BANK MELLI IRAN
BAKU BRANCH

Financial Statements in accordance with International Financial Reporting Standards and Independent Auditor's Report

For the Year ended
31 December 2020

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BEST AUDIT MMC

«RUSSELL BEDFORD INTERNATIONAL»
ŞƏBƏKƏSİNİN ÜZV FİRMASI

Heydər Əliyev prospekti 115
AZ1029, Bakı, Azərbaycan

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Management Board of "Bank Melli Iran Baku Branch":

Opinion

We have audited the accompanying financial statements of "Bank Melli Iran Baku Branch" (the "Bank"), which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of opinion

We conducted our audit in accordance with ISA. Our responsibilities under those standards are further described in the "Auditor's Responsibilities" section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of matter

We draw attention to Note 4 *Critical Accounting Estimates and Judgments in Applying Accounting Policies* to the accompanying financial statements. Measures taken to contain the coronavirus (COVID-19), developed rapidly since the beginning of 2020, with a significant number of cases globally, have significantly affected economic activity in the Republic of Azerbaijan, as well as in most countries of the World, which in turn has implications for financial reporting. Uncertainties in predictions on future developments of the pandemic make it difficult to determine the effects on the Bank's business activity, results of its operations, financial position and cash flows in the nearest future.

However, the Bank's management believe that the structure of the Bank's assets, liquidity level and recognised allowances can prevent significant adverse effect of the current situation and possible development of COVID-19 on the Bank's going concern in the nearest future.

Our opinion is not qualified in respect of this matter.

Responsibilities of management and those charged with governance for the Financial Statements

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

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

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

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 financial statements.

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

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtained 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.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated 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 identified during our audit.

We also provided 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, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the 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.

Baku, the Republic of Azerbaijan

21 January, 2021

Best Audit LLC
Member firm of Russell Bedford International

AZƏRBAYCAN RESPUBLİKASI Məhdud Məsuliyyətli Cəmiyyəti "BEST AUDIT" Limited Liability Company AZERBAIJAN REPUBLIC

«RUSSELL BEDFORD INTERNATIONAL» ŞƏBƏKƏSİNİN ÜZV FİRMASI

Heydar Əliyev prospekti 115
AZ1029, Bakı, Azərbaycan

Bank Melli Iran Baku Branch
Statement of Financial Position
(In Azerbaijani Manats)

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	7	55,386,433	59,630,804
Due from banks and other financial institutions	8	2,295,473	3,809,019
Loans and advances to customers	9	5,221,829	4,184,622
Investment securities	10	22,430,444	22,815,536
Premises and equipment	11	3,334,527	3,409,470
Intangible assets	11	157,488	84,065
Other assets	12	4,873,292	4,785,224
TOTAL ASSETS		**93,699,486**	**98,718,740**
LIABILITIES			
Due to banks and other financial institutions	13	26,158,023	31,737,986
Customer accounts	14	10,702,689	11,947,580
Deferred income tax liability	22	318,559	309,862
Other liabilities	15	340,432	997,317
Subordinated debt	16	18,801,000	17,131,500
TOTAL LIABILITIES		**56,320,703**	**62,124,245**
EQUITY			
Share capital	17	73,611,171	73,611,171
Revaluation surplus		-	2,238
Accumulated deficit		(36,232,388)	(37,018,914)
TOTAL EQUITY		**37,378,783**	**36,594,495**
TOTAL EQUITY AND LIABILITIES		**93,699,486**	**98,718,740**

On behalf of the Management Board:

BANK MELLI IRAN BAKI FILIALI
BAKU BRANCH BANK MELLI IRAN

Najafimarganmaskan Asghar Khalil
Branch Manager

21 January 2021
Baku, the Republic of Azerbaijan

Mirheydarov Yagar Mirfazil
Chief Accountant

21 January 2021
Baku, the Republic of Azerbaijan

The notes on pages 8-45 form an integral part of these financial statements.

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	18	2,758,402	2,843,032
Interest expense	18	(252,916)	(121,853)
Net interest income		**2,505,486**	**2,721,179**
Fee and commission income	19	147,840	177,379
Fee and commission expense	19	(75,898)	(108,509)
Gain from operations in foreign currencies - less losses	20	549,780	653,001
Provision for impairment losses	9	(364,869)	(18,293,015)
Other income		11,420	38,795
Other expenses		(11,400)	(21,000)
Operating income/(loss)		**2,762,359**	**(14,832,170)**
Operating expenses	21	(1,969,374)	(1,710,665)
Profit/(loss) before income tax		**792,985**	**(16,542,835)**
Income tax expense	22	(9,145)	(13,921)
Net profit/(loss) for the year		**783,840**	**(16,556,756)**
Other comprehensive income for the year		448	1,109
Income tax benefit relating to components of other comprehensive income		*448*	*1,109*
Total comprehensive income/(loss) for the year		**784,288**	**(16,555,647)**

On behalf of the Management Board:

BANK MELLI IRAN BAKI FILIALI
BAKU BRANCH BANK MELLI IRAN

Najafimarganmaskan Asghar Khalil
Branch Manager

21 January 2021
Baku, the Republic of Azerbaijan

Mirheydarov Yugar Mirfazil
Chief Accountant

21 January 2021
Baku, the Republic of Azerbaijan

The notes on pages 8-45 form an integral part of these financial statements.

	Share Capital	Revaluation surplus	Accumulated deficit	Total Equity
Balance at 01 January 2019	**73,611,171**	**6,669**	**(20,467,698)**	**53,150,142**
Net loss for the year	-	-	(16,556,756)	(16,556,756)
Other comprehensive income for the year	-	1,109	-	1,109
Realisation of revaluation surplus	-	(5,540)	5,540	-
Balance at 31 December 2019	**73,611,171**	**2,238**	**(37,018,914)**	**36,594,495**
Net profit for the year	-	-	783,840	783,840
Other comprehensive income for the year	-	448	-	448
Realisation of revaluation surplus	-	(2,686)	2,686	-
Balance at 31 December 2020	**73,611,171**	**-**	**(36,232,388)**	**37,378,783**

On behalf of the Management Board:

Najafimarganmaskan Asghar Khalil
Branch Manager

21 January 2021

Baku, the Republic of Azerbaijan

Mirheydarov Yugar Mirfazil
Chief Accountant

21 January 2021

Baku, the Republic of Azerbaijan

BANK MELLI IRAN BAKI FILIALI
BANK MELLI IRAN BAKU BRANCH

The notes on pages 8-45 form an integral part of these financial statements.

