Central Bank of the Republic of Azerbaijan

Consolidated Financial Statements
for the year ended 31 December 2022

CONTENTS

Independent Auditor's Report

To the Management Board of the Central Bank of the Republic of Azerbaijan

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Central Bank of the Republic of Azerbaijan (the "Bank") and its subsidiary (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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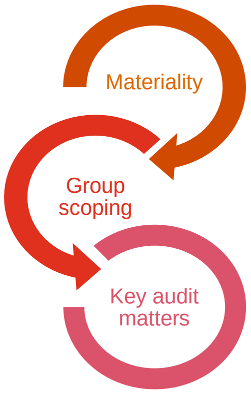
Our audit approach

Overview



- Overall Group materiality is calculated based on total assets benchmark.
- We have audited the financial statements of the Bank, as well as the material balances and transactions of the subsidiary included in the consolidated financial statements of the Group.
- Assessment of expected credit losses allowance for loans to credit institutions and debt securities at amortised cost (AC) in accordance with International Financial Reporting Standard 9, Financial Instruments (IFRS 9).

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the consolidated financial statements as a whole.

As set out in Article 4 of the Law of the Republic of Azerbaijan on the Central Bank, the primary goal of the Bank is to ensure price stability, organise and ensure operation of the centralized interbank and other payment systems as well as support the stability of the banking system. The Law also explicitly states the primary goal of the Bank shall not be profit making. Hence, we chose total assets as the benchmark.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of expected credit losses on allowance for loans to credit institutions and debt securities at amortised cost (AC) in accordance with International Financial Reporting Standard 9, Financial Instruments (IFRS 9). Assessment of expected credit losses (ECL) on loans to credit institutions and debt securities at amortised cost (AC) based on the requirements of International Financial Reporting Standard 9, Financial Instruments ("IFRS 9") is a key area of management's judgement. We considered the impairment of loans to credit institutions and debt securities at AC as a key audit matter due to the significance of the balances and a complex financial reporting standard, which requires significant judgement to determine the allowance. The assessment of events that cause a significant increase in credit risk, determination of probability of default, distribution of assets into three stages of impairment, and the analysis of the criteria for transition between stages involve significant professional judgment and use of assumptions. The calculation of the ECL is performed on an individual basis including the determination of the probability of default, loss given default on the basis of available historical data, adjusted for forecasted information, including forecast macroeconomic parameters. Information on the provision for ECL and the management's approach to assessing the provision and managing credit risk are disclosed in Notes 2, 7 – 10, 33 to the consolidated financial statements.	All of the loans to credit institutions and investment in debt securities at AC are held by the Bank and as such we focused our work on this area in the Bank. Our audit procedures included evaluating the Bank's process for estimating ECL, testing controls over lending process, testing overdue days, and procedures for assessing events that cause a significant increase in credit risk for borrowers based on internal classification. We have analysed the consistency of judgments used by the Bank's management in calculating the provision for ECL. We evaluated the key inputs and assumptions used by the Bank to calculate the ECL, as well as allocation of loans and debt securities to the stages. We assessed the reasonableness of the management judgment in relation to the determination of whether a significant increase in credit risk had occurred on an individual basis. For the selected credit impaired loans, we have checked the estimation of the expected cash flows from the sale of collateral and cash repayment. We recalculated the provision for ECL. We also evaluated the completeness and accuracy of the disclosures in the notes to the consolidated financial statements on the provision for ECL on loans to credit institutions and debt securities at AC.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The subsidiary of the Bank is a non-significant component, therefore only material balances and transactions of the subsidiary included in the consolidated financial statements of the Group were covered through limited audit procedures.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern basis of accounting. In discharging this responsibility, the management considers the provision of Article 14 of the Law of the Republic of Azerbaijan "On the Central Bank of the Republic of Azerbaijan", which states that "the Central Bank may not be declared bankrupt. Capital shortfall resulting from the Central Bank's activity shall be covered at the expense of securities issued by the State"

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Aigul Akhmetova.

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, Republic of Azerbaijan

22 June 2023

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2022	31 December 2021
ASSETS			
Cash and cash equivalents	4	6,583,022	6,838,991
Special Drawing Rights with the IMF	5	1,196,216	1,258,160
Derivative financial instruments	6	329	2,834
Debt securities	7	22,019,990	17,362,276
Loans to banks	8	288,889	356,281
Loans to non-bank credit organizations	9	13,845	20,014
Loans to Deposit Insurance Fund	10	221,755	236,600
Property and equipment	11	287,951	76,361
Intangible assets	12	67,118	70,218
Other financial assets	13	64,793	2,135
Other assets	14	118,079	186,698
Total assets		**30,861,987**	**26,410,568**
LIABILITIES			
Money in circulation	15	14,714,360	12,310,018
Short-term deposits of resident banks	16	1,938,977	-
Amounts due to government organisations	17	4,280,227	4,004,637
Amounts due to credit institutions	18	6,169,718	7,440,004
Amounts due to other organisations	19	16,182	11,410
Debt securities in issue	20	1,319,529	199,402
Liabilities on transactions with the IMF	5	1,199,372	1,261,131
Amounts due to international financial institutions	21	1,178	1,025
Derivative financial instruments	6	2,109	862
Other financial liabilities	22	226,424	10,875
Other liabilities		13,120	1,016
Total liabilities		**29,881,196**	**25,240,380**
EQUITY			
Charter capital	23	500,000	500,000
Capital reserves	23	480,791	526,968
Revaluation reserve for debt securities at FVOCI		(171,334)	(40,043)
Retained earnings		171,334	183,263
Total equity		**980,791**	**1,170,188**
Total liabilities and equity		**30,861,987**	**26,410,568**

The consolidated financial statements were approved by Management on 22 June 2023 and were signed on its behalf by:

Mr. Taleh Kazimov
Governor

Mr. Anar Mansurov
Director of Financial Management Department

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	2022	2021
Interest income calculated using the effective interest method	24	205,521	121,086
Other interest income	24	15,499	10,141
Interest expense	24	(167,928)	(166,457)
Net interest income/(expense)		**53,092**	**(35,230)**
Fee and commission income	25	32,421	20,488
Fee and commission expense	26	(3,700)	(3,835)
Gain on recognition of financial liabilities	27	59,042	7,487
Loss on recognition of financial assets		-	(6,415)
Net lossess from debt securities at fair value through profit or loss		(92,846)	(16,185)
Net lossess from disposals of securities measured at fair value through other comprehensive income		(29,906)	(35,394)
Net gains from derivative financial instruments		23,863	23,254
Net gains from investments in money market funds at fair value through profit or loss		4,587	133
Net lossess from foreign exchange translation	28	(68,632)	(60,298)
Impairment of debt securities at fair value through other comprehensive income		(776)	90
Net gains / (lossess) from trading in currencies		4,090	(935)
Other operating income		30,357	5,306
Recovery of impairment loss	30	39,659	18,361
Administrative and other operating expenses	31	(115,206)	(79,573)
Loss for the year		**(63,955)**	**(162,746)**
Other comprehensive loss:			
Items that are or may be reclassified subsequently to profit or loss:			
Debt securities at fair value through other comprehensive loss:	7		
- Net lossess arising during the year		(161,197)	(74,372)
- Gains less losses reclassified to profit or loss upon disposal		29,906	35,394
Other comprehensive loss for the year		**(131,291)**	**(38,978)**
Total comprehensive loss for the year		**(195,246)**	**(201,724)**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Charter fund	Capital reserves	Revaluation reserve for debt securities at FVOCI	Retained earnings	Total equity
Balance at 1 January 2021	**500,000**	**526,968**	**(1,065)**	**596,009**	**1,621,912**
Loss for the year	-	-	-	(162,746)	(162,746)
Other comprehensive loss					
Revaluation reserve for debt securities at FVOCI:					
- Net change in fair value	-	-	(74,372)	-	(74,372)
- Net amount reclassified to profit or loss	-	-	35,394	-	35,394
Total other comprehensive loss	-	-	(38,978)	-	(38,978)
Total comprehensive loss for the year	**-**	**-**	**(38,978)**	**(162,746)**	**(201,724)**
Transactions recorded directly in equity					
Transfer to the State Budget (Note 33)	-	-	-	(250,000)	(250,000)
Total transactions recorded directly in equity	**-**	**-**	**-**	**(250,000)**	**(250,000)**
Balance as at 31 December 2021	**500,000**	**526,968**	**(40,043)**	**183,263**	**1,170,188**
Balance at 1 January 2022	**500,000**	**526,968**	**(40,043)**	**183,263**	**1,170,188**
Loss for the year	-	-	-	(63,955)	(63,955)
Transfer of FX losses		(68,632)		68,632	-
Replenishment of capital reserve		22,455		(22,455)	-
National Depository Center	-	-	-	5,849	5,849
Other comprehensive loss					
Revaluation reserve for debt securities at FVOCI:					
- Net change in fair value	-	-	(161,197)	-	(161,197)
- Net amount reclassified to profit or loss	-	-	29,906	-	29,906
Total other comprehensive loss	-	-	(131,291)	-	(131,291)
Balance as at 31 December 2022	**500,000**	**480,791**	**(171,334)**	**171,334**	**980,791**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		162,834	133,968
Interest paid		(46,221)	(108,168)
Fee and commission received		32,421	20,488
Fee and commission paid		(3,700)	(3,835)
Net (payments) / receipts from trading in debt securities at FVTPL		(33,204)	15,533
Net receipts from derivative financial instruments		27,615	18,175
Net payments / (receipts) from trading in foreign currencies		4,090	(935)
Other operating income received		2,829	4,060
Net receipts from investments in money market funds at fair value through profit or loss		4,587	133
Administrative and other operating expenses paid		(85,515)	(76,010)
Cash flows used in operating activities before changes in operating assets and liabilities		**65,736**	**3,409**
(Increase)/decrease in operating assets			
Debt securities at fair value through profit or loss		(366,918)	(40,086)
Special Drawing Rights with the IMF		126	(905,281)
Loans to banks		105,469	63,137
Loans to non-bank credit organizations		6,156	5,317
Loans to Deposit Insurance Fund		30,001	(20,000)
Other financial assets		450	(316)
Other assets		25,924	(2,498)
Increase/(decrease) in operating liabilities			
Money in circulation		2,404,342	470,354
Short-term deposits of resident banks		1,886,500	(2,765,000)
Amounts due to government organisations		278,098	(904,567)
Amounts due to credit institutions		(1,226,717)	4,248,668
Amounts due to other organisations		4,772	2,344
Debt securities in issue		1,109,939	(447,951)
Other financial liabilities		3,833	(1,324)
Other liabilities		241	(939)
Net cash from operating activities		**4,327,952**	**(294,733)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of debt securities at fair value through other comprehensive income	7	(15,134,382)	(4,812,820)
Proceeds from sale and redemption of debt securities at fair value through other comprehensive income	7	10,752,219	5,813,366
Proceeds from redemption of debt securities carried at amortised cost	7	6,653	6,905
Purchases of property, equipment	11	(133,690)	(88,101)
Purchases of intangible assets	12	(11,188)	(11,301)
Cash flows from (used in) investing activities		**(4,520,388)**	**908,049**
CASH FLOWS FROM FINANCING ACTIVITIES			
Transfers to the State Budget		-	(250,000)
Proceeds of IMF borrowings		126	905,305
Repayment of IMF borrowings		(44)	-
Proceeds from amounts due to international financial institutions		391,021	311,765
Repayment of amounts due to international financial institutions		(390,868)	(312,145)
Cash flows from (used in) financing activities		**235**	**654,925**
Net decrease in cash and cash equivalents		**(192,201)**	**1,268,241**
Effect of exchange rate changes on cash and cash equivalents		(63,768)	(44,523)
Cash and cash equivalents at the beginning of the year		6,838,991	5,615,273
Cash and cash equivalents at the end of the year	4	**6,583,022**	**6,838,991**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

1 Background

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2022 for the Central Bank of the Republic of Azerbaijan (the Bank) and its subsidiary (together, the Group).

The only subsidiary of the Bank is as follows:

			Ownership %	
Name	**Country of incorporation**	**Principal activities**	**2022**	**2021**
National Depository Center of the Republic of Azerbaijan	The Republic of Azerbaijan	Depository services	100	100

The National Depository Center (the "NDC") was established on 18 September 1997 in accordance with the Regulation "On the National Depository System" approved by the Decree of the President of the Republic of Azerbaijan dated 14 May 1997.

Pursuant to the Presidental Decree dated 3 February 2016 on establishment of the public legal entity 'Financial Markets Supervisory Authority of the Republic of Azerbaijan' ("FIMSA"), the State Securities Committee of the Republic of Azerbaijan (the founder of the National Depository Center) was abolished, and the state property used by the Committee was transferred to FIMSA.

Later, based on the Presidential Decree № 1616 dated 28 November 2019 'On improvement of the management of the system of regulation and supervision in the financial services market', the Financial Market Supervisory Authority was abolished and its powers as defined in the laws of the Republic of Azerbaijan, including its rights and responsibilities in the areas of licensing, regulation and supervision, protection of rights of investors and consumers of financial services, as well as its property were transferred to the Central Bank of the Republic of Azerbaijan.

Principal activity

The Central Bank of the Republic of Azerbaijan (the "Bank") is the central bank of the Republic of Azerbaijan, and is wholly-owned by the Republic of Azerbaijan. It acts in accordance with the "Law on the Central Bank of the Republic of Azerbaijan" effective from 10 December 2004 (the "Law").

Article 4 of the Law sets out the goals of the Bank, which are as follows:

- The primary goal of the Bank is to ensure, within its power, the stability of prices;
- The goal of the Central Bank's activity shall also be to organize and ensure operation of centralized interbank and other unlicensed payment systems, as well as support the stability of the banking system
- Profit making is not a primary goal of the Bank.

