUIVALENTS		(126,598)	(7,330,707)
CASH AND CASH EQUIVALENTS, <i>at the beginning of year</i>	13	34,218,658	41,549,365
CASH AND CASH EQUIVALENTS, <i>at the end of year</i>	13	34,092,060	34,218,658

Interest received and paid by the Bank during the year ended December 31, 2021 amounted to AZN 9,554,463 and AZN 1,899,858 respectively (2020: AZN 10,439,916 and AZN 2,061,003, respectively).

On behalf of the Management Board:


Rufat Karimov
Chairman of the Management Board

May 4, 2022
Baku, the Republic of Azerbaijan




Chingiz Amirjanov
Chief Accountant

May 4, 2022
Baku, the Republic of Azerbaijan

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“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (In Azerbaijani Manats)

1. INTRODUCTION

Organization and its principal activity

“Bank Eurasia” Open Joint-Stock Company (the “Bank”) was incorporated and is domiciled in the Republic of Azerbaijan. The Bank is an open joint-stock company limited by the shares and was set up in accordance with the regulations of the Republic of Azerbaijan. The Bank’s principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank is operating under a full banking license No. 251 issued by the Central Bank of the Republic of Azerbaijan (“CBRA”) since November 28, 2007.

The average number of employees of the Bank as at December 31, 2021 was 99 (2020: 93).

Registered address and place of business

The Bank’s registered address is 70 Nizami Street, Baku AZ1000, the Republic of Azerbaijan.

The Bank has the following branches as at December 31, 2021 and 2020:

Sumgait Branch, located at 2, 1st Avenue, Sumgait AZ5000, the Republic of Azerbaijan, operating under banking permit No 251/1 dated April 13, 2009 issued by the CBRA.

Buta Branch, located at 47 Khagani Street, Baku AZ1000, the Republic of Azerbaijan, operating under banking permit No 251/2 dated June 8, 2016 issued by the FMSA.

Shareholders of the Bank

As at December 31, 2021 and 2020, the following shareholders owned the issued ordinary shares of the Bank:

Shareholders	December 31, 2021, %	December 31, 2020, %
“Euro Standard” LLC	37.5	37.5
“PMD Group” LLC	37.5	37.5
“Azbizneskom” LLC	25.0	25.0
Total shareholders	100.0	100.0

Operating environment of the Bank

The Bank’s operations are conducted in the Republic of Azerbaijan.

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

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

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

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

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

The Bank's operations are conducted mainly in the Republic of Azerbaijan. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of Azerbaijan's economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government as well as crude oil prices and the stability of Azerbaijani Manat. Although the economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices, in recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate the transition to a more balanced economy and reduce its dependence on the oil and gas sector. GDP in Azerbaijan was USD 54.62 billion during the year 2021, according to the State Statistical Committee of the Republic of Azerbaijan. In the long-term, the Azerbaijan GDP is projected to trend around USD 54.73 billion in 2022 and USD 55.98 billion in 2023, according to the econometric models.

The government continued its monetary policy with respect to the stability of Azerbaijani Manat as well as allocated foreign currency resources which stabilized Azerbaijani Manat. This policy continued in 2021 with the aim of maintaining macroeconomic stability. The Central Bank of the Republic of Azerbaijan has changed the refinancing rate several times during the year and the range was between 6.25% - 7.25% with a steady increase in rates.

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

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

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

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, financial instruments categorised at fair value through profit or loss (“FVPL”) and at fair value through other comprehensive income (“FVOCI”). The principal accounting policies applied in the preparation of these financial statements are set out below.

Going concern

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

Other bases of presentation criteria

These financial statements are presented in Azerbaijani Manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention, except measurement at fair value of certain financial instruments.

The Bank maintains its accounting records in accordance with the laws of the Republic of Azerbaijan. These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS. These adjustments include certain reclassifications to reflect the economic substance of underlying transactions including reclassifications of certain assets and liabilities, income and expenses to appropriate financial statement captions.

The principal accounting policies are set out below:

Recognition of interest income and expense

Interest income and expense are recorded for debt instruments measured at amortized cost or at FVOCI on an accrual basis using the effective interest method. This method defers, as part of interest

income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example, fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at FVTPL.

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- i. financial assets that have become credit-impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC (net of the ECL provision); and
- ii. financial assets that are purchased or originated credit-impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Recognition of fee and commission income and expense

All other fees, commissions and other income and expense items are generally recorded on an accrual basis over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, and which are earned when the Bank satisfies the performance obligation are recorded upon the completion of the transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, over the period in which the services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis. Asset management fees relating to investment funds are recognized over the period in which services are rendered as the customer simultaneously receives and consumes the benefits as the Bank performs, usually on a straight-line basis. The same principle is applied for wealth management, financial planning and custody services that are continually provided over an extended period of time.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortized cost as described below.

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 best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure the fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analyzed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 30.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortized cost is the amount at which the financial instrument was recognized at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortization of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortized discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortized over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by either observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date when the Bank commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Classification of financial instruments

A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVPL”).

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

All other financial assets are classified as measured at FVPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

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

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

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

Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. The reclassification has a prospective effect.

Financial assets impairment – credit loss allowance for ECL

The Bank assesses, on a forward-looking basis, the ECL for debt instruments measured at AC and FVOCI and for the exposures arising from loan commitments and financial guarantee contracts. The Bank measures ECL and recognizes credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, a separate provision for ECL is recognised as a liability in the statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in OCI as gains less losses on debt instruments at FVOCI.

The Bank applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 months ECL”). If the Bank identifies SICR since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). Refer to Note 31 for a description of how the Bank determines when a SICR has occurred. If the Bank determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Bank’s definition of credit-impaired assets and definition of default are explained in Note 31. For financial assets that are purchased or originated credit-impaired (“POCI Assets”), the ECL is always measured as a Lifetime ECL. POCI assets are financial assets that are credit-impaired upon initial recognition, such as impaired loans acquired. Note 31 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Bank incorporates forward-looking information in the ECL models.

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Presentation of allowance for ECL in the statement of financial position

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

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

Financial assets – write-off

Financial assets are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in gain from reversal of ECL.

Derecognition of financial assets

The Bank derecognizes financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Bank has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances on corresponded and term deposits with the Central Bank of the Republic of Azerbaijan (the “CBRA”) with an original maturity of less or equal to 90 days, notes issued by the Central Bank of the Republic of Azerbaijan (the “CBRA”) up to 30 days and advances to banks in countries included in the Organization for Economic Co-operation and Development (“OECD”) with original maturities up to 90 days. For purposes of determining cash flows, the minimum reserve deposits required by the CBRA, commemorative coins and pledged accounts in OECD countries are not included as a cash equivalent due to restrictions on its availability. Cash and cash equivalents are carried at amortized cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVPL.

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Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan

Minimum reserve deposits with the Central Bank of the Republic of Azerbaijan represent the amount of obligatory reserves deposited with the Central Bank of the Republic of Azerbaijan in accordance with requirements established by the Central Bank of the Republic of Azerbaijan, which subject to restrictions on their availability. In view of the above the amount of the minimum reserve deposit required by the Central Bank of the Republic of Azerbaijan is not included as a cash equivalent in statement of cash flows.

Due from banks and other financial institutions

Amounts due from banks are recorded when the Bank advances money to counterparty banks. Amounts due from banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Loans to customers

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate a loan due from a customer. Based on the business model and the cash flow characteristics, the Bank classifies loans and advances to customers into one of the following measurement categories:

- AC: loans that are held for collection of contractual cash flows and those cash flows represent SPPI and loans that are not voluntarily designated at FVTPL, and
- FVTPL: loans that do not meet the SPPI test or other criteria for AC or FVOCI are measured at FVTPL.

Credit-related commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognized as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognized together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognized as a provision.

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Investments in debt securities

Based on the business model and the cash flow characteristics, the Bank classifies investments in debt securities as carried at AC, FVOCI or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Debt securities are carried at FVOCI if they are held for collection of contractual cash flows and for selling, where those cash flows represent SPPI, and if they are not designated at FVTPL. Interest income from these assets is calculated using the effective interest method and recognized in profit or loss. An impairment allowance estimated using the expected credit loss model is recognized in profit or loss for the year. All other changes in the carrying value are recognized in OCI. When the debt security is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from OCI to profit or loss.

Investments in debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI. The Bank may also irrevocably designate investments in debt securities at FVTPL on initial recognition if applying this option significantly reduces an accounting mismatch between financial assets and liabilities being recognized or measured on different accounting bases.

Equity instruments at FVOCI

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income. Such classification is determined on an instrument-by-instrument basis.

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

Financial 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.

Due to banks, government and other financial institutions

Amounts due to banks, government and other financial institutions are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost. If the Bank purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

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Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortized cost.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. Such a right of set-off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) the event of insolvency or bankruptcy.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation and amortization are charged on the carrying value of property, equipment and intangible assets and are designed to write off assets over their useful economic lives. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following annual rates:

Buildings	5%
Furniture and fixtures	20%
Computer and equipment	20%
Vehicles	25%
Other fixed assets	20%
Right of use asset	depends on lease term
Intangible assets	10%

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

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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At the end of each reporting period, the Bank reviews the carrying amounts of its property, equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

An item of property, equipment and intangible assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit and loss accounts.

Investment properties

Investment property is property held by the Bank to earn rental income or for capital appreciation, or both and which is not occupied by the Bank. Investment property also includes assets under construction for future use as investment property, idle land or building.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the period in which they arise, including the corresponding tax effect.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Leases

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

Bank as a lessee

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

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Right-of-use assets

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

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

Lease liabilities

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

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan, state pension system provides for the calculation of current payments by the employer as a percentage of current total payments to staff. This expense is charged in the period the related salaries are earned. Upon retirement, all retirement benefit payments are made by pension funds selected by employees. The Bank does not have any pension arrangements separate from the state pension system of the Republic of Azerbaijan. In addition, the Bank has no post-retirement benefits or other significant compensated benefits requiring accrual.

Contingencies

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared.

Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 “Events after the Reporting Date” (“IAS 10”) and disclosed accordingly.

Foreign currency translation

The functional currency of the Bank is the currency of the primary economic environment, in which it operates. The Bank's functional currency is AZN.

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Financial assets and liabilities denominated in foreign currencies are translated into AZN at the appropriate spot rates of exchange of the CBRA ruling at the end of the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in foreign exchange translation gain/(loss) account.

Rates of exchange

The exchange rates at reporting date used by the Bank in the preparation of the financial statements are as follows:

	December 31, 2021	December 31, 2020
USD/AZN	1.7000	1.7000
EUR/AZN	1.9265	2.0890

Reposessed assets

The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future customer liabilities.

In certain circumstances, assets are reposessed following the foreclosure on loans that are in default. Reposessed collateral is initially recognized at an amount equal to the carrying amount of a loan for which it was pledged. Reposessed assets are measured at the lower of carrying amount and fair value less costs to sell.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Staff costs and related contributions

Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Segment reporting

Operating segments are identified on the basis of internal reports about components of the Bank that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The Bank's segmental reporting is based on the following operating segments: Retail banking (Principally handling individual customers' deposits, and providing consumer loans, overdrafts, credit card facilities and funds transfer facilities) and Corporate banking (Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers).

The Bank measures information about reportable segments in accordance with IFRS. Information about reportable operating segment meets any one of the following quantitative thresholds:

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- Its reported revenue, from both external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments; or
- The absolute measure of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; or
- Its assets are 10 percent or more of the combined assets of all operating segments.

If the total external revenue reported by operating segments constitutes less than 75 percent of the entity's revenue, additional operating segments are identified as reportable segments (even if they do not meet the quantitative thresholds set out above) until at least 75 percent of the Bank's revenue is included in reportable segments.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Bank's financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the period ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important to the portrayal of the Bank's financial condition.

