BANK MELLI IRAN BAKU BRANCH

The International Financial Reporting Standards
Financial Statements and
Independent Auditors' Report
For the Year Ended December 31, 2023

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2023

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report set out on pages 2 and 3, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the financial statements of Bank Melli Iran Baku Branch ("Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2023, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended December 31, 2023 were authorized for issue on February 29, 2024 by the Management of the Bank.

On behalf of the Management Board:

Najafimarganmaskan Asghar Khalil
Branch Manager

February 29, 2024
Baku, the Republic of Azerbaijan

BANK MELLI IRAN BAKI ŞUBƏSİ
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Mirheydarov Vugar Mirfazil
Chief Accountant

February 29, 2024
Baku, the Republic of Azerbaijan

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Bank Melli Iran Baku Branch ("Bank"), which comprise the statement of financial position as at December 31, 2023, and the statement of profit or loss and other 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 financial statements present fairly, in all material respects the financial position of the Bank as at December 31, 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Emphasis of Matter – Material Uncertainty Related to Going Concern

We draw attention to Note 4 to the financial statements. Restrictions had been imposed by the Central Bank of the Republic of Azerbaijan on the implementations of Bank`s activities on April 21, 2023. Management believes that these restrictions imposed by the Central Bank of the Republic of Azerbaijan will be removed, and therefore the financial statements of the Bank are prepared using the going concern basis.

Our opinion is not qualified in regard to this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

February 29, 2024
Baku, the Republic of Azerbaijan

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BANK MELLI IRAN BAKU BRANCH

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 31, 2023
(In Azerbaijani Manats)

	Notes	December 31, 2023	December 31, 2022
ASSETS			
Cash and cash equivalents	6	46,216,965	59,499,347
Due from banks and other financial institutions	7	32,658,500	-
Loans and advances to customers	8	5,090,546	10,513,528
Investment securities	9	35,114,539	23,852,265
Premises and equipment	10	3,054,032	3,146,834
Intangible assets	10	175,650	164,557
Other assets	11	464,636	440,480
TOTAL ASSETS		**122,774,868**	**97,617,011**
LIABILITIES			
Due to banks and other financial institutions	12	19,241,347	33,513,212
Customer accounts	13	44,027,262	8,904,376
Deferred income tax liabilities	21	522,114	535,664
Income tax liability		68,012	173,875
Other liabilities	14	53,944	64,012
Subordinated debt	15	16,889,400	16,302,600
TOTAL LIABILITIES		**80,802,079**	**59,493,739**
EQUITY			
Share capital	16	73,611,171	73,611,171
Accumulated deficit		(31,638,382)	(35,487,899)
TOTAL EQUITY		**41,972,789**	**38,123,272**
TOTAL EQUITY AND LIABILITIES		**122,774,868**	**97,617,011**

On behalf of the Management Board:

Najafimarganmaskan Asghar Khalil	**Mirheydarov Vugar Mirfazil**
Branch Manager	**Chief Accountant**
February 29, 2024	February 29, 2024
Baku, the Republic of Azerbaijan	Baku, the Republic of Azerbaijan

The notes on pages 9-45 form an integral part of these financial statements.

BANK MELLI IRAN BAKU BRANCH

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2023
(In Azerbaijani Manats)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Interest income	17	3,170,645	3,366,621
Interest expense	17	(40,148)	(231,359)
Net interest income		**3,130,497**	**3,135,262**
Gain from operations in foreign currencies - less losses	18	218,698	108,280
Fee and commission income	19	53,236	175,851
Fee and commission expense	19	(95,839)	(150,495)
Provision for impairment losses		3,138,891	802,922
Other income		25,935	20,239
Other expenses		(31,162)	(34,741)
Operating income		**6,440,256**	**4,057,318**
Operating expense	20	(2,114,737)	(2,085,627)
Profit/(loss) before income tax	21	**4,325,519**	**1,971,691**
Income tax expense		(476,002)	(203,357)
Net profit for the year		**3,849,517**	**1,768,334**
Other comprehensive income for the year		-	-
Income tax benefit relating to components of other comprehensive income		-	-
Total comprehensive income for the year		**3,849,517**	**1,768,334**

On behalf of the Management Board:

Najafimarganmaskan Asghar Khalil
Branch Manager

February 29, 2024

Baku, the Republic of Azerbaijan

Mirheydarov Vugar Mirfazil
Chief Accountant

February 29, 2024

Baku, the Republic of Azerbaijan

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The notes on pages 9-45 form an integral part of these financial statements.

BANK MELLI IRAN BAKU BRANCH

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Azerbaijani Manats)

	Share capital	Accumulated deficit	Total equity
Balance at 01 January, 2022	**73,611,171**	**(37,256,233)**	**36,354,938**
Net profit for the year	-	1,768,334	1,768,334
Balance at December 31, 2022	**73,611,171**	**(35,487,899)**	**38,123,272**
Net profit for the year	-	3,849,517	3,849,517
Balance at December 31, 2023	**73,611,171**	**(31,638,382)**	**41,972,789**

On behalf of the Management Board:

Najafimarganmaskan Asghar Khalil
Branch Manager

February 29, 2024
Baku, the Republic of Azerbaijan

Mirheydarov Vugar Mirfazil
Chief Accountant

February 29, 2024
Baku, the Republic of Azerbaijan

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The notes on pages 9-45 form an integral part of these financial statements.