Article 5 of the Law sets out the functions of the Bank as follows:

- Establish and implement the country's monetary and foreign exchange policy;
- Organize cash circulation; in accordance with paragraph 2 of article 19 of the Constitution and the Law: issue, put into circulation, and withdraw banknotes from circulation;
- Determine and declare the official exchange rate of Azerbaijani Manat;
- Implement foreign currency regulation and control;
- Maintain and manage the gold and foreign currency reserves at its disposal;
- Manage the drawing up of the reporting balance of payments and participate in the drawing-up of the projected balance of payments of the country;
- Develop the country's consolidated (public and non-public) foreign debt statistics and international investment balance, summarize and disseminate data;
- Organize, coordinate, regulate activities of and oversee centralized interbank and other unlicensed payment systems.

In accordance with Article 14.1 of the Law, the Bank cannot be declared bankrupt. Any deficit in capital is to be covered by the securities issued by the Government of Azerbaijan Republic.

1 Background (Continued)

Pursuant to the legislation of the Republic of Azerbaijan and the international treaties acceded to by the Republic of Azerbaijan, the Bank represents the Republic of Azerbaijan in relations with the central banks of foreign states, as well as international financial and credit institutions in matters relating to the Bank's responsibilities.

The Bank may conclude agreements on cooperation with the central banks of foreign countries concerning various areas of its activities. It may also conclude clearing and settlement agreements and other agreements with foreign public and private clearing agencies, on its own behalf and on behalf of the Republic of Azerbaijan, if appropriately empowered.

The Bank may participate in the capital and activity of international organisations for the purpose of cooperation in monetary and foreign exchange policy.

On 12 April 2022, upon the proposal of President of the Republic of Azerbaijan, the Azerbaijani Parliament adopted a decision on changes in the composition of the Board of the Central Bank of the Republic of Azerbaijan.

At 31 December 2022, the Management Board (the "Board") of the Bank was composed of the following members:

Name	Position
Mr. Taleh Kazimov	Governor
Mr. Rashad Orujov	First Deputy Governor
Mr. Aliyar Mammadyarov	Deputy Governor

The responsibilities of the Board and Governor are presented in Article 22 of the Law.

The Bank's main office is located at the following address: 90 Rashid Behbudov Street, Baku, AZ1014, Azerbaijan. The Bank had six regional branches in the Republic of Azerbaijan (2021: six).

Functional and presentation currency

The functional currency of the Group is Azerbaijani Manats ("AZN") as being the national currency of the Republic of Azerbaijan. These consolidated financial statements are presented in thousands of AZN, rounded to nearest thousand, unless otherwise stated.

Operating Environment of the Group

In 2022, the Bank performed its functions in accordance with its mandate and implemented a policy aimed at safeguarding the macroeconomic and financial stability in the country.

The operating environment of the Bank in 2022 is marked with multifaceted effects of global economic developments on the country economy. The year was characterized by high uncertainties related to the global economic outlook, mainly triggered by sharp increase in geopolitical and geoeconomic tensions and the lingering effects of the Covid-19 pandemic. A tightening monetary policy by central banks via limiting lending capacity to prevent persistent inflation amid uncertainty has had a dampening effect on global economic growth.

In the context of geopolitical tensions, rise in fuel and energy prices and inflation in trade partners, as well as a sharp volatility of transportation-logistic costs were the main factors impacting the inflation in the country. Annual inflation in 2022 (December 2022 compared to December 2021) was 14.4%, mainly due to price hike for food products. During 2021, 12-month inflation in Azerbaijan was 12%.

The external environment was mainly favorable for Azerbaijan in terms of the balance of payments and support of domestic economic activity. Backdrop of the balance of payments surplus was accompanied with the expanded supply and growing strategic foreign exchange reserves of the country. During the year, the exchange rate of Manat against foreign currencies was formed in accordance with the demand-supply ratio in the foreign exchange market. During the year, the daily average exchange rate of Azerbaijani Manat against the US Dollar was around AZN 1.70.

In 2022 the economic growth rate remained high and the key driver of the increased economic activity was non-oil and gas sector. Annual GDP growth rate was 4.6%, supported by 9.1% in the non-oil sector. All components of aggregate demand supported economic growth. The increase in economic activity was also reflected in employment.

1 Background (Continued)

In 2022, the monetary policy of the Bank was oriented towards safeguarding price stability. In response to the aforementioned risks in the inflationary environment, the Bank tried to reduce inflation by means of monetary conditions. Monetary policy decisions were taken in light of actual and forecasted inflationary factors and the balance of risks. Since September 2022, a number of important decisions were taken by the Bank to improve the monetary policy operational framework and new monetary policy tools were launched. Standing facilities were commissioned and the range of open market operations was expanded. As a standing facility, 1-day deposit operations are used for liquidity absorbtion, 1,3,6 and 9-month note auctions has been held since October 2022 for liquidity absorbtion within the framework of the improvement of open market operations. 7-day Repo operations have been added into the arsenal of tools for liquidity absorbtion along with notes. For liquidity providing purposes, it is planned to conduct a 1-day reverse transactions as a standing facility and 7-day reverse transactions as open market operations. The mentioned measures served to strengthen the transmission of monetary policy decisions to inflation through interest channels. As a result of the introduction of new monetary policy tools, both secured and unsecured interbank short-term interest rates started to react to interest rate corridor parameters of the Central Bank for the first time..

In 2022, the Bank focused on maintaining financial sector stability and expanding financial intermediation. The work on transition of the financial regulation and supervision framework to international standards has been accelerated. The implementation of modern technologies allowed to monitor the financial transactions in real mode and proactively respond to risks. Measures on the expansion of financial intermediation are aimed at improving the access of economic entities to financial services and creating a stable demand for these services.

2 Basis of Preparation

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that financial instruments at fair value through profit or loss and financial instruments at fair value through other comprehensive income are stated at fair value.

Estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The Bank issues the loans and attract the deposits under market interest rate to ensure the sustainability and development of the financial and banking system. Such financial instruments are recorded at fair value on initial recognition using market interest rates. The Bank considers the special market segment for some financial instruments where there is no other available sources of similar financing and no comparable financial instruments. Please refer to the Notes 7, 8, 10, 16 for details of estimates in these areas.

ECL measurement

Measurement of ECLs is a significant estimate that involves determination of relevant methodology, models and data inputs. Details of ECL measurement are disclosed in Note 32. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk (“SICR”), probability of default (“PD”), exposure at default (“EAD”) and loss given default (“LGD”). The Group regularly reviews the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Impact of forward-looking assumptions correlated with ECL level and their assigned weight is not significant.

Significant increase in credit risk (“SICR”)

In order to determine whether there has been a significant increase in credit risk, the Group 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 relative increase in credit risk, all reasonable forward-looking information available without undue cost and effort, which includes a range of factors of particular borrowers. See Note 32 for SICR criterias.

2 Basis of Preparation (Continued)

Business model assessment

The Group classifies financial assets on the basis of the business model for managing the financial assets and cash flow characteristics. The business model is assessed on the basis of actual performance of the Group for holding and managing financial assets at a level of financial assets groups and portfolios (sub-portfolio), as well as Management's judgements. When assessing a business model, factors such as the purpose, strategic structure, risk parameters of financial assets, the relative significance of sources of income derived from the assets and the frequency and specific weight of purchase (sale) transactions to the portfolio are taken into account

In addition, future business expectations are also considered when determining the business model.

The Group classifies financial assets as "hold to collect", "hold to collect and sell" and "other business" model. Selling financial assets for i) monetary policy purposes, ii) re-balancing, iii) achieving higher returns; and iv) investment restrictions is an integral part of "hold to collect and sell" business model.

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

For the purpose of classification of financial assets the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). The principal is the fair value of the financial asset at initial recognition, which may change over the life of a financial instrument. The interest is the compensation for the time value of money, credit risk and other risks associated with the outstanding principal, as well as the profit margin.

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group'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.
- inverse floater condition

All the instruments that are included in "hold to collect" and "hold to collect and sell" business models passed SPPI tests.

3 Significant Accounting Policies

The accounting policies set out below are applied consistently to all periods presented in these consolidated financial statements.

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee.

Foreign currency

Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. Gains and losses resulting from the translation of foreign currency transactions are recognized in current year profit or loss for the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3 Significant Accounting Policies (Continued)

As of 31 December 2022, exchange rates for translation of foreign currency balances were as follows: US Dollar 1 = AZN 1.7000, Euro 1= AZN 1.8114, Pound Sterling 1 = AZN 2.0477 and Special Drawing Right 1 = AZN 2.2624 (31 December 2021: US Dollar 1 = AZN 1.7000, Euro 1= AZN 1.9265, Pound Sterling 1 = AZN 2.2925 and Special Drawing Right 1 = AZN 2.3793).

Financial instruments - definitions and principles of recognition of financial instruments

Financial instrument is any contract that gives rise to a financial asset of the Group and a financial liability of another entity.

Debt instrument is an instrument that meets the definition of a financial obligation from the issuer's point of view, such as loans and fixed income securities.

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 price in an active market.

Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial instrument. 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.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses. Accrued interest includes amortisation of any premium or discount to maturity amount at initial recognition using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium, are not presented separately and are included in the carrying values of 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 gross carrying amount of the financial instrument.

The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date.

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 on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Calculation of interest income and expense

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

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

Expected credit losses ("ECL") – the weighted average of credit losses with the respective risks of a default.

12-month expected credit losses – the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime expected credit losses – the expected credit losses that result from all possible default events over the expected life of a financial instrument.

3 Significant Accounting Policies (Continued)

Financial instruments – initial recognition

Upon initial recognition, the Group classifies its financial assets into the following categories: at amortised cost (AC), at fair value through other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL).

Financial assets at FVTPL are initially recorded at fair value. Financial assets at AC and at FVOCI are initially recorded at fair value adjusted for transaction costs.

Fair value at initial recognition is best evidenced by the transaction price. In circumstances where the fair value of a financial asset or liability at initial recognition is different from the transaction price, a gain or loss equal to the difference is immediately recognised in profit or loss if and only if the fair value measurement is evidenced by a quoted price in an active market for an identical asset or liability, or is based on a valuation technique that uses only data from observable markets. If the fair value measurement at initial recognition does not meet either of these conditions, then the difference is deferred and subsequently recognised as a gain or loss only to the extent it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and debt instruments measured at FVOCI.

Financial assets – classification and subsequent measurement – measurement categories

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, time value of money, other basic lending risks and profit margin.

The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed. Refer to Note 2 for critical judgements applied by the Group in performing the SPPI test for its financial assets.

Financial assets – reclassification

Financial instruments are reclassified only when the business model for the portfolio changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model.

Financial assets impairment – credit loss allowance for ECL

The Group measures, on a forward-looking basis, the ECL for financial instruments measured at AC and FVOCI and recognises 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 information about past events, current conditions and forecasts of future conditions before the reporting date.

Debt instruments measured at AC are presented in the statement of financial position net of the allowance for ECL. For debt instruments at FVOCI, allowance for ECL is not recorded 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 recognised in the revaluation reserve for debt securities at FVOCI. ECL and reversals for debt securities at FVOCI are recognised in profit or loss and other changes in carrying value are recognised in OCI.

The Group 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 Group identifies a significant increase in credit risk ("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 32 for a description of how the Group determines when a SICR has occurred.

3 Significant Accounting Policies (Continued)

If the Group 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 Group's definition of credit impaired assets and definition of default is explained in Note 32. Note 32 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts in accordance with legislation. The write-off represents a derecognition event.

Financial assets – derecognition

The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all 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 restrictions on the sale.

Financial assets – modification

The Group modifies the contractual terms of the financial assets and assesses whether the modification of contractual cash flows is substantial considering, among other, the following factors: significant change in interest rate, credit enhancement that significantly affects the credit risk associated with the asset or a significant extension of a loan when the borrower is not in financial difficulties.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss.

Financial liabilities – measurement categories

Other financial liabilities are classified at AC, except for financial liabilities at FVTPL (derivatives).

Financial liabilities – derecognition

The Group shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished – i.e when the obligation specified in the contract is discharged or cancelled or expires.

If the Group 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.

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss.

3 Significant Accounting Policies (Continued)

Derivative financial instruments

Derivative financial instruments include swaps, futures and forwards.

Derivatives are initially recognized at fair value on the date when a derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents are short-term items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents consist of cash on hand in foreign currency and unrestricted balances on correspondent accounts including overnight deposits and deposits with a maturity of three months from origination as well as investments on money market funds. Cash and cash equivalents other than investments on money market funds 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 FVTPL. The investments on money market funds are required to be measured at FVTPL in accordance with IFRS 9 because the units give rise to cash flows that are not solely payments of principal and interest. The Group invests in money market fund instruments with maturities less than 90 days, highly liquid and high rated instruments. These instruments are readily convertible into cash and have a determinable market value which means that at the time of the initial investment, the Group is satisfied that the risk of changes in fair value is insignificant and the amount of cash to receive on redemption is known.

Debt securities

Based on the business model and the cash flow characteristics, the Group classifies 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 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 recognised in profit or loss. When the debt security is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from OCI to profit or loss.

Debt securities are carried at FVTPL if they do not meet the criteria for AC or FVOCI.

Property and equipment

Items of property and equipment are stated at historical cost less accumulated depreciation and impairment losses, where required.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalized, and the replaced part is retired.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss for the year (within other operating income or expenses).

Depreciation

Land and construction in progress are not depreciated. Depreciation on other items of property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation of an asset begins when it is available for use. Estimated useful life is determined using the following annual depreciation rates:

	%
Buildings	3
Furniture and fixtures	20-25
Computer and communication equipment	25
Motor vehicles	15

3 Significant Accounting Policies (Continued)

Intangible assets

Group's intangible assets have definite useful life and primarily include capitalized computer software and licenses.