Judgements that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Measurement of ECL allowance

Measurement of ECLs is a significant estimate that involves the determination of methodology, models and data inputs. Details of the ECL measurement methodology are disclosed in Note 31. The following components have a major impact on credit loss allowance: definition of default, SICR, probability of default (“PD”), exposure at default (“EAD”), and loss given default (“LGD”), as well as models of macro-economic scenarios. The Bank regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. For details of ECL measurement including the incorporation of forward-looking information refer to Note 31.

Credit exposure on revolving credit facilities (e.g. credit cards, overdrafts)

For certain loan facilities, the Bank's exposure to credit losses may extend beyond the maximum contractual period of the facility. This exception applies to certain revolving credit facilities, which include both a loan and an undrawn commitment component and where the Bank's contractual ability to demand repayment and cancel the undrawn component in practice does not limit its exposure to credit losses.

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For such facilities, the Bank measures ECLs over the period that the Bank is exposed to credit risk and ECLs are not mitigated by credit risk management actions. Application of this exception requires judgement. Management applied its judgement in identifying the facilities, both retail and commercial, to which this exception applies. The Bank applied this exception to facilities with the following characteristics: (a) there is no fixed term or repayment structure, (b) the contractual ability to cancel the contract is not in practice enforced as a result of the day-to-day management of the credit exposure and the contract may only be cancelled when the Bank becomes aware of an increase in credit risk at the level of an individual facility, and (c) the exposures are managed on a collective basis. Further, the Bank applied judgement in determining a period for measuring the ECL, including the starting point and the expected end point of the exposures.

The Bank considered historical information and experience about: (a) the period over which the Bank is exposed to credit risk on similar facilities, including when the last significant modification of the facility occurred and that therefore determines the starting point for assessing SICR, (b) the length of time for related defaults to occur on similar financial instruments following a SICR and (c) the credit risk management actions (eg. the reduction or removal of undrawn limits), prepayment rates and other factors that drive expected maturity. In applying these factors, the Bank segments the portfolios of revolving facilities into sub-groups and applies the factors that are most relevant based on historical data and experience as well as forward-looking information.

Significant increase in credit risk (“SICR”)

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers a relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Bank considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioral aspects of particular customer portfolios. The Bank identifies behavioral indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument or on a portfolio level. Refer to Note 31.

Business model assessment

The business model drives the classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimizing potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses the significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial assets are expected only in stress case scenarios, or in response to an isolated event that is beyond the Bank’s control, is not recurring and could not have been anticipated by the Bank, and are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

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The “hold to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realizing cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest (“SPPI”)

Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement. The time value of the money element may be modified, for example, if a contractual interest rate is periodically reset but the frequency of that reset does not match the tenor of the debt instrument’s underlying base interest rate, for example, a loan pays three months interbank rate but the rate is reset every month. The effect of the modified time value of money was assessed by comparing the relevant instrument’s cash flows against a benchmark debt instrument with SPPI cash flows, in each period and cumulatively over the life of the instrument. The assessment was done for all reasonably possible scenarios, including reasonably possible financial stress situations that can occur in financial markets. In the case of a scenario with cash flows that significantly differ from the benchmark, the assessed instrument’s cash flows are not SPPI and the instrument is then carried at FVTPL.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset’s principal is the fair value at initial recognition less subsequent principal repayments, i.e. instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual paramount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank’s loan agreements allow adjusting interest rates in response to certain macroeconomic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based primarily on qualitative factors, described in the relevant accounting policy and it requires significant judgment. In particular, the Bank applies judgment in deciding whether credit-impaired renegotiated loans should be derecognized and whether the new recognized loans should be considered as credit-impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore substantially all such modifications, the loans were neither derecognized nor reclassified out of the credit-impaired stage.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

Valuation of lease liabilities and right of use assets

The application of IFRS 16 requires to make judgements of right of use assets and lease liabilities. In determining the lease term, the Bank considers all facts and circumstances that create an economic incentive to exercise renewal options (or not to exercise termination options). Assessing whether a contract includes a lease also requires judgement. Estimates are required to determine the appropriate discount rate used to measure lease liabilities.

Valuation of investment properties and repossessed collaterals

The valuation of the investment properties and repossessed collaterals is determined in accordance with the Bank's valuation principles. Such assets are measured at fair value and based on active market prices, adjusted if necessary for any difference in nature, location or condition of the specific asset.

These market values are based on valuations by independent external valuation experts. The valuation is based on an open market value, supported by market evidence in which assets can be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of the valuation

The methods and significant assumptions applied in determining the fair value of investment properties are mainly due to active market prices, the discount rates and assumed trends in market. Should there are changes in inputs, the fair value of these assets will be different, correspondingly.

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

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

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

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

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

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

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

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

5. STANDARD AND INTERPRETATIONS ISSUED BUT NOT YET ADOPTED

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

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

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

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

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

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

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

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

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

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

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

IFRS 9 Financial Instruments – Fees in the “10 percent” test for derecognition of financial liabilities. As part of its 2018-2020 annual improvements to the IFRS standards process the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

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

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

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

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

6. NET INTEREST INCOME

	Year ended December 31, 2021	Year ended December 31, 2020
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	9,526,260	9,281,648
Interest income on due from banks and other financial institutions	521,170	199,555
Interest income on investment securities	377,391	801,973
Interest income on cash and cash equivalents	172,493	316,841
Other interest income	228,486	207,159
Total interest income on financial assets recorded using the effective interest method	10,825,800	10,807,176
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest expense on due to banks, government and other financial institutions	(1,263,463)	(1,116,865)
Interest expense on customer accounts	(589,718)	(828,949)
Interest expense on lease liabilities	(19,121)	(20,908)
Total interest expense on financial liabilities recorded using the effective interest method	(1,872,302)	(1,966,722)
Net interest income before expected credit losses	8,953,498	8,840,454

7. (CHARGE)/RECOVERY OF EXPECTED CREDIT LOSSES

The following table provides a reconciliation between loss allowance roll-forward and the impairment losses in the statement of profit or loss and other comprehensive income per class of financial instrument.

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans to customers	(431,929)	78,245	(2,202,127)	(2,555,811)
Due from banks and other financial institutions	-	(31,964)	-	(31,964)
Charge for expected credit losses on financial assets	(431,929)	46,281	(2,202,127)	(2,587,775)
Recovery of expected credit losses for guarantees and similar commitments	(545,877)	-	-	(545,877)
Total charge for expected credit losses	(977,806)	46,281	(2,202,127)	(3,133,652)

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

		2020		
	Stage 1	Stage 2	Stage 3	Total
Loans to customers	(578,018)	(213,249)	(2,116,272)	(2,907,539)
Due from banks and other financial institutions	-	24,362	-	24,362
Charge for expected credit losses on financial assets	(578,018)	(188,887)	(2,116,272)	(2,883,177)
Recovery of expected credit losses for guarantees and similar commitments	20,250	-	-	20,250
Total charge for expected credit losses	(557,768)	(188,887)	(2,116,272)	(2,862,927)

8. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

Net gain on foreign exchange operations comprises:

	Year ended December 31, 2021	Year ended December 31, 2020
Dealing, net	397,051	330,383
Translation differences, net	(10,172)	(5,678)
Total net gain on foreign exchange operations	386,879	324,705

9. FEE AND COMMISSION INCOME AND EXPENSE

Fee and commission income and expense comprise:

	Year ended December 31, 2021	Year ended December 31, 2020
Fee and commission income:		
Plastic card operations	730,757	456,787
Settlements	578,842	464,793
Cash operations	262,349	222,437
Foreign exchange operations	-	213
Others	30,177	16,454
Total fee and commission income	1,602,125	1,160,684
Fee and commission expense:		
Plastic card operations	(1,181,500)	(652,356)
Settlements	(194,982)	(146,615)
Cash operations	(29,370)	(7,480)
Guarantee operations	(14,801)	(10,335)
Others	(54,174)	(46,424)
Total fee and commission expense	(1,474,827)	(863,210)

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

10. OPERATING EXPENSES

Operating expenses comprise the following items:

	Year ended December 31, 2021	Year ended December 31, 2020
Staff costs	(2,084,208)	(1,902,814)
Depreciation and amortization	(647,196)	(683,142)
Social security costs	(317,011)	(279,741)
Communication expenses	(267,926)	(200,994)
Property, plant and equipment maintenance	(266,935)	(213,124)
Payments to the Deposit Insurance Fund	(262,358)	(191,791)
Security expenses	(136,275)	(148,874)
Professional service fees	(85,493)	(51,910)
Service fees	(79,884)	(66,695)
Taxes, other than income tax	(76,717)	(66,061)
Membership fees	(72,156)	(57,443)
Utility expenses	(69,956)	(67,137)
Training costs	(15,002)	(2,164)
Advertising expenses	(13,733)	(11,807)
Insurance expenses	(9,547)	(9,627)
Business trip expenses	(3,883)	(1,848)
Payments to the Financial Markets Supervisory Authority	-	(75,000)
Others*	(79,032)	(71,665)
Total operating expenses	(4,487,312)	(4,101,837)

*Others category included cleaning and sanitation costs, acquisition of masks, gloves, sanitizers and tests incurred to prevent the spread of COVID-19 in the amount of AZN 6,422 for the year ended December 31, 2021 (December 31, 2020: AZN 8,254).

11. INCOME TAXES

The Bank measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan where the Bank operates, which differ from IFRS.

The Bank is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and certain income being treated as non-taxable for tax purposes.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2021 and 2020 relate mostly to different methods/timing of income and expense recognition as well as to temporary differences generated by taxation bases' differences for certain assets.

Tax legislation of the Republic of Azerbaijan in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result, the Bank may be assessed additional taxes, penalties and interest which could be material for these financial statements.

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Temporary differences as at December 31, 2021 and 2020 comprise:

	Year ended December 31, 2021	Year ended December 31, 2020
Deductible temporary differences:		
Intangible assets	38,190	45,843
Lease liabilities	64,276	45,155
Guarantees and similar commitments	834,447	288,570
Property, equipment and intangible assets	108,140	-
Other assets	1,156,839	370,641
Total deductible temporary differences	2,201,892	750,209
Taxable temporary differences:		
Loans to customers	(3,171,561)	(1,306,759)
Due from banks and other financial institutions	(110,288)	(110,281)
Property, equipment and intangible assets	-	(75,306)
Investment securities	(172,455)	(158,978)
Total taxable temporary differences	(3,454,304)	(1,651,324)
Net taxable temporary differences	(1,252,412)	(901,115)
Deferred income tax liability	(250,482)	(180,223)

The effective tax rate reconciliation is as follows for the years ended December 31, 2021 and 2020:

	Year ended December 31, 2021	Year ended December 31, 2020
Profit before income tax	1,958,774	1,511,374
Statutory tax rate	20%	20%
Theoretical tax at the statutory tax rate	(391,755)	(302,275)
Tax effect of permanent differences	(16,520)	(15,436)
Income tax expense	(408,275)	(317,711)
Current income tax expense	(338,016)	(350,776)
Deferred income tax (expense)/benefit	(70,259)	33,065
Income tax expense	(408,275)	(317,711)
Deferred income tax liability		
Beginning of the year	(180,223)	(220,112)
Change in deferred income tax liability	(70,259)	33,065
Change in deferred income tax balances recognized in other comprehensive income	-	6,824
End of the year	(250,482)	(180,223)

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

12. EARNINGS PER SHARE

The earnings per share is calculated as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Profit:		
Net profit for the year	1,550,499	1,193,663
Weighted average number of ordinary shares for basic and diluted earnings per share	20,000	20,000
Earnings per share – basic and diluted (AZN)	77.52	59.68

13. CASH AND BALANCES WITH THE CENTRAL BANK OF THE REPUBLIC OF AZERBAIJAN

Cash and balances with the CBRA comprise:

	December 31, 2021	December 31, 2020
Cash on hand	9,595,789	12,846,415
Balances with the CBRA	22,165,808	11,002,548
Notes issued by the CBRA up to 30 days	2,070,502	2,423,394
Time deposits with CBRA up to 90 days	-	2,911,831
Total cash and balances with the CBRA	33,832,099	29,184,188

The balances with the CBRA as at December 31, 2021 and 2020 include AZN 420,422 and AZN 343,983 which represent the obligatory minimum reserve deposits with the CBRA. The Bank is entitled to use all funds on its correspondent account provided that average daily balance for one month period will be eventually higher than required mandatory reserve. The Bank is required to maintain the reserve balance at the CBRA at all times.