	Note	Year ended 31 December 2020	Year ended 31 December 2019
Cash flow from operating activities			
Profit/(loss) before income tax		792,985	(16,542,835)
Adjustments for:			
Provision for impairment losses		364,869	18,293,015
Depreciation and amortisation expense		119,963	116,447
(Gain)/loss on revaluation of foreign currency position		(182,041)	11,382
Cash flow from operating activities before changes in operating assets and liabilities		**1,095,776**	**1,878,009**
(Increase)/decrease in operating assets:			
Due from banks and other financial institutions		1,415,948	2,311,961
Loans and advances to customers		(1,523,942)	(1,208,556)
Investment securities		385,092	(2,205,209)
Other assets		(102,762)	(5,530,911)
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(7,453,090)	1,368,487
Customer Accounts		(1,894,021)	3,684,765
Other liabilities		(648,251)	892,770
Subordinated debt		-	-
Cash (outflow)/inflow from operating activities before taxation:		**(8,725,250)**	**1,191,316**
Income tax paid		(168)	-
Net cash (used in)/from operating activities		**(8,725,418)**	**1,191,316**
Cash flow from investing activities			
Purchase of premises and equipment		(31,998)	(12,355)
Purchase of intangible assets		(86,445)	(50,000)
Net cash used in investing activities		**(118,443)**	**(62,355)**
Cash flow from financing activities			
Net cash used in financing activites		-	-
Effect of changes in foreign exchange rates on cash and cash equivalents		4,359,571	(1,231,767)
Net decrease in cash and cash equivalents		**(4,484,290)**	**(102,806)**
Cash and cash equivalents, beginning of the year	7	**59,921,980**	**60,024,786**
Cash and cash equivalents, end of the year	7	**55,437,690**	**59,921,980**

On behalf of the Management Board:

BANK MELLI IRAN BAKI FILIALI BAKU BRANCH BANK MELLI IRAN

Najafimarganmaskan Asghar Khalil	**Mirheydarov Vugar Mirfazil**
Branch Manager	**Chief Accountant**
21 January 2021	21 January 2021
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan

The notes on pages 8-45 form an integral part of these financial statements.

1 Introduction

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2020 for Bank Melli Iran Baku Branch (the “Bank”), which was incorporated in Azerbaijan in 1993.The Bank’s principal business activity is commercial and retail banking operations.

Basic activities. The Bank’s primary business consists of bank services for legal and individual persons. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the “Regulatory Body”) and conducts its business under general license number 124.

As at 31 December 2020 and 31 December 2019, the following shareholders owned the issued shares of the Bank:

Shareholders	Country	31 December 2020 %	31 December 2019 %
“Bank Melli Iran”	Iran Islamic Republic	100	100

Registered address and place of business. The Bank’s registered address is:

Nobel ave. 23, AZ 1025, Baku, the Republic of Azerbaijan

Presentation currency. These financial statements are presented in Azerbaijani Manats (“AZN”). The Azerbaijani Manat (“AZN”) is the official currency of Republic of Azerbaijan.

2 Operating Environment of the Bank

The Republic of Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks towards the market economy. The future stability of Azerbaijan’s economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The future economic direction of the Republic of Azerbaijan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments. The Management is unable to predict, all developments in the economic environment which would have an impact on the Bank’s operations and consequently what effect, if any, they could have on the financial position of the Bank.

3 Summary of Significant Accounting Policies

Basis of Preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Financial assets and liabilities – measurement methods

Amortised cost and effective interest rate

3 Summary of Significant Accounting Policies (Continued)

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

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

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.
- Financial assets that are not "POCI" but have subsequently become credit-impaired, for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

Initial recognition and measurement. Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

3 Summary of Significant Accounting Policies (Continued)

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Financial assets

Classification and subsequent measurement. The Bank classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Bank's business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

Amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

Fair value through other comprehensive income (FVOCI). Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Net investment income". Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

Business model. The business model reflects how the Bank manages the assets in order to generate cash flows.

3 Summary of Significant Accounting Policies (Continued)

That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets.

If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI. Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Impairment. The Bank assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and

Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Modifiation of loans. The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a "new" asset at fair value and recalculates a new effective interest rate for the asset.

3 Summary of Significant Accounting Policies (Continued)

The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification. Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

Financial liabilities

Classification and subsequent measurement. In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition. Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3 Summary of Significant Accounting Policies (Continued)

Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortized cost.

Mandatory cash balances with the Central Bank of Azerbaijan Republic (the "CBAR"). Mandatory cash balances in AZN and foreign currency held with the CBAR are carried at amortized cost and represent non-interest bearing mandatory reserve deposits, which are not available to finance the Bank's day-to-day operations.

Due from other banks. Amounts due from other banks are recorded when the Bank advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates and the Bank has no intention of trading unquoted non-derivative receivables. Amounts due from other banks are carried at amortized cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost.

Credit related commitments. The Bank enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognized at their fair value, which is normally evidenced by the amount of fees received. This amount is amortized on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At each balance sheet date, the commitments are measured at the higher of (i) the remaining unamortized balance of the amount at initial recognition and (ii) the best estimate of expenditure required settling the commitment at the balance sheet date.

Premises and equipment. Premises are stated at revalued amounts, as described below, less accumulated depreciation and provision for impairment, where required. All other items of premises and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

The costs of minor repairs and maintenance are expensed when incurred. The cost of replacing major parts or components of premises and equipment items are capitalized and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized as profit or loss from disposal of fixed assets.

Depreciation. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

3 Summary of Significant Accounting Policies (Continued)

Premises	2 %;
Computers and communication equipment	20%;
Furniture, fixtures and other	20%;
Vehicles	15%;
Other fixed assets	20%.

The residual value of an asset is the estimated amount that the Bank would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual value of an asset is nil if the Bank expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Bank's intangible assets have definite useful life and primarily include capitalized computer software.

Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalized costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Capitalized computer software is amortized on a straight line basis over expected useful lives of 10 years.

Due to other banks. Amounts due to other banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortized cost.

If the Bank purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

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

Other borrowed funds. Other borrowed funds include loans from resident and non-resident financial institutions with fixed maturities and fixed or floating interest rates. Term borrowings are carried at amortised cost.

Income taxes. Income taxes have been provided for in the financial statements in accordance with Azerbaijani legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognized in the statement of comprehensive income except if it is recognized directly in the statement of other comprehensive income because it relates to transactions that are also recognized, in the same or a different period, directly in the statement of other comprehensive income.

3 Summary of Significant Accounting Policies (Continued)

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits for the current and prior periods. Taxable profits are based on estimates if financial statements are authorized prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available, against which the deductions can be utilized.

Income and expense recognition. Interest income and expense are recorded in the statement of comprehensive income 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.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Foreign currency translation. Institutions of the Bank's functional currency of the primary economic environment in which the entity is the currency. The Bank’s functional and presentation currency is the national currency of the Republic of Azerbaijan, Azerbaijani Manats (“AZN”).

Monetary assets and liabilities are translated into entity’s functional currency at the official exchange rate of the CBAR at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into Bank’s functional currency at year-end official exchange rates of the CBAR are recognized in profit or loss.

Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

Rate of exchange as at 31 December 2020:

1 USD = 1.7000 AZN (31 December 2019: 1 USD = 1.7000 AZN)

1 EUR = 2.0890 AZN (31 December 2019: 1 EUR = 1.9035 AZN)

3 Summary of Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognized in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Measurement of the expected credit loss allowance. The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

Establishing groups of similar financial assets for the purposes of measuring ECL.

Initial recognition of related party transactions. In the normal course of business, the Bank enters into transactions with its related parties. Terms and conditions of related party balances are disclosed in Note 28.

Going concern. Since the World Health Organisation declared COVID-19 a pandemic in the beginning of 2020, the coronavirus (COVID-19) has developed rapidly in 2020, with a significant number of cases globally. Measures taken to contain the virus have significantly affected economic activity in the Republic of Azerbaijan, as well as in most countries of the World, which in turn has implications for financial reporting.