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

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 1 to 10 years.

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in normal course of business, or for the use in production or supply of goods or services or for administrative purposes. Investment property is measured at fair value with any change recognized in profit or loss and included in "Other Assets".

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

Money in circulation

Money in circulation represents banknotes and coins issued by the Group and in circulation in accordance with the Law and its function as a central bank. Banknotes and coins in circulation are recorded in the statement of financial position at their nominal value net of cash in the Group's cash offices.

The costs of the production of notes and coins are expensed upon delivery by the suppliers to the Group.

When notes and coins are returned to the Group by the commercial banks they are removed from notes in circulation and depending on their condition or legal tender status, are held under the reserve funds of the Group off-balance sheet.

Amounts due to government organisations and other organisations

Amounts due to government organisations and other organisations are non-derivative liabilities and are carried at amortized cost.

Amounts due to credit institutions

Amounts due to credit institutions are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortized cost. If the Group purchases its own debt, the liability is removed from the statement of financial position.

Retirement and other benefit obligations

The Group does not have any pension arrangements in addition to the state pension system of Azerbaijan. In addition, the Group has no post-retirement benefits or other significant compensation benefits requiring accrual. In accordance with the requirements of the Azerbaijan legislation, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Upon retirement all retirement benefit payments are made by the state pension fund.

Charter fund and capital reserves

The Group's capital is comprised of its authorized paid-in charter fund and capital reserves.

Taxation

The Group is exempt from all taxes, except for taxes on employees' remuneration as a tax agent and social taxes, in accordance with the laws of the Republic of Azerbaijan.

Membership with the International Monetary Fund and other international financial institutions

Based on the provision of Article 9 of the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan, the Bank acts as an intermediary of the Government of the Republic of Azerbaijan in transactions related to the membership of the Republic of Azerbaijan in international financial organisations (e.g. IMF, World Bank), including payment of membership fees to such organisations.

3 Significant Accounting Policies (Continued)

The International Monetary Fund ("IMF") is an international organisation established to promote international monetary cooperation, exchange stability and orderly exchange arrangements; to foster economic growth and high levels of employment; and to provide temporary financial assistance to countries to help ease the balance of payments adjustments. In accordance with the presidential decree issued in 1992, the Group acts as a depository agent in relations of the Republic of Azerbaijan with the IMF and the role of fiscal agent is performed by the Ministry of Finance of the Republic of Azerbaijan.

Quotas (capital subscriptions) are the primary source of IMF resources. The IMF receives its resources from its member countries. Each country's subscription (quota) is determined broadly on the basis of the economic size of the country and taking into account quotas of similar countries. A member's quota delineates basic aspects of its financial and organisational relationship with the IMF.

Membership fees payable to IMF are denominated in Special Drawing Rights ("SDR") and are revalued in AZN at the rate of exchange set by the IMF at year-end. Membership quota and securities issued by the Ministry of Finance of the Republic of Azerbaijan in respect of IMF quota are not presented in the statement of financial position as they do not represent the assets and liabilities of the Group, but are disclosed in Note 5 to the consolidated financial statements.

General and special allocations received from the IMF to boost the liquidity of member countries are taken up by the Group as an asset under SDR holdings with the IMF and on the other hand, as a liability to the Government of the Republic of Azerbaijan.

Impairment of non-financial assets

Non-financial assets are assessed at each reporting date for any indications of impairment. The recoverable amount of non financial assets is the greater of their fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Income and expense recognition

Interest income and expense are recorded for all debt instruments 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.

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

Other fees, commissions and other income and expense items are recognized in profit or loss when the corresponding service is provided.

Non-consolidated results for the year

Under consolidated statement of profit or loss and other comprehensive income and statement of changes in equity Group discloses Bank financial results and capital for the year. Since there are no general intragroup transactions between the Central Bank and its subsidiary, the National Depository Center and accordingly no corresponding revenues or expenses that are offset or eliminated, presentation of profit or loss attributable to the Central Bank, as well as changes in equity is determined without taking into account the relevant information provided by the National Depository Center.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

3 Significant Accounting Policies (Continued)

New standards and interpretations not yet adopted

The following amended standards became effective from 1 January 2022, but did not have a material impact on the Group:

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Group has not early adopted.

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024).
- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2 *(Making Materiality Judgements)*: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024).

The Group is currently assessing the impact of new standards and interpretations on its consolidated financial statements.

4 Cash and Cash Equivalents

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022 and 2021.

	31 December 2022	31 December 2021
Cash on hand	510,925	1,973,210
Nostro accounts with non-resident banks		
- Rated excellent	5,013,807	2,896,749
- Rated good	364,513	250,699
Total nostro accounts with non-resident banks	**5,378,320**	**3,147,448**
Cash equivalents		
Short-term deposits with non-resident banks (rated excellent)	440,601	952,248
Investments in money market funds (rated excellent)	253,176	766,085
Total cash equivalents	**693,777**	**1,718,333**
Total cash and cash equivalents	**6,583,022**	**6,838,991**

Investments in money market funds are measured at FVTPL.

As at 31 December 2022, the Group has 6 banks (2021: 8 banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2022 is AZN 5,924,316 thousand (2021: AZN 4,687,173 thousand).

Refer to Note 32 for the description of the Group's credit risk grading system.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

5 Balances with the International Monetary Fund

	31 December 2022	31 December 2021
ASSETS		
Special Drawing Rights (SDR) holdings	1,196,216	1,258,160
Total assets with IMF	**1,196,216**	**1,258,160**
LIABILITIES		
Current accounts	2,556	2,474
SDR allocations	1,196,816	1,258,657
Total liabilities with IMF	**1,199,372**	**1,261,131**

SDR holdings

SDR holdings represent the current account with the IMF used for borrowings and settlements with the IMF. Interest accrued in respect of SDR holdings is calculated using the rates set by the IMF on weekly basis in accordance with short-term market rates in major money markets.

Current accounts

The Group maintains two separate accounts with the IMF for special purposes, account No. 1 and No. 2. Account No. 1 is used for paying commissions for transactions with the IMF, whereas account No.2 is used for covering expenses of IMF representatives during their visit to member countries.

SDR allocation

SDR allocation is an unconditional distribution of SDRs to member countries by the IMF. A general SDR allocation became effective since 28 August 2009. The allocation is designed to provide liquidity to the global economic system by supplementing the IMF member countries' foreign exchange reserves. General SDR allocation is determined proportionate to existing IMF quotas for each member country.

Additionally, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time SDR allocation came into force to boost global liquidity. According to the Amendment, the special allocation was made to IMF members, including the Republic of Azerbaijan on 9 September 2009 in amount of SDR 34.3 million (AZN 77,600 thousand) resulting total SDR allocation to be SDR 119.3 million (AZN 269,904 thousand) for Azerbaijan.

To support the global economy, especially the economies of countries affected by the pandemic, the IMF has distributed the next general SDR to member countries in 2021. The general SDR allocation was made to the member countries in proportion to their existing quotas in the IMF and according to the current quota of Azerbaijan, an additional SDR 375.4 million (AZN 849,305 thousand) was allocated.

Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Group treats the allocation as foreign exchange liability.

IMF Quota and securities held in custody in respect of IMF Quota

The IMF Quota, in the amount of SDR 391.7 million (AZN 886,182 thousand and AZN 931,972 thousand as at 31 December 2022 and 2021 respectively) has remained unchanged since 25 February 2016 and represents the membership subscription of the Republic of Azerbaijan with the IMF. Securities were issued by the Government of the Republic of Azerbaijan to guarantee these amounts. These securities are held by the Group on behalf of IMF as their beneficiary owner

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

6 Derivative Financial Instruments

The fair value of derivative financial instruments as at 31 December 2022 and 2021 are as follows:

	Notional amount	31 December 2022 Fair value		Notional amount	31 December 2021 Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange contracts	391,660	-	(2,109)	592,024	-	(862)
Futures contracts	2,005	154	-	43,572	345	-
SWAP contracts	19,836	175	-	338,019	2,489	-
Total derivative financial instruments	**413,501**	**329**	**(2,109)**	**973,615**	**2,834**	**(862)**

Foreign currency contracts

The table below summarizes, by major currencies, the contractual amounts of forward (including forward made on the basis of mutual settlement) exchange contracts outstanding, with details of the weighted average contractual exchange rates and remaining periods to maturity. Foreign currency amounts presented below are translated at rates ruling at the reporting date.

	Notional		Weighted average contractual exchange rates	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
Sell USD buy AZN				
Less than 5 months	-	7,178	-	1.7946
Buy USD sell EUR				
Less than 3 months	198,056	286,083	1.0681	1.1375
Sell USD buy EUR				
Less than 3 months	69,098	114,084	0.9369	0.8793
Buy USD sell GBP				
Less than 3 months	44,290	70,451	1.2033	1.3544
Sell USD buy GBP				
Less than 3 months	16,383	31,619	0.8313	0.7383
Buy USD sell CAD				
Less than 3 months	22,807	40,830	0.7381	0.7917
Sell USD buy CAD				
Less than 3 months	7,683	10,687	1.3549	1.2632
Buy USD sell other currencies				
Less than 3 months	26,301	27,768	0.5739	0.6475
Sell USD buy other currencies				
Less than 3 months	7,042	3,324	3.5015	4.2356

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

7 Debt Securities

	31 December 2022	31 December 2021
Debt securities mandatorily measured at FVTPL	1,386,359	953,367
Debt securities at FVOCI	11,158,876	6,919,668
Debt securities at AC	9,474,755	9,489,241
Total debt securities	**22,019,990**	**17,362,276**

The table below discloses debt securities at 31 December 2022 and 2021 by measurement categories and classes:

31 December 2022	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Agency	200,793	3,577,827	-	3,778,620
Supranational	19,092	684,876	-	703,968
Treasury	472,803	5,150,391	-	5,623,194
Local Authority	3,803	689,437	-	693,240
Corporate	69,777	300,671	-	370,448
Sovereign	2,082	164,995	-	167,077
Covered	618,009	6,667	-	624,676
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	584,012	-	584,012
JSCO Aqrarkredit	-	-	9,474,240	9,474,240
Ministry of Finance of the Republic of Azerbaijan	-	-	515	515
Total debt securities	**1,386,359**	**11,158,876**	**9,474,755**	**22,019,990**

31 December 2021	Debt securities mandatorily measured at FVTPL	Debt securities at FVOCI	Debt securities at AC	Total
Agency	188,191	2,560,825	-	2,749,016
Supranational	56,911	885,660	-	942,571
Treasury	536,811	1,823,610	-	2,360,421
Local Authority	43,197	425,408	-	468,605
Corporate	83,621	786,204	-	869,825
Sovereign	2,831	93,466	-	96,297
Covered	41,805	-	-	41,805
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	344,495	-	344,495
JSCO Aqrarkredit	-	-	9,482,143	9,482,143
Ministry of Finance of the Republic of Azerbaijan	-	-	7,098	7,098
Total debt securities	**953,367**	**6,919,668**	**9,489,241**	**17,362,276**

Included in Debt Securities at AC were securities of Joint-Stock Credit Organisation Aqrarkredit (Aqrarkredit JSCO) purchased by the Group during 2015 with the nominal amount of AZN 2,500,000 thousand and, additionally, during 2016 AZN 7,500,000 thousand, bearing interest rate of 0.15% and maturing in 2045 (in total AZN 10,000,000 thousand). In 2017 Aqrarkredit JSCO repurchased the securities in the amount of AZN 517,896 thousand from the Group. These securities were issued in a special market segment in which there were no other available sources of similar financing and no comparable financial instruments. Therefore, 0.15% was considered as market interest rate in this segment.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

7 Debt Securities (Continued)

As at 31 December 2022, the outstanding balance of the Aqrarkredit securities in the portfolio of the Group was AZN 9,482,104 thousand. Repayment of these securities is guaranteed by the Government of Azerbaijan. These securities were purchased based on Decrees of the President of Azerbaijan Republic № 570, dated 15 July 2015 on “Actions for improvement of International Bank of Azerbaijan OJSC’s condition to prepare for the privatization of shares owned by government” and № 575 dated 07 August 2015 on “Approval of issue, volume, maturity and payment conditions of securities with government guarantee issued by Aqrarkredit JSCO”, respectively. Refer to Note 36 for fair value disclosures.

Scheduled repayment of these securities for 2022 was made in February 2023. The payment in February is related to the requirement of appropriate procedures for the performance of obligations on state-guaranteed financial instruments through the funds of the “State Guarantee Fund for Liabilities on Government Debt and Guarantee”. Therefore, credit risk of these debt instruments was not significantly increased since origination.

(a) Debt securities at FVTPL

Debt securities mandatorily classified as at FVTPL by the Group represent securities held for trading. Debt securities at FVTPL are carried at fair value, which also reflects any credit risk related write-downs and best represents the Group’s maximum exposure to credit risk. Debt securities at FVTPL have excellent credit risk grade.