Cash and cash equivalents for the purposes of the statement of cash flows comprise the following:

	December 31, 2021	December 31, 2020
Cash and balances with the CBRA	33,832,099	29,184,188
Due from banks in OECD countries (Note 31)	681,773	5,379,298
Less: minimum reserve deposits with the CBRA	(420,422)	(343,983)
Less: commemorative coins	(1,390)	(845)
Total cash and cash equivalents	34,092,060	34,218,658

For the purpose of ECL measurement, cash and cash equivalents balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognise any credit loss allowance for cash and cash equivalents. Refer to Note 31 for the ECL measurement approach.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

14. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks and other financial institutions comprises:

	December 31, 2021	December 31, 2020
Correspondent accounts with other banks	9,463,350	7,281,965
Due from financial institutions	4,437,566	4,132,112
Pledged accounts	492,428	686,683
Less: allowance for expected credit loss	(64,775)	(32,811)
Total due from banks and other financial institutions	14,328,569	12,067,949

Pledged accounts represent nostro accounts pledged against the guarantees given by the Bank on behalf of the customers.

As at December 31, 2021, accrued interest income included in due from banks and other financial institutions amounted to AZN 37,571 (December 31, 2020: AZN 28,612).

As at December 31, 2021 and 2020, maximum credit risk exposure of due from banks and other financial institutions amounted to AZN 14,328,569 and AZN 12,067,949, respectively.

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

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2021	7,968,648	4,132,112	-	12,100,760
Net change in carrying value	2,115,514	305,454	-	2,420,968
Foreign exchange and other movements	(128,384)	-	-	(128,384)
As at December 31, 2021	9,955,778	4,437,566	-	14,393,344
	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2021	-	(32,811)	-	(32,811)
Net change in ECL value	-	(31,964)	-	(31,964)
As at December 31, 2021	-	(64,775)	-	(64,775)

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from banks and other financial institutions during the year ended December 31, 2020 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at January 1, 2020	13,620,009	421,230	20,470	14,061,709
Net change in carrying value	(5,814,279)	3,710,882	-	(2,103,397)
Amounts written-off	-	-	(20,470)	(20,470)
Foreign exchange and other movements	162,918	-	-	162,918
As at December 31, 2020	7,968,648	4,132,112	-	12,100,760

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2020	-	(57,173)	(20,470)	(77,643)
Net change in ECL value	-	24,362	-	24,362
Amounts written-off	-	-	20,470	20,470
As at December 31, 2020	-	(32,811)	-	(32,811)

There were no transfers between stages in gross carrying values and ECL allowance on due from banks and other financial institutions during the years ended December 31, 2021 and 2020.

15. INVESTMENT SECURITIES

Investment securities at FVOCI comprises:

	Interest to nominal %	December 31, 2021		December 31, 2020	
		Carrying value	Nominal value	Carrying value	Nominal value
Bonds issued by “AzerGold” CJSC	3.00%-3.50%	5,875,992	5,796,830	5,922,884	5,949,711
Bonds issued by “Silk Way West Airlines” LLC	5.00%	3,365,200	3,315,000	-	-
Debt securities of “Bank Respublika” OJSC	8.30%	2,468,372	2,459,865	-	-
The State Oil Company of the Republic of Azerbaijan (SOCAR)	4.50%-5.00%	1,600,440	1,536,800	2,484,490	2,458,200
Ministry of Finance of the Republic of Azerbaijan	4.00%-8.00%	1,507,664	1,499,903	2,110,748	1,999,920
Debt securities of the Black Sea Trade and Development Bank	7.00%	-	-	798,681	814,939
Total investment securities		14,817,668	14,608,398	11,316,803	11,222,770

As at December 31, 2021, accrued interest income included in investment securities amounted to AZN 49,635 (2020: AZN 149,804).

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

For the purpose of ECL measurement, investment securities are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Bank did not recognize any credit loss allowance for investment securities.

There were no transfers between stages in gross carrying values and ECL allowance on investment securities during the years ended December 31, 2021 and 2020.

16. LOANS TO CUSTOMERS

Loans to customers comprise:

	December 31, 2021	December 31, 2020
Corporate loans	73,461,387	65,721,215
Loans to individuals – mortgage loans	33,451,138	42,365,240
Loans to individuals – consumer loans	10,112,414	7,029,538
Loans to individuals – entrepreneurship loans	2,475,390	1,798,685
Loans to individuals – car purchase	321,482	138,278
	<hr/>	<hr/>
Less: allowance for expected credit loss	(21,807,273)	(18,721,590)
	<hr/>	<hr/>
Total loans to customers	98,014,538	98,331,366

During the year ended December 31, 2020 the Bank restructured loans in the amount of AZN 21,408,191 under COVID-19 restructuring program.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers during the year ended December 31, 2021:

	2021			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2021	79,558,040	2,128,904	35,366,012	117,052,956
New assets originated or purchased	18,410,939	-	-	18,410,939
Other movements (asset repayment, modification of assets, etc.)	(15,392,874)	(194,953)	306,419	(15,281,408)
Transfer to Stage 1	1,963,900	(1,340,882)	(623,018)	-
Transfer to Stage 2	(1,748,982)	3,505,070	(1,756,088)	-
Transfer to Stage 3	(3,702,365)	(294,638)	3,997,003	-
Amounts written-off	-	-	(360,676)	(360,676)
At December 31, 2021	79,088,658	3,803,501	36,929,652	119,821,811

	2021			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
At January 1, 2021	(1,181,263)	(252,286)	(17,288,041)	(18,721,590)
New assets originated or purchased	(294,617)	-	-	(294,617)
Net remeasurement	(2,188,681)	133,490	(206,003)	(2,261,194)
Transfer to Stage 1	(10,286)	7,653	2,633	-
Transfer to Stage 2	108,270	(158,057)	49,787	-
Transfer to Stage 3	1,953,385	95,159	(2,048,544)	-
Unwinding of discount on present value of ECLs	-	-	(890,548)	(890,548)
Amounts written-off	-	-	360,676	360,676
At December 31, 2021	(1,613,192)	(174,041)	(20,020,040)	(21,807,273)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

The following tables show the summary of reconciliations from the opening to the closing balances of gross loans and the loss allowance of loans to customers during the year ended December 31, 2020:

	2020			
Gross carrying value	Stage 1	Stage 2	Stage 3	Total
As at January 1, 2020	78,180,339	1,718,118	33,322,400	113,220,857
New assets originated or purchased	21,073,872	-	-	21,073,872
Other movements (asset repayment, modification of assets, etc.)	(13,834,594)	240,438	(3,336,610)	(16,930,766)
Transfer to Stage 1	93,050	(47,249)	(45,801)	-
Transfer to Stage 2	(2,128,903)	2,128,903	-	-
Transfer to Stage 3	(3,825,724)	(1,911,306)	5,737,030	-
Amounts written-off	-	-	(311,007)	(311,007)
At December 31, 2020	79,558,040	2,128,904	35,366,012	117,052,956

	2020			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
At January 1, 2020	(603,245)	(39,037)	(15,332,910)	(15,975,192)
New assets originated or purchased	(351,858)	-	-	(351,858)
Net remeasurement	(1,026,551)	(138,543)	(1,390,587)	(2,555,681)
Transfer to Stage 1	(134)	134	-	-
Transfer to Stage 2	252,286	(252,286)	-	-
Transfer to Stage 3	548,239	177,446	(725,685)	-
Unwinding of discount on present value of ECLs	-	-	(149,866)	(149,866)
Amounts written-off	-	-	311,007	311,007
At December 31, 2020	(1,181,263)	(252,286)	(17,288,041)	(18,721,590)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

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

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2021	35,859,582	539,802	29,321,831	65,721,215
New assets originated or purchased	6,341,328	-	-	6,341,328
Other movements (asset repayment, modification of assets, etc.)	545,841	(77,322)	930,325	1,398,844
Transfer to Stage 1	349,491	(349,491)	-	-
Transfer to Stage 2	-	1,660,995	(1,660,995)	-
Transfer to Stage 3	(3,622,085)	-	3,622,085	-
At December 31, 2021	39,474,157	1,773,984	32,213,246	73,461,387

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2021	(1,112,288)	(28,634)	(14,211,757)	(15,352,679)
New assets originated or purchased	(130,223)	-	-	(130,223)
Net remeasurement	(2,123,730)	25,668	(541,868)	(2,639,930)
Transfer to Stage 1	(2,966)	2,966	-	-
Transfer to Stage 2	-	(47,731)	47,731	-
Transfer to Stage 3	1,923,019	-	(1,923,019)	-
Unwinding of discount on present value of ECLs	-	-	(651,093)	(651,093)
At December 31, 2021	(1,446,188)	(47,731)	(17,280,006)	(18,773,925)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2020	32,577,033	1,247,281	28,935,047	62,759,361
New assets originated or purchased	8,642,362	-	-	8,642,362
Other movements (asset repayment, modification of assets, etc.)	(2,687,284)	429,994	(3,412,950)	(5,670,240)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(539,801)	539,801	-	-
Transfer to Stage 3	(2,132,728)	(1,677,274)	3,810,002	-
Amounts written-off	-	-	(10,268)	(10,268)
At December 31, 2020	35,859,582	539,802	29,321,831	65,721,215

	2020			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2020	(546,096)	(5,991)	(12,297,006)	(12,849,093)
New assets originated or purchased	(240,061)	-	-	(240,061)
Net remeasurement	(556,362)	(128,414)	(1,350,163)	(2,034,939)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	28,634	(28,634)	-	-
Transfer to Stage 3	201,597	134,405	(336,002)	-
Unwinding of discount on present value of ECLs	-	-	(238,854)	(238,854)
Amounts written-off	-	-	10,268	10,268
At December 31, 2020	(1,112,288)	(28,634)	(14,211,757)	(15,352,679)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals - mortgage loans during the year ended December 31, 2021 is as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2021	39,467,550	1,275,749	1,621,941	42,365,240
New assets originated or purchased	6,620,909	-	-	6,620,909
Other movements (asset repayment, modification of assets, etc.)	(15,306,615)	(56,049)	(171,811)	(15,534,475)
Transfer to Stage 1	1,518,390	(936,182)	(582,208)	-
Transfer to Stage 2	(120,281)	198,393	(78,112)	-
Transfer to Stage 3	-	(98,178)	98,178	-
Amounts written-off	-	-	(536)	(536)
At December 31, 2021	32,179,953	383,733	887,452	33,451,138

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2021	(53,222)	(205,108)	(264,437)	(522,767)
New assets originated or purchased	(23,774)	-	-	(23,774)
Net remeasurement	(19,357)	175,618	148,117	304,378
Transfer to Stage 1	(6,927)	4,294	2,633	-
Transfer to Stage 2	4,326	(6,357)	2,031	-
Transfer to Stage 3	-	9,238	(9,238)	-
Unwinding of discount on present value of ECLs	-	-	2,965	2,965
Amounts written-off	-	-	536	536
At December 31, 2021	(98,954)	(22,315)	(117,393)	(238,662)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2020	39,890,273	275,267	269,864	40,435,404
New assets originated or purchased	9,080,126	-	-	9,080,126
Other movements (asset repayment, modification of assets, etc.)	(7,146,371)	205	5,893	(7,140,273)
Transfer to Stage 1	79,514	(41,860)	(37,654)	-
Transfer to Stage 2	(1,275,749)	1,275,749	-	-
Transfer to Stage 3	(1,160,243)	(233,612)	1,393,855	-
Amounts written-off	-	-	(10,017)	(10,017)
At December 31, 2020	39,467,550	1,275,749	1,621,941	42,365,240