Uncertainties in predictions on future developments of the pandemic make it difficult to determine the effects on the Bank's business activity, results of its operations, financial position and cash flows in the nearest future.

However, the Bank's management believe that the structure of the Bank's assets, liquidity level and recognised allowances can prevent significant adverse effect of the current situation and possible development of COVID-19 on the Bank's going concern in the nearest future.

Tax legislation. Azerbaijani tax, currency and customs legislation is subject to varying interpretations.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Bank from 1 January 2020:

IFRS 3 Business Combinations. Amendment of the definition of "Business" – The amendments will help companies determine whether an acquisition made is of a business or a group of assets. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Distinguishing between a business and a group of assets is important because an acquirer recognizes goodwill only when acquiring a business. According to the amendment new definition a "business" is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing *goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities*. The amendments didn't have material impact on these financial statements.

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

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments didn't have material impact on these financial statements.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The amendments didn't have material impact on these financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later and which the Bank has not early adopted.

IFRS 17, Insurance Contracts. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.

These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* and is effective for annual periods beginning on or after 1 January 2021.

The Management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Bank.

7 Cash and Cash Equivalents

	31 December 2020	31 December 2019
Cash on hand	2,696,383	3,053,769
Cash balances with the CBAR	47,935,116	31,559,581
Correspondent accounts and overnight placements with other banks:		
- The Republic of Azerbaijan	3,227	3,056
- Other countries	4,802,964	25,305,574
Less: allowance for impairment losses	(51,257)	(291,176)
Total cash and cash equivalents	**55,386,433**	**59,630,804**

The analysis by credit quality of cash and current placements with other banks at 31 December 2020 is as follows:

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	2,696,383	-	-	**2,696,383**
- The Republic of Azerbaijan	-	47,935,116	3,227	**47,938,343**
- Other countries	-	-	4,751,707	**4,751,707**
Total current and not impaired	**2,696,383**	**47,935,116**	**4,754,934**	**55,386,433**
Total cash and cash equivalents	**2,696,383**	**47,935,116**	**4,754,934**	**55,386,433**

The analysis by credit quality of cash and current placements with other banks at 31 December 2019 is as follows:

	Cash on hand	Cash balances with the CBAR	Correspondent accounts and overnight placements with other banks	Total
Current and not impaired				
- Cash on hand	3,053,769	-	-	**3,053,769**
- The Republic of Azerbaijan	-	31,559,581	3,056	**31,562,637**
- Other countries	-	-	25,014,398	**25,014,398**
Total current and not impaired	**3,053,769**	**31,559,581**	**25,017,454**	**59,630,804**
Total cash and cash equivalents	**3,053,769**	**31,559,581**	**25,017,454**	**59,630,804**

8 Due from Banks and Other Financial Institutions

	31 December 2020	31 December 2019
Short-term deposits placed in resident banks	8,089,843	7,995,898
Short-term deposits placed in non-resident banks	2,318,660	3,812,076
Less: allowance for impairment losses	(8,113,030)	(7,998,955)
Total due from banks and other financial institutions	**2,295,473**	**3,809,019**

The balance values of the amounts due from banks as of 31 December 2020 and 31 December 2019 approximate their fair values.

Short-term deposits placed in non-resident banks include a deposit in the amount of AED 5,000,000 (AZN 2,314,000) placed by the Bank in Bank Melli Iran – U.A.E Branch on 1 March 2020 and bearing annual interest rate of 2.5%. The maturity date of the deposit is 1 March 2021.

Short-term deposits placed in resident banks consist of amounts placed in bankrupted banks Atrabank OJSC and Royal Bank OJSC in previous years against which the Bank recognised allowance for impairment losses in the entire amount of the funds.

9 Loans and Advances to Customers

	31 December 2020	31 December 2019
Loans to individuals	7,103,363	5,683,761
Corporate loans	134,298	27,596
Total loans and advances to customers (gross)	**7,237,661**	**5,711,357**
Less: allowance for loan impairment losses	(2,015,832)	(1,526,735)
Total loans and advances to customers	**5,221,829**	**4,184,622**

The movement in the provision for loan impairment during 2020 is as follows:

	Loans to individuals	Corporate loans	Total
Allowance for impairment at 1 January 2020	**1,514,604**	**12,131**	**1,526,735**
Provision during the year	712,076	-	712,076
Reversal of provision for impairment during the year	-	(8,506)	(8,506)
Write-off of provision for impairment during the year	(214,473)	-	(214,473)
Allowance for impairment at 31 December 2020	**2,012,207**	**3,625**	**2,015,832**

9 Loans and Advances to Customers (Continued)

The movement in the provision for loan impairment during 2019 is as follows:

	Loans to individuals	Corporate loans	Total
Allowance for impairment at 1 January 2019	**870,313**	**54,426**	**924,739**
Provision during the year	768,926	-	768,926
Reversal of provision for impairment during the year	-	(42,295)	(42,295)
Write-off of provision for impairment during the year	(124,635)	-	(124,635)
Allowance for impairment at 31 December 2019	**1,514,604**	**12,131**	**1,526,735**

Economic sector risk concentrations within the loans to customers is as follows:

	31 December 2020		31 December 2019	
	Amount	**%**	**Amount**	**%**
Corporate loans				
Construction	131,993	1.82	-	-
Trade and services	2,305	0.03	27,596	0.48
Total corporate loans	**134,298**	**1.85**	**27,596**	**0.48**
Loans to individuals				
Repair of apartment	5,122,615	70.78	3,811,930	66.74
Car purchase	931,633	12.87	859,870	15.06
Consumer loans	923,533	12.76	854,524	14.96
Trade and services	125,582	1.74	157,437	2.76
Total loans to individuals	**7,103,363**	**98.15**	**5,683,761**	**99.52**
Total loans and advances to customers (gross)	**7,237,661**	**100.00**	**5,711,357**	**100.00**

The carrying value of each class of loans and advances to customers approximates fair value at 31 December 2020 and 31 December 2019.

Refer to Note 23 *Financial Risk Management* for the information on credit risk related to loans and advances to customers.

Management believes that allowances for loan impairment calculated by the Bank are sufficient for fair presentation of carrying values of loans and advances to customers.

10 Investment Securities

As at 31 December 2020 and 31 December 2019 the Bank's balances of investment securities at amortised cost are as follows:

	Interest to nominal %	31 December 2020	Interest to nominal %	31 December 2019
Securities of the Ministry of Finance of AR:				
N:AZ0104002776	3.98	1,060,556	-	-
N:AZ0104001778	3.65	817,274	-	-
N:AZ0104004772	6.98	1,135,703	-	-
N:AZ0104005779	8.00	1,578,087	-	-
N:AZ0104005779	7.47	7,240,092	-	-
N:AZ0104005779	7.50	310,348	-	-
N:AZ0104010779	6.94	2,238,753	-	-
N:AZ0104012775	6.89	4,555,031	-	-
N:AZ0105001850	6.85	1,500,000	-	-
N:AZ0105010786	10.00	1,994,600	-	-
N:AZ0104002743	-	-	6.99	4,449,911
N:AZ0104002743	-	-	6.82	213,310
N:AZ0104004749	-	-	7.09	6,621,685
N:AZ0104004749	-	-	7.52	1,258,336
N:AZ0104006744	-	-	6.00	4,954,301
N:AZ0104007742	-	-	5.80	263,487
N:AZ0104011744	-	-	6.00	2,904,340
N:AZ0105010695	-	-	8.46	964,685
N:AZ0105010695	-	-	8.37	385,481
N:AZ0105006693	-	-	7.99	800,000
Total investment securities at amortised cost	**-**	**22,430,444**	**-**	**22,815,536**