(b) Debt securities at FVOCI

The table below contains an analysis of the credit risk exposure of debt securities measured at FVOCI at 31 December 2022 and 2021, for which an ECL allowance is recognised, based on credit risk grades. Refer to Note 32 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at FVOCI:

	2022		2021	
	Stage 1	**Total**	**Stage 1**	**Total**
Debt securities at FVOCI				
Rated excellent	10,747,475	10,747,475	6,615,892	6,615,892
Rated good	584,119	584,119	344,427	344,427
Total debt securities at FVOCI	**11,331,594**	**11,331,594**	**6,960,319**	**6,960,319**
Loss allowance	(1,384)	(1,384)	(608)	(608)
Less fair value adjustment from AC to FV	(171,334)	(171,334)	(40,043)	(40,043)
Total carrying value (fair value)	**11,158,876**	**11,158,876**	**6,919,668**	**6,919,668**

Movements in the loss allowance for debt securities at FVOCI were as follows:

	2022		2021	
	Stage 1	**Total**	**Stage 1**	**Total**
Debt securities at FVOCI				
Balance at 1 January	**608**	**608**	**698**	**698**
Net remeasurement of loss allowance	(271)	(271)	(365)	(365)
New financial assets originated or purchased	1,047	1,047	275	275
Balance at 31 December	**1,384**	**1,384**	**608**	**608**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

7 Debt Securities (Continued)

Movements in the gross carrying amounts of debt securities at FVOCI that contributed to changes in ECL were as follows:

	2022		2021	
	Stage 1	**Total**	**Stage 1**	**Total**
Debt securities at FVOCI				
Balance at 1 January	**6,960,319**	**6,960,319**	**8,012,963**	**8,012,963**
Derecognised during the period	(10,752,218)	(10,752,218)	(5,813,366)	(5,813,366)
New originated or purchased	15,134,382	15,134,382	4,812,820	4,812,820
Changes in accrued interest	41,744	41,744	(18,968)	(18,968)
FX and other movements	(52,633)	(52,633)	(33,130)	(33,130)
Balance at 31 December	**11,331,594**	**11,331,594**	**6,960,319**	**6,960,319**

(c) Debt securities at AC

The following table contains an analysis of debt securities at AC by credit quality at 31 December 2022 and 2021 based on credit risk grades and discloses the balances by stages for the purpose of ECL measurement. Refer to Note 32 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to debt securities at AC. The carrying amount of debt securities at AC at 31 December 2022 and 2021 below also represents the Group's maximum exposure to credit risk on these assets:

	2022		2021	
	Stage 1	**Total**	**Stage 1**	**Total**
Debt securities at AC				
Rated good	9,482,657	9,482,657	9,489,241	9,489,241
Total debt securities at AC	**9,482,657**	**9,482,657**	**9,489,241**	**9,489,241**
Loss allowance	(7,902)	(7,902)	-	-
Total carrying value	**9,474,755**	**9,474,755**	**9,489,241**	**9,489,241**

These securities were issued in the local currency, Azerbaijani manat, and their payment was state-guaranteed by the Decree of the Cabinet of Ministers of the Republic of Azerbaijan No. 256s dated 20 August 2015.

8 Loans to Banks

	31 December 2022	31 December 2021
Loans to banks, gross	658,469	729,024
Loss allowance	(369,580)	(372,743)
Loans to banks, net of loss allowance	**288,889**	**356,281**

Concentration of loans to banks

As at 31 December 2022 and 2021, the Group had no banks, whose balance exceed 10% of equity.

Gross carrying amount and loss allowance amount for loans to banks by classes at 31 December 2022 and 31 December 2021 are disclosed in the table below:

	31 December 2022			31 December 2021		
	Gross carrying amount	**Loss allowance**	**Carrying amount**	**Gross carrying amount**	**Loss allowance**	**Carrying amount**
Refinancing loans	658,469	(369,580)	288,889	729,024	(372,743)	356,281
Total	**658,469**	**(369,580)**	**288,889**	**729,024**	**(372,743)**	**356,281**

Refinancing loans to legal entities is provided as part of implementing monetary policy of the Central Bank.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

8 Loans to Banks (Continued)

The following tables disclose the changes in the loss allowance for loans to banks between the beginning and the end of the reporting period:

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Refinancing loans								
Balance at 1 January	**2,608**	**2,419**	**367,716**	**372,743**	**2,317**	**11,597**	**365,636**	**379,550**
Net remeasurement of loss allowance	(2,535)	(2,403)	(13,299)	(18,237)	291	(9,178)	(9,458)	(18,345)
New financial assets originated or purchased	512	1,599	1,839	3,950	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	11,124	11,124	-	-	11,538	11,538
Balance at 31 December	**585**	**1,615**	**367,380**	**369,580**	**2,608**	**2,419**	**367,716**	**372,743**

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

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Refinancing loans								
Balance at 1 January	**248,897**	**63,310**	**416,817**	**729,024**	**292,605**	**74,415**	**411,938**	**778,958**
Transfer to Stage 3	-	-	-	-	-	-	-	-
Repaid during the year	(160,345)	(44,713)	(8,284)	(213,342)	(43,708)	(11,105)	(6,659)	(61,472)
Issued during the year	79,082	26,762	2,111	107,955	-	-	-	-
Unwinding of discount on present value of ECLs	-	-	11,124	11,124	-	-	11,538	11,538
Other movements	-	-	23,708	23,708	-	-	-	-
Balance at 31 December	**167,634**	**45,359**	**445,476**	**658,469**	**248,897**	**63,310**	**416,817**	**729,024**

The credit loss allowance for loans to banks recognised in the period is impacted by a variety of factors, details of ECL measurement are provided in Note 32.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

8 Loans to Banks (Continued)

The credit quality of loans to banks carried at amortised cost is as follows at 31 December 2022 and 2021:

	2022				**2021**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Refinancing loans								
- Good	167,634	-	-	167,634	132,874	27,000	-	159,874
- Satisfactory	-	45,359	-	45,359	116,022	-	-	116,022
- Special monitoring	-	-	-	-	-	36,311	-	36,311
- Default	-	-	445,476	445,476	-	-	416,817	416,817
Gross carrying amount	**167,634**	**45,359**	**445,476**	**658,469**	**248,896**	**63,311**	**416,817**	**729,024**
Loss allowance	(585)	(1,615)	(367,380)	(369,580)	(2,608)	(2,419)	(367,716)	(372,743)
Carrying amount	**167,049**	**43,744**	**78,096**	**288,889**	**246,288**	**60,892**	**49,101**	**356,281**

For description of the credit risk grading used in the tables above refer to Note 32.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

8 Loans to Banks (Continued)

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. Description of collateral held for loans to banks is as follows at 31 December 2022:

	Refinancing loans	Total
Loans collateralised by:		
- government guarantee	130,748	130,748
- commercial real estate	54,836	54,836
Carrying value of loans to banks secured	185,584	185,584
Unsecured exposures	103,305	103,305
Total carrying value of loans to banks	**288,889**	**288,889**

Information about collateral for loans to banks is as follows at 31 December 2021:

	Refinancing loans	Total
Loans collateralised by:		
- government guarantee	159,874	159,874
- commercial real estate	60,881	60,881
Carrying value of loans to banks secured	220,755	220,755
Unsecured exposures	135,526	135,526
Total carrying value of loans to banks	**356,281**	**356,281**

Information about collateral for loans to banks that are credit-impaired is as follows at 31 December 2022:

	Refinancing loans	Total
Loans collateralised by:		
- government guarantee	23,688	23,688
- commercial real estate	29,674	29,674
Carrying value of loans to banks secured	53,362	53,362
Unsecured exposures	24,734	24,734
Total carrying value of loans to banks	**78,096**	**78,096**

Information about collateral for loans to banks that are credit-impaired is as follows at 31 December 2021:

	Refinancing loans	Total
Loans collateralised by:		
- commercial real estate	26,989	26,989
Carrying value of loans to banks secured	26,989	26,989
Unsecured exposures	22,112	22,112
Total carrying value of loans to banks	**49,101**	**49,101**

All loans of the Group other than unsecured loans are over-collaterized before discounting for time to sell and costs to sell.

Repossessed collateral

During the year ended 31 December 2022, the Group obtained certain assets by taking possession of collateral for loans to banks comprising real estate with a net carrying amount of AZN 4,977 thousand (as at 31 December 2021: AZN 1,242 thousand). Furthermore, the entity has reclassified the investment property with a carrying amount of AZN 4,400 thousand as collateral for repossession purposes. The Group’s policy is to sell these assets as soon as it is practicable.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

8 Loans to Banks (Continued)

Sensitivity

31 December 2022

LGD increase. 10 percentage points increase in LGD estimates would result in an increase in total expected credit loss allowances of AZN 42,465 thousand at 31 December 2022 (2021: AZN 42,371 thousand).

PD increase. 10 percentage points increase in PD estimates would be result in an increase in total expected credit loss allowances of AZN 13,356 thousand at 31 December 2022 (2021: AZN 10,490 thousand)

9 Loans to Non-Bank Credit Organisations

Loans to non-bank credit organisations include low interest rate loans provided to non-bank credit organisations under the state guarantee as per the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan on 28 February 2019.

	31 December 2022	31 December 2021
Loans to Non-Bank Credit Organisations, gross	13,857	20,014
Loss allowance	(12)	-
Loans to Non-Bank Credit Organisations, net of loss allowance	**13,845**	**20,014**

10 Loans to Deposit Insurance Fund

	31 December 2022	31 December 2021
Loans to Deposit Insurance Fund, gross	221,940	236,600
Loss allowance	(185)	-
Loans to Deposit Insurance Fund, net of loss allowance	**221,755**	**236,600**

Loans to Deposit Insurance Fund include low interest rate loans provided to Azerbaijan Deposit Insurance Fund under the state guarantee to compensate money deposited by individuals in banks whose licenses were revoked and declared bankrupt based on relevant court decisions and to ensure the sustainability of the financial and banking system.

During 2021, the Group issued loans to Azerbaijan Deposit Insurance Fund in the amount of AZN 60,000 thousand with annual interest rate of 0.15%. During 2022, the principal amount of AZN 30,000 thousand was repaid early (2021: AZN 40,000 thousand). These loans were recorded at fair value on initial recognition calculated using the market interest rates of 6.25%. See Note 27.

Changes in the gross carrying amount of financial instruments during the period:

	2022		2021	
	Stage 1	**Total**	**Stage 1**	**Total**
Loans to Deposit Insurance Fund				
Balance at 1 January	**236,600**	**236,600**	**207,222**	**207,222**
Repaid during the year	(30,000)	(30,000)	(40,000)	(40,000)
Issued during the year	-	-	60,000	60,000
Changes in Accrued interest receivable	(2)	(2)	2	2
Interest income calculated using the effective interest method	15,342	15,342	15,791	15,791
Loss on recognition of financial assets	-	-	(6,415)	(6,415)
Balance at 31 December	**221,940**	**221,940**	**236,600**	**236,600**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

11 Property and Equipment

The following table provides information on the movement of property and equipment for the year ended at 31 December 2022:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
Cost							
Balance at 1 January 2022	**15,976**	**51,526**	**65,772**	**39,978**	**3,253**	**7,123**	**183,628**
Additions resulting from NDC	-	2,905	85	1,193	289	-	4,472
Additions	86	-	252	3,544	1,047	217,633	222,562
Disposals	-	-	(33)	(111)	-	-	(144)
Transfers	-	7,123	-	-	-	(7,123)	-
Balance at 31 December 2022	**16,062**	**61,554**	**66,076**	**44,604**	**4,589**	**217,633**	**410,518**
Depreciation							
Balance at 1 January 2022	**-**	**(22,995)**	**(54,285)**	**(27,420)**	**(2,567)**	**-**	**(107,267)**
Accumulated depreciation resulting from NDC	-	(1,126)	(29)	(664)	(262)	-	(2,081)
Depreciation for the year	-	(2,763)	(3,490)	(6,829)	(281)	-	(13,363)
Disposals	-	-	33	111	-	-	144
Balance at 31 December 2022	**-**	**(26,884)**	**(57,771)**	**(34,802)**	**(3,110)**	**-**	**(122,567)**
Carrying amount							
At 31 December 2022	**16,062**	**34,670**	**8,305**	**9,802**	**1,479**	**217,633**	**287,951**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

11 Property and Equipment (Continued)

The following table provides information on the movement of property and equipment for the year ended at 31 December 2021:

	Land	Buildings	Furniture and fixtures	Computers and communication equipment	Motor vehicles	Construction in progress	Total
Cost							
Balance at 1 January 2021	**15,976**	**51,546**	**64,880**	**39,121**	**3,289**	**7,123**	**181,935**
Additions	-	-	892	857	73	-	1,822
Disposals	-	(20)	-	-	(109)	-	(129)
Transfers	-	-	-	-	-	-	-
Balance at 31 December 2021	**15,976**	**51,526**	**65,772**	**39,978**	**3,253**	**7,123**	**183,628**
Depreciation							
Balance at 1 January 2021	**-**	**(21,451)**	**(50,878)**	**(20,682)**	**(2,463)**	**-**	**(95,474)**
Depreciation for the year	-	(1,546)	(3,407)	(6,738)	(213)	-	(11,904)
Disposals	-	2	-	-	109	-	111
Balance at 31 December 2021	**-**	**(22,995)**	**(54,285)**	**(27,420)**	**(2,567)**	**-**	**(107,267)**
Carrying amount							
At 31 December 2021	**15,976**	**28,531**	**11,487**	**12,558**	**686**	**7,123**	**76,361**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

12 Intangible Assets

The following table provides information on the movement of intangible assets for the year ended at 31 December 2022:

	Software Development	Licenses	Total intangible assets
Cost			
Balance at 1 January 2022	**85,592**	**50,177**	**135,769**
Additions resulting from NDC	3,492	12	3,504
Additions	6,491	4,696	11,187
Balance at 31 December 2022	**95,575**	**54,885**	**150,460**
Amortization			
Balance at 1 January 2022	**(45,334)**	**(20,217)**	**(65,551)**
Accumulated amortization resulting from NDC	(1,463)	-	(1,463)
Amortization for the year	(8,508)	(7,820)	(16,328)
Balance at 31 December 2022	**(55,305)**	**(28,037)**	**(83,342)**
Carrying amount			
At 31 December 2022	**40,270**	**26,848**	**67,118**

The following table provides information on the movement of intangible assets for the year ended at 31 December 2021:

	Software Development	Licenses	Total intangible assets
Cost			
Balance at 1 January 2021	**76,371**	**48,097**	**124,468**
Additions	9,221	2,080	11,301
Disposals	-	-	-
Balance at 31 December 2021	**85,592**	**50,177**	**135,769**
Amortization			
Balance at 1 January 2021	**(37,915)**	**(13,026)**	**(50,941)**
Amortization for the year	(7,419)	(7,191)	(14,610)
Disposals	-	-	-
Balance at 31 December 2021	**(45,334)**	**(20,217)**	**(65,551)**
Carrying amount			
At 31 December 2021	**40,258**	**29,960**	**70,218**

13 Other Financial Assets

	31 December 2022	31 December 2021
Receivables from trade securities disposed	64,054	1,037
Loans to employees	457	550
Amounts in the course of settlement	288	597
Loss allowance	(6)	(49)
	64,793	**2,135**

Other financial assets are included in Stage 1 and assigned with good credit risk grade.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

14 Other Assets

	31 December 2022	31 December 2021
Prepayments to suppliers	61,575	85,495
Repossessed collateral	55,082	45,705
Other non-financial assets	1,422	498
Amount to be capitalized	-	50,600
Investment property	-	4,400
	118,079	**186,698**

15 Money in Circulation

Money issued in circulation represents the amount of national currency of the Republic of Azerbaijan issued by the Bank. This comprises the AZN issued into circulation since 1 January, 2006, and old Azerbaijani Manats (“AZM”) issued into circulation since the introduction of the national currency in 1992 and currently withdrawn from the circulation and commemorative coins. The Azerbaijani Manat was denominated on 1 January 2006 and, starting from that date, AZM 5,000 is equal to AZN 1.