BANK MELLI IRAN BAKU BRANCH

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Azerbaijani Manats)

	Notes	Year ended December 31, 2023	Year ended December 31, 2022
Cash flow from operating activities			
Profit before income tax		4,325,519	1,971,691
Adjustments for:			
Provision for impairment losses		(3,138,891)	(802,922)
Depreciation and amortisation expense		131,228	131,282
Loss/(gain) on revaluation of foreign currency position		(88,501)	127,372
Cash flow from operating activities before changes in operating assets and liabilities		**1,229,355**	**1,427,423**
(Increase)/decrease in operating assets:			
Due from banks and other financial institutions		(32,658,500)	-
Loans and advances to customers		6,238,276	81,582
Investment securities		(11,262,274)	(5,912,539)
Other assets		2,191,155	1,210,934
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		(15,425,663)	11,801,185
Customer accounts		34,933,195	(1,411,479)
Other liabilities		(10,764)	15,518
Subordinated debt		-	-
Cash inflow/(outflow) from operating activities before taxation:		**(14,765,220)**	**7,212,624**
Income tax paid		(595,415)	(50,500)
Net cash generated/(used) from operating activities		**(15,360,635)**	**7,162,124**
Cash flow from investing activities			
Purchase of premises and equipment		(7,586)	(17,023)
Purchase of intangible assets		(41,933)	(34,212)
Net cash used in investing activities		**(49,519)**	**(51,235)**
Cash flow from financing activities			
Net cash used in financing activities		**-**	**-**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(In Azerbaijani Manats)

Effect of changes in foreign exchange rates on cash and cash equivalents		1,979,517	(2,777,214)
Effect of provision on cash and cash equivalents		148,255	(120,618)
Net decrease in cash and cash equivalents		**(13,282,382)**	**4,213,057**
Cash and cash equivalents, beginning of the year	6	**59,499,347**	**55,286,290**
Cash and cash equivalents, end of the year	6	**46,216,965**	**59,499,347**

On behalf of the Management Board:

Najafimarganmaskan Asghar Khalil
Branch Manager

February 29, 2024
Baku, the Republic of Azerbaijan

Mirheydarov Vugar Mirfazil
Chief Accountant

February 29, 2024
Baku, the Republic of Azerbaijan

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The notes on pages 9-45 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 December 31, 2023 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 "CBAR") and conducts its business under general license number 124.

As at December 31, 2023 and December 31, 2022, the following shareholders owned the issued shares of the Bank:

Shareholders	**Country**	**December 31, 2023 %**	**December 31, 2022 %**
"Bank Melli Iran"	The Islamic Republic of Iran	100	100

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

8 November 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 Bank's operations are conducted mainly in the Republic of Azerbaijan. Thus, the Bank is exposed to risks associated with its activities in the economic and financial markets of Azerbaijan, which are characterized by emerging market economies. Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks, however, these regulations are both differently interpreted and frequently changed. As a result of all these and other legal and tax barriers, enterprises operating in Azerbaijan face various difficulties.

In the financial statements the impact of the business environment in Azerbaijan on the Bank's operations and financial position is assessed by the Bank's management. In the future, the business environment may differ from management's current assessment.

International credit rating agencies regularly evaluate credit rating of the Republic of Azerbaijan. Fitch and S&P evaluated rating of the Republic of Azerbaijan as "BB+". In 2022, Fitch and Standard & Poor's, international credit agency, affirmed long and short-term sovereign credit rating of Azerbaijan in foreign and local currency at 'BB+'. Moody's Investors Service set "Ba1" credit rating for the country.

Manat has remained stable during 2023. However, uncertainty over the exchange rate in the future and the ongoing fragility of the banking system hinders policy transmission into the real economy.

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

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.

Going concern. These financial statements have been prepared on the assumption that the Bank will continue as a going concern in the foreseeable future, which implies the realisation of assets and settlement of liabilities in the normal course of business.

Financial assets and liabilities – measurement methods

Amortised cost and effective interest rate

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:

- 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. 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.

Modification 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. 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 expired).

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. 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:

Premises	2%
Computers and communication equipment	20%
Furniture, fixtures and other	20%
Vehicles	12,5%
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.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to Bank Melli Iran Head Office and is carried at amortised cost. Debt is classified as subordinated debt when its repayment debt ranks after all other creditors in case of liquidation. Subordinated debt is included in “Tier 2 capital” of the Bank.

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.

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.

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

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss. 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.

The exchange rates at year-end used by Bank in the preparation of the financial statements are as follows:

	December 31, 2023	**December 31, 2022**
USD/AZN	1.7000	1.7000
EUR/AZN	1.8766	1.8114

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 JUDGEMENTS 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:

Going concern. Despite the fact that, according to the letter of the Central Bank of the Republic of Azerbaijan dated April 20, 2023 No. 6-1-06/2-2136/2023 on cancellation of the bank account agreement, started from April 21, 2023 bank suspended all operations on opening and performing operation on the accounts of individuals, with the exceptions of cash or non-cash outflow of from remain outstanding balance in bank account, receiving funds from customers with the purpose of fulfilling the obligations against of the bank, as well as salaries and other similar payments (vacation, business trip, social insurance, pension, unemployment benefit, dismissal benefit, alimony) to branch employees, execution of court decisions, write-offs from account on the basis of payment documents that provide for payments to the state budget, to the off-budget state fund for mandatory state social insurance fees, and to the budgets of municipalities , these financial statements have been prepared on the assumption that the Bank will continue its operations on the basis of the going concern and will continue to operate on the basis of this principle in the near future.

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. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 27.

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

5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

Certain new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2023, with the Bank not opting for early adoption. These have, therefore, not been applied in preparing these financial statements.

The IASB has amended ***Sale and Leaseback Liabilities (Amendments to IFRS 16)*** to clarify how sales and leaseback transactions that meet the requirements of IFRS 15 should be accounted for as sales. ***Lease liabilities on sale and leaseback (amendments to IFRS 16)*** require the lessee to subsequently measure the lease liability arising from the leaseback so as not to recognize any amount of gain or loss retained in the right of use. The new requirements do not prevent a seller-lessee from recognizing in profit or loss any gains or losses associated with the partial or complete termination of a lease. The amendments are effective for annual periods beginning on or after 1 January 2024. Earlier application of standard is permitted.