	2020			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2020	(45,700)	(23,561)	(34,669)	(103,930)
New assets originated or purchased	(10,375)	-	-	(10,375)
Net remeasurement	(389,475)	(19,232)	10,486	(398,221)
Transfer to Stage 1	(81)	81	-	-
Transfer to Stage 2	205,108	(205,108)	-	-
Transfer to Stage 3	187,301	42,712	(230,013)	-
Unwinding of discount on present value of ECLs	-	-	(20,258)	(20,258)
Amounts written-off	-	-	10,017	10,017
At December 31, 2020	(53,222)	(205,108)	(264,437)	(522,767)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals - consumer loans during the year ended December 31, 2021 is as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2021	4,044,692	313,353	2,671,493	7,029,538
New assets originated or purchased	3,775,082	-	-	3,775,082
Other movements (asset repayment, modification of assets, etc.)	(545,556)	(61,582)	(64,269)	(671,407)
Transfer to Stage 1	96,019	(55,209)	(40,810)	-
Transfer to Stage 2	(247,567)	264,548	(16,981)	-
Transfer to Stage 3	(80,280)	(196,460)	276,740	-
Amounts written-off	-	-	(20,799)	(20,799)
At December 31, 2021	7,042,390	264,650	2,805,374	10,112,414

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2021	(15,439)	(18,544)	(1,383,267)	(1,417,250)
New assets originated or purchased	(54,845)	-	-	(54,845)
Net remeasurement	(45,415)	(67,796)	68,904	(44,307)
Transfer to Stage 1	(393)	393	-	-
Transfer to Stage 2	25,837	(25,862)	25	-
Transfer to Stage 3	30,366	85,921	(116,287)	-
Unwinding of discount on present value of ECLs	-	-	(242,628)	(242,628)
Amounts written-off	-	-	20,799	20,799
At December 31, 2021	(59,889)	(25,888)	(1,652,454)	(1,738,231)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2020	3,822,351	105,184	1,995,773	5,923,308
New assets originated or purchased	3,322,276	-	-	3,322,276
Other movements (asset repayment, modification of assets, etc.)	(2,267,365)	(99,375)	170,564	(2,196,176)
Transfer to Stage 1	13,536	(5,389)	(8,147)	-
Transfer to Stage 2	(313,353)	313,353	-	-
Transfer to Stage 3	(532,753)	(420)	533,173	-
Amounts written-off	-	-	(19,870)	(19,870)
At December 31, 2020	4,044,692	313,353	2,671,493	7,029,538

	2020			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2020	(9,786)	(4,054)	(1,110,900)	(1,124,740)
New assets originated or purchased	(101,220)	-	-	(101,220)
Net remeasurement	(82,265)	3,672	30,519	(48,074)
Transfer to Stage 1	(53)	53	-	-
Transfer to Stage 2	18,544	(18,544)	-	-
Transfer to Stage 3	159,341	329	(159,670)	-
Unwinding of discount on present value of ECLs	-	-	(163,086)	(163,086)
Amounts written-off	-	-	19,870	19,870
At December 31, 2020	(15,439)	(18,544)	(1,383,267)	(1,417,250)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals - entrepreneurship loans during the year ended December 31, 2021 is as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2021	141,050	-	1,657,635	1,798,685
New assets originated or purchased	1,438,670	-	-	1,438,670
Other movements (asset repayment, modification of assets, etc.)	(56,882)	-	(375,885)	(432,767)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	(1,381,134)	1,381,134	-	-
Transfer to Stage 3	-	-	-	-
Amounts written-off	-	-	(329,198)	(329,198)
At December 31, 2021	141,704	1,381,134	952,552	2,475,390

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2021	-	-	(1,335,468)	(1,335,468)
New assets originated or purchased	(78,107)	-	-	(78,107)
Net remeasurement	-	-	107,111	107,111
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	78,107	(78,107)	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	-	-
Amounts written-off	-	-	329,198	329,198
At December 31, 2021	-	(78,107)	(899,159)	(977,266)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

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

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2020	1,864,967	90,386	1,715,970	3,671,323
New assets originated or purchased	-	-	-	-
Other movements (asset repayment, modification of assets, etc.)	(1,723,917)	(90,386)	(58,335)	(1,872,638)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
At December 31, 2020	141,050	-	1,657,635	1,798,685

	2020			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2020	(1,443)	(5,431)	(1,484,589)	(1,491,463)
New assets originated or purchased	-	-	-	-
Net remeasurement	1,443	5,431	(118,836)	(111,962)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	267,957	267,957
At December 31, 2020	-	-	(1,335,468)	(1,335,468)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to individuals – car purchase loans during the year ended December 31, 2021 is as follows:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying value				
As at January 1, 2021	45,166	-	93,112	138,278
New assets originated or purchased	234,950	-	-	234,950
Other movements (asset repayment, modification of assets, etc.)	(29,662)	-	(11,941)	(41,603)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	(10,143)	(10,143)
At December 31, 2021	250,454	-	71,028	321,482

	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL of loans to customers				
At January 1, 2021	(314)	-	(93,112)	(93,426)
New assets originated or purchased	(7,668)	-	-	(7,668)
Net remeasurement	(179)	-	11,733	11,554
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	208	208
Amounts written off	-	-	10,143	10,143
At December 31, 2021	(8,161)	-	(71,028)	(79,189)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued)

(In Azerbaijani Manats)

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

	2020			
As at January 1, 2020	25,715	-	405,746	431,461
New assets originated or purchased	29,108	-	-	29,108
Other movements (asset repayment, modification of assets, etc.)	(9,657)	-	(41,782)	(51,439)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Amounts written off	-	-	(270,852)	(270,852)
At December 31, 2020	45,166	-	93,112	138,278

	2020			
Allowance for ECL of loans to customers	Stage 1	Stage 2	Stage 3	Total
At January 1, 2020	(220)	-	(405,746)	(405,966)
New assets originated or purchased	(202)	-	-	(202)
Net remeasurement	108	-	37,407	37,515
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	4,375	4,375
Amounts written off	-	-	270,852	270,852
At December 31, 2020	(314)	-	(93,112)	(93,426)

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself at December 31, 2021:

	Corporate loans	Loans to individuals- mortgage loans	Loans to individuals- consumer loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- car purchase	December 31, 2021 Total
Unsecured loans	6,364,820	-	1,219,660	-	-	7,584,480
Loans collateralized by:						
- real estate	38,411,307	33,212,476	5,180,874	1,498,124	-	78,302,781
- inventory	7,670,869	-	-	-	-	7,670,869
- cash deposits	15,199	-	198,794	-	-	213,993
- vehicle	33,816	-	6,156	-	242,293	282,265
- guarantees	2,191,451	-	311,526	-	-	2,502,977
- jewellery	-	-	1,457,173	-	-	1,457,173
Total loans to customers	54,687,462	33,212,476	8,374,183	1,498,124	242,293	98,014,538

The table below summarizes the amount of loans secured by collateral, rather than the fair value of the collateral itself at December 31, 2020:

	Corporate loans	Loans to individuals- mortgage loans	Loans to individuals- consumer loans	Loans to individuals- entrepreneur- ship loans	Loans to individuals- car purchase	December 31, 2020 Total
Unsecured loans	1,266,269	-	1,226,287	-	-	2,492,556
Loans collateralized by:						
- real estate	31,091,144	41,842,473	3,016,966	463,217	-	76,413,800
- inventory	10,662,759	-	-	-	-	10,662,759
- cash deposits	1,169,291	-	286,258	-	-	1,455,549
- vehicle	-	-	-	-	44,852	44,852
- guarantees	6,179,073	-	259,629	-	-	6,438,702
- jewellery	-	-	823,148	-	-	823,148
Total loans to customers	50,368,536	41,842,473	5,612,288	463,217	44,852	98,331,366

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

Economic sector risk concentrations within the loans to customers' portfolio are as follows:

	December 31, 2021		December 31, 2020	
	Amount	%	Amount	%
Individuals (excluding entrepreneurs)	43,885,034	36.63	49,533,056	42.32
Trade and service	36,372,580	30.36	29,960,114	25.60
Manufacturing	27,674,379	23.10	25,948,622	22.17
Agriculture	10,644,749	8.88	9,891,188	8.45
Construction	1,245,069	1.04	1,719,976	1.47
Total loans to customers (gross)	119,821,811	100.00	117,052,956	100.00

Included in loans to customers AZN 5,451,082 and AZN 4,084,940 as at December 31, 2021 and 2020, respectively, represent accrued interest receivable.

As at December 31, 2021, the Bank had loan to one customer in the amount of AZN 10,677,460 which individually exceeded 20% of the Bank's share capital.

As at December 31, 2020, the Bank had no loan to customer which individually exceeded 20% of the Bank's share capital.

As at December 31, 2021, the Bank had outstanding loans to 10 customers in the amount of AZN 54,219,278 which comprise 45% of the total loans to customers portfolio (December 31, 2020: 10 customers in the amount of AZN 57,840,700 which comprise 49% of the total loans to customers portfolio).

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

17. PROPERTY AND EQUIPMENT

Property and equipment comprise the following:

	Buildings	Furniture and fixtures	Computer and equipment	Vehicles	Other fixed assets	Total
At initial cost						
January 1, 2020	5,385,796	1,361,756	788,071	520,830	24,448	8,080,901
Additions	-	50,407	352,031	-	-	402,438
Disposals	-	(2,419)	(14,858)	-	-	(17,277)
December 31, 2020	5,385,796	1,409,744	1,125,244	520,830	24,448	8,466,062
Additions	49,726	59,435	37,745	33,400	-	180,306
Disposals	-	(24,309)	(36,631)	(18,600)	(390)	(79,930)
December 31, 2021	5,435,522	1,423,180	1,148,048	535,630	24,058	8,566,438
Accumulated depreciation						
January 1, 2020	(2,816,990)	(1,153,775)	(489,499)	(422,021)	(19,582)	(4,901,867)
Charge for the year	(311,647)	(124,876)	(165,869)	(40,800)	(1,978)	(645,170)
Disposals	-	2,344	14,585	-	-	16,929
December 31, 2020	(3,128,637)	(1,276,307)	(640,783)	(462,821)	(21,560)	(5,530,108)
Charge for the year	(324,844)	(77,299)	(147,102)	(44,252)	(1,972)	(595,469)
Disposals	-	24,309	35,600	18,600	390	78,899
December 31, 2021	(3,453,481)	(1,329,297)	(752,285)	(488,473)	(23,142)	(6,046,678)
Net book value						
December 31, 2021	1,982,041	93,883	395,763	47,157	916	2,519,760
December 31, 2020	2,257,159	133,437	484,461	58,009	2,888	2,935,954

As at December 31, 2021 and 2020, property and equipment were not pledged as collateral for borrowings.

As at December 31, 2021 and 2020, included in property and equipment were fully depreciated assets in the amount of AZN 2,190,586 and AZN 1,524,431 respectively.

As at December 31, 2021 and 2020, included in property and equipment insured in the amount of AZN 1,028,548 and AZN 721,610 respectively.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

18. INVESTMENT PROPERTY

	Investment property
Investment properties at fair value at January 1, 2020	363,400
Net loss from fair value change recognized in profit or loss account	(19,709)
Investment properties at fair value at December 31, 2020	343,691
Transfer from repossessed assets	2,400,187
Net loss from fair value change recognized in profit or loss account	(18,174)
Investment properties at fair value at December 31, 2021	2,725,704

At December 31, 2021, investment property consists of buildings in the carrying amount of AZN 2,725,704 (2020: AZN 343,691) which was transferred from repossessed assets as a result of change of management decision on utilization of underlying asset.