11 Premises, Equipment and Intangible Assets

	Premises	Furniture and fixtures	Computers and communication equipment	Vehicles	Other fixed assets	Total premises and equipment	Software and licenses	Total
Balance as at 1 January 2019	**3,432,301**	**16,074**	**17,233**	**38,672**	**206**	**3,504,486**	**43,141**	**3,547,627**
Additions	-	5,323	7,032	-	-	**12,355**	50,000	**62,355**
Disposal	-	-	-	-	-	-	-	-
Depreciation/amortisation charge	(83,460)	(6,468)	(4,851)	(12,542)	(50)	**(107,371)**	(9,076)	**(116,447)**
Balance as at 31 December 2019	**3,348,841**	**14,929**	**19,414**	**26,130**	**156**	**3,409,470**	**84,065**	**3,493,535**
Additions	-	10,476	21,522	-	-	**31,998**	86,445	**118,443**
Disposal	-	-	-	-	-	-	-	-
Depreciation/amortisation charge	(83,461)	(7,706)	(6,942)	(8,782)	(50)	**(106,941)**	(13,022)	**(119,963)**
Balance as at 31 December 2020	**3,265,380**	**17,699**	**33,994**	**17,348**	**106**	**3,334,527**	**157,488**	**3,492,015**
Cost at 31 December 2019	4,173,009	397,996	139,288	89,410	18,347	**4,818,050**	217,379	**5,035,429**
Accumulated depreciation	(824,168)	(383,067)	(119,874)	(63,280)	(18,191)	**(1,408,580)**	(133,314)	**(1,541,894)**
Balance as at 31 December 2019	**3,348,841**	**14,929**	**19,414**	**26,130**	**156**	**3,409,470**	**84,065**	**3,493,535**
Cost at 31 December 2020	4,173,009	408,472	154,341	89,410	18,347	**4,843,579**	303,824	**5,147,403**
Accumulated depreciation	(907,629)	(390,773)	(120,347)	(72,062)	(18,241)	**(1,509,052)**	(146,336)	**(1,655,388)**
Balance as at 31 December 2020	**3,265,380**	**17,699**	**33,994**	**17,348**	**106**	**3,334,527**	**157,488**	**3,492,015**

12 Other Assets

	31 December 2020	31 December 2019
Receivable from governmental organisations	62,053	1,334
Total financial assets within other assets	**62,053**	**1,334**
Immovables received in satisfaction of non-performing loans	4,607,769	4,724,910
Deferred expenses	169,625	26,435
Advance payments for different services	21,300	20,019
Advance payments for acquisition of intangible assets	12,545	12,526
Total other assets	**4,873,292**	**4,785,224**

In accordance with the decree of the Major of Baku dated November 18, 2014 on the construction of the new park, the Bank's building in the net book value of AZN 9,295,963 was dismantled. This fact amounted to receivable balances from unsettled regular-way trades. The parties cannot negotiate on the compensation. However, the Management of the Bank believes that their terms will apply.

Currently, the Bank is taking action in order to receive the compensation for the damage. The case is heard at Baku Administrative-Economical Court No.1. The Bank claims the amount equal to the net book value of the building at the date of the dismantling, which is revalued value less accumulated depreciation. The building was revalued by an Independent Firm of Valuers on 3rd July, 2013. The basis used for the appraisal was the composition of the replacement cost, the discounted cash flow and the market value. The fair value of the building after valuation amounted to AZN 9,400,000. The building was previously pledged by Royal Bank as collateral for the deposit received from the Bank. The collateral was accrued to the Bank as a compensation for impairment loss provision based on the court decision in 2013 and was recognized as premises and equipment and measured at revalued amount at initial recognition.

This matter is in court proceedings.

The Bank recognised allowance for impairment losses in the amount of AZN 9,295,963 against this receivable from governmental organization in accordance with IFRS 9 *Financial Instruments*.

13 Due to Banks and Other Financial Institutions

	31 December 2020	31 December 2019
Bank Melli Iran - Head Office	25,960,267	31,338,418
Export Development Bank of Iran	-	310,397
Correspondent accounts and overnight placements of other banks	4,029	22,739
Short-term amounts owed to other insurance companies	193,727	66,432
Total due to banks and other financial institutions	**26,158,023**	**31,737,986**

The outstanding amounts due to banks and other financial institutions approximate their fair values as of 31 December 2020 and 31 December 2019.

13 Due to Banks and Other Financial Institutions (Continued)

Amount of AZN 25,960,267 (2019: AZN 31,338,418) represent correspondent accounts of Bank Melli Iran Head Office in USD and EUR.

According to the letter #9944/401/27 from Bank Melli Iran Head Office dated 07 September 2020, funds placed by the Bank at the Head Office and other branches of Bank Melli Iran are covered by the funds placed at Bank by the Head Office.

14 Customer Accounts

	31 December 2020	31 December 2019
State owned enterprises and public organizations	**566,626**	**288,473**
- Current accounts	564,807	286,654
- Closed customer accounts	1,819	1,819
Other legal entities	**7,833,625**	**8,529,044**
- Current accounts	7,784,137	8,482,593
- Closed customer accounts	49,488	46,451
Individuals	**2,302,438**	**3,130,063**
- Current accounts	1,138,470	2,793,484
- Term deposits	-	10,000
- Closed customer accounts	1,163,968	326,579
Total customer accounts	**10,702,689**	**11,947,580**

Economic sector concentrations within customer accounts are as follows:

	31 December 2020		31 December 2019	
	Amount	**%**	**Amount**	**%**
Individuals	2,302,438	21.51	3,130,063	26.20
Transportation or communication	4,178,105	39.04	3,807,087	31.86
Manufacturing and industry	1,780,815	16.64	44,956	0.38
Construction and real estate	1,765,436	16.50	4,506,201	37.72
Embassies and consulates	457,725	4.28	207,185	1.73
Other institutions of foreign governments	108,359	1.01	80,982	0.68
Trade and services	68,129	0.64	95,340	0.80
Agriculture and recycling	17,789	0.17	47,549	0.40
Public organisations	538	0.01	301	-
Other	23,355	0.20	27,916	0.23
Total customer accounts	**10,702,689**	**100.00**	**11,947,580**	**100.00**

The balance amounts of customer accounts approximate their fair values as of 31 December 2020 and 31 December 2019.

15 Other Liabilities

Other liabilities comprise the following:

	31 December 2020	31 December 2019
Items in course of settlement	17,636	29,873
Other financial liabilities	263,945	902,178
Total financial liabilities within other liabilities	**281,581**	**932,051**
Tax payable	50,842	59,023
Other payables	8,009	6,243
Total other liabilities	**340,432**	**997,317**

16 Subordinated Debt

On 9 February 2017, the Bank signed Subordinated Debt Agreement with the Bank Melli Iran Head Office (the "Head Office"), registered in Tehran, the Iran Islamic Republic, for obtaining funds in the amount of EUR 9,000,000 to raise its capital via Tier-2 with the maturity till 30 December 2024. This borrowing is not guarenteed by any assets of Bank Melli Iran Baku Branch and the balance bears no interest and initially considered to be repayable in five equal annual instalments with a first instalment due on 30 December 2020.

