

Consolidated financial statements

OJSC Xalq Bank and its subsidiaries
for the year ended 31 December 2022

with independent auditor's report

Open Joint Stock Company Xalq Bank

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Independent auditor's report

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Independent auditor's report

To the Shareholders and Board of Directors of Open Joint Stock Company "Xalq Bank"

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of OJSC Xalq Bank (the Bank) and its subsidiaries (together, the Group), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

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

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

Responsibilities of management and the Audit Committee for the consolidated financial statements

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

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

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

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

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

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

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

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

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

Samir Asadullayev
Baltic Caspian Audit LLC
Member Firm of Crowe Global



28 April 2023
Baku, the Republic of Azerbaijan
№ PPxdnjbGlq

Open Joint Stock Company Xalq Bank

Consolidated statement of profit or loss for the year ended 31 December 2022 (in Azerbaijan manats)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
Interest income	5	115,002,282	92,862,797
Interest expense	5	(21,750,429)	(19,756,095)
Net interest income		93,251,853	73,106,702
Credit loss expense on interest bearing assets	6	(20,735,253)	9,163,213
Net interest income after credit loss expense		72,516,600	82,269,915
Net fee and commission income	7	7,614,876	3,701,411
Net gain on foreign exchange operations	8	6,422,087	3,089,386
Net gain / (loss) on precious metals operations	9	200,800	(945,846)
Net gain on sale of investment securities		39,772	119,979
Other income		2,835,413	3,183,063
Non-interest income		17,112,948	9,147,993
Personnel expenses	10	(29,407,204)	(26,619,953)
General and administrative expenses	10	(19,547,052)	(18,750,092)
Depreciation and amortisation	16,18	(8,353,293)	(8,199,477)
Recovery of provision / (provision) for impairment losses on non-interest bearing assets	19	4,832,229	(2,068,690)
(Provision) / recovery of provision for impairment losses on guarantees and other commitments	6	(769,821)	637,680
Non-interest expense		(53,245,141)	(55,000,532)
Profit before income tax		36,384,407	36,417,376
Income tax expense	11	(7,496,779)	(8,513,280)
Profit for the year		28,887,628	27,904,096
Attributable to:			
- shareholders of the Bank		28,885,481	27,899,499
- non-controlling interest		2,147	4,597
		<u>28,887,628</u>	<u>27,904,096</u>

Approved for issue and signed on behalf of the Management Board on 28 April 2023.

Chairman
Mr. Kamran Majidov



Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Consolidated statement of comprehensive income for the year ended 31 December 2022 (in Azerbaijan manats)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
Profit for the year		28,887,628	27,904,096
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Gains on equity instruments at fair value through other comprehensive income	15	-	105,000
Income tax relating to components of other comprehensive income	11	-	(21,000)
Total other comprehensive income not to be reclassified to profit or loss in subsequent periods		-	84,000
Other comprehensive income for the year, net of tax		-	84,000
Total comprehensive income for the year		28,887,628	27,988,096

Approved for issue and signed on behalf of the Management Board on 28 April 2023.

Chairman
Mr. Kamran Majidov

Chief Accountant
Mrs. Tamilla Asadova



Open Joint Stock Company Xalq Bank

Consolidated statement of financial position as at 31 December 2022 (in Azerbaijan manats)

	Notes	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	12	352,856,444	610,312,236
Precious metals		20,064,285	20,063,418
Amounts due from credit institutions	13	218,008,881	39,865,484
Loans to customers	14	1,708,722,129	1,370,329,933
Investment securities	15	192,133,338	92,340,213
Property, equipment and right-of-use assets	16	69,027,945	63,783,336
Investment properties	17	7,832,000	7,730,000
Intangible assets	18	5,762,138	6,431,712
Deferred income tax asset	11	2,746,489	2,832,354
Other assets	19	78,916,212	85,768,826
Total assets		2,656,069,861	2,299,457,512
Liabilities			
Amounts due to banks and government agencies	20	359,712,163	357,475,891
Customer accounts	21	1,817,205,519	1,494,061,835
Current income tax liability		3,296,105	1,045,098
Other liabilities	22	16,118,679	10,579,471
Total liabilities		2,196,332,466	1,863,162,295
Equity			
Share capital	23	364,772,544	364,772,544
Retained earnings		94,768,088	71,328,057
Unrealised gain on investment securities		84,000	84,000
Total equity attributable to shareholders of the Bank		459,624,632	436,184,601
Non-controlling interest		112,763	110,616
Total equity		459,737,395	436,295,217
Total liabilities and equity		2,656,069,861	2,299,457,512

Approved for issue and signed on behalf of the Management Board on 28 April 2023.