19. INTANGIBLE ASSETS

	Intangible Assets
At initial cost	
January 1, 2020	528,412
Additions	86,621
December 31, 2020	615,033
Additions	83,207
December 31, 2021	698,240
Accumulated amortization	
January 1, 2020	(272,466)
Charge for the year	(37,972)
December 31, 2020	(310,438)
Charge for the year	(51,722)
December 31, 2021	(362,160)
Net book value	
December 31, 2021	336,080
December 31, 2020	304,595

Intangible assets include software and licenses.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

20. OTHER ASSETS

Other assets comprise:

	December 31, 2021	December 31, 2020
Other financial assets:		
Settlement on money transfer	519,605	509,693
Receivable from the intermediary	57,511	189,456
Accrued interest receivables on guarantees	14,950	18,545
Total other financial assets	592,066	717,694
Other non-financial assets:		
Reposessed assets*	665,869	2,613,910
Prepaid taxes	158,020	793,199
Prepayment and other debtors	212,164	368,070
Deferred expenses	130,607	28,277
Prepayment for property and equipment	52,760	88,312
Total other assets	1,811,486	4,609,462

According to the State Registration Certificate of the Republic of Azerbaijan, the real estate collateralized for the loans to customers have been reposessed by the Bank, due to default of the borrower and included in the reposessed assets.

*As at December 31, 2021 and 2020, the fair value of reposessed assets approximates to AZN 665,869 and AZN 2,613,910 respectively. During the year ended December 31, 2021 the Bank recognized loss on change of fair value of reposessed assets in the amount of AZN 117,042 (2020: AZN 996,801).

	December 31, 2021	December 31, 2020
Plot of land	131,963	131,963
Residential property	533,906	2,481,947
Total reposessed assets	665,869	2,613,910

Management of the Bank intends to sell these assets, however, no active program to locate a buyer and complete plan have been initiated as at the date of report.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

21. DUE TO BANKS, GOVERNMENT AND OTHER FINANCIAL INSTITUTIONS

Due to banks, government and other financial institutions comprise:

	December 31, 2021	December 31, 2020
Due to the Azerbaijan Mortgage and Credit Guarantee Fund	32,718,246	27,415,071
Due to Entrepreneurship Development Fund of the Republic of Azerbaijan	11,600,798	14,924,658
Total due to banks, government and other financial institutions	44,319,044	42,339,729

At December 31, 2021, AZN 32,718,246 (2020: AZN 27,415,071) out of term borrowings represented funds borrowed from the Azerbaijan Mortgage and Credit Guarantee Fund, a program under the auspices of the Central Bank of the Republic of Azerbaijan, for granting long-term mortgage loans to individuals. Under this program, funds made available to the Bank at an interest rate of 1-4% p.a. and the Bank further on lends these funds to eligible borrowers at rates not higher than 7-8% p.a. These borrowings mature between December 2022 and August 2049.

At December 31, 2021, AZN 11,600,798 (2020: AZN 14,924,658) out of term borrowings represented funds borrowed from the Entrepreneurship Development Fund of the Republic of Azerbaijan, a program under the auspices of the Ministry of Economy of the Republic of Azerbaijan, for financing small and medium-size enterprises. All borrowings from the Entrepreneurship Development Fund are for five to ten years and bear an interest rate of 1%. These borrowings mature between December 2022 and June 2026.

Included in due to banks, government and other financial institutions AZN 111,501 and AZN 88,032 as at December 31, 2021 and 2020, respectively represent accrued interest payable.

22. CUSTOMER ACCOUNTS

Customer accounts comprise:

	December 31, 2021	December 31, 2020
Current and settlement accounts	37,211,760	31,412,292
Time deposits	13,315,215	13,906,911
Total customer accounts	50,526,975	45,319,203

Included in customer accounts in the amount of AZN 43,872,390 and AZN 35,610,343 as at December 31, 2021 and 2020, respectively are deposits secured by the Azerbaijan Deposit Insurance Fund.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

Economic sector concentrations within customer accounts are as follows:

	December 31, 2021	December 31, 2020
Individuals	45,046,437	35,940,027
Trade and service	4,217,894	7,156,747
Other financial institutions	271,177	1,110,990
Manufacturing	230,110	96,441
Construction	198,862	475,559
Transportation and communication	126,101	78,136
Insurance	16,985	146,178
Others	419,409	315,125
Total customer accounts	50,526,975	45,319,203

As at December 31, 2021 and 2020, accrued interest payable included in customer accounts, amounted to AZN 203,456 and AZN 236,105 respectively.

23. LEASE LIABILITIES

	December 31, 2021	December 31, 2020
Lease liabilities (current)	83,266	57,466
Lease liabilities (non-current)	156,227	202,184
Total lease liabilities	239,493	259,650

Future minimum lease payments as at December 31, 2021 were as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	91,944	170,658	262,602
Finance charges	(8,678)	(14,431)	(23,109)
Net present value as at December 31, 2021	83,266	156,227	239,493

Future minimum lease payments as at December 31, 2020 were as follows:

	Minimum lease payments due		
	Within one year	One to five years	Total
Lease payments	71,726	225,490	297,216
Finance charges	(14,260)	(23,306)	(37,566)
Net present value as at December 31, 2020	57,466	202,184	259,650

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

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

	As at January 1, 2021	Cash flow	Cash flow	Non-cash changes	As at December 31, 2021
		Principal payment	Interest payment	Interest expense	Additions
Lease liabilities	259,650	(69,883)	(19,121)	19,121	49,726
					239,493
	As at January 1, 2020	Cash flow	Cash flow	Non-cash changes	As at December 31, 2020
		Principal payment	Interest payment	Interest expense	Additions
Lease liabilities	313,046	(53,396)	(20,908)	20,908	-
					259,650

24. OTHER LIABILITIES

Other liabilities comprise the following:

	December 31, 2021	December 31, 2020
Other financial liabilities:		
Payments in the course of settlement	308,966	252,009
Accrued expenses	84,183	94,819
Settlements on salary, remunerations and bonuses	29,017	31,790
Payable to Azerbaijan Deposit Insurance Fund	-	43,631
Compensation payable due to COVID-19	-	14,833
Total other financial liabilities	422,166	437,082
Other non-financial liabilities:		
Guarantees and similar commitments (Note 7)	834,447	288,570
Payable to State and local funds	56,676	83,429
Total other liabilities	1,313,289	809,081

25. SHARE CAPITAL

As at December 31, 2021, authorized, issued and paid-in share capital consisted of 20,000 ordinary shares with a par value of AZN 2,500 each (2020: 20,000 ordinary shares with a par value of AZN 2,500 each).

The below table provides a reconciliation of the ordinary shares outstanding as at December 31, 2021 and 2020:

	Share capital
January 1, 2020	50,000,000
December 31, 2020	50,000,000
December 31, 2021	50,000,000

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

26. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the statement of financial position. The Bank's maximum exposure to credit loss under contingent liabilities and commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

The Bank uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for financial position operations. As at December 31, 2021 and 2020, the nominal or contract amounts were:

	December 31, 2021	December 31, 2020
Contingent liabilities and credit commitments		
Guarantees issued	12,346,194	8,061,400
Commitments on loans and unused credit lines	7,593,821	10,065,371
Total contingent liabilities and credit commitments	19,940,015	18,126,771

Credit-related commitments are denominated in currencies as follows:

	December 31, 2021	December 31, 2020
Azerbaijani Manats	17,593,715	16,248,249
US Dollars	1,191,761	1,183,498
Euro	1,154,539	695,024
Total	19,940,015	18,126,771

Capital regulatory commitment

The Central Bank of the Republic of Azerbaijan requires the threshold of aggregate capital for existent banks as AZN 50 million and the Bank complies with this requirement.

Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

“BANK EURASIA” OPEN JOINT-STOCK COMPANY

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

Taxation

Provisions of the Tax legislation of the Republic of Azerbaijan are sometimes inconsistent and may have more than one interpretation, which allows the tax authorities to take decisions based on their own arbitrary interpretation of these provisions. In practice, tax authorities often interpret the tax legislation not in favor of the taxpayers, who have to resort to court proceeding to defend their position against the tax authorities. It should be noted that the tax authorities can use the clarifications issued by the judicial bodies that have introduced the concept of “unjustified tax benefit”, “primary commercial goal of transaction” and the criteria of “commercial purpose (substance) of transaction”.

Such uncertainty could, in particular, be attributed to the tax treatment of financial instruments/ derivatives and the determination of the market price of transactions for transfer pricing purposes. It could also lead to temporary taxable differences occurred due to loan impairment provisions and income tax liabilities being treated by the tax authorities as understatement of the tax base. The management of the Bank is confident that applicable taxes have all been accrued and, consequently, the creation of respective provisions is not required.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates. Also, according to the clarification of the Constitutional Court of the Republic of Azerbaijan, the statute of limitation for tax liabilities may be extended beyond the three-year term set forth in the tax legislation, if a court determines that the taxpayers have obstructed or hindered a tax inspection.

27. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by the IAS 24 “Related party disclosures”, represent:

- (a) Parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries); have an interest in the Bank that gives them significant influence over the Bank; and that have joint control over the Bank;
- (b) Associates – enterprises on which the Bank has significant influence and which are neither a subsidiary nor a joint venture of the investor;
- (c) Joint ventures in which the Bank is a venturer;
- (d) Members of key management personnel of the Bank or its parent;
- (e) Close members of the family of any individuals referred to in (a) or (d);
- (f) Parties that are entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) Post-employment benefit plans for the benefit of employees of the Bank, or of any entity that is a related party of the Bank.

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In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Bank had the following transactions outstanding as at December 31, 2021 and 2020 with related parties:

	December 31, 2021		December 31, 2020	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Loans to customers (gross)		119,821,811		98,331,366
- key management personnel of the Bank	105,702		139,417	
- other related parties	281,968		153,286	
Other assets		1,811,486		4,609,462
- key management personnel of the Bank	9,000		3,000	
- other related parties	32,300		27,483	
Customer accounts		50,526,975		45,319,203
- key management personnel of the Bank	53,862		258,802	
- other related parties	97,191		48,673	
Commitments on loans and unused credit lines		7,593,821		10,065,372
- key management personnel of the Bank	30,897		15,335	
- other related parties	37,495		14,471	

Included in the statement of comprehensive income for the year ended December 31, 2021 and 2020 are the following amounts which arose due to transactions with related parties:

	December 31, 2021		December 31, 2020	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		10,825,800		10,807,176
- key management personnel of the Bank	11,627		9,304	
- other related parties	31,016		7,388	
Interest expense		(1,872,302)		(1,966,722)
- key management personnel of the Bank	(4,309)		(4,709)	
- other related parties	(7,725)		(13,725)	
Key management personnel compensation:		2,105,324		2,161,268
- short-term employee benefits	521,431		458,047	

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

28. CAPITAL MANAGEMENT

The Bank's objectives when managing capital are to comply with the capital requirements set by the CBRA, to safeguard the Bank's ability to continue as a going concern and maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10%. Compliance with capital adequacy ratios set by the CBRA is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's Chairman of Management Board, Chief Accountant, Chief of Internal Audit Department and the Chairman of Supervisory Board. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the CBRA banks have to hold the minimum level of aggregate capital of AZN 50,000,000, however, paid-in capital for newly established banks and local branches of foreign banks shall be AZN 50,000,000. Furthermore, the banks have to maintain a ratio of regulatory capital to risk-weighted assets (“statutory capital ratio”) at or above a prescribed minimum of 10% (December 31, 2020: 9%) and maintain a ratio of tier-1 capital to the risk-weighted assets (the “Tier-1 capital ratio”) at or above the prescribed minimum of 5% (December 31, 2020: 5%).