According to the letter #9944/0003/354771 from Head Office dated 31 December 2020, the Bank agreed to postpone repayment of the subordinated debt until 30 December 2029. First instalment initially considered to be on 30 December 2020 was postponed in accordance with new repayment schedule.

At 31 December 2020, the estimated fair value of subordinated debt was AZN 18,801,000 (2019: AZN 17,131,500).

The repayment of the Bank's subordinated debt ranks after all other creditors in case of liquidation of the Bank, or; before the maturity if the Branch experiences good financial position.

17 Share Capital

Total registered and paid shares of the Bank amounted to AZN 73,611,171 as of 31 December 2020. The movement of shares is as follows:

	Share capital	Total
Balance at 31 December 2019	**73,611,171**	**73,611,171**
- increase in share capital	-	-
Balance at 31 December 2020	**73,611,171**	**73,611,171**

18 Interest Income and Expense

	Year ended 31 December 2020	Year ended 31 December 2019
Interest income comprises:		
Interest income on assets recorded at amortised cost	2,758,402	2,843,032
Total interest income	**2,758,402**	**2,843,032**
Interest income		
Loans and advances to customers	1,294,182	1,050,021
Placements with banks and other financial institutions	58,056	47,676
Investment securities	1,406,164	1,745,335
Total interest income	**2,758,402**	**2,843,032**
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost	(252,916)	(121,853)
Total interest expense	**(252,916)**	**(121,853)**
Interest expense		
Customer accounts	-	(463)
Placements of banks and other financial institutions	(18,242)	(29,197)
Other	(234,674)	(92,193)
Total interest expenses	**(252,916)**	**(121,853)**
Net interest income	**2,505,486**	**2,721,179**

19 Fee and Commission Income and Expense

	Year ended 31 December 2020	Year ended 31 December 2019
Fee and commission income comprises:		
-settlements	77,212	116,769
-cash operations	45,596	47,863
-other operations	25,032	12,747
Total fee and commission income	**147,840**	**177,379**
Fee and commission expense comprises:		
-settlements	(67,042)	(59,787)
-cash operations	(1,308)	(40,982)
-other operations	(7,548)	(7,740)
Total fee and commission expenses	**(75,898)**	**(108,509)**
Net	**71,942**	**68,870**

20 Gain from Trading in Foreign Currency

Gain on foreign exchange operations - less losses comprises:

	Year ended 31 December 2020	Year ended 31 December 2019
Dealing operations	367,739	664,383
Revaluation of foreign currency balances	182,041	(11,382)
Net gain from operations in foreign currencies	**549,780**	**653,001**

21 Operating Expenses

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and wages	975,706	852,731
Taxes,other than income tax	318,596	269,526
Depreciation and amortisation expenses	119,963	116,447
Charity expenses	100,000	-
Communications	82,991	30,316
Utilities	74,426	30,944
Premises security	80,637	72,924
Insurance expenses	55,783	47,048
Repair and maintenance	55,016	98,914
Printing and office supplies	37,827	28,083
Professional services	16,962	16,544
Auction expenses	9,040	87,829
Membership	4,483	5,924
Advertising	1,901	3,003
Miscellaneous	36,043	50,432
Total operating expenses	**1,969,374**	**1,710,665**

22 Income Tax

	Year ended 31 December 2020	Year ended 31 December 2019
Net deferred tax liability at the end of the year (at the statutory tax rate of 20%)	(318,559)	(309,862)
Net deferred tax (liability)/asset at the beginning of the year	(309,862)	(297,050)
Change in the deferred income tax for the year charged to profit	**(8,697)**	**(12,812)**
Deferred income/(expense) charged to equity	448	1,109
Deferred income/(expense) charged to profit	(9,145)	(13,921)

22 Income Tax (Continued)

	Year ended 31 December 2020	Year ended 31 December 2019
Profit before income tax	792,985	(16,542,835)
Tax at the statutory tax rate	(158,597)	3,308,567
Unrecognised carryforward tax losses for the year	149,452	(3,322,488)
Income tax expense	**(9,145)**	**(13,921)**
Current income tax expense	-	-
Change in the deferred income tax	(9,145)	(13,921)
Income tax expense	**(9,145)**	**(13,921)**

Differences between IFRS and Azerbaijani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

23 Financial Risk Management

The risk management function within the Bank is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Credit risk. Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures") including non-equity trading portfolio assets and derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk measurement. The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD):

- PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation.

23 Financial Risk Management (Continued)

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. The Bank performs historical analysis and identifies the key economic variables impacting credit risk and expected credit losses for each portfolio.

Expected credit loss measurement. IFRS 9 outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

Quantitative criteria. The remaining Lifetime Probability of Default at the reporting date has increased, compared to the residual Lifetime Probability of Default expected at the reporting date when the exposure was first recognized.

Qualitative criteria. If one or more of the following criteria have been met:

- The borrower is in short-term forbearance;
- Direct debit cancellation;
- Extension to the terms granted;
- Significant increase in credit spread;

23 Financial Risk Management (Continued)

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.

The Bank 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:

Quantitative criteria. The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria. The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenants;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty;
- It is becoming probable that the borrower will enter bankruptcy;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Bank's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of six months. This period of six months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

In addition, there are certain limits introduced and regularly monitored by the Regulatory Body which are also mandatory to comply for all financial institutions of Azerbaijan. The following sub-limits are applied by the Bank:

(1) the maximum loan amount for one borrower or related borrowers is, as follows:

(i) 20 per cent of the Bank's tier 1 capital if the market value of the collateral is at least equal to 100 per cent of the value of the loan and less if there is no 150 per cent of the value of the loan collateralized by real estate; and

23 Financial Risk Management (Continued)

(ii) 7 per cent of the Bank's tier 1 capital if the market value of the collateral is at least equal to 100 per cent of the value of the loan and less if there is no 150 per cent of the value of the loan collateralized by real estate; and

(2) All large loans in aggregate must not exceed 8 times in total of the Bank's total equity;

(3) the total maximum amount of the Bank's loans to related parties must not exceed:

(i) 20 per cent of the Bank's total equity for all such loans; and

(ii) 10 per cent of the Bank's equity per legal person; or

(iii) 3 per cent of the Bank's equity per physical person.

The serates are calculated based on the figures from the Bank's financial statements prepared in accordance with local standards.

The limits, other than the limits of the Regulatory Body are developed and revised by the Risk Management Department on a quarterly basis. In the case of material change to the market environment, the limits may also be reviewed. A proposal for any change to the limits is first provided to the Credit Committee and subsequently to the Management Board of Bank Melli Iran for approval.

The Credit department reviews the adherence to all limits on a regular basis and some of the limits (maximum exposure to a single borrower or group of related borrowers, maximum exposure to related parties) are checked prior to the issue of any new loan.

The Credit Policy of the Bank regulates the authorities and responsibilities of each body of the Bank involved in lending process and determine the limits for credit granting approval the rules for monitoring of loans, the principles of rating system implemented by the bank, lending procedures etc.