During the year ended 31 December 2022 the Bank accepted new banknotes and coins amounting to AZN 2,446,950 thousand from printing and minting companies (2021: AZN 507,566 thousand).

	31 December 2022	31 December 2021
Balance at the beginning of the year	12,310,018	11,839,664
Net amount of banknotes and coins put into circulation	2,404,342	470,354
Balance at the end of the year	**14,714,360**	**12,310,018**

16 Short-term Deposits of Resident Banks

On 31 December 2022, the amount of short-term deposits of resident banks (including accrued interests) was AZN 1,938,977 thousand (31 December 2021: nil). This amount includes the deposits of AZN 476,665 thousand obtained through auctions as a part of monetary policy tools (including accrued interests on them) and deposits of AZN 1,462,312 thousand placed with the Group out of deposit auction (including accrued interest).

During 2022, the Group obtained deposit in the amount of AZN 2,340,000 thousand out of auction from IBAR with the annual interest rate of 3%. The deposit was recorded at fair value on initial recognition calculated by applying the Central Bank's corridor floor rate of 6%. See Note 27. As at 31 December 2022, the amortized carrying amount of these deposits was AZN 1,462,312 thousand.

17 Amounts Due to Government Organisations

	31 December 2022	31 December 2021
Amounts due to the Central Treasury of the Republic of Azerbaijan	3,543,846	2,427,985
Amounts due to State Oil Fund of the Republic of Azerbaijan and Azerbaijan Deposit Insurance Fund	545,193	1,536,423
Other current/demand accounts	191,188	40,229
	4,280,227	**4,004,637**

Interest rate, currency and maturity analysis of amounts due to government organisations are disclosed in Note 32.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

18 Amounts Due to Credit Institutions

	31 December 2022	31 December 2021
Current accounts	4,780,512	7,266,612
Mandatory reserves	1,389,206	173,392
	6,169,718	**7,440,004**

19 Amounts Due to Other Organisations

	31 December 2022	31 December 2021
Other financial institutions	16,097	4,477
Public organisations	85	6,933
	16,182	**11,410**

20 Debt Securities in Issue

	31 December 2022	31 December 2021
Short-term notes	1,319,529	199,402
	1,319,529	**199,402**

21 Amounts Due to International Financial Institutions

	31 December 2022	31 December 2021
Borrowings from International Development Association (IDA)	-	10
Amounts due to other international financial institutions	1,178	1,015
	1,178	**1,025**

22 Other Financial Liabilities

	31 December 2022	31 December 2021
Amounts payable for trading securities purchased	217,268	7,459
Amounts in the course of settlement	7,811	3,402
Other financial liabilities	1,345	14
	226,424	**10,875**

23 Charter Fund and Reserves

The Group capital consists of its charter fund and capital reserves. The Charter fund of the Bank is AZN 500,000 thousand. At the end of the reporting year, Group's capital reserves were AZN 480,791 thousand.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

24 Net Interest Income/(Expense)

	2022	2021
Interest income calculated using the effective interest method		
Debt securities at FVOCI	114,949	84,421
Placements with non-resident banks	47,024	1,016
Amortisation of loss on initial recognition of financial assets	15,342	15,791
Debt securities at AC	14,124	14,043
SDR holdings with the IMF	8,788	310
Loans to banks	4,828	4,982
Loans to Deposit Insurance Fund	437	491
Other assets	29	32
	205,521	**121,086**
Other interest income		
Debt securities at FVTPL	15,410	10,052
Investments in money market funds	89	89
	15,499	**10,141**
Interest expense		
Deposits of resident banks	68,325	76,224
Amortisation of gain on initial recognition of financial liabilities	57,578	59,934
Debt securities in issue	32,878	29,964
Liabilities on transactions with the IMF	8,913	332
Amounts due to State Oil Fund of the Republic of Azerbaijan and Azerbaijan Deposit Insurance Fund	234	1
Amounts due to international financial institutions	-	2
	167,928	**166,457**
	53,092	**(35,230)**

25 Fee and Commission Income

	2022	2021
Cash withdrawal	16,723	11,443
Settlement	11,428	9,045
Other	4,270	-
	32,421	**20,488**

26 Fee and Commission Expense

	2022	2021
Securities operations (management and custodian)	1,867	1,920
Service fee	1,695	1,830
Settlement	58	60
Cash withdrawal	55	-
Other	25	25
	3,700	**3,835**

27 Gain on Recognition of Financial Liabilities

During 2022, the Group obtained deposits from International Bank of Azerbaijan placed out of auction with an annual interest rate of 3%. These deposits were recorded at fair value on initial recognition calculated by applying the Bank's corridor floor rate of 6%. See Note 16. In addition, the Group obtained deposits from two banks of Azerbaijan Republic with annual interest rates of 4.25%. These deposits were recorded at fair value on initial recognition calculated by applying the Central Bank's corridor floor rate of 6.25%. Therefore, the total difference of AZN 81,409 thousand gain between the nominal value and fair value at the date of initial recognition was recognized. Due to early withdrawal of some part of the deposits obtained from banks, the modification loss AZN 22,367 thousand was recognized and the remaining amount will be fully amortised until the maturity.

28 Net Losses from Foreign Exchange Translation

During 2022 the excess of negative unrealized exchange rate differences which arose during daily revaluation of balances in foreign currency over positive exchange rate differences constituted AZN 68,632 thousand as a loss (2021: AZN 60,298 thousand as a loss).

29 Segment Analysis

Group's operations comprise a single operating segment for the purposes of these consolidated financial statements in accordance with IFRS 8 Operating Segments.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

29 Segment Analysis (Continued)

The geographical segment analysis as of 31 December 2022 is presented below:

	Azerbaijan	Western Europe	Southern Europe	Northern Europe	North America	East Asia	Australia and New Zealand	International Organisations	Other	Total
ASSETS										
Cash and cash equivalents	511,649	1,094,097	-	-	4,806,351	170,925	-	-	-	6,583,022
Special Drawing Rights with the IMF	-	-	-	-	-	-	-	1,196,216	-	1,196,216
Derivative financial instruments	-	-	-	-	-	-	-	-	329	329
Debt securities	10,058,768	2,157,744	47,184	485,152	6,500,097	1,928,867	38,854	795,958	7,366	22,019,990
Loans to banks	288,889	-	-	-	-	-	-	-	-	288,889
Loans to non-bank credit organizations	13,845	-	-	-	-	-	-	-	-	13,845
Loans to Deposit Insurance Fund	221,755	-	-	-	-	-	-	-	-	221,755
Property and equipment	287,951	-	-	-	-	-	-	-	-	287,951
Intangible assets	67,118	-	-	-	-	-	-	-	-	67,118
Other financial assets	739	-	-	-	64,054	-	-	-	-	64,793
Other assets	118,079	-	-	-	-	-	-	-	-	118,079
Total assets	**11,568,793**	**3,251,841**	**47,184**	**485,152**	**11,370,502**	**2,099,792**	**38,854**	**1,992,174**	**7,695**	**30,861,987**
LIABILITIES										
Money in circulation	14,714,360	-	-	-	-	-	-	-	-	14,714,360
Short-term deposits of resident banks	1,938,977	-	-	-	-	-	-	-	-	1,938,977
Amounts due to government organisations	4,280,227	-	-	-	-	-	-	-	-	4,280,227
Amounts due to credit institutions	6,169,718	-	-	-	-	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	-	-	-	-	16,182
Debt securities in issue	1,319,529	-	-	-	-	-	-	-	-	1,319,529
Liabilities on transactions with the IMF	-	-	-	-	-	-	-	1,199,372	-	1,199,372
Amounts due to international financial institutions	-	-	-	-	-	-	-	1,178	-	1,178
Derivative financial instruments	-	-	-	-	-	-	-	-	2,109	2,109
Other financial liabilities	9,156	9,563	-	-	206,926	-	-	779	-	226,424
Other liabilities	13,120	-	-	-	-	-	-	-	-	13,120
Total liabilities	**28,461,269**	**9,563**	**-**	**-**	**206,926**	**-**	**-**	**1,201,329**	**2,109**	**29,881,196**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

29 Segment Analysis (Continued)

The geographical segment analysis as of 31 December 2021 is presented below:

	Azerbaijan	Western Europe	Southern Europe	Northern Europe	North America	East Asia	Australia and New Zealand	International Organisations	Other	Total
ASSETS										
Cash and cash equivalents	1,973,210	1,495,178	-	-	2,690,648	170,079	-	509,876	-	6,838,991
Special Drawing Rights with the IMF	-	-	-	-	-	-	-	1,258,160	-	1,258,160
Derivative financial instruments	-	-	-	-	-	-	-	-	2,834	2,834
Debt securities	9,833,737	1,215,788	106,565	449,294	2,474,714	2,381,480	125,928	766,563	8,207	17,362,276
Loans to banks	356,281	-	-	-	-	-	-	-	-	356,281
Loans to non-bank credit organizations	20,014	-	-	-	-	-	-	-	-	20,014
Loans to Deposit Insurance Fund	236,600	-	-	-	-	-	-	-	-	236,600
Property and equipment	76,361	-	-	-	-	-	-	-	-	76,361
Intangible assets	70,218	-	-	-	-	-	-	-	-	70,218
Other financial assets	1,098	-	-	-	1,037	-	-	-	-	2,135
Other assets	186,698	-	-	-	-	-	-	-	-	186,698
Total assets	**12,754,217**	**2,710,966**	**106,565**	**449,294**	**5,166,399**	**2,551,559**	**125,928**	**2,534,599**	**11,041**	**26,410,568**
LIABILITIES										
Money in circulation	12,310,018	-	-	-	-	-	-	-	-	12,310,018
Short-term deposits of resident banks	-	-	-	-	-	-	-	-	-	-
Amounts due to government organisations	4,004,637	-	-	-	-	-	-	-	-	4,004,637
Amounts due to credit institutions	7,440,004	-	-	-	-	-	-	-	-	7,440,004
Amounts due to other organisations	11,410	-	-	-	-	-	-	-	-	11,410
Debt securities in issue	199,402	-	-	-	-	-	-	-	-	199,402
Liabilities on transactions with the IMF	-	-	-	-	-	-	-	1,261,131	-	1,261,131
Amounts due to international financial institutions	-	-	-	-	-	-	-	1,025	-	1,025
Derivative financial instruments	-	-	-	-	-	-	-	-	862	862
Other financial liabilities	3,416	-	-	-	7,459	-	-	-	-	10,875
Other liabilities	1,016	-	-	-	-	-	-	-	-	1,016
Total liabilities	**23,969,903**	**-**	**-**	**-**	**7,459**	**-**	**-**	**1,262,156**	**862**	**25,240,380**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

30 Recovery of Impairment Loss

	2022	2021
Loans to banks	47,874	18,345
Debt securities at AC	(8,018)	-
Loans to Deposit Insurance Fund	(185)	-
Loans to non-bank credit organizations	(12)	-
Other financial assets	-	16
	39,659	**18,361**

The AZN 23,708 thousand and AZN 9,877 thousand of the total represent the recovery of written-off loans and receivables from defaulted banks to balance respectively.

31 Administrative and Other Operating Expenses

	2022	2021
Staff costs	32,509	22,103
Banknotes and coin production	24,100	8,116
Amortisation of software and other intangible assets	16,328	14,610
Depreciation of premises and equipment	13,363	11,904
Software maintenance	10,098	8,703
Contributions to Social Security Pension Fund	7,248	4,785
Security	1,887	1,854
Office supplies	1,877	722
Communication	1,101	1,054
Social	1,060	1,084
Insurance	1,056	832
Repair and maintenance	869	1,057
Heating and lighting	821	630
Consultancy (under contract with “McKinsey & Company”)	669	-
Contributions to Mandatory Health Insurance	572	428
Business travel	300	166
Audit and consulting	186	138
Literature, printing and membership fee	136	135
Representation	100	208
Utilities	60	56
Other	866	988
	115,206	**79,573**

32 Risk Management

Group’s risks are classified in the following four categories:

- *Strategic (policy) risks* **–** are the risks related to the monetary policy, financial stability, and other strategic issues arising out of mandate. Strategic (policy) Risk Management is implemented by Group’s Management Board, Monetary Policy and Financial Stability Committee;
- *Financial risks* **–** is targeted at the identification, management of credit, market and liquidity risks. Financial Risk Management is performed by Management Board of the Group, Foreign Exchange Reserves Management Department in accordance with relevant rules and procedures. Risk management policy and procedures are regularly reviewed considering the changes in the market condition, offered products and services and innovations in the advanced practice;

32 Risk Management (Continued)

- *Operational risks* – are the risks arising out of the intentional or careless behavior of employees of Group’s units and Group’s project team, non-adequacy of the internal processes, deficiency in the technical equipment, as well as software and technical platforms of the information system, and external events. In accordance with the principles of the Basel Committee on Corporate Management Department, it is carried out on the basis of 3 lines of defense.