The composition of the Bank's capital calculated in accordance with the CBRA capital requirements is as follows:

	December 31, 2021	December 31, 2020
Tier 1 capital		
Share capital	50,000,000	50,000,000
Retained earnings	19,241,124	18,015,039
Total tier 1 capital	69,241,124	68,015,039
Deductions from tier 1 capital		
Intangible assets	(336,080)	(304,595)
Deferred income tax asset	(160,490)	(45,086)
Total tier 1 capital after deductions	68,744,554	67,665,358
Tier 2 capital		
Current year profit	792,593	1,226,085
Total reserves	1,394,985	1,333,619
Total tier 2 capital	2,187,578	2,559,704
	December 31, 2021	December 31, 2020
Total regulatory capital after deductions	70,932,132	70,225,062
Total risk-weighted assets:	125,876,263	106,689,488
Tier 1 capital adequacy ratio	55%	63%
Regulatory capital adequacy ratio	56%	66%

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

29. SEGMENT REPORTING

The Bank is organized on the basis of two main business segments:

- Retail banking – representing private banking services, private customer current accounts, savings, deposits, consumer loans and mortgages;
- Corporate banking – representing direct debit facilities, current accounts, deposits, overdrafts, loan and other credit facilities, foreign currency products.

Transactions between the business segments are on normal commercial terms and conditions. Operating expenses and income tax expense are ordinarily reallocated between segments based on the split of the Bank’s interest income. There are no other material items of income or expense between the business segments.

Segment information about these businesses is presented below:

	Retail banking	Corporate banking	Other segments	As at and for the year ended December 31, 2021
Interest income	4,364,646	6,271,397	189,757	10,825,800
Interest expense	(526,464)	(1,326,717)	(19,121)	(1,872,302)
Recovery/(charge) of expected credit losses	335,563	(3,469,215)	-	(3,133,652)
Net gain on foreign exchange operations	-	-	386,879	386,879
Fee and commission income	734,251	867,874	-	1,602,125
Fee and commission expense	(1,277,851)	(196,976)	-	(1,474,827)
Change in the fair value of repossessed assets	-	-	(117,042)	(117,042)
Change in fair value of investment properties	-	-	(18,174)	(18,174)
Other income, net	-	-	247,279	247,279
Operating income	3,630,145	2,146,363	669,578	6,446,086
Operating expenses	(868,681)	(2,511,261)	(1,107,370)	(4,487,312)
Profit/(loss) before income tax	2,761,464	(364,898)	(437,792)	1,958,774
Segment assets	44,152,430	84,957,015	39,276,459	168,385,904
Segment liabilities	45,381,011	49,798,830	1,469,442	96,649,283
Other segment items:				
Depreciation and amortization on property, equipment and intangible assets	-	-	647,196	647,196
Loans to customers	43,327,076	54,687,462	-	98,014,538
Property, equipment and intangible assets	-	-	2,855,840	2,855,840
Investment property	-	-	2,725,704	2,725,704
Customer accounts	45,046,437	5,480,538	-	50,526,975

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

	Retail banking	Corporate banking	Other segments	As at and for the year ended December 31, 2020
Interest income	4,397,898	6,227,690	181,588	10,807,176
Interest expense	(660,424)	(1,283,391)	(22,907)	(1,966,722)
Recovery/(charge) of expected credit losses	(242,812)	(2,620,115)	-	(2,862,927)
Net gain on foreign exchange operations	-	-	324,705	324,705
Fee and commission income	471,350	689,334	-	1,160,684
Fee and commission expense	(716,262)	(146,948)	-	(863,210)
Change in the fair value of repossessed assets	-	-	(996,801)	(996,801)
Change in fair value of investment properties	-	-	(19,709)	(19,709)
Other income, net	-	-	30,015	30,015
Operating income	3,249,750	2,866,570	(503,109)	5,613,211
Operating expenses	(415,285)	(2,790,290)	(896,262)	(4,101,837)
Profit/(loss) before income tax	2,834,465	76,280	(1,399,371)	1,511,374
Segment assets	48,553,608	75,405,681	35,134,719	159,094,008
Segment liabilities	36,172,514	51,718,905	1,016,467	88,907,886
Other segment items:				
Depreciation and amortization on property, equipment and intangible assets	-	-	683,142	683,142
Loans to customers	47,962,830	50,368,536	-	98,331,366
Property, equipment and intangible assets	-	-	3,240,549	3,240,549
Investment property	-	-	343,691	343,691
Customer accounts	35,940,027	9,379,176	-	45,319,203

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows an analysis of financial instruments recorded at fair value by the level of the fair value hierarchy:

	Date of valuation	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Fair value measurement using Significant unobservable inputs (Level 3)	Total
Assets measured at fair value					
Investment securities	December 31, 2021	14,817,668	-	-	14,817,668
Assets for which fair values are disclosed					
Cash and balances with the CBRA	December 31, 2021	33,832,099	-	-	33,832,099
Due from banks and other financial institutions	December 31, 2021	-	-	14,328,569	14,328,569
Loans to customers	December 31, 2021	-	-	98,014,538	98,014,538
Other financial assets	December 31, 2021	-	-	592,066	592,066
Liabilities for which fair values are disclosed					
Due to banks, government and other financial institutions	December 31, 2021	-	-	44,319,044	44,319,044
Customer accounts	December 31, 2021	-	-	50,526,975	50,526,975
Lease liabilities	December 31, 2021	-	-	239,493	239,493
Other financial liabilities	December 31, 2021	-	-	422,166	422,166

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		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	December 31, 2020	11,316,803	-	-	11,316,803
Assets for which fair values are disclosed					
Cash and balances with the CBRA	December 31, 2020	29,184,188	-	-	29,184,188
Due from banks and other financial institutions	December 31, 2020	-	-	12,067,949	12,067,949
Loans to customers	December 31, 2020	-	-	98,331,366	98,331,366
Other financial assets	December 31, 2020	-	-	717,694	717,694
Liabilities for which fair values are disclosed					
Due to banks, government and other financial institutions	December 31, 2020	-	-	42,339,729	42,339,729
Customer accounts	December 31, 2020	-	-	45,319,203	45,319,203
Lease liabilities	December 31, 2020	-	-	259,650	259,650
Other financial liabilities	December 31, 2020	-	-	437,082	437,082

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or have 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, without specific maturity and variable-rate financial instruments.

Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

31. RISK MANAGEMENT POLICIES

The risk management function within the Bank is carried out in respect of financial risks (credit, market, geographical, currency, liquidity and interest rate), operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures to minimize operational and legal risks.

The Bank recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Bank has established a risk management framework, whose main purpose is to protect the Bank from risk and allow it to achieve its performance objectives. Through the risk management framework, the Bank manages the following risks:

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

The methods and assumptions applied in determining fair values

The estimated fair values of financial instruments have been determined by the Bank, using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Republic of Azerbaijan continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and, therefore, not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Where quoted market prices are not available, the Bank used valuation techniques. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Credit risk

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets.

Risk Management and monitoring is performed within set limits of authority, by the Credit Committees and the Bank's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Department and branches' credit divisions.

The Bank structures the level of the credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product are approved quarterly by the Management Board.

The exposure to any one borrower including banks is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Expected credit loss (ECL) measurement – definitions

ECL is a probability-weighted estimate of the present value of future cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of default occurring in a given time period used as weights). An ECL measurement is unbiased and determined by evaluating a range of possible outcomes.

Discount Rate – a tool to discount an expected loss to the present value at the reporting date. The discount rate represents the effective interest rate (EIR) for the financial instrument or an approximation thereof.

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Lifetime period – the maximum period over which ECL should be measured. For loans with a fixed maturity, the lifetime period is equal to the remaining contractual period. For loan commitments and financial guarantee contracts, this is the maximum contractual period over which an entity has a present contractual obligation to extend credit. For credit cards issued to individuals, it is the period that is based on internal statistics, and it is equal to 3 years.

Lifetime ECL – losses that result from all possible default events over the remaining lifetime period of the financial instrument.

12-month ECL – the portion of lifetime ECLs that represent the ECLs resulting from default events on a financial instrument that are possible within 12 months after the reporting date that are limited by the remaining contractual life of the financial instrument.

Forward-looking information – the information that includes the key macroeconomic variables impacting credit risk and expected credit losses for each portfolio segment. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Credit Conversion Factor (CCF) – a coefficient that shows that the probability of conversion of an off-balance sheet amounts to exposure on the balance within a defined period. It can be calculated for a 12-month or lifetime period. Based on the analysis performed, the Bank considers that 12-month and lifetime CCFs are the same.

Purchased or originated credit-impaired (POCI) financial assets – financial assets that are credit-impaired upon initial recognition.

Low credit risk financial assets – assets that have an investment grade defined by external rating agencies or corresponding internal rating, debt instruments issued by the Republic of Azerbaijan and nominated in AZN, loans to companies owned by the Republic of Azerbaijan and nominated in AZN. The presumption, being that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due, has not been rebutted.

Default and credit-impaired asset – a loan is in default, meaning fully aligned with the definition of credit-impaired when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the loan is restructured less than 6 months ago and is 31-90 days past due on its contractual payments;
- the borrower has the external rating below Caa2;
- the Bank considers to sell the borrower's debt with significant losses (more than 5% of the debt principal balance and accrued interest);
- other information available on borrower bankruptcy or default.

The Main Credit Committee decides on recognition of the borrower as credit-impaired one based on the unlikeliness-to-pay criteria listed below:

- the borrower is insolvent;
- it is becoming likely that the borrower will enter bankruptcy;
- other criteria reflecting difficulties with successful fulfilling of obligations by the borrower.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months.

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Significant increase in credit risk (SICR) – the SICR assessment is performed on an individual basis and on a portfolio basis. For loans issued to legal entities and individuals, interbank loans and debt securities accounted for at AC or at FVOCI, SICR is assessed on an individual basis by monitoring the triggers stated below. The criteria used to identify a SICR are monitored and reviewed periodically for appropriateness by the Bank’s Risk Management Department.

The Bank considers a financial instrument to have experienced a SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

For loans issued to legal entities and bonds issued by the legal entities, interbank operations and bonds issued by the banks:

- 31-90 days past due;
- Restructured and 6-30 days past due;
- Monitoring suggests borrower has financial difficulties.

For loans to Individuals:

- 31-90 days past due;
- Restructured and 6-30 days past due;
- Refinanced loan – a special type of loan when all loans of the borrower are refinanced into one.

If there is evidence that the SICR criteria are no longer met and this has lasted at least 6 months, the instrument will be transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Bank monitors whether that indicator continues to exist or has changed.

ECL measurement – description of estimation techniques

General principle

For non-POCI financial assets, ECLs are generally measured based on the risk of default over one of two different time periods, depending on whether the credit risk of the borrower has increased significantly since initial recognition. This approach can be summarized in a three-stage model for ECL measurement:

Stage 1: a financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition; loss allowance is based on 12-month ECLs.

Stage 2: if a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but not yet deemed to be credit-impaired; loss allowance is based on lifetime ECLs.

Stage 3: if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3 and loss allowance is based on lifetime ECLs.

ECL for POCI financial assets is always measured on a lifetime basis (Stage 3), so at the reporting date, the Bank only recognizes the cumulative changes in lifetime expected credit losses.

The Bank can carry out three separate approaches for ECL measurement:

- assessment on an individual basis;
- assessment on a portfolio basis;
- assessment based on external ratings.

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The Bank performs an assessment on an individual basis for the following types of loans issued to legal entities: loans with unique credit risk characteristics, individually significant loans and credit-impaired loans.

The Bank performs an assessment on a portfolio basis for the following types of assets: loans and credit-related commitments issued to legal entities (standard lending, specialized lending, loans to leasing companies, etc.), interbank loans, retail loans and loans issued to SMEs. This approach incorporates aggregating the portfolio into homogeneous segments based on borrower-specific information.

The Bank performs assessments on external ratings for the following types of loans: interbank loans, debt securities issued by the banks, legal entities and sovereigns, loans issued to sovereigns.

Principles of assessment on an individual basis – ECL assessments on an individual basis are done by weighting the estimates of credit losses for different possible outcomes against the probabilities of each outcome. The Bank defines at least two possible outcomes for each loan, one of which leads to credit loss in spite of the probability of such a scenario. Individual assessment is mainly based on the expert judgement of the Problem Loans Collection Department. Expert judgements are regularly tested in order to decrease the difference between estimates and actual losses.

Principles of assessment on a portfolio basis – to assess the staging of exposure and to measure a loss allowance on a collective basis, the Bank combines its exposures into segments on the basis of shared credit risk characteristics, such as that exposures to risk within a group are homogeneous.