Loan Approval Procedure and Delegation. The loan approval process is conducted in accordance with the procedures described in Lending Policy of the Bank. The delegation of authorities for loan granting approval process has been defined within the limits set by Head office by Credit Committee of the Bank.

Delegation of authorities for credit granting approval. Credit Committee monitors and approves all loans within set limits. Limits on loans are as follows:

- Business loans (36 months) – withcollateral of real estate - maximum limit USD 150,000;
- Loans to individuals (36 months) – with collateral of real estate - maximum limit USD 100,000;
- According to deposits - maximum limit USD 400,000;
- Loans to individuals who works in offices of Iran Islamic Republic in Azerbaijan's governmental institutions - maximum limit USD 30,000;
- Loans to individuals with guarant or maximum limit USD 10,000;
- Loans for the purpose of car purchase with collateral of car - maximum limit USD 15,000;

23 Financial Risk Management (Continued)

The Bank performs a detailed evaluation of potential borrowers before granting loans. This analysis is based on their financial situation, position on the market, type and value of collateral provided for secure the loan and on credit history of the potential borrower.

Monitoring is implemented on a regular basis during the whole duration of a loan.

As the interest payments under the majority of the loans are made on a monthly basis it gives the Bank additional indicators of the borrower's financial condition. In case of overdue repayments, an extraordinary monitoring is executed by the Problem Cases Department which executes all types of loans' monitoring for the purpose of ensuring the security of Bank's assets and minimising possible credit risks and losses, and the results of it are to be formulated in special monitoring report presented for consideration to the Credit Committee of the Bank. The Bank aims for all loans to be secured by guarantees and various forms of collateral (real estate, vehicles, deposits, etc).

Credit risk exposure. The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets:

	2020				2019
	Stage 1 12-month ECL AZN	Stage 2 Lifetime ECL AZN	Stage 3 Lifetime ECL AZN	Total AZN	Total AZN
Corporate loans	**131,993**	**-**	**2,305**	**134,298**	**27,596**
Loans to individuals	**6,117,943**	**191,749**	**793,671**	**7,103,363**	**5,683,761**
Repair of apartment	4,512,437	143,322	466,855	5,122,614	3,811,931
Consumer loans	736,243	19,361	167,929	923,533	854,525
Car purchase	869,263	29,066	33,304	931,633	859,868
Trade and services	-	-	125,583	125,583	157,437
Gross carrying amount	**6,249,936**	**191,749**	**795,976**	**7,237,661**	**5,711,357**
Loss allowance	(1,304,613)	(78,551)	(632,668)	(2,015,832)	(1,526,735)
Carrying amount	**4,945,323**	**113,198**	**163,308**	**5,221,829**	**4,184,622**

Collateral and other credit enhancements. The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses.

Market risk. The Bank takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis.

23 Financial Risk Management (Continued)

However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

At the end of the reporting period the Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other	Total at 31 December 2020
FINANCIAL ASSETS					
Cash and cash equivalents	1,720,559	2,034,457	51,533,036	98,381	55,386,433
Due from banks and other financial institutions	-	-	-	2,295,473	2,295,473
Loans and advances to customers	5,202,646	-	19,183	-	5,221,829
Investment securities	22,430,444	-	-	-	22,430,444
Financial assets within other assets	62,053	-	-	-	62,053
	29,415,702	**2,034,457**	**51,552,219**	**2,393,854**	**85,396,232**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	103,607	882,576	25,171,840	-	26,158,023
Customer accounts	1,344,058	2,041,409	7,315,809	1,413	10,702,689
Financial liabilities within other liabilities	281,581	-	-	-	281,581
Subordinated debt	-	-	18,801,000	-	18,801,000
	1,729,246	**2,923,985**	**51,288,649**	**1,413**	**55,943,293**
NET BALANCE SHEET POSITION	**27,686,456**	**(889,528)**	**263,570**	**2,392,441**	**29,452,939**

23 Financial Risk Management (Continued)

	AZN	USD	EUR	Other	Total at 31 December 2019
FINANCIAL ASSETS					
Cash and cash equivalents	2,662,455	7,913,931	44,185,180	4,869,238	59,630,804
Due from banks and other financial institutions	-	-	3,809,019	-	3,809,019
Loans and advances to customers	4,144,651	-	39,971	-	4,184,622
Investment securities	22,815,536	-	-	-	22,815,536
Financial assets within other assets	1,334	-	-	-	1,334
	29,623,976	**7,913,931**	**48,034,170**	**4,869,238**	**90,441,315**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	66,156	7,050,605	24,621,225	-	31,737,986
Customer accounts	791,632	2,553,308	6,286,464	2,316,176	11,947,580
Financial liabilities within other liabilities	30,286	8,373	392	893,000	932,051
Subordinated debt	-	-	17,131,500	-	17,131,500
	888,074	**9,612,286**	**48,039,581**	**3,209,176**	**61,749,117**
NET BALANCE SHEET POSITION	**28,735,902**	**(1,698,355)**	**(5,411)**	**1,660,062**	**28,692,198**

Currency risk sensitivity. The Risk Management Department of the Bank daily monitors and regulates foreign currency risk related to commercial bank operations as follows:

i. Holding the open currency position limits determined by the Regulatory Body for every foreign currency;

ii. Monitoring of the reciprocal relation between currency position level and liquidity level for every foreign currency;

iii. Forecasting of change trends in foreigncurrency exchange rates as USD and EUR;

iv. Analysis of activity of the Bank’s large customers engaged in export-import operations and bank operations.

Open positions in foreign currencies. Exposure to foreign exchange risk faced by the Bank is also limited by the Regulatory Body’s normative requirements, which place a 10% of capital limit on open positions in any single foreign currency and a 20% open limit on all foreign currencies.

As at 31 December 2020 the Bank was in compliance with open currency limits determined by local legislation. The Bank’s open currency position determined by local legislation is calculated based on the Bank’s statements prepared in compliance with local standards and this calculation may materially differ from the information given in the Bank’s current financial statements.

23 Financial Risk Management (Continued)

Interest rate risk. The Bank takes on exposure 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 reduce or create losses in the event that unexpected movements arise. The Management Board monitors on a daily basis and sets limits on the level of mismatch of interest rate reprising that may be undertaken. The table below summarizes the Bank's exposure to interest rate risks:

	As at 31 December 2020		**As at 31 December 2019**	
	Interest rate 1%	**Interest rate -1%**	**Interest rate 1%**	**Interest rate -1%**
FINANCIAL ASSETS				
Due from banks and other financial institutions	22,955	(22,955)	38,090	(38,090)
Loans and advances to customers	52,218	(52,218)	41,846	(41,846)
Investment securities	224,304	(224,304)	228,155	(228,155)
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	(261,580)	261,580	(317,380)	317,380
Subordinated debt	(188,010)	188,010	(171,315)	171,315
NET IMPACT ON PROFIT BEFORE TAX	**(150,113)**	**150,113**	**(180,604)**	**180,604**

Geographical concentration

The geographical concentration of financial assets and liabilities as of 31 December 2020 is set out below:

	Azerbaijan Republic	**OECD countries**	**Non-OECD countries**	**Total**
FINANCIAL ASSETS				
Cash and cash equivalents	50,654,685	528,331	4,203,417	55,386,433
Due from banks and other financial institutions	(23,187)	-	2,318,660	2,295,473
Loans and advances to customers	4,733,320	-	488,509	5,221,829
Investment securities	22,430,444	-	-	22,430,444
Financial assets within other assets	62,053	-	-	62,053
TOTAL FINANCIAL ASSETS	**77,857,315**	**528,331**	**7,010,586**	**85,396,232**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	5,317,040	-	20,840,983	26,158,023
Customer accounts	9,352,670	-	1,350,019	10,702,689
Financial liabilities within other liabilities	281,581	-	-	281,581
Subordinated debt	-	-	18,801,000	18,801,000
TOTAL FINANCIAL LIABILITIES	**14,951,291**	**-**	**40,992,002**	**55,943,293**
NET BALANCE SHEET POSITION	**62,906,024**	**528,331**	**(33,981,416)**	**29,452,939**

23 Financial Risk Management (Continued)

The geographical concentration of assets and liabilities as of 31 December 2019 is set out below:

	Azerbaijan Republic	OECD countries	Non-OECD countries	Total
FINANCIAL ASSETS				
Cash and cash equivalents	34,616,406	1,668,136	23,346,262	59,630,804
Due from banks and other financial institutions	35,013	-	3,774,006	3,809,019
Loans and advances to customers	3,600,903	-	583,719	4,184,622
Investment securities	22,815,536	-	-	22,815,536
Financial assets within other assets	1,334	-	-	1,334
TOTAL FINANCIAL ASSETS	**61,069,192**	**1,668,136**	**27,703,987**	**90,441,315**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	85,158	-	31,652,828	31,737,986
Customer accounts	9,096,208	-	2,851,372	11,947,580
Financial liabilities within other liabilities	932,051	-	-	932,051
Subordinated debt	-	-	17,131,500	17,131,500
TOTAL FINANCIAL LIABILITIES	**10,113,417**	**-**	**51,635,700**	**61,749,117**
NET BALANCE SHEET POSITION	**50,955,775**	**1,668,136**	**(23,931,713)**	**28,692,198**

Assets, liabilities and loan liabilities are classified according to the counterparts' operation country. Cash, precious metals, and equipments are classified according to the holding countries.

Other risk concentrations. The Management determines risk concentrations based on the evaluation of quantitative indexes for the risks within the reporting period. This disclosure is based on the information presented to key management personnel and represents currency, credit and interest rate risk concentration analysis.

Liquidity risk. Liquidity risk exists when the maturities of assets and liabilities do not match. The Bank everyday incurs risks related to the usage of the monetary funds intended for operations with overnight placements, customer accounts, repayment of deposits, granting loans, payments on guarantees and derivative financial instruments. The Bank doesn't need to hold enough monetary funds to meet all the obligations shown above at the same time, as it is possible to forecast exactly the necessary level of the monetary funds amount intended for meeting these obligations based on the experience. However, as at 31 December 2020, the Bank has sufficient liquidity level to meet all the obligations shown above within the next year. The liquidity risk is controlled by the management of the Bank.

The Bank seeks to maintain a stable funding base comprising primarily amounts due to other banks, corporate and retail customer deposits and debt securities and invest the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

23 Financial Risk Management (Continued)

The liquidity management of the Bank requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratios against regulatory requirements.

The Bank calculates its instant liquidity ratio on a monthly basis in accordance with the requirement of the Central Bank of Azerbaijan.

In accordance with the directions of the Regulatory Body, the Bank calculates the quick ratio as a ratio of weighted daily assets to weighted daily liabilities. This ratio is calculated based on the balances from the Bank's financial statements prepared in accordance with local standards.

Risk Management Departament obtains the information on the liquidity profiles related to financial assets and liabilities, monitors the liquidity position every day and regularly do testings of sensitivity for liquidity based on different scenarious which include standard and unfavorable market conditions. After this, Management maintains adequacy of short-term liquid assets which include short-term debt securities for sale, short-term placements with other banks for the purpose of maintenance enough liquidity in the Bank.

The functions of Risk Management Department are set out below:

i. Compliance with the minimum liquidity requirements of the Regulatory Body (as a percentage of assets and liabilities should not be less than 30%);

ii. Reporting to the Bank's director and assistant director on the forecast levels of cash flows;

iii. Monitoring of large deposit concentrations;

iv. Monitoring of cash flows related to the Bank's credit activity;

v. Control complience with OPFC currency limits.

23 Financial Risk Management (Continued)

The Bank controls maturities and liquidity shortage summarized as follows at 31 December 2020:

	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total
FINANCIAL ASSETS					
Cash and cash equivalents	55,386,433	-	-	-	55,386,433
Due from banks and other financial institutions	2,295,473	-	-	-	2,295,473
Loans and advances to customers	-	-	2,283	5,219,546	5,221,829
Investment securities	842,290	1,035,540	17,058,014	3,494,600	22,430,444
Financial assets within other assets	62,053	-	-	-	62,053
TOTAL FINANCIAL ASSETS	**58,586,249**	**1,035,540**	**17,060,297**	**8,714,146**	**85,396,232**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	26,158,023	-	-	-	26,158,023
Customer accounts	10,702,689	-	-	-	10,702,689
Financial liabilities within other liabilities	281,581	-	-	-	281,581
Subordinated debt	-	-	-	18,801,000	18,801,000
TOTAL FINANCIAL LIABILITIES	**37,142,293**	**-**	**-**	**18,801,000**	**55,943,293**
LIQUIDITY GAP AS AT 31 DECEMBER 2020	**21,443,956**	**1,035,540**	**17,060,297**	**(10,086,854)**	**29,452,939**
CUMULATIVE LIQUIDITY GAP AS AT 31 DECEMBER 2020	**21,443,956**	**22,479,496**	**39,539,793**	**29,452,939**	

23 Financial Risk Management (Continued)

The Bank controls maturities and liquidity shortage summarized as follows at 31 December 2019:

	Up to 1 month	1 month to 3 months	3 months to 1 year	More than 1 year	Total
FINANCIAL ASSETS					
Cash and cash equivalents	59,548,910	-	-	81,894	59,630,804
Due from banks and other financial institutions	5,075	3,768,930	-	35,014	3,809,019
Loans and advances to customers	1,202	10,174	415,542	3,757,704	4,184,622
Investment securities	-	4,663,220	18,152,316	-	22,815,536
Financial assets within other assets	1,334	-	-	-	1,334
TOTAL FINANCIAL ASSETS	**59,556,521**	**8,442,324**	**18,567,858**	**3,874,612**	**90,441,315**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	31,737,986	-	-	-	31,737,986
Customer accounts	11,937,580	-	10,000	-	11,947,580
Financial liabilities within other liabilities	932,051	-	-	-	932,051
Subordinated debt	-	-	-	17,131,500	17,131,500
TOTAL FINANCIAL LIABILITIES	**44,607,617**	**-**	**10,000**	**17,131,500**	**61,749,117**
LIQUIDITY GAP AS AT 31 DECEMBER 2019	**14,948,904**	**8,442,324**	**18,557,858**	**(13,256,888)**	**28,692,198**
CUMULATIVE LIQUIDITY GAP AS AT 31 DECEMBER 2019	**14,948,904**	**23,391,228**	**41,949,086**	**28,692,198**	

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The management considers that although the great part of customer accounts has “demand” status, diversification of these deposits by number and type of depositors, and the past experience of the Bank would indicate that these customer accounts provide a long-term and stable source of funding for the Bank.