In October 2022, the IASB issued an amendment entitled ***Long-Term Liabilities with Covenants (Amendments to IFRS No. 1)*** to determine the impact on the classification of obligations that an entity must satisfy within twelve months of the reporting period. According to the amendment, the classification of a liability as current or non-current is affected only by the conditions that the entity must comply with on or before the reporting date. In addition, an entity must disclose in the notes to the financial statements to users of the statements the risk that long-term obligations with covenants may be settled within twelve months. The amendments are effective for annual periods beginning on or after 1 January 2024.

The management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Bank.
Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Bank's financial statements.

6. CASH AND CURRENT PLACEMENTS WITH OTHER BANKS

	December 31, 2023	December 31, 2022
Cash on hand	4,117,570	4,965,178
Cash balances with the CBAR	42,061,470	38,599,448
Correspondent accounts and overnight placements with other banks:		
- The Republic of Azerbaijan	3,032	2,972
- Other countries	50,567	16,095,678
Less: allowance for impairment losses	(15,674)	(163,929)
Total cash and cash equivalents	**46,216,965**	**59,499,347**

The analysis by credit quality of cash and current placements with other banks at December 31, 2023 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	4,117,570	-	-	**4,117,570**
- The Republic of Azerbaijan	-	42,061,470	-	**42,061,470**
- Other countries	-	-	37,925	**37,925**
Total current and not impaired	**4,117,570**	**42,061,470**	**37,925**	**46,216,965**
Total cash and cash equivalents	**4,117,570**	**42,061,470**	**37,925**	**46,216,965**

The analysis by credit quality of cash and current placements with other banks at December 31, 2022 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	4,965,178	-	-	**4,965,178**
- The Republic of Azerbaijan	-	38,599,448	-	**38,599,448**
- Other countries	-	-	15,934,721	**15,934,721**
Total current and not impaired				
Total cash and cash equivalents	**4,965,178**	**38,599,448**	**15,934,721**	**59,499,347**

7. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2023	December 31, 2022
Short-term deposits in Resident banks	7,959,666	7,919,706
Short-term deposits in non-Resident banks	-	-
REPO transactions with corporate securities	32,658,500	-
Less: provision for impairment	(7,959,666)	(7,919,706)
Total due from banks and other financial institutions	**32,658,500**	**-**

The balance value of the amounts due from banks as of December 31, 2023 and December 31, 2022 approximate their fair values. As of December 31, 2023, the amounts due from banks and other financial institutions was AZN 32,658,500 (2022: nil).

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.

8. LOANS AND ADVANCES TO CUSTOMERS

	December 31, 2023	December 31, 2022
Loans to individuals	6,461,753	12,665,060
Corporate loans	253,800	322,117
Total loans and advances to customers (gross)	**6,715,553**	**12,987,177**
Deferral commission	(29,542)	(59,327)
Less: advances for loan impairment losses	(1,595,465)	(2,414,322)
Total loans and advances to customers	**5,090,546**	**10,513,528**

Total loans to customers' amount to AZN 5,090,546 at December 31, 2023 (December 31, 2022: AZN 10,513,528).

The movement in the provision for loan impairment during 2023 is as follows:

	Loans to individuals	Corporate loans	Total
Allowance for impairment at January 1, 2023	**2,375,520**	**38,802**	**2,414,322**
Provision during the year	479,109	265	479,374
Reversal of provision for impairment during the year	(1,283,930)	(14,301)	(1,298,231)
Write-off of provision for impairment during the year	-	-	-
Allowance for impairment at December 31, 2023	**1,570,699**	**24,766**	**1,595,465**

The movement in the provision for loan impairment during 2022 is as follows:

	Loans to individuals	Corporate loans	Total
Allowance for impairment at January 1, 2022	**2,059,406**	**13,075**	**2,072,481**
Provision during the year	1,376,500	27,457	1,403,957
Reversal of provision for impairment during the year	(1,060,386)	(1,730)	(1,062,116)
Write-off of provision for impairment during the year	-	-	-
Allowance for impairment at December 31, 2022	**2,375,520**	**38,802**	**2,414,322**

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

	December 31, 2023		**December 31, 2022**	
	Amount	**%**	**Amount**	**%**
Corporate loans				
Construction	205,018	3.05	247,731	1.91
Trade and services	48,782	0.73	74,386	0.57
Total corporate loans	**253,800**	**3.78**	**322,117**	**2.48**
Loans to individuals				
Repair of apartment	4,189,958	62.40	8,162,420	62.85
Car purchase	1,669,732	24.86	2,975,170	22.91
Consumer loans	403,863	6.01	1,286,924	9.91
Trade and services	198,200	2.95	240,546	1.85
Total loans to individuals	**6,461,753**	**96.22**	**12,665,060**	**97.52**
Total loans and advances to customers (gross)	**6,715,553**	**100.00**	**12,987,177**	**100.00**

Refer to Note 22 *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.

The carrying value of each class of loans and advances to customers approximates fair value at December 31, 2023 and December 31, 2022.