Examples of shared characteristics include type of customer (such as income-producing real estate or leasing companies), product type (such as credit cards or cash loans), credit risk rating and date of initial recognition.

The different segments reflect differences in credit risk parameters such as PD and LGD. The appropriateness of groupings is monitored and reviewed on a periodic basis by the Risk Management Department.

In general, ECL is the multiplication of the following credit risk parameters: EAD, PD and LGD (definitions of the parameters are provided above). The general approach used for ECL calculation is stated below. It could be applied for products assessed on a portfolio basis and for products for which the bank has credit risk ratings assessment based on borrower-specific information.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for the next 12 months or instrument lifetime. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has been repaid or defaulted in an earlier period).

The brief principles of calculating the credit risk parameters are as following.

The EADs are determined based on the expected payment profile, which varies by product type:

- for amortizing products and bullet repayment loans, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.
- for revolving products, the EAD is predicted by taking the current drawn balance and adding a credit conversion factor that accounts for the expected drawdown of the remaining limit by the time of default.

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Two types of PDs are used for calculating ECLs: 12-month and lifetime PD:

- 12-month PDs – the estimated probability of a default occurring within the next 12 months (or over the remaining life of the financial instrument if less than 12 months). This parameter is used to calculate 12-month ECLs. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for forward-looking information when appropriate.
- Lifetime PDs – the estimated probability of a default occurring over the remaining life of the financial instrument. This parameter is used to calculate lifetime ECLs for Stage 2 exposures. An assessment of a Lifetime PD is based on the latest available historic default data and adjusted for forward-looking information when appropriate.

To calculate Lifetime PD, the Bank uses different statistical approaches depending on the segment and product type, such as the extrapolation of 12-month PDs based on migration matrixes and developing lifetime PD curves based on the historical default data. For lifetime PD calculations, the Bank uses historical default data and the extrapolation of trends for longer periods during which default data was not available.

LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by the product, stage and availability of collateral or other credit support.

The 12-month and lifetime LGDs are determined based on the factors that impact the expected recoveries after a default event.

The approach to LGD measurement can be divided into three possible approaches:

- measurement of LGD based on the specific characteristics of the collateral;
- calculation of LGD on a portfolio basis based on recovery statistics;
- individually defined LGD depending on different factors and scenarios.

For loans secured by real estate, the Bank calculates LGD based on specific characteristics of the collateral, such as projected collateral values, historical discounts on sales and other factors.

For particular segments of the corporate, retail, interbank loan portfolio and corporate bonds, LGD is calculated on a collective basis based on the latest available recovery statistics.

ECL measurement for off-balance sheet financial instruments

CCF for undrawn credit lines of legal entities, credit cards issued to individuals and financial guarantees are defined based on a statistical analysis of exposure at default.

CCF for overdrafts is defined as 100% since the limits can be used by the clients at any time.

Principles of assessment based on external ratings – the principles of ECL calculations based on external ratings are the same as for their assessment on a portfolio basis. Since the clients have defined the external credit rating, credit risk parameters (PD) could be taken from the default and recovery statistics published by international rating agencies.

Forward-looking information is incorporated in the ECL models. The assessment of the SICR and the calculation of ECLs both incorporate forward-looking information. The Bank has performed historical analyses and identified the key economic variables impacting credit risk and ECLs for each portfolio.

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These economic variables and their associated impact on the PD vary by financial instrument. These economic variables, such as consumer price index changes, nominal and real GDP growth, nominal and real effective exchange rates, USD exchange rate changes, changes in the budget expenditures have been tested by performing statistical regression analysis to understand the impact of changes in these variables has historically had on default rates.

Based on them the Bank's Risk Management Department makes the forecast of future macroeconomic conditions, which is considered by the management of the Bank to define the next coming stage of the economic cycle using not only a statistical approach but also the expert judgement of the management.

The assessment of SICR is performed using the Lifetime PD for retail borrowers and 12-month PD for other financial assets, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether a 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability-weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running the relevant ECL model.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different from those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the nonlinearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Validation

The Bank regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit. Such validation is performed at least once a year. The results of validation of the ECL measurement methodology are communicated to the Bank management and further steps for tuning models and assumptions are defined after discussions between authorized persons.

Assessment of loss allowance for credit related commitments

Assessment of loss allowance for credit-related commitments is performed on a similar basis with balance sheet exposures by application of credit conversion factor (CCF) if the counterparty has current balance sheet exposure. Statistical information and Basel Committee values are used for the calculation of CCF. If the counterparty does not have balance sheet exposure the assessment of expected credit loss allowance is performed on an individual or collective basis depending on the amount of exposure by applying CCF.

Maximum exposure

The Bank's maximum exposure to on statement of financial position credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum credit risk for off-balance items, mainly letters of credit and guarantees, represents the gross amount of the commitment. The Bank's maximum exposure to off-balance credit risk is disclosed in Note 26 "Commitments and Contingencies".

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Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

The following table presents the maximum exposure to the credit risk of financial assets and contingent liabilities. For financial assets, the maximum exposure equals to a carrying value of those assets prior to any offset or collateral. For financial guarantees and other contingent liabilities, the maximum exposure to credit risk is the maximum amount the Bank would have to pay if the guarantee was called on or in the case of commitments, if the loan amount was called on.

				December 31, 2021
	Maximum exposure	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral pledged
Balances with the CBRA less minimum reserve deposits with the CBRA	23,814,498	23,814,498	-	23,814,498
Due from banks and other financial institutions	14,328,569	14,328,569	-	14,328,569
Investment securities	14,817,668	14,817,668	-	14,817,668
Loans to customers	98,014,538	96,343,372	88,758,892	7,584,480
Other financial assets	592,066	592,066	-	592,066
Guarantees issued	12,346,194	12,346,194	-	12,346,194
Commitments on loans and unused credit lines	7,593,821	7,593,821	-	7,593,821

				December 31, 2020
	Maximum exposure	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral pledged
Balances with the CBRA less minimum reserve deposits with the CBRA	15,992,945	15,992,945	-	15,992,945
Due from banks and other financial institutions	12,067,949	12,067,949	-	12,067,949
Investment securities	11,316,803	11,316,803	-	11,316,803
Loans to customers	98,331,366	96,052,669	93,560,113	2,492,556
Other financial assets	717,694	717,694	-	717,694
Guarantees issued	8,061,400	8,061,400	-	8,061,400
Commitments on loans and unused credit lines	10,065,371	10,065,371	-	10,065,371

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch Rating. The highest possible rating is AAA. Investment-grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as a speculative grade.

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As at December, 31 2021 and 2020 the balances with the CBRA less minimum reserve deposits with the CBRA amounted to AZN 23,814,498 and AZN 15,992,945 respectively. The credit rating of the Republic of Azerbaijan according to the international rating agencies in 2021 corresponded to investment level BB+ (2020: BB+).

The following table details credit ratings of financial assets held by the Bank as at December 31, 2021 and 2020 (this information is prepared for all financial assets that are neither past due nor impaired):

	December 31, 2021							
	A	A-	BBB	BB+	BB-	B+	Not rated	Total
Cash balances with the CBRA, excluded mandatory reserve deposits	-	-	-	23,814,498	-	-	-	23,814,498
Due from banks and other financial institutions	-	6,386,972	1,417,373	-	108,876	1,548,149	4,867,199	14,328,569
Investment securities	-	-	-	8,984,096	-	-	5,833,572	14,817,668
Loans to customers	-	-	-	-	-	-	98,014,538	98,014,538
Other financial assets	-	-	-	-	-	-	592,066	592,066

	December 31, 2020							
	A	A-	BBB	BB+	BB-	B+	Not rated	Total
Cash balances with the CBRA, excluded mandatory reserve deposits	-	-	-	15,993,790	-	-	-	15,993,790
Due from banks and other financial institutions	-	5,379,299	1,193,754	-	91,699	1,303,897	4,099,300	12,067,949
Investment securities	798,681	-	-	10,518,122	-	-	-	11,316,803
Loans to customers	-	-	-	-	-	-	98,331,366	98,331,366
Other financial assets	-	-	-	-	-	-	717,694	717,694

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. The Credit risk exposure of the Bank is concentrated within the Republic of Azerbaijan. The exposure is monitored on a regular basis to ensure that the credit limits and creditworthiness guidelines established by the Bank's risk management policy are not breached.

Geographical concentration

The Management exercises control over the risk in the legislation and regulatory arena and assesses its influence on the Bank's activity. This approach allows the Bank to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

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

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2021 Total
FINANCIAL ASSETS				
Cash and balances with the CBRA	33,832,099	-	-	33,832,099
Due from banks and other financial institutions	6,495,643	681,773	7,151,153	14,328,569
Investment securities	14,817,668	-	-	14,817,668
Loans to customers	98,014,538	-	-	98,014,538
Other financial assets	592,066	-	-	592,066
TOTAL FINANCIAL ASSETS	153,752,014	681,773	7,151,153	161,584,940
FINANCIAL LIABILITIES				
Due to banks, government and other financial institutions	44,319,044	-	-	44,319,044
Customer accounts	49,432,187	840,543	254,245	50,526,975
Lease liabilities	239,493	-	-	239,493
Other financial liabilities	422,166	-	-	422,166
TOTAL FINANCIAL LIABILITIES	94,412,890	840,543	254,245	95,507,678
NET POSITION	59,339,124	(158,770)	6,896,908	66,077,262
	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	December 31, 2020 Total
FINANCIAL ASSETS				
Cash and balances with the CBRA	29,184,188	-	-	29,184,188
Due from banks and other financial institutions	5,384,755	5,379,298	1,303,896	12,067,949
Investment securities	10,518,122	798,681	-	11,316,803
Loans to customers	96,613,475	4,481	1,713,410	98,331,366
Other financial assets	717,694	-	-	717,694
TOTAL FINANCIAL ASSETS	142,418,234	6,182,460	3,017,306	151,618,000
FINANCIAL LIABILITIES				
Due to banks, government and other financial institutions	42,339,729	-	-	42,339,729
Customer accounts	43,673,305	1,297,696	348,202	45,319,203
Lease liabilities	259,650	-	-	259,650
Other financial liabilities	437,082	-	-	437,082
TOTAL FINANCIAL LIABILITIES	86,709,766	1,297,696	348,202	88,355,664
NET POSITION	55,708,468	4,884,764	2,669,104	63,262,336

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Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due.

The Assets and Liabilities Management Committee (“ALMC”) controls these types of risks by means of maturity analysis, determining the Bank’s strategy for the next financial period. Current liquidity is managed by the ALMC, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Bank performs daily monitoring of expected future cash flows on clients’ and banking operations, which is a part of the assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

An analysis of the liquidity and interest rate risks is presented in the following table. The tables have been drawn up to detail:

- (i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Bank can be required to pay; and
- (ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Bank anticipates that the cash flow will occur in a different period.