Chairman
Mr. Kamran Majidov



Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Consolidated statement of changes in equity for the year ended 31 December 2022 (in Azerbaijan manats)

	Share capital	Retained earnings	Unrealised gain on investment securities	Non-controlling interest	Total equity
1 January 2021	364,772,544	49,128,129	-	111,019	414,011,692
Profit for the year	-	27,899,499	-	4,597	27,904,096
Other comprehensive income for the year	-	-	84,000	-	84,000
Change in ownership interest in subsidiary	-	-	-	(5,000)	(5,000)
Dividends to shareholders of Bank	-	(5,699,571)	-	-	(5,699,571)
31 December 2021	364,772,544	71,328,057	84,000	110,616	436,295,217
Profit for the year	-	28,885,481	-	2,147	28,887,628
Dividends to shareholders of Bank	-	(5,445,450)	-	-	(5,445,450)
31 December 2022	364,772,544	94,768,088	84,000	112,763	459,737,395

Approved for issue and signed on behalf of the Management Board on 28 April 2023.

Chairman
Mr. Kamran Majidov



Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Consolidated statement of cash flows for the year ended 31 December 2022 (in Azerbaijan manats)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from operating activities:			
Profit before income tax		36,384,407	36,417,376
Adjustments for:			
Provision / (recovery of provision) for impairment losses on interest bearing assets	6	20,735,253	(9,163,213)
Provision / (recovery of provision) for guarantees and other commitments		769,821	(637,680)
Provision / (recovery of provision) for impairment losses on non-interest bearing assets		(4,832,229)	2,068,690
Net unrealised loss / (gain) arising from changes in foreign currency exchange rates		1,504	(31,200)
Depreciation and amortization	16,18	8,353,293	8,199,477
Gain on revaluation of investment property	17	(102,000)	(220,000)
Loss / (gain) on disposal of property and equipment		269,976	(411,434)
Change in interest accruals, net		(3,840,481)	28,064,983
Cash flows from operating activities before changes in operating assets and liabilities		57,739,544	64,286,999
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Precious metals		(867)	1,026,184
Amounts due from credit institutions		(177,352,357)	(9,494,853)
Loans to customers		(355,972,331)	32,431,632
Other assets		11,688,952	(24,250,824)
Increase/(decrease) in operating liabilities:			
Amounts due to banks and government agencies		2,188,666	5,576,313
Customer accounts		322,507,379	(56,046,933)
Other liabilities		4,769,387	(2,231,774)
Cash (outflow) / inflow from operating activities before taxation		(134,431,627)	11,296,744
Income tax paid		(5,159,907)	(12,058,565)
Net cash (outflow) / inflow from operating activities		(139,591,534)	(761,821)
Cash flows from investing activities:			
Purchase of property, equipment and intangible assets	16,18	(13,474,981)	(2,592,846)
Proceeds on disposal of property and equipment		276,677	870,500
Net changes in investment securities		(99,219,000)	62,314,697
Investment property improvements	17	-	-
Acquisition of subsidiary, net of cash acquired		-	(5,000)
Net cash (outflow) / inflow from investing activities		(112,417,304)	60,587,351

Open Joint Stock Company Xalq Bank

Consolidated statement of cash flows for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

	Notes	Year ended 31 December 2022	Year ended 31 December 2021
Cash flows from financing activities:			
Dividends paid to shareholders of the Bank		(5,445,450)	(5,699,571)
Increase in share capital		-	-
Net cash outflow from financing activities		(5,445,450)	(5,699,571)
Effect of foreign exchange rate changes on cash and cash equivalents		(1,504)	31,200
Net (decrease) / increase in cash and cash equivalents		(257,455,792)	54,157,159
Cash and cash equivalents, beginning of year		610,312,236	556,155,077
Cash and cash equivalents, end of year	12	352,856,444	610,312,236

Interest paid and received by the Group in cash during the year ended 31 December 2022 amounted to AZN 21,066,518 and AZN 110,477,890, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2021 amounted to AZN 19,447,267 and AZN 120,618,952, respectively.

Approved for issue and signed on behalf of the Management Board on 28 April 2023.


Chairman
Mr. Kamran Majidov




Chief Accountant
Mrs. Tamilla Asadova

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (in Azerbaijan manats)

1. Background

Xalq Bank is an open joint stock company which was established on 24 December 2004 in accordance with establishment agreement and was registered by the Central Bank of Azerbaijan Republic on 27 December 2004. The address of its registered office is 22L Inshaatchilar Avenue, Baku, AZ 1006, Azerbaijan. The Bank is regulated by the Central Bank of Azerbaijan Republic (the "CBAR") and conducts its business under the general banking license number 246. The Bank had 30 and 30 branches in Azerbaijan as at 31 December 2022 and 2021 respectively. The Bank's primary business consists of commercial activities, trading with foreign currencies, originating loans and guarantees.