  The first line of defense consists of the Group's all structural units of the model, the second and the third lines include the Operational Risk Division and the Internal Audit Department, respectively. Functions of the Group's operational risk division include preparation, development, communication and training of the policy and methodology documents for the Group’s Operational Risk Management (ORM) and business continuity management (BCM) system and relevant supporting systems; coordination, facilitation, monitoring and reporting of the ORM process and as well as the preparation of risk profile of the Group's consolidated operations. These functions also include providing appropriate opinion by carrying out expertise on operational risks of internal bank documents.

- *Reputational risks* **–** are the risks arising out of the personal life, behavior and communication of Groups’s high-ranking officials (Members of the Management Board and General Directors), as well as discrepancy between the Group’s goals and activities and the public opinion. Reputational losses in the result of inefficient management of strategic (policy), financial, operational risks are not considered as reputational risks. Those losses are considered as one of the risk impact categories within the strategic (policy), financial, operational risks management. Group’s reputational risks are managed by the Management Board, General Directors and International Cooperation and Communications Department.

Financial risk management policies and procedures

Risk management of the Group is a critical component of its banking activities. Risk is inherent in the Group’s activities but it is managed through a process of ongoing identification, measurement and daily monitoring, subject to risk limits and other controls.

The Management Board is ultimately responsible for identifying and controlling risks; however, there are separate business units responsible for managing and monitoring the various risks:

Management Board. The Management Board is ultimately responsible for controlling of risk management system. The Management Board is responsible for the overall risk management approach, risk tolerance levels and for approving the main principles of risk management.

Foreign Exchange Reserves Management Department. The Risk Management Unit of the Foreign Exchange Reserves Management Department regularly controls the limits and exposures set for management of foreign currency assets in accordance with the “Regulations for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan”, “Main Directions for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan”, and “Operational Investment Strategy for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan.

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

There are also special committees and commissions within the Group for conducting operations and control such as the Credit Committee, and Regular Commission on determination of official exchange rates of the Group, and others.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

The risk related to the Group's foreign currency assets is a significant risk. Segregation of duties, procedures and reporting for risk management are regulated by the "Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan" and "Instruction on operations for maintenance and management of currency reserves of the Central Bank of the Republic of Azerbaijan". Acceptable limits on managed risks are stipulated in the "Guidelines on Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Main Directions of Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan", "Operational Investment Strategy for Management of Foreign Currency Assets of the Central Bank of the Republic of Azerbaijan" and "Investment Rules for Management of Assets by Foreign Managers". The respective documents are approved by the Management Board.

Credit risk

The Group is exposed to credit risk, which is the risk that one party will incur a loss because the other party failed to comply with its financial obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties. Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset.

In accordance with the investment guidelines of the Group, only investment instruments with short-term ratings of not less than A-2 (Standard & Poor's), F-2 (Fitch) or P-2 (Moody's) and long-term ratings of not less than A- (Standard & Poor's, Fitch) or A3 (Moody's) may be used for management of the Group's assets.

At the same time, the maximum amount invested in corporations, state agencies without government guarantees and regional self-governing authorities is defined as 5% of the investment portfolio. Subject to the terms of the investment instrument, minimal credit rating is defined as A- / A3 (Standard & Poor's, Fitch, Moody's) for investment instruments with a term of up to twelve months, and A / A2 (Standard & Poor's, Fitch, Moody's) for deposits with a term over twelve months. When different credit ratings are designated by the various agencies, the rating meeting the minimum required level for this asset is used.

In 2022 and 2021, loans granted to credit institutions as part of monetary policy were secured by relevant collaterals. Exposure to credit risk is managed by obtaining collateral with the value of not less than the amount defined under the "Rules on loan issuance to the banks by the Central Bank of the Republic of Azerbaijan" depending on the type of collateral. In order to monitor credit risk exposures, the Financial Market Operations Department regularly controls overdue loan balances and produces appropriate reports.

Credit risk grading system. For measuring credit risk and grading financial instruments by the amount of credit risk, the Group applies two approaches – an Internal Risk-Based (IRB) rating system or risk grades estimated by external international rating agencies (Standard & Poor's - "S&P", Fitch, Moody's). Internal and external credit ratings are mapped on an internally defined master scale with a specified range of probabilities of default as disclosed in the table below:

Master scale credit risk grade	Corresponding internal and external ratings	Corresponding PD interval
Excellent	AAA to A-	0,01% - 0,2%
Good	BBB+ to B+	0,21% - 3%
Satisfactory	B, B-	3,1% - 10%
Special monitoring	CCC+ to CC-	10,1% - 99,9%
Default	C, D-I, D-II	100%

Each master scale credit risk grade is assigned a specific degree of creditworthiness:

- *Excellent* – strong credit quality with low expected credit risk;
- *Good* – adequate credit quality with a moderate credit risk;
- *Satisfactory* – moderate credit quality with a satisfactory credit risk;
- *Special monitoring* – facilities that require closer monitoring and remedial management; and
- *Default* – facilities in which a default has occurred

32 Risk Management (Continued)

If the borrower is not provided with credit ratings by the leading international rating agencies, a credit rating is assigned by the Group using the CAELS rating system. Relevant credit rating is estimated based on the borrower's financial ratios such as: the Tier 1 capital ratio, Non-Performing Loans Ratio, Return on Equity and Return on Assets. The Group monitors adverse changes in economic and business conditions in the longer term that may impact the ability of borrowers to fulfil contractual cash flow obligations at each reporting date. The assigned interal ratings are identical with corresponding external ratings.

Expected credit loss (ECL) measurement

ECL is a probability-weighted estimate of the present value of future cash shortfalls. An ECL measurement is unbiased and is determined by evaluating a range of possible outcomes. ECL measurement is based on four components used by the Group: Probability of Default (“PD”), Exposure at Default (“EAD”), Loss Given Default (“LGD”) and Discount Rate.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default.

PD is an estimate of the likelihood of default to occur over a given time period. LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to present value at the end of the reporting period. The discount rate represents the effective interest rate (“EIR”) for the financial instrument or an approximation thereof.

Expected credit losses are modelled over instrument’s *lifetime period.* The *lifetime period* is equal to the remaining contractual period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models *Lifetime ECL,* that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The *12-month ECL,* represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining *lifetime period* of the financial instrument if it is less than a year.

Forward-looking macroeconomic information is used in the estimates of lifetime expected credit losses. For the financial instruments that remaining lifetime period is less than a year, long term macroeconomic development does not play significant role in shaping risk profiles and no forward-looking adjustment is implemented.

The Group considers a financial instrument to have experienced *a significant increase in credit risk* when one or more of the following criteria have been met:

- contractual payment is overdue for 31-90 days (90-s day inclusive)except for debt securities for which overdue more than 1 day is considered to be a significant increase in credit risk, unless it is due to technical operating reasons
- financial assets are downgraded by the leading international credit rating agencies of the long-term credit rating by 3 grades since initial recognition
- evidences that other institutions (except for the Group) filed lawsuits against the borrower that may deteriorate their financial position.

The Group decided to use the low credit risk assessment exemption for the financial instruments which have “Excellent” credit risk grade.

32 Risk Management (Continued)

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the credit rating of a financial asset is downgraded to "D" (C) by leading international rating agencies
- licence of the borrower to operate in banking industry is revoked
- the payment of principal amount and interest on loans past due over 90 days
- when the borrower's loans are restructured due to significant deterioration in a bank's position
- the Group raises claims against the borrower in accordance with the law

For purposes of disclosure, the Group fully aligned the definition of default with the definition of credit-impaired assets. The default definition stated above is applied to all types of financial assets of the Group, except for debt securities for which the criterion of 7 days or less is applied.

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 two payments (six months). This period of two payments (six months) has been determined based on an analysis that considers the likelihood of a financial instrument returning to default status after curing.

The amount of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the borrower has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs.

If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs. The consequence of an asset being in Stage 3 is that the entity ceases to recognise interest income based on gross carrying value and applies the asset's effective interest rate to the carrying amount, net of ECL, when calculating interest income.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

The Group performs ECL assessment on an individual basis for all financial assets based on external ratings.

The ECL is determined by predicting credit risk parameters (EAD, PD and LGD) for each future year during the lifetime period for each individual exposure.

The key principles of calculating the credit risk parameters

The EADs are determined based on the expected payment profile including contractual principal plus interest. EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis for amortising products. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by the type of counterparty, type and seniority of the claim, and the 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 for the loans to banks is as follows: LGD is calculated based on the history of cash inflows for the last five financial years from realisation of the collaterals pledged against the loans payable to the Central Bank by the banks whose licences were revoked since 2010.

32 Risk Management (Continued)

Principles of assessment based on external ratings

Certain exposures have external credit risk ratings and these are used to estimate credit risk parameters PD (0.01%-0.25%) and LGD (60%) from the default and recovery statistics published by the respective rating agencies. This approach is applied for the debt securities in foreign currencies and short-term deposits.

The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

Market risk

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

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur. The main objective when managing the interest rate risk is to maintain stable return on investments while not exceeding the risk levels that can be undertaken per investment policies.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2022 is as follows:

	Less than 3 months	**3-6 months**	**6-12 months**	**More than 1 year**	**Non-interest bearing**	**Carrying amount**
31 December 2022						
ASSETS						
Cash and cash equivalents	693,777	-	-	-	5,889,245	6,583,022
Special Drawing Rights with the IMF	1,196,216	-	-	-	-	1,196,216
Derivative Financial Instruments	-	-	-	-	329	329
Debt securities						
- *Debt securities at AC*	-	-	-	9,474,755	-	9,474,755
- *Debt securities at FVOCI*	2,855,587	1,486,914	2,109,335	4,707,040	-	11,158,876
- *Debt securities mandatorily measured at FVTPL*	1,386,359	-	-	-	-	1,386,359
Loans to banks	59,545	98,325	65,645	65,374	-	288,889
Loans to non-bank credit organizations	-	-	6,720	7,125	-	13,845
Loans to Deposit Insurance Fund	-	-	-	221,755	-	221,755
Other financial assets	1	7	25	418	64,342	64,793
Total Financial Assets	**6,191,485**	**1,585,246**	**2,181,725**	**14,476,467**	**5,953,916**	**30,388,839**
LIABILITIES						
Money in circulation	-	-	-	-	14,714,360	14,714,360
Short-term deposits of resident banks	1,938,977	-	-	-	-	1,938,977
Amounts due to government organisations	17,867	-	-	-	4,262,360	4,280,227
Amounts due to credit institutions	-	-	-	-	6,169,718	6,169,718
Amounts due to other organisations	-	-	-	-	16,182	16,182
Debt securities in issue	675,670	382,607	261,252	-	-	1,319,529
Liabilities on transactions with the IMF	1,199,372	-	-	-	-	1,199,372
Amounts due to international financial institutions	-	-	-	-	1,178	1,178
Derivative financial instruments	-	-	-	-	2,109	2,109
Other financial liabilities	-	-	135	1,195	225,094	226,424
Total Financial Liabilities	**3,831,886**	**382,607**	**261,387**	**1,195**	**25,391,001**	**29,868,076**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments as at 31 December 2021 is as follows:

	Less than 3 months	3-6 months	6-12 months	More than 1 year	Non-interest bearing	Carrying amount
31 December 2021						
ASSETS						
Cash and cash equivalents	1,718,333	-	-	-	5,120,658	6,838,991
Special Drawing Rights with the IMF	1,258,160	-	-	-	-	1,258,160
Derivative Financial Instruments	-	-	-	-	2,834	2,834
Debt securities						
- *Debt securities at AC*	116	6,982	-	9,482,143	-	9,489,241
- *Debt securities at FVOCI*	2,326,086	718,137	1,234,286	2,641,159	-	6,919,668
- *Debt securities mandatorily measured at FVTPL*	953,367	-	-	-	-	953,367
Loans to banks	16,995	166,720	65,983	106,583	-	356,281
Loans to non-bank credit organizations	-	-	6,671	13,343	-	20,014
Loans to Deposit Insurance Fund	-	-	-	236,600	-	236,600
Other financial assets	1	7	71	471	1,585	2,135
Total Financial Assets	**6,273,058**	**891,846**	**1,307,011**	**12,480,299**	**5,125,077**	**26,077,291**
LIABILITIES						
Money in circulation	-	-	-	-	12,310,018	12,310,018
Amounts due to government organisations	2,577	-	-	-	4,002,060	4,004,637
Amounts due to credit institutions	-	-	-	-	7,440,004	7,440,004
Amounts due to other organisations	-	-	-	-	11,410	11,410
Debt securities in issue	199,402	-	-	-	-	199,402
Liabilities on transactions with the IMF	1,261,131	-	-	-	-	1,261,131
Amounts due to international financial institutions	1,015	10	-	-	-	1,025
Derivative financial instruments	-	-	-	-	862	862
Other financial liabilities	-	-	-	-	10,875	10,875
Total Financial Liabilities	**1,464,125**	**10**	**-**	**-**	**23,775,229**	**25,239,364**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rates (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2022 and 2021 is as follows:

	2022	**2021**
100 bp parallel fall	(3,461)	(40,794)
100 bp parallel rise	3,461	40,794