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity Undefined	December 31, 2021 Total
FINANCIAL ASSETS							
Cash and balances with the CBRA	2,070,502	-	-	-	-	-	2,070,502
Due from banks and other financial institutions	-	-	4,471,083	-	-	-	4,471,083
Investment securities	-	-	-	13,071,599	1,536,800	-	14,608,399
Loans to customers	4,939,973	9,290,743	27,252,773	29,195,855	24,872,638	2,462,556	98,014,538
Total interest-bearing financial assets	7,010,475	9,290,743	31,723,856	42,267,454	26,409,438	2,462,556	119,164,522
Cash and balances with the CBRA	31,341,175	-	-	-	-	420,422	31,761,597
Due from banks and other financial institutions	9,857,486	-	-	-	-	-	9,857,486
Investment securities	209,269	-	-	-	-	-	209,269
Other financial assets	592,066	-	-	-	-	-	592,066
Total financial assets	49,010,471	9,290,743	31,723,856	42,267,454	26,409,438	2,882,978	161,584,940
FINANCIAL LIABILITIES							
Due to banks, government and other financial institutions	-	-	1,281,171	10,501,643	32,424,729	-	44,207,543
Customer accounts	384,940	2,437,764	8,172,008	2,320,503	-	-	13,315,215
Lease liabilities	6,978	13,698	62,590	156,227	-	-	239,493
Total interest-bearing financial liabilities	391,918	2,451,462	9,515,769	12,978,373	32,424,729	-	57,762,251
Due to banks, government and other financial institutions	111,501	-	-	-	-	-	111,501
Customer accounts	37,211,760	-	-	-	-	-	37,211,760
Other financial liabilities	422,166	-	-	-	-	-	422,166
Total financial liabilities	38,137,345	2,451,462	9,515,769	12,978,373	32,424,729	-	95,507,678
Liquidity gap	10,873,126	6,839,281	22,208,087	29,289,081	(6,015,291)		
Cumulative liquidity gap	10,873,126	17,712,407	39,920,494	69,209,575	63,194,284		

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	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity Undefined	December 31, 2020 Total
FINANCIAL ASSETS							
Cash and balances with the CBRA	5,335,225	-	-	-	-	-	5,335,225
Due from banks and other financial institutions	28,612	-	568,161	3,502,528	-	-	4,099,301
Investment securities	-	-	5,247,712	5,919,287	-	-	11,166,999
Loans to customers	<u>7,312,625</u>	<u>14,250,997</u>	<u>33,534,019</u>	<u>19,006,815</u>	<u>21,581,831</u>	<u>2,645,079</u>	<u>98,331,366</u>
Total interest-bearing financial assets	<u>12,676,462</u>	<u>14,250,997</u>	<u>39,349,892</u>	<u>28,428,630</u>	<u>21,581,831</u>	<u>2,645,079</u>	<u>118,932,891</u>
Cash and balances with the CBRA	23,504,980	-	-	-	-	343,983	23,848,963
Due from banks and other financial institutions	7,968,648	-	-	-	-	-	7,968,648
Investment securities	149,804	-	-	-	-	-	149,804
Other financial assets	<u>717,694</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>717,694</u>
Total financial assets	<u>45,017,588</u>	<u>14,250,997</u>	<u>39,349,892</u>	<u>28,428,630</u>	<u>21,581,831</u>	<u>2,989,062</u>	<u>151,618,000</u>
FINANCIAL LIABILITIES							
Due to banks, government and other financial institutions	-	-	-	9,179,488	33,072,209	-	42,251,697
Customer accounts	554,030	2,308,375	5,863,724	5,180,782	-	-	13,906,911
Lease liabilities	<u>4,601</u>	<u>9,437</u>	<u>43,428</u>	<u>202,184</u>	<u>-</u>	<u>-</u>	<u>259,650</u>
Total interest-bearing financial liabilities	<u>558,631</u>	<u>2,317,812</u>	<u>5,907,152</u>	<u>14,562,454</u>	<u>33,072,209</u>	<u>-</u>	<u>56,418,258</u>
Due to banks, government and other financial institutions	88,032	-	-	-	-	-	88,032
Customer accounts	31,412,292	-	-	-	-	-	31,412,292
Other financial liabilities	<u>437,082</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>437,082</u>
Total financial liabilities	<u>32,496,037</u>	<u>2,317,812</u>	<u>5,907,152</u>	<u>14,562,454</u>	<u>-</u>	<u>-</u>	<u>88,355,664</u>
Liquidity gap	<u>12,521,551</u>	<u>11,933,185</u>	<u>33,442,740</u>	<u>13,866,176</u>	<u>(11,490,378)</u>		
Cumulative liquidity gap	<u>12,521,551</u>	<u>24,454,736</u>	<u>57,897,476</u>	<u>71,763,652</u>	<u>60,273,274</u>		

The majority of the Bank's interest-earning assets and interest-bearing liabilities are at fixed rates of interest.

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature are crucial in determining the Bank's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

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

	2021 Average effective interest rate, %			2020 Average effective interest rate, %		
	AZN	USD	Other currencies	AZN	USD	Other currencies
Interest-bearing assets						
Cash and balances with the CBRA	6.01	-	-	5.85	-	-
Due from banks and other financial institutions	11.00	-	-	11.86	-	-
Loans to customers	9.40	7.12	26.00	9.60	7.36	26.00
Investment securities	6.76	3.94	-	8.26	3.73	-
Interest-bearing liabilities						
Due to banks, government and other financial institutions	2.98	-	-	2.61	-	-
Customer accounts	8.77	2.37	0.61	4.50	1.42	0.47

Further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

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

	Demand and less than 1 month	From 1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Due to banks, government and other financial institutions	233,447	219,210	2,267,580	15,576,631	38,221,403	56,518,271
Customer accounts	429,379	2,519,337	8,428,061	2,365,267	-	13,742,044
Lease liabilities	7,721	15,442	68,781	170,658	-	262,602
Total interest-bearing financial liabilities	670,547	2,753,989	10,764,422	18,112,556	38,221,403	70,522,917
Due to banks, government and other financial institutions	111,501	-	-	-	-	111,501
Customer accounts	37,211,760	-	-	-	-	37,211,760
Other financial liabilities	422,166	-	-	-	-	422,166
Total potential future payments for financial obligations	38,415,974	2,753,989	10,764,422	18,112,556	38,221,403	108,268,344

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

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

	Demand and less than 1 month	From 1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
FINANCIAL LIABILITIES						
Due to banks, government and other financial institutions	92,212	184,423	829,906	13,524,876	37,687,837	52,319,254
Customer accounts	607,905	2,410,994	6,205,463	5,377,627	-	14,601,989
Lease liabilities	5,977	11,954	53,795	225,490	-	297,216
Total interest-bearing financial liabilities	706,094	2,607,371	7,089,164	19,127,993	37,687,837	67,218,459
Due to banks, government and other financial institutions	88,032	-	-	-	-	88,032
Customer accounts	31,412,292	-	-	-	-	31,412,292
Other financial liabilities	437,082	-	-	-	-	437,082
Total potential future payments for financial obligations	32,643,500	2,607,371	7,089,164	19,127,993	37,687,837	99,155,865

Customer accounts are classified in the above analysis based on contractual maturities. However, in accordance with the Azerbaijani Civil Code, individuals have a right to withdraw their deposits prior to maturity, if they forfeit their right to accrued interest.

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the Bank is exposed. There have been no changes as to the way the Bank measures risk or to the risk it is exposed in 2021 and 2020.

The ALMC manages interest rate and market risks by matching the Bank's interest rate position, which provides the Bank with a positive interest margin. The ALMC also conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in interest rates and its influence on the Bank's profitability.

The majority of the Bank's loan contracts and other financial assets and liabilities bear fixed interest rates. The Bank monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

The Bank manages fair value interest rate risk through periodic estimation of potential losses that could arise from adverse changes in market conditions. The Management Board of the Bank conducts monitoring of the Bank's current financial performance, estimates the Bank's sensitivity to changes in fair value interest rates and its influence on the Bank's profitability.

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) (In Azerbaijani Manats)

Impact on profit before tax:

	As at December 31, 2021		As at December 31, 2020	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
FINANCIAL ASSETS				
Cash and balances with the CBRA	20,705	(20,705)	53,352	(53,352)
Due from banks and other financial institutions	44,711	(44,711)	40,993	(40,993)
Investment securities	146,084	(146,084)	111,670	(111,670)
Loans to customers	980,145	(980,145)	983,314	(983,314)
FINANCIAL LIABILITIES				
Due to banks, government and other financial institutions	(442,075)	442,075	(422,517)	422,517
Customer accounts	(133,152)	133,152	(139,069)	139,069
Lease liabilities	(2,395)	2,395	(2,597)	2,597
Net impact on profit before tax	614,023	(614,023)	625,146	(625,146)

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Management Board sets limits on the level of exposure by currencies, which give the Bank an opportunity to minimize losses from significant currency rate fluctuations toward its national currency. The ALMC performs daily monitoring of the Bank's open currency position with the aim to match the requirement of the CBRA. These limits also comply with the minimum requirements of the CBRA.

The Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other currency	December 31, 2021 Total
FINANCIAL ASSETS					
Cash and balances with the CBRA	18,200,840	12,769,202	2,779,673	82,384	33,832,099
Due from banks and other financial institutions	4,472,348	8,462,207	1,246,962	147,052	14,328,569
Investment securities	3,976,037	10,841,631	-	-	14,817,668
Loans to customers	91,416,665	6,573,275	24,598	-	98,014,538
Other financial assets	325,790	163,813	85,515	16,948	592,066
TOTAL FINANCIAL ASSETS	118,391,680	38,810,128	4,136,748	246,384	161,584,940
FINANCIAL LIABILITIES					
Due to banks, government and other financial institutions	44,319,044	-	-	-	44,319,044
Customer accounts	14,064,441	32,316,687	3,998,940	146,907	50,526,975
Lease liabilities	239,493	-	-	-	239,493
Other financial liabilities	334,199	74,259	13,708	-	422,166
TOTAL FINANCIAL LIABILITIES	58,957,177	32,390,946	4,012,648	146,907	95,507,678
OPEN CURRENCY POSITION	59,434,503	6,419,182	124,100	99,477	

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	AZN	USD	EUR	Other Currency	December 31, 2020 Total
FINANCIAL ASSETS					
Cash and balances with the CBRA	18,932,208	7,581,790	2,601,380	68,810	29,184,188
Due from banks and other financial institutions	4,099,301	6,523,787	1,358,300	86,561	12,067,949
Investment securities	2,909,429	8,407,374	-	-	11,316,803
Loans to customers	91,406,433	6,912,738	12,195	-	98,331,366
Other financial assets	304,404	261,015	138,666	13,609	717,694
TOTAL FINANCIAL ASSETS	117,651,775	29,686,704	4,110,541	168,980	151,618,000
FINANCIAL LIABILITIES					
Due to banks, government and other financial institutions	42,339,729	-	-	-	42,339,729
Customer accounts	15,995,696	25,212,498	4,027,304	83,705	45,319,203
Lease liabilities	259,650	-	-	-	259,650
Other financial liabilities	311,324	115,336	10,343	79	437,082
TOTAL FINANCIAL LIABILITIES	58,906,399	25,327,834	4,037,647	83,784	88,355,664
OPEN CURRENCY POSITION	58,745,376	4,358,870	72,894	85,196	

Currency risk sensitivity

The following tables detail the Bank's sensitivity to a 10 percent increase and decrease in the USD and EUR against the AZN. 10 percent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Bank where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

	As at December 31, 2021		As at December 31, 2020	
	AZN/USD +10%	AZN/USD -10%	AZN/USD +10%	AZN/USD -10%
Net impact on profit before tax	641,918	(641,918)	435,887	(435,887)

	As at December 31, 2021		As at December 31, 2020	
	AZN/EUR +10%	AZN/EUR -10%	AZN/EUR +10%	AZN/EUR -10%
Net impact on profit before tax	12,410	(12,410)	7,289	(7,289)

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021 (Continued) *(In Azerbaijani Manats)*

Price risks

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Bank is exposed to price risks of its products that are subject to general and specific market fluctuations.

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors.

It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analysis does not take into consideration that the Bank's assets and liabilities are actively managed. Additionally, the financial position of the Bank may vary at the time that any actual market movement occurs. For example, the Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective actions. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate the potential risk that only represents the Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

32. EVENTS AFTER REPORTING DATE

On February 21, 2022, Russia officially recognized the Donetsk People's Republic and the Luhansk People's Republic, two self-proclaimed states in the Donbas region of eastern Ukraine, and sent troops to the territories. On February 24, 2022, Russia launched a large-scale military operation in the Republic of Ukraine. It was a major escalation between the two countries since 2014. The invasion received widespread international condemnation, including new sanctions imposed on Russia by European countries, the UK and the United States of America. The sanctions covered Russia's central bank and sovereign wealth funds, effectively freezing their assets and banning dealings with the Russian financial institutions. Certain Russian banks were banned from SWIFT as well.

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

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