9. INVESTMENTS SECURITIES

As at December 31, 2023 and December 31, 2022 the Bank's balances of investment securities at amortised cost are as follows:

	Interest to nominal %	December 31, 2023	Interest to nominal %	December 31, 2022
Securities of the Ministry of Finance of AR:				
№ AZ0201040166	5.50	2,331,103	-	-
№ AZ0201040166	5.00	3,242,535	-	-
№ AZ0106022947	7.00	1,026,526	-	-
№ AZ0106025940	7.00	1,146,497	-	-
№ AZ0105020942	-	-	4.50	2,128,965
№ AZ0106017947	-	-	5.00	1,000,990
№ AZ0106017947	-	-	5.00	1,502,220
№ AZ0106022947	-	-	5.50	1,023,596
№ AZ0106025940	-	-	5.00	1,138,447
№ AZ0106039480	-	-	5.00	667,288
№ AZ0106031948	-	-	5.00	4,715,912
№ AZ0104001976	-	-	4.80	5,009,371
№ AZ0105032947			5.20	3,653,843
Securities of CBAR				
№ AZ2083024706	8.14	1,049,086	-	-
№ AZ2088024701	8.14	933,295	-	-
№ AZ2095024701NAZ340	8.35	2,973,387	-	-
№ AZ2100024705BA2344	8.59	2,975,244	-	-
№ AZ2116024707	9.02	2,937,586	-	-
№ AZ2120024701	8.60	3,136,344	-	-
№ AZ2112024701NA2356	8.00	824,934	-	-
№ AZ2173024707	8.30	1,016,795	-	-
№ AZ2185024703	7.80	3,422,602	-	-
№ AZ2189024709 NA23133	7.80	1,105,666	-	-
№ AZ2191024705 NA23135	7.50	996,145	-	-
№ AZ2195024701 NA23139	7.00	5,996,794	-	-
№ AZ2043024705	-	-	4.50	3,011,633
Total investment securities at amortised cost	**-**	**35,114,539**	**-**	**23,852,265**

10. PREMISES, EQUIPMENT AND INTANGIBLE ASSETS

	Premises	Furniture and fixtures	Computers and communication equipment	Vehicles	Other fixed assets	Total premises and equipment	Software and licences	Total
Balance as at January 01, 2022	**3,181,920**	**14,491**	**27,247**	**9,984**	**56**	**3,233,698**	**157,740**	**3,391,438**
Additions	-	7,722	9,301	-	-	**17,023**	34,212	**51,235**
Disposal	-	(128,645)	(11,887)	-	-	**(140,532)**	-	**(140,532)**
Depreciation/amortisation charge	(83,460)	(5,008)	(8,005)	(7,364)	(50)	**(103,887)**	(27,395)	**(131,282)**
Accumulated depreciation on disposal	-	128,645	11,887	-	-	**140,532**	-	**140,532**
Balance as at December 31, 2022	**3,098,460**	**17,205**	**28,543**	**2,620**	**6**	**3,146,834**	**164,557**	**3,311,391**
Additions	-	3,887	3,699	-	-	**7,586**	41,933	**49,519**
Disposal	-	(8,850)	(21,611)	-	-	**(30,461)**	-	**(30,461)**
Depreciation/amortisation charge	(83,460)	(6,043)	(8,259)	(2,620)	(6)	**(100,388)**	(30,840)	**(131,228)**
Accumulated depreciation on disposal	-	8,850	21,611	-	-	**30,461**	-	**30,461**
Balance as at December 31, 2023	**3,015,000**	**15,049**	**23,983**	**-**	**-**	**3,054,032**	**175,650**	**3,229,682**
Cost at December 31, 2022	4,173,009	290,923	152,930	89,410	18,347	**4,724,619**	361,248	**5,085,867**
Accumulated depreciation	(1,074,549)	(273,718)	(124,387)	(86,790)	(18,341)	**(1,577,785)**	(196,691)	**(1,774,476)**
Balance as at December 31, 2022	**3,098,460**	**17,205**	**28,543**	**2,620**	**6**	**3,146,834**	**164,557**	**3,311,391**
Cost at December 31, 2023	4,173,009	285,960	135,018	89,410	18,347	**4,701,744**	403,181	**5,104,925**
Accumulated depreciation	(1,158,009)	(270,911)	(111,035)	(89,410)	(18,347)	**(1,647,712)**	(227,531)	**(1,875,243)**
Balance as at December 31, 2023	**3,015,000**	**15,049**	**23,983**	**-**	**-**	**3,054,032**	**175,650**	**3,229,682**

11. OTHER ASSETS

	December 31, 2023	December 31, 2022
Receivable from governmental organisations	-	-
Other financial assets	266,718	376,910
Total financial assets within other assets	**266,718**	**376,910**
Immovables received in satisfaction of non-performing loans	-	18,169
Deferred expenses	142,405	29,641
Advance payments for different services	43,849	3,533
Advance payments for taxes	11,664	12,227
Total other assets	**464,636**	**440,480**

In accordance with the decree of the Mayor 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*.

12. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	December 31, 2023	December 31, 2022
Melli Iran Bank - Head Office	19,239,364	33,475,055
Correspondent accounts and overnight placements of other banks	1,983	2,023
Short-term amounts owed to other insurance companies	-	36,134
Total due to banks and other financial institutions	**19,241,347**	**33,513,212**

The outstanding amounts due to banks and other financial institutions approximate their fair values as of December 31, 2023 and December 31, 2022. At December 31, 2023 the estimated fair value of due to banks and funds borrowed was AZN 19,241,347 (2022: AZN 33,513,212).

Due to banks and other financial institutions consists of AZN 19,239,364 amount in 2023 (2022: AZN 33,475,055) which involves deposit accounts and correspondent accounts of Bank Melli Iran Head Office in AZN, USD and EUR.