An analysis of the sensitivity of profit or loss and equity as a result of changes in the fair value of financial instruments at fair value though profit or loss and financial assets at fair value through other comprehensive income due to changes in the interest rates, based on positions existing as at 31 December 2022 and 2021 and a simplified scenario of a 100 bp symmetrical fall or rise in all yield curves, is as follows:

	2022		**2021**	
	Net profit or loss	**Equity**	**Net profit or loss**	**Equity**
100 bp parallel fall	49,211	94,112	16,778	97,898
100 bp parallel rise	(49,211)	(94,112)	(17,641)	(105,538)

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2022 and 2021. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	31 December 2022 Average effective interest rate, %				31 December 2021 Average effective interest rate, %			
	AZN	USD	EUR	Other currencies	AZN	USD	EUR	Other currencies
Interest bearing assets								
Cash and cash equivalents	-	4.28	-	-	-	0.17	(0.56)	-
Special Drawing Rights with the IMF	-	-	-	2.92	-	-	-	0.08
Debt securities								
-Debt securities at AC	0.15	-	-	-	0.15	-	-	-
-Debt securities at FVOCI	3.06	1.82	0.60	1.26	3.04	0.71	0.42	0.91
-Debt securities mandatorily measured at FVTPL	-	1.02	1.00	1.42	-	0.91	0.56	1.27
Loans to banks (nominal interest rate)	2.62	-	-	-	2.40	-	-	-
Loans to non-bank credit organizations (nominal interest rate)	0.10	-	-	-	0.10	-	-	-
Loans to Deposit Insurance Fund	6.48	-	-	-	6.48	-	-	-
Other financial assets	5.81	-	-	-	5.54	-	-	-
Interest bearing liabilities								
Short-term deposits of resident banks	6.06	-	-	-	-	-	-	-
Amounts due to government organisations	-	-	2.00	-	-	-	(0.50)	-
Debt securities in issue	4.66	-	-	-	6.01	-	-	-
Liabilities on transactions with the IMF	-	-	-	2.92	-	-	-	0.08
Other financial liabilities	0.03	-	-	-	-	-	-	-

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Subject to the currency structure of assets, the value of assets of the Group is exposed to risk of changes in exchange rates of main foreign currencies.

The foreign currency assets of the Group are primarily maintained in US Dollars, Euro, SDR and Pound Sterling. Currency composition of assets was defined by the "Main Directions for Management of Currency Assets of the Central Bank of the Republic of Azerbaijan" approved by the resolution of the Management Board dated 29 December 2021. This document is taken as a basis by the Foreign Exchange Reserves Management Department of the Group, who is the major body responsible for management of the currency risk.

Currency risk is managed through diversification of foreign currency portfolio and determination of the following parameters:

- foreign currencies subject to management;
- maximum share of the managed currency in the total assets denominated in foreign currencies (minimum volume for the base currency).

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2022:

	USD	EUR	Other foreign currencies	Total
ASSETS				
Cash and cash equivalents	5,974,227	569,179	37,182	6,580,588
Special Drawing Rights with the IMF	-	-	1,196,216	1,196,216
Debt securities	11,097,307	593,890	270,027	11,961,224
Derivative financial instruments	329	-	-	329
Other financial assets	64,261	-	-	64,261
Total assets	**17,136,124**	**1,163,069**	**1,503,425**	**19,802,618**
LIABILITIES				
Amounts due to government organisations	823,625	2,312	102	826,039
Amounts due to credit institutions	2,955,495	467,781	16,710	3,439,986
Amounts due to other organisations	-	-	-	-
Liabilities on transactions with the IMF	-	-	1,196,817	1,196,817
Amounts due to international financial institutions	-	-	-	-
Derivative financial instruments	2,109	-	-	2,109
Other financial liabilities	207,708	6,945	9,563	224,216
Total liabilities	**3,988,937**	**477,038**	**1,223,192**	**5,689,167**
Net recognized position	**13,147,187**	**686,031**	**280,233**	**14,113,451**
The effect of derivatives	211,084	(128,958)	(62,290)	19,836
Net position	**13,358,271**	**557,073**	**217,943**	**14,133,287**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

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

	USD	EUR	Other foreign currencies	Total
ASSETS				
Cash and cash equivalents	5,923,511	881,502	33,978	6,838,991
Special Drawing Rights with the IMF	-	-	1,258,160	1,258,160
Debt securities	6,877,660	415,095	235,785	7,528,540
Derivative financial instruments	2,834	-	-	2,834
Other financial assets	1,472	-	-	1,472
Total assets	**12,805,477**	**1,296,597**	**1,527,923**	**15,629,997**
LIABILITIES				
Amounts due to government organisations	1,680,251	18,351	2,347	1,700,949
Amounts due to credit institutions	1,500,067	302,085	21,718	1,823,870
Amounts due to other organisations	1	-	-	1
Liabilities on transactions with the IMF	-	-	1,258,657	1,258,657
Amounts due to international financial institutions	10	-	-	10
Derivative financial instruments	862	-	-	862
Other financial liabilities	7,460	2,567	-	10,027
Total liabilities	**3,188,651**	**323,003**	**1,282,722**	**4,794,376**
Net recognized position	**9,616,826**	**973,594**	**245,201**	**10,835,621**
The effect of derivatives	325,294	(171,999)	(93,419)	59,876
Net position	**9,942,120**	**801,595**	**151,782**	**10,895,497**

A weakening of the AZN, as indicated below, against the following currencies at 31 December 2022 and 2021 would have increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2022	31 December 2021
10% appreciation of USD against AZN (2021: 10%)	1,335,827	994,212
10% appreciation of EUR against AZN (2021: 10%)	55,707	80,160

A strengthening of the AZN against the above currencies at 31 December 2022 and 2021 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. Management of the liquidity risk by the Group is based on keeping the liquidity at required level for meeting the requirements of the Group in any condition.

In order to implement the monetary policy, the Group maintains operational liquid tranche from its foreign currency assets. Liquidity risk management consists of identifying the liquid assets and determining the minimum liquidity limits of foreign currency assets over its investment period.

The table below shows liabilities at 31 December 2022 by their remaining contractual maturity. The amounts of liabilities disclosed in the maturity table are the contractual undiscounted cash flows, foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

The maturity analysis of financial instruments at 31 December 2022 is as follows:

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
LIABILITIES							
Money in circulation	-	-	-	-	-	14,714,360	14,714,360
Short-term deposits of resident banks	1,941,658	-	-	-	-	-	1,941,658
Amounts due to government organisations	4,280,227	-	-	-	-	-	4,280,227
Amounts due to credit institutions	6,169,718	-	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	-	16,182
Debt securities in issue	297,417	771,139	270,000	-	-	-	1,338,556
Liabilities on transactions with the IMF	-	-	-	-	-	1,199,372	1,199,372
Amounts due to international financial institutions	1,178	-	-	-	-	-	1,178
Gross Settled Derivatives							
- Inflow	(292,366)	(99,294)	-	-	-	-	(391,660)
- Outflow	294,451	99,318	-	-	-	-	393,769
Other financial liabilities	225,117	113	136	1,086	543	-	226,995
Total potential future payments for financial obligations	**12,933,582**	**771,276**	**270,136**	**1,086**	**543**	**15,913,732**	**29,890,355**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

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

	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
LIABILITIES							
Money in circulation	-	-	-	-	-	12,310,018	12,310,018
Amounts due to government organisations	4,004,637	-	-	-	-	-	4,004,637
Amounts due to credit institutions	7,440,004	-	-	-	-	-	7,440,004
Amounts due to other organisations	11,410	-	-	-	-	-	11,410
Debt securities in issue	200,000	-	-	-	-	-	200,000
Liabilities on transactions with the IMF	-		-	-	-	1,261,131	1,261,131
Amounts due to international financial institutions	1,015	10	-	-	-	-	1,025
Gross Settled Derivatives							
- Inflow	(592,024)	-	-	-	-	-	(592,024)
- Outflow	592,886	-	-	-	-	-	592,886
Other financial liabilities	10,875	-	-	-	-	-	10,875
Total potential future payments for financial obligations	**11,668,803**	**10**	**-**	**-**	**-**	**13,571,149**	**25,239,962**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

The table below shows the maturity analysis of financial assets at their carrying amounts and based on their contractual maturities, except for debt securities measured at fair value which are readily saleable if it should be necessary to meet cash outflows on financial liabilities. Such financial assets are included in the maturity analysis based on their expected date of disposal. Impaired loans are included at their carrying amounts net of impairment provisions, and based on the expected timing of cash inflows.

The table below shows the maturity analysis of the amounts recognized in the consolidated statement of financial position as at 31 December 2022:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	6,582,299	23	700	-	-	-	-	6,583,022
Special Drawing Rights with the IMF	-	-	-	-	-	1,196,216	-	1,196,216
Derivative financial instruments	-	310	15	4	-	-	-	329
Debt securities	1,975,368	1,028,693	3,683,031	4,840,944	10,491,259	695	-	22,019,990
Loans to banks	-	5,409	163,970	65,374	-	-	54,136	288,889
Loans to non-bank credit organizations	-	-	6,720	7,125	-	-	-	13,845
Loans to Deposit Insurance Fund	-	-	-	221,755	-	-	-	221,755
Other financial assets	64,342	1	32	15	403	-	-	64,793
Total financial assets	**8,622,009**	**1,034,436**	**3,854,468**	**5,135,217**	**10,491,662**	**1,196,911**	**54,136**	**30,388,839**
LIABILITIES								
Money in circulation	-	-	-	-	-	14,714,360	-	14,714,360
Amounts due to government organisations	4,280,227	-	-	-	-	-	-	4,280,227
Short-term deposits of resident banks	1,938,977	-	-	-	-	-	-	1,938,977
Amounts due to credit institutions	6,169,718	-	-	-	-	-	-	6,169,718
Amounts due to other organisations	16,182	-	-	-	-	-	-	16,182
Derivative financial instruments	2,085	24	-	-	-	-	-	2,109
Debt securities in issue	296,975	378,695	643,859	-	-	-	-	1,319,529
Liabilities on transactions with the IMF	-		-	-	-	1,199,372	-	1,199,372
Amounts due to international financial institutions	1,178	-	-	-	-	-	-	1,178
Other financial liabilities	225,094	-	135	1,195	-	-	-	226,424
Total financial liabilities	**12,930,436**	**378,719**	**643,994**	**1,195**	**-**	**15,913,732**	**-**	**29,868,076**
Net position	**(4,308,427)**	**655,717**	**3,210,474**	**5,134,022**	**10,491,662**	**(14,716,821)**	**54,136**	**520,763**

Liquidity risk denominated in local currency is regularly assessed and managed by the Group.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

32 Risk Management (Continued)

The table below shows the maturity analysis of the amounts recognized in the consolidated statement of financial position as at 31 December 2021:

	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	6,838,991	-	-	-	-	-	-	6,838,991
Special Drawing Rights with the IMF	-	-	-	-	-	1,258,160	-	1,258,160
Derivative financial instruments	2,834	-	-	-	-	-	-	2,834
Debt securities	1,031,694	853,809	2,006,177	3,710,495	9,760,101	-	-	17,362,276
Loans to banks	-	5,724	195,876	106,583	-	-	48,098	356,281
Loans to non-bank credit organizations	-	-	6,671	13,343	-	-	-	20,014
Loans to Deposit Insurance Fund	-	-	-	-	236,600	-	-	236,600
Other financial assets	1,585	1	78	14	457	-	-	2,135
Total financial assets	**7,875,104**	**859,534**	**2,208,802**	**3,830,435**	**9,997,158**	**1,258,160**	**48,098**	**26,077,291**
LIABILITIES								
Money in circulation	-	-	-	-	-	12,310,018	-	12,310,018
Amounts due to government organisations	4,004,637	-	-	-	-	-	-	4,004,637
Amounts due to credit institutions	7,440,004	-	-	-	-	-	-	7,440,004
Amounts due to other organisations	11,410	-	-	-	-	-	-	11,410
Derivative financial instruments	862	-	-	-	-	-	-	862
Debt securities in issue	199,402	-	-	-	-	-	-	199,402
Liabilities on transactions with the IMF	-		-	-	-	1,261,131	-	1,261,131
Amounts due to international financial institutions	1,015	-	10	-	-	-	-	1,025
Other financial liabilities	10,875	-	-	-	-	-	-	10,875
Total financial liabilities	**11,668,205**	**-**	**10**	**-**	**-**	**13,571,149**	**-**	**25,239,364**
Net position	**(3,793,101)**	**859,534**	**2,208,792**	**3,830,435**	**9,997,158**	**(12,312,989)**	**48,098**	**837,927**

33 Management of Capital

The capital of the Group comprises the residual value of the Group's assets after deduction of all its liabilities.

The Group's objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the Group and ability to perform its functions. The Group considers total capital under management to be equity disclosed in the consolidated statement of financial position.

No external capital requirements exist for the Group as the central bank, except for the size of the charter fund and minimum amount of capital reserves stipulated by the Law of the Republic of Azerbaijan on "the Central Bank of the Republic of Azerbaijan" (the "Law").

The total consolidated equity of the Group is equal to AZN 980,791 thousand (2021: AZN 1,170,188 thousand).

During the year ended 31 December 2022, the Group recorded a loss of AZN 63,955 thousand (2021: AZN 162,746 thousand).

As disclosed in Note 23, at 31 December 2022 the authorized and fully paid charter fund of the Bank was AZN 500,000 thousand (31 December 2021: AZN 500,000 thousand). The total capital reserves, retained earnings and revaluation reserve for debt securities at FVOCI attributable to the Central Bank of the Republic of Azerbaijan as a separate entity are equal to AZN 480,791 thousand (2021: AZN 526,968 thousand), AZN 164,773 thousand (2021: AZN 183,263 thousand) and AZN 171,334 thousand (2021: AZN 40,043 thousand) respectively. The Bank's capital reserves shall not fall below its charter fund. Based on Article 14 of the Law, capital shortfall resulting from Central Bank's activity shall be covered at the expense of securities issued by the state, being deferred by one fiscal year.