24 Commitments and Contingencies

Legal proceedings. From time to time and in the normal course of business, claims against the Bank can be received. On the basis of its own estimates and both internal and external professional advice the Bank's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

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

Capital expenditure commitments. At 31 December 2020, the Bank had no significant contractual capital expenditure commitments in respect of premises and equipment, or in any other areas.

Operating lease commitments. At 31 December 2020, the Bank had no significant operating lease commitments (2019: nil).

Compliance with covenants. The Management has made judgments during interpretation of local legislation requirements and determination of the Bank's compliance with special covenants in credit facility agreements. These judgments comprise calculation methods and impact of such potential contradictions on the Bank. The Management based on the rules it uses believes that the determination of the impact of the current contradictions on the financial statements was properly accomplished. If proof that, management's approach is not the correct, penalties or other sanctions may be imposed against the Bank.

Obligations related to credits. The main purpose of these financial instruments is to maintain providing financial assets to customers.

Commitments for granting credits comprise unused part of the amounts not approved by the Management for granting credits as loans, guarantees or letters of credit. The Bank incurs risks of loss which equals to the total amount of potential unused commitments when the unused amounts should be used due to the credit commitments. However, as the great part of credit related commitments depends on some requirements concerning customer's payment ability, the estimated amount of loss is less than the amount of unused commitments. Due to the fact that long-term liabilities usually have higher credit risk comparing to short-term liabilities, the Bank monitors the period untill the maturity date of the credit related commitments.

25 Management of Capital

The Bank's objectives when managing capital are to comply with the capital requirements set by the Regulatory Body, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 10%.

25 Management of Capital (Continued)

Compliance with capital adequacy ratios set by the Central Bank of Azerbaijan is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's director and assistant director, Chief Accountant and Head of Internal Audit Department. Other objectives of capital management are evaluated annually.

Under the current capital requirements set by the Regulatory Body, banks have to: (a) hold the minimum level of share capital of AZN 50,000 thousand; (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% and (c) maintain a ratio of tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 5%.

	31 December 2020	31 December 2019
Tier-1 capital	36,592,257	36,592,257
Tier-2 capital	19,100,354	17,442,516
Less: exclusion from capital	(157,488)	(84,065)
Total statutory capital	**55,535,123**	**53,950,708**
Risk-weighted assets	20,606,712	41,544,556
Statutory capital ratio	**270%**	**130%**
Tier-1 capital ratio	**177%**	**88%**

Management believes that the Bank is in compliance with the statutory requirements of the Regulatory Body at 31 December 2020.

26 Fair Value of Financial Instruments

Fair values of financial instruments carried at amortised cost are as follows:

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and cash equivalents	55,386,433	55,386,433	59,630,804	59,630,804
Due from banks and other financial institutions	2,295,473	2,295,473	3,809,019	3,809,019
Loans and advances to customers	5,221,829	5,221,829	4,184,622	4,184,622
Investment securities	22,430,444	22,430,444	22,815,536	22,815,536
Financial assets within other assets	62,053	62,053	1,334	1,334
Total financial assets carried at amortised cost	**85,396,232**	**85,396,232**	**90,441,315**	**90,441,315**

26 Fair Value of Financial Instruments (Continued)

	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Due to banks and other financial institutions	26,158,023	26,158,023	31,737,986	31,737,986
Customer accounts	10,702,689	10,702,689	11,947,580	11,947,580
Financial liabilities within other liabilities	281,581	281,581	932,051	932,051
Subordinated debt	18,801,000	18,801,000	17,131,500	17,131,500
Total financial liabilities carried at amortised cost	**55,943,293**	**55,943,293**	**61,749,117**	**61,749,117**

27 Presentation of Financial Instruments by Measurement Category

	Financial assets at amortised cost	Total at 31 December 2020
Financial assets		
Cash and cash equivalents	55,386,433	55,386,433
Cash on hand	2,696,383	2,696,383
Cash balances with the CBAR	47,935,116	47,935,116
Correspondent accounts	4,754,934	4,754,934
Due from banks and other financial institutions	2,295,473	2,295,473
Loans and advances to customers	5,221,829	5,221,829
Loans to individuals	7,103,363	7,103,363
Corporate loans	134,298	134,298
Allowance for loan impairment	(2,015,832)	(2,015,832)
Investment securities	22,430,444	22,430,444
Financial assets within other assets	62,053	62,053
Total financial assets	**85,396,232**	**85,396,232**
Non-financial assets	**8,303,254**	**8,303,254**
Total assets	**93,699,486**	**93,699,486**

27 Presentation of Financial Instruments by Measurement Category (Continued)

	Financial assets at amortised cost	Total at 31 December 2019
Financial assets		
Cash and cash equivalents	59,630,804	59,630,804
Cash on hand	3,053,769	3,053,769
Cash balances with the CBAR	31,559,581	31,559,581
Correspondent accounts	25,017,454	25,017,454
Due from banks and other financial institutions	3,809,019	3,809,019
Loans and advances to customers	4,184,622	4,184,622
Loans to individuals	5,683,761	5,683,761
Corporate loans	27,596	27,596
Allowance for loan impairment	(1,526,735)	(1,526,735)
Investment securities	22,815,536	22,815,536
Financial assets within other assets	1,334	1,334
Total financial assets	**90,441,315**	**90,441,315**
Non-financial assets	**8,277,425**	**8,277,425**
Total assets	**98,718,740**	**98,718,740**

28 Transactions with Related Parties

Parties are generally considered to be related if the parties are 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.

28 Transactions with Related Parties (Continued)

	31 December 2020		31 December 2019	
	Related party balances	**Total category as per financial statements caption**	**Related party balances**	**Total category as per financial statements caption**
Cash and cash equivalents		**55,386,433**		**59,630,804**
- entities with joint control or significant influence over the entity	4,731,747		25,014,396	
- key management personnel of the entity or its close relatives	-		-	
Due from banks and other financial institutions		**2,295,473**		**3,809,019**
- entities with joint control or significant influence over the entity	2,318,660		-	
- key management personnel of the entity or its close relatives	-		-	
Loans and advances to customers		**7,237,661**		**5,711,357**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	80,376		29,391	
Allowance for impairment losses		**(2,015,832)**		**(1,526,735)**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	(804)		(294)	
Due to banks and other financial institutions		**26,158,023**		**31,737,986**
- entities with joint control or significant influence over the entity	25,956,410		31,652,828	
- key management personnel of the entity or its close relatives	-		-	
Customer accounts		**10,702,689**		**11,947,580**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	111,741		-	

28 Transactions with Related Parties (Continued)

As at 31 December 2020 and 31 December 2019 benefits to key management personnel were as follows:

	Year ended 31 December 2020	**Year ended 31 December 2019**
Short-term benefits – salaries and bonuses	260,005	157,618
Total	**260,005**	**157,618**

During the year ended 31 December 2020 key management's compensation, comprising salaries and benefits of the Bank's director and assistant director are classified as short-term payments in accordance IAS 19 "Employee Benefits".

29 Events After the Reporting Period

There were no significant events for disclosure after the reporting period and before the date of approval of these financial statements.