13. CUSTOMER ACCOUNTS

	December 31, 2023	December 31, 2022
State owned enterprises and public organizations	**42,702,628**	**663,512**
- Current Accounts	42,700,045	654,481
- Closed Customer Accounts	2,583	9,031
Other legal entities	**190,242**	**5,164,589**
- Current Accounts	140,168	5,114,331
- Closed Customer Accounts	50,074	50,258
Individuals	**1,134,392**	**3,076,275**
- Current Accounts	654,931	2,588,161
- Term Deposits	-	10,131
- Closed Customer Accounts	479,461	477,983
Total customer accounts	**44,027,262**	**8,904,376**

Economic sector concentrations within customer accounts are as follows:

	December 31, 2023		December 31, 2022	
	Amount	**%**	**Amount**	**%**
Individuals	1,134,392	2.58	3,076,275	34.55
Transportation or communication	272	-	3,744,817	42.06
Manufacturing and industry	23,264	0.05	30,521	0.35
Construction and real estate	31,565	0.07	1,149,088	12.90
Embassies and consulates	42,700,794	96.99	452,598	5.08
Other institutions of foreign governments	1,561	-	209,207	2.35
Trade and services	103,544	0.24	186,929	2.10
Agriculture and recycling	618	-	885	0.01
Public organisations	269	-	1,702	0.02
Other	30,983	0.07	52,354	0.58
Total customer accounts	**44,027,262**	**100.00**	**8,904,376**	**100.00**

The balance amount of customer accounts is their fair values as of December 31, 2023 and December 31, 2022. The fair value of customer accounts is AZN 44,027,262 as of December 31, 2023 (2022: AZN 8,904,376).

14. OTHER LIABILITIES

Other liabilities comprise the following:

	December 31, 2023	December 31, 2022
Items in course of settlement	140	15,555
Other financial liabilities	13,255	19,971
Total financial liabilities within other liabilities	**13,395**	**35,526**
Tax payable	34,594	22,530
Other payables	5,955	5,956
Total other liabilities	**53,944**	**64,012**

15. SUBORDINATED DEBT

On February 9, 2017, the Bank signed Subordinated Debt Agreement with the Bank Melli Iran Head Office (the "Head Office"), registered in Tehran, the Islamic Republic of Iran, for obtaining funds in the amount of EUR 9,000,000 to raise its capital via Tier-2 with the maturity till December 30, 2024. This borrowing is not guaranteed 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 December 30, 2020.

According to the letter #9944/0003/354771 from Head Office dated December 31, 2020, the Bank agreed to postpone repayment of the subordinated debt until December 30, 2029. First instalment initially considered to be on December 30, 2024 was postponed in accordance with new repayment schedule.

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.

At December 31, 2023, the estimated fair value of subordinated debt was AZN 16,889,400 (2022: AZN 16,302,600).

16. SHARE CAPITAL

Total registered and paid shares of the Bank amounted to AZN 73,611,171 as of December 31, 2023. The movement of shares is as follows:

	Share capital	Total
At December 31, 2022	**73,611,171**	**73,611,171**
- increase in share capital	-	-
At December 31, 2023	**73,611,171**	**73,611,171**

17. INTEREST INCOME AND EXPENSE

	Year ended December 31, 2023	Year ended December 31, 2022
Interest income comprises:		
Interest income on assets at amortised cost	3,170,645	3,366,621
Total interest income	**3,170,645**	**3,366,621**
Interest income		
Loans and advances to customers	1,619,165	2,375,031
Placements with banks and other financial institutions	-	-
Investment securities	1,551,480	991,590
Total interest income	**3,170,645**	**3,366,621**
Interest expense comprises:		
Interest expense on liabilities recorded at amortized cost	(40,148)	(231,359)
Total interest expense	**(40,148)**	**(231,359)**
Interest expense		
Customer accounts	(19)	(420)
Placements of banks and other financial institutions	-	(706)
Other	(40,129)	(230,233)
Total interest expenses	**(40,148)**	**(231,359)**
Net interest income	**3,130,497**	**3,135,262**

18. GAIN FROM OPERATIONS IN FOREIGN CURRENCIES – LESS LOSSES

Gain on foreign exchange operations - less losses comprises:

	Year ended December 31, 2023	Year ended December 31, 2022
Dealing operations	130,197	235,652
Revaluation of foreign currency balances	88,501	(127,372)
Net gain from operations in foreign currencies	**218,698**	**108,280**

19. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended December 31, 2023	Year ended December 31, 2022
Fee and commission income comprises:		
-settlements	20,644	63,951
-cash operations	22,605	63,058
-other operations	9,987	48,842
Total fee and commission income	**53,236**	**175,851**
Fee and commission expense comprises:		
-settlements	(83,350)	(130,830)
-cash operations	(5,034)	(11,839)
-other operations	(7,455)	(7,826)
Total fee and commission expenses	**(95,839)**	**(150,495)**
Net	**(42,603)**	**25,356**

20. OPERATING EXPENSES

	Year ended December 31, 2023	Year ended December 31, 2022
Salaries and wages	1,005,939	1,032,686
Taxes, other than income tax	283,805	291,304
Depreciation and amortisation expenses	131,228	131,282
Repair and maintenance	169,947	121,174
Communications	113,647	104,700
Premises security	95,179	90,299
Printing and office supplies	68,587	70,960
Utilities	51,251	61,297
Insurance expenses	33,649	33,363
Auction expenses	19,145	24,189
Professional services	20,741	19,632
Membership	10,278	10,006
Advertising	1,486	1,591
Charity expenses	8,000	-
Other	101,855	93,144
Total operating expenses	**2,114,737**	**2,085,627**

21. INCOME TAX

Income tax expense comprises the following:

	December 31, 2023	December 31, 2022
Taxable temporary differences:		
Total taxable temporary differences	**-**	**-**
Deductible temporary differences:		
Premises and equipment	(1,637,760)	(1,631,370)
Loans and advances to customers	(972,810)	(1,046,950)
Total deductible temporary differences	**(2,610,570)**	**(2,678,320)**
Net deferred (deductible)/ taxable temporary differences	(2,610,570)	(2,678,320)
Net deferred tax liability at the statutory tax rate (20%)	(522,114)	(535,664)
Net deferred tax asset/(liability)	**(522,114)**	**(535,664)**

	Year ended December 31, 2023	Year ended December 31, 2022
Net deferred tax liability at the end of the year (at the statutory tax rate of 20%)	(522,114)	(535,664)
Net deferred tax (liability)/asset at the beginning of the year	(535,664)	(556,682)
Change in the deferred income tax for the year charged to profit	**13,550**	**21,018**
Deferred income/(expense) charged to equity	-	-
Deferred income/(expense) charged to profit	13,550	21,018

	Year ended December 31, 2023	Year ended December 31, 2022
(Loss)/profit before income tax	4,325,519	1,971,691
Tax at the statutory tax rate	(865,104)	(394,338)
Unrecognised carry forward tax losses for the year	878,654	415,356
Income tax expense	**13,550**	**21,018**
Current income tax expense	(489,552)	(224,375)
Change in the deferred income tax	13,550	21,018
Income tax expense	**(476,002)**	**(203,357)**

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.

22. FINANCIAL RISK MANAGEMENT

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Manager of the Branch is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

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

The Manager of the Branch has the responsibility to monitor the overall risk process within the Bank.

Internal Audit

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

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models.

Certain related data was received from the Internal Audit Department in order to improve the effective functioning of the audit process and to coordinate the audit operations.

The Internal Audit Department's reports were obtained and examined during the audit process, and no issues have been identified that may have an impact on the financial statements.

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.
- 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;
- 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. These limits are regulated in compliance with 2022 July 22 dated Resolution № 29/1-2 "Regulation on prudential ratios and requirements related to credit risks, including large credit risk exposures".

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 (59 months) – withcollateral of real estate - maximum limit USD 150,000;
- Loans to individuals (59 months) – with collateral of real estate - maximum limit USD 100,000;
- Loans to individuals according to deposits- maximum limit up to the amount of deposit;
- 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;

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:

	2023			
	Stage 1 12-month ECL AZN	**Stage 2 Lifetime ECL AZN**	**Stage 3 Lifetime ECL AZN**	**Total AZN**
Corporate loans	**234,514**	**3,033**	**16,253**	**253,800**
Loans to individuals	**4,868,116**	**212,801**	**1,380,836**	**6,461,753**
Repair of apartment	3,141,962	113,062	934,934	**4,189,958**
Consumer loans	1,231,742	68,322	369,668	**1,669,732**
Car purchase	298,272	31,417	74,174	**403,863**
Trade and services	196,140	-	2,060	**198,200**
Gross carrying amount	**5,102,630**	**215,834**	**1,397,089**	**6,715,553**
Deferral commission	(28,482)	(1,060)	-	**(29,542)**
Loss allowance	(179,485)	(18,891)	(1,397,089)	**(1,595,465)**
Carrying amount	**4,894,663**	**195,883**	**-**	**5,090,546**

	2022			
	Stage 1 12-month ECL AZN	**Stage 2 Lifetime ECL AZN**	**Stage 3 Lifetime ECL AZN**	**Total AZN**
Corporate loans	**305,863**	**-**	**16,253**	**322,116**
Loans to individuals	**10,860,230**	**263,137**	**1,541,694**	**12,665,061**
Repair of apartment	6,894,606	160,634	1,107,181	8,162,421
Consumer loans	2,613,737	59,832	301,601	2,975,170
Car purchase	1,130,341	42,671	113,912	1,286,924
Trade and services	221,546	-	19,000	240,546
Gross carrying amount	**11,166,093**	**263,137**	**1,557,947**	**12,987,177**
Deferral commission	(57,197)	(2,129)	-	(59,326)
Loss allowance	(823,220)	(33,155)	(1,557,947)	(2,414,322)
Carrying amount	**10,285,675**	**227,853**	**-**	**10,513,528**

The appraisal of the collateral value provided to secure a loan is conducted by independent qualified companies and by the Bank's professional staff depending on type of collateral and amount of credit granted.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

The Bank uses the same credit policies in making conditional obligations as it does for on- balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

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. 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 December 31, 2023
FINANCIAL ASSETS					
Cash and cash equivalents	9,827,384	2,156,117	34,219,945	13,519	46,216,965
Due from banks and other financial institutions	32,658,500	-	-	-	32,658,500
Loans and advances to customers	5,090,546	-	-	-	5,090,546
Investment securities	35,114,539	-	-	-	35,114,539
Financial assets within other assets	266,718	-	-	-	266,718
TOTAL FINANCIAL ASSETS	**82,957,687**	**2,156,117**	**34,219,945**	**13,519**	**119,347,268**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	137	3,046,502	16,194,708	-	19,241,347
Customer accounts	42,947,405	555,345	524,512		44,027,262
Financial liabilities within other liabilities	13,395	-	-	-	13,395
Subordinated debt	-	-	16,889,400	-	16,889,400
TOTAL FINANCIAL LIABILITIES	**42,960,937**	**3,601,847**	**33,608,620**	**-**	**80,171,404**
NET BALANCE SHEET POSITION	**39,996,750**	**(1,445,730)**	**611,325**	**13,519**	**39,175,864**