The Group has made total loss in the amount of AZN 64,667 thousand (2021: AZN 162,746 thousand loss) for the year ended 31 December 2022. This amount represents the financial performance of the Bank as a separate entity and is not inclusive of profits or losses from its subsidiary, which is accounted for in the consolidated financial statements.

Transfer to the State Budget was nil in 2022 (2021: AZN 250 million).

34 Contingencies

Litigations

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

35 Related Party Transactions

Parties are generally considered to be related if the parties are directly or indirectly under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Main government entities operating with the Group include the Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan, Ministry of Finance, International Bank of Azerbaijan, State Oil Fund of Azerbaijan, Aqrarkredit JSCO, Azerbaijan Deposit Insurance Fund and AzerTurk Bank.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

35 Related Party Transactions (Continued)

Transactions with the members of the Management

Total remuneration included in personnel expenses for the years ended 31 December 2022 and 2021 is as follows:

	2022	2021
Short-term employee benefits (salary)	2,063	1,146
Social security contribution	489	278
	2,552	**1,424**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

35 Related Party Transactions (Continued)

Transactions with government-related entities

The Bank is a public legal entity, and in the ordinary course of business operates with various state owned companies. Significant transactions with government owned companies include loans to banks and other government owned institutions, investment securities, promissory notes from government, placements by government and credit institutions and interest income and expenses.

The outstanding balances and the related average effective interest rates as at 31 December 2022 and related profit or loss amounts of transactions for the year ended 31 December 2022 with other related parties are as follows:

	Government bodies of Azerbaijan		Entities under government control		Total
	Amount	**Effective interest rate, %**	**Amount**	**Effective interest rate, %**	**Amount**
Statement of financial position					
ASSETS					
Debt securities					
-Debt securities at AC	515	5.96	9,482,142	0.15	9,482,657
Credit loss allowance	-	-	(7,902)	-	(7,902)
-Debt securities at FVOCI	-	-	584,012	from 3 to 3.25	584,012
Loans to banks (nominal interest rates)	-	-	79,272	from 0.1 to 0.5	79,272
Credit loss allowance	-	-	(512)	-	(512)
Loans to Deposit Insurance Fund	-	-	221,940	6.48	221,940
Credit loss allowance	-	-	(185)	-	(185)
LIABILITIES					
Amounts due to government organisations	3,544,822	0	735,405	0	4,280,227
Short-term deposits of resident banks	-	-	1,512,329	6.01	1,512,329
Amounts due to credit institutions	-	-	1,667,110	0	1,667,110
Amounts due to other organisations	83	0	16,099	0	16,182
Liabilities on transactions with the IMF	1,199,372	2.92	-	-	1,199,372
Amounts due to international financial institutions	1,178	0	-	-	1,178
Debt securities in issue	-	-	209,583	4.52	209,583
Profit (loss)					
Interest income	38	-	41,636	-	41,674
Interest expense	(8,913)	-	(110,548)	-	(119,461)
Credit loss allowance	-	-	(9,086)	-	(9,086)
Net lossess from disposals of securities measured at FVOCI	-	-	(136)	-	(136)
Gain on recognition of financial liabilities	-	-	56,007	-	56,007

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

35 Related Party Transactions (Continued)

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

	Government bodies of Azerbaijan		**Entities under government control**		**Total**
	Amount	**Effective interest rate, %**	**Amount**	**Effective interest rate, %**	**Amount**
Statement of financial position					
ASSETS					
Debt securities					
-Debt securities at AC	7,099	0.15	9,482,142	0.15	9,489,241
-Debt securities at FVOCI	-	-	344,495	from 3.0 to 3.25	344,495
Loans to banks (nominal interest rates)	-	-	116,307	from 0.1 to 0.5	116,307
Credit loss allowance	-	-	(2,320)	-	(2,320)
Loans to Deposit Insurance Fund	-	-	236,600	6.48	236,600
LIABILITIES					
Amounts due to government organisations	2,429,732	-	1,574,905	-	4,004,637
Short-term deposits of resident banks	-	-	-	-	-
Amounts due to credit institutions	-	-	2,548,122	-	2,548,122
Amounts due to other organisations	6,930		4,480		11,410
Liabilities on transactions with the IMF	1,261,131	-	-	-	1,261,131
Amounts due to international financial institutions	1,025	-	-	-	1,025
Debt securities in issue	-	-	32,080	6.01	32,080
Profit (loss)					
Interest income	14	-	41,671	-	41,685
Interest expense	-	-	(138,060)	-	(138,060)
Credit loss allowance	-	-	(12)	-	(12)
Net lossess from disposals of securities measured at FVOCI	-	-	(86)	-	(86)
Gain on recognition of financial liabilities	-	-	7,487	-	7,487
Loss on recognition of financial assets	-	-	(6,415)	-	(6,415)

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

36 Financial Assets and Liabilities: Fair Values and Accounting Classifications

Accounting classifications and fair values

For the purposes of measurement, IFRS 9 “Financial Instruments” classifies financial assets into the following categories: (a) financial assets mandatorily measured at FVTPL; (b) debt instruments at FVOCI, (c) financial assets at AC.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2022:

	Financial assets measured at AC	Financial assets measured at FVOCI	Financial assets measured at FVTPL	Total
ASSETS				
Cash and cash equivalents	6,329,846	-	253,176	6,583,022
Debt securities				
Agency	-	3,577,827	200,793	3,778,620
Supranational	-	684,876	19,092	703,968
Treasury	-	5,150,391	472,803	5,623,194
Local Authority	-	689,437	3,803	693,240
Corporate	-	300,671	69,777	370,448
Sovereign	-	164,995	2,082	167,077
Covered	-	6,667	618,009	624,676
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	584,012	-	584,012
JSCO Aqrarkredit	9,474,240	-	-	9,474,240
Ministry of Finance of the Republic of Azerbaijan	515	-	-	515
Loans to banks				
- Refinancing loans	288,889	-	-	288,889
Loans to non-bank credit organizations	13,845	-	-	13,845
Loans to Deposit Insurance Fund	221,755	-	-	221,755
Special Drawing Rights with the IMF	1,196,216	-	-	1,196,216
Derivative financial instruments	-	-	329	329
Other financial assets:				
- Receivables from trade securities disposed	64,054	-	-	64,054
- Loans to employees	451	-	-	451
- Amounts in course of settlement	288	-	-	288
TOTAL FINANCIAL ASSETS	**17,590,099**	**11,158,876**	**1,639,864**	**30,388,839**

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

36 Financial Assets and Liabilities: Fair Values and Accounting Classifications (Continued)

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2021:

	Financial assets measured at AC	Financial assets measured at FVOCI	Financial assets measured at FVTPL	Total
ASSETS				
Cash and cash equivalents	6,072,906	-	766,085	6,838,991
Debt securities				
Agency	-	2,560,825	188,191	2,749,016
Supranational	-	885,660	56,911	942,571
Treasury	-	1,823,610	536,811	2,360,421
Local Authority	-	425,408	43,197	468,605
Corporate	-	786,204	83,621	869,825
Sovereign	-	93,466	2,831	96,297
Covered	-	-	41,805	41,805
Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	-	344,495	-	344,495
JSCO Aqrarkredit	9,482,143	-	-	9,482,143
Ministry of Finance of the Republic of Azerbaijan	7,098	-	-	7,098
Loans to banks				
- Refinancing loans	356,281	-	-	356,281
Loans to non-bank credit organizations	20,014	-	-	20,014
Loans to Deposit Insurance Fund	236,600	-	-	236,600
Special Drawing Rights with the IMF	1,258,160	-	-	1,258,160
Derivative financial instruments	-	-	2,834	2,834
Other financial assets:				
- Receivables from trade securities disposed	1,037	-	-	1,037
- Loans to employees	542	-	-	542
- Amounts in course of settlement	556	-	-	556
TOTAL FINANCIAL ASSETS	**17,435,337**	**6,919,668**	**1,722,286**	**26,077,291**

As of 31 December 2022 and 31 December 2021, all of the Group's financial liabilities except for derivatives were carried at AC.

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities. The fair value of a liability reflects its non-performance risk.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. For all other financial instruments the Group determines fair values using other valuation techniques. The chosen valuation technique incorporates all the factors that market participants would take into account in these circumstances.

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

36 Financial assets and liabilities: fair values and accounting classifications (Continued)

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps.

There were no changes in valuation techniques as at 31 December 2022 (2021: none).

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

Fair value hierarchy

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

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

Where third-party information, such as broker quotes or pricing services are used to measure fair value, the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, is assessed and documented. This includes:

- verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

36 Financial assets and liabilities: fair values and accounting classifications (Continued)

Fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The table below analyses financial instruments measured at fair value at 31 December 2022, by the level in the fair value hierarchy into which the recurring fair value measurement is categorised. The amounts are based on the values recognized in the statement of financial position:

	Level 1	Level 2	Total
Financial assets			
Cash and cash equivalents	253,176	-	253,176
Debt securities			
- Agency	3,778,620	-	3,778,620
- Supranational	703,968	-	703,968
- Treasury	5,623,194	-	5,623,194
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	584,012	-	584,012
- Local Authority	693,240	-	693,240
- Corporate	370,448	-	370,448
- Sovereign	167,077	-	167,077
- Covered	624,676	-	624,676
Derivative financial instruments	-	329	329
	12,798,411	**329**	**12,798,740**
Financial liabilities			
Derivative financial instruments	-	2,109	2,109

The table below analyses financial instruments measured at fair value at 31 December 2021, by the level in the fair value hierarchy into which the recurring fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position:

	Level 1	Level 2	Total
Financial assets			
Cash and cash equivalents	-	766,085	766,085
Debt securities			
- Agency	2,749,016	-	2,749,016
- Supranational	942,571	-	942,571
- Treasury	2,360,421	-	2,360,421
- Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	344,495	-	344,495
- Local Authority	468,605	-	468,605
- Corporate	869,825	-	869,825
- Sovereign	96,297	-	96,297
- Covered	41,805	-	41,805
Derivative financial instruments	-	2,834	2,834
	7,873,035	**768,919**	**8,641,954**
Financial liabilities			
Derivative financial instruments	-	862	862

The valuation of level 1 securities is regularly performed by the Group using available sources.

Derivative products valued using a valuation technique with market-observable inputs are mainly currency forward (including forward made on the basis of mutual settlement) exchange and swap contracts. The fair value of forward foreign exchange and swap contracts is determined using forward exchange rates at the balance sheet date.

There were no transfers between Level 1 and Level 2 during the year.

(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)

36 Financial assets and liabilities: fair values and accounting classifications (Continued)

Assets and liabilities not measured at fair value but for which fair value is disclosed

The table below analyses financial instruments not measured at fair value at 31 December 2022, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	5,889,245	440,601	-	6,329,846	6,329,846
Special Drawing Rights with the IMF	-	1,196,216	-	1,196,216	1,196,216
Debt securities:					
JSCO Aqrarkredit	-	-	9,474,240	9,474,240	9,474,240
Ministry of Finance of the Republic of Azerbaijan	-	515	-	515	515
Loans to banks	-	200,476	78,315	278,791	288,889
Loans to non-bank credit organizations	-	12,207	-	12,207	13,845
Loans to Deposit Insurance Fund	-	217,965	-	217,965	221,755
Other financial assets	-	64,746	-	64,746	64,793
LIABILITIES					
Money in circulation	14,714,360	-	-	14,714,360	14,714,360
Short-term deposits of resident banks	-	1,938,977	-	1,938,977	1,938,977
Amounts due to government organisations	-	4,280,227	-	4,280,227	4,280,227
Amounts due to credit institutions	-	6,169,718	-	6,169,718	6,169,718
Amounts due to other organisations	-	16,182	-	16,182	16,182
Debt securities in issue	-	1,319,529	-	1,319,529	1,319,529
Liabilities on transactions with the IMF	-	1,199,372	-	1,199,372	1,199,372
Amounts due to international financial institutions	-	1,178	-	1,178	1,178
Other financial liabilities	-	226,424	-	226,424	226,424

The table below analyses financial instruments not measured at fair value at 31 December 2021, by the level in the fair value hierarchy:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Cash and cash equivalents	-	6,072,906	-	6,072,906	6,072,906
Special Drawing Rights with the IMF	-	1,258,160	-	1,258,160	1,258,160
Debt securities:					
JSCO Aqrarkredit	-	-	9,482,143	9,482,143	9,482,143
Ministry of Finance of the Republic of Azerbaijan	-	7,098	-	7,098	7,098
Loans to banks	-	300,822	46,669	347,491	356,281
Loans to non-bank credit organizations	-	20,610	-	20,610	20,014
Loans to Deposit Insurance Fund	-	236,600	-	236,600	236,600
Other financial assets	-	2,135	-	2,135	2,135
LIABILITIES					
Money in circulation	12,310,018	-	-	12,310,018	12,310,018
Short-term deposits of resident banks	-	-	-	-	-
Amounts due to government organisations	-	4,004,637	-	4,004,637	4,004,637
Amounts due to credit institutions	-	7,440,004	-	7,440,004	7,440,004
Amounts due to other organisations	-	11,410	-	11,410	11,410
Debt securities in issue	-	199,402	-	199,402	199,402
Liabilities on transactions with the IMF	-	1,261,131	-	1,261,131	1,261,131
Amounts due to international financial institutions	-	1,025	-	1,025	1,025
Other financial liabilities	-	10,875	-	10,875	10,875

36 Financial assets and liabilities: fair values and accounting classifications (Continued)

The fair values in level 2 and 3 fair value hierarchies were estimated using the discounted cash flows valuation technique, except for JSCO Agrarkredit. 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.