	AZN	**USD**	**EUR**	**Other**	**Total at December 31, 2022**
FINANCIAL ASSETS					
Cash and cash equivalents	1,977,018	3,544,431	53,956,043	21,855	59,499,347
Loans and advances to customers	10,513,528	-	-	-	10,513,528
Investment securities	23,852,265	-	-	-	23,852,265
Financial assets within other assets	376,910	-	-	-	376,910
TOTAL FINANCIAL ASSETS	**36,719,721**	**3,544,431**	**53,956,043**	**21,855**	**94,242,050**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	5,449	3,037 ,255	30,470,508	-	33,513,212
Customer accounts	955,608	2,164,531	5,784,237	-	8,904,376
Financial liabilities within other liabilities	35,526	-	-	-	35,526
Subordinated debt	-	-	16,302,600	-	16,302,600
TOTAL FINANCIAL LIABILITIES	**996,583**	**5,201,786**	**52,557,345**	**-**	**58,755,714**
NET BALANCE SHEET POSITION	**35,723,138**	**(1,657,355)**	**1,398,698**	**21,855**	**35,486,336**

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 CBAR normative requirements are exhibited in the table below:

Open currency position	**On freely convertible currencies**	**On closed currencies**	**On bank metals**
Long open currency position (per currency)	10%	7%	
Short open currency position (per currency)	10%	7%	
Net long open currency position	20%	14%	3 %
Net short open currency position	20%	14%	3 %

As at December 31, 2023 the Bank was in compliance with open currency position 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.

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 December 31, 2023		**As at December 31, 2022**	
	Interest rate 1%	**Interest rate -1%**	**Interest rate 1%**	**Interest rate -1%**
FINANCIAL ASSETS				
Due from banks and other financial institutions	-	-	-	-
Loans and advances to customers	50,905	(50,905)	105,135	(105,135)
Investment securities	351,145	(351,145)	238,523	(238,523)
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	(192,413)	192,413	(335,132)	335,132
Subordinated debt	(168,894)	168,894	(163,026)	163,026
NET IMPACT ON PROFIT BEFORE TAX	**40,743**	**(40,743)**	**(154,500)**	**154,500**

Geographical concentration

The geographical concentration of financial assets and liabilities as of December 31, 2023 is set out below:

	Azerbaijan Republic	**OECD countries**	**Non-OECD countries**	**Total**
FINANCIAL ASSETS				
Cash and cash equivalents	46,179,040	478	37,447	46,216,965
Due from banks and other financial institutions	32,658,500	-	-	32,658,500
Loans and advances to customers	5,090,546	-	-	5,090,546
Investment securities	35,114,539	-	-	35,114,539
Financial assets within other assets	266,718	-	-	266,718
TOTAL FINANCIAL ASSETS	**119,309,343**	**478**	**37,447**	**119,347,268**

FINANCIAL LIABILITIES				
Due to banks and other financial institutions	1,983	-	19,239,364	19,241,347
Customer accounts	43,335,778	-	691,484	44,027,262
Financial liabilities within other liabilities	13,395	-	-	13,395
Subordinated debt	-	-	16,889,400	16,889,400
TOTAL FINANCIAL LIABILITIES	**43,351,156**	**-**	**36,820,248**	**80,171,404**
NET BALANCE SHEET POSITION	**75,958,187**	**478**	**(36,782,801)**	**39,175,864**

The geographical concentration of assets and liabilities as of December 31, 2022 is set out below:

	Azerbaijan Republic	**OECD countries**	**Non-OECD countries**	**Total**
FINANCIAL ASSETS				
Cash and cash equivalents	43,564,626	135,941	15,798,780	59,499,347
Loans and advances to customers	10,513,528	-	-	10,513,528
Investment securities	23,852,265	-	-	23,852,265
Financial assets within other assets	376,910	-	-	376,910
TOTAL FINANCIAL ASSETS	**78,307,329**	**135,941**	**15,798,780**	**94,242,050**
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	38,158	-	33,475,055	33,513,212
Customer accounts	6,406,348	-	2,498,028	8,904,376
Financial liabilities within other liabilities	35,526	-	-	35,526
Subordinated debt	-	-	16,302,600	16,302,600
TOTAL FINANCIAL LIABILITIES	**6,480,032**	**-**	**52,275,683**	**58,755,714**
NET BALANCE SHEET POSITION	**71,827,297**	**135,941**	**(36,476,903)**	**35,486,336**

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 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. 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.

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 Republic.

In accordance with the directions of the CBAR, 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 scenarios 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.

The Bank controls maturities and liquidity shortage summarized as follows at December 31, 2023:

	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	46,216,965	-	-	-	46,216,965
Due from banks and other financial institutions	32,658,500	-	-	-	32,658,500
Loans and advances to customers	180,356	365,611	1,451,355	3,093,224	5,090,546
Investment securities	5,971,080	19,430,434	5,545,063	4,167,962	35,114,539
Financial assets within other assets	266,718	-	-	-	266,718
TOTAL FINANCIAL ASSETS	**85,293,619**	**19,796,045**	**6,996,418**	**7,261,186**	**119,347,268**
FINANCIAL LIABILITIES					
Due to banks and other financial institutions	19,241,347	-	-	-	19,241,347
Customer accounts	44,027,262	-	-	-	44,027,262
Financial liabilities within other liabilities	13,395	-	-	-	13,395
Subordinated debt	-	-	-	16,889,400	16,889,400
TOTAL FINANCIAL LIABILITIES	**63,282,004**	**-**	**-**	**16,889,400**	**80,171,404**
LIQUIDITY GAP AS AT 31 DECEMBER 31, 2023	**22,011,615**	**19,796,045**	**6,996,418**	**(9,628,214)**	**39,175,864**
CUMULATIVE LIQUIDITY GAP AS AT 31 DECEMBER 31, 2023	**22,011,615**	**41,807,660**	**48,804,078**	**39,175,864**	

The Bank controls maturities and liquidity shortage summarized as follows at December 31, 2022:

	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	59,499,347	-	-	-	59,499,347
Loans and advances to customers	337,067	677,014	2,983,582	6,515,865	10,513,528
Investment securities	-	-	8,021,004	15,831,261	23,852,265
Financial assets within other assets	376,910	-	-	-	376,910
TOTAL FINANCIAL ASSETS	**60,213,324**	**677,014**	**11,004,586**	**22,347,126**	**94,242,050**

FINANCIAL LIABILITIES					
Due to banks and other financial institutions	33,513,212	-	-	-	33,513,212
Customer accounts	8,899,376	5,000	-	-	8,904,376
Financial liabilities within other liabilities	35,526	-	-	-	35,526
Subordinated debt	-	-		16,302,600	16,302,600
TOTAL FINANCIAL LIABILITIES	**42,448,114**	**5,000**	**-**	**16,302,600**	**58,755,714**
LIQUIDITY GAP AS AT DECEMBER 31, 2022	**17,765,210**	**672,014**	**11,004,586**	**6,044,526**	**35,486,336**
CUMULATIVE LIQUIDITY GAP AS AT DECEMBER 31, 2022	**17,765,210**	**18,437,224**	**29,441,810**	**35,486,336**	

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.

Liquidity coverage ratio. The liquidity coverage ratio must meet the minimum requirement established by CBAR. The bank must calculate the liquidity coverage ratio in aggregate and separately in foreign currency. As of December 1, 2023, banks with a liquidity coverage ratio of 100 (one hundred) percent or more in aggregate and separately in foreign currency must ensure that those ratios do not fall below 100 (one hundred) percent. As of December 31, 2023, the Bank complied with the minimum requirements set by CBAR regarding the liquidity coverage ratio (783.9 % in total, 1,190.5 % in national currency, 137.8 % in foreign currency).

23. 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 December 31, 2023, the Bank had no significant contractual capital expenditure commitments in respect of premises and equipment, or in any other areas (2022: 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.

The total outstanding contractual amount of un-drawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

24. 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%.

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%.

	December 31, 2023	December 31, 2022
Tier-1 capital	37,285,711	35,418,889
Tier-2 capital	20,783,443	18,372,080
Less: exclusion from capital	(175,650)	(164,557)
Total statutory capital	**57,893,504**	**53,626,412**
Risk-weighted assets	13,317,328	37,462,871
Statutory capital ratio	**435%**	**143%**
Tier-1 capital ratio	**279%**	**94%**

Management believes that the Bank is in compliance with the statutory requirements of the Regulatory Body at December 31, 2023.

For the year ended on December 31, 2023, there were differences in the Statement of Financial Position and Statement of Profit or Loss prepared in accordance with the regulations determined by the Central Bank of the Republic of Azerbaijan and local legislation. The reason of main differences was due to application of IFRS 9. Those differences are shown in the following tables:

On Statement of Financial Position:

	December 31, 2023 (According to IFRS)	December, 31 2023 (According to local legislation)	Differences
Loans and advances to customers	5,090,546	4,080,076	**1,010,470**
Deferred income tax liability	522,114	327,434	**194,680**
Accumulated deficit	(31,638,382)	(32,454,172)	**815,790**

On Statement of Profit or Loss:

	2023 (According to IFRS)	2023 (According to local legislation)	Differences
Interest income	3,170,645	3,098,459	**72,186**
Provision for impairment losses	3,138,891	3,247,558	**(108,667)**

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and current placements with other banks	46,216,965	46,216,965	59,499,347	59,499,347
Due from banks and other financial institutions	32,658,500	32,658,500	-	-
Loans and advances to customers	5,090,546	5,090,546	10,513,528	10,513,528
Investment securities	35,114,539	35,114,539	23,852,265	23,852,265
Financial assets within other assets	266,718	266,718	376,910	376,910
Total financial assets carried at amortised cost	**119,347,268**	**119,347,268**	**94,242,050**	**94,242,050**

	December 31, 2023		December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Due to banks and other financial institutions	19,241,347	19,241,347	33,513,212	33,513,212
Customer accounts	44,027,262	44,027,262	8,904,376	8,904,376
Financial liabilities within other liabilities	13,395	13,395	35,526	35,526
Subordinated debt	16,889,400	16,889,400	16,302,600	16,302,600
Total financial liabilities carried at amortised cost	**80,171,404**	**80,171,404**	**58,755,714**	**58,755,714**

26. 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.

	December 31, 2023		December 31, 2022	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Cash and cash equivalents		**46,163,366**		**59,499,347**
- entities with joint control or significant influence over the entity	37,925		15,931,749	
Due from banks and other financial institutions		**32,658,500**		**-**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives				
Loans and advances to customers		**6,715,553**		**12,987,177**
- key management personnel of the entity or its close relatives	79,521		110,036	
Allowance for impairment losses		**(1,595,465)**		**(2,414,322)**
- key management personnel of the entity or its close relatives	(2,797)		(8,120)	
Due to banks and other financial institutions		**19,241,347**		**33,513,212**
- entities with joint control or significant influence over the entity	19,239,364		33,475,055	
- key management personnel of the entity or its close relatives				
Customer accounts		**44,027,262**		**8,904,376**
- entities with joint control or significant influence over the entity	-		-	
- key management personnel of the entity or its close relatives	-		71,869	

As at December 31, 2023 and December 31, 2022 benefits to key management personnel were as follows:

	Year ended December 31, 2023	**Year ended December 31, 2022**
Short-term benefits – salaries and bonuses	210,420	197,512
Total	**210,420**	**197,512**

During the year ended December 31, 2023 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".

27. EVENTS AFTER THE REPORTING PERIOD

No significant transactions have been identified for disclosure after the reporting date.