The number of employees of the Bank at 31 December 2022 and 2021 was 833 and 772, respectively.

The Bank is a parent company of a banking group (the "Group") which consists of the following enterprises consolidated in the financial statements:

Name	Country of operation	The Bank ownership interest/ voting rights		Type of operation
		2022	2021	
<i>Xalq Kapital Investment Company CJSC</i>	<i>The Republic of Azerbaijan</i>	100%	100%	<i>Securities market transactions</i>
<i>Baki Ayaqqabi -2 OJSC</i>	<i>The Republic of Azerbaijan</i>	98.45%	98.45%	<i>Dormant</i>
<i>Xalq Property LLC</i>	<i>The Republic of Azerbaijan</i>	100%	100%	<i>Property management</i>

"Xalq Kapital Investment Company" CJSC is a close joint stock company registered in the Republic of Azerbaijan on 17 August 2007. The company's principal activity is operations with securities, broker and dealer operations.

"Baki Ayaqqabi -2" OJSC is an open joint stock company registered in the Republic of Azerbaijan in December 1980. The Company's principal activity had been the manufacture of footwear. The Company has not been functioning since June 1999. The Group has acquired the controlling interest in the Company's capital with the primary purpose of using it as investment property. The Group's management is still uncertain of the detailed plans regarding the Company.

"Xalq Emlak" LLC is a limited liability company registered in the Republic of Azerbaijan on 24 August 2021. The company's principal activity is real estate management.

As at 31 December 2022 and 2021 the following shareholders owned the issued shares of the Bank:

	31 December 2022	31 December 2021
	Ownership interest, %	Ownership interest, %
Ideal Biznes Ko LLC	50.00	50.00
Yevro Standart LLC	33.85	33.85
Forton MMC	16.15	-
AMAL Invest Group LLC	-	16.15
Total	100	100

As at 31 December 2022, the Bank is ultimately owned by Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev (31 December 2021: Mrs. Leyla Aliyeva, Mrs. Arzu Aliyeva and Mr. Arif Pashayev), who exercise joint control over the Bank.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

2. Basis of presentation

Accounting basis

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements are presented in Azerbaijan Manats ("AZN") unless otherwise indicated. These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of certain financial instruments and measurement of investment property at revalued amounts according to International Accounting Standard ("IAS") No. 40 "Investment Property".

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

3. Summary of significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries) made up to 31 December each year. Control is achieved where the Bank has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the consolidated income statement in the period of acquisition. The minority interest is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The equity attributable to equity holders of the parent and net income attributable to minority shareholders' interests are shown separately in the consolidated statement of financial position and income statement, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

The difference, if any, between the carrying amount of minority interest and the amount received on its purchase is recognized in equity attributable to the equity holders of the parent.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Fair value measurement

The Group measures financial instruments carried at FVPL and FVOCI and non-financial assets such as investment property, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial assets and liabilities

Initial recognition

Date of recognition

All regular way purchases and sales of financial assets and liabilities are recognised on the trade date i.e. the date that the Group commits to purchase the asset or liability. Regular way purchases or sales are purchases or sales of financial assets and liabilities that require delivery of assets and liabilities within the period generally established by regulation or convention in the marketplace.

Initial measurement

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value and, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Measurement categories of financial assets and liabilities

Group classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost;
- FVOCI;
- FVPL.

The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading, are derivative instruments or the fair value designation is applied.

Amounts due from credit institutions, loans to customers, investments securities at amortised cost

Group only measures amounts due from credit institutions, loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The details of these conditions are outlined below.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

The SPPI test

As a second step of its classification process the Group assesses the contractual terms of financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Debt instruments at FVOCI

Group applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the asset.

Equity instruments at FVOCI

Upon initial recognition, the Group occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

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

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the consolidated statement of profit or loss, and an ECL provision.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

Performance guarantees

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Performance guarantees do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the failure to perform the contractual obligation by another party occurs. Therefore, performance guarantees are not considered financial instruments and thus do not fall in scope of IFRS 9.

Reclassification of financial assets and liabilities

Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group changes the business model for managing financial assets. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets and liabilities in 2021.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions.

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan;
- Change in counterparty;
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, presented within interest income calculated using EIR in the consolidated statement of profit or loss, to the extent that an impairment loss has not already been recorded.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and
- The Group either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Write-off

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense. A write-off constitutes a derecognition event.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, amounts due from the Central Bank of Azerbaijan Republic, including time deposits up to ninety days, and correspondent accounts with other banks.

Precious metals

Assets and liabilities denominated in gold and other precious metals are translated at the current rate computed based on the Central Bank rate effective at the date. Changes in the bid prices are recorded in net gain on operations with precious metals.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued)
(in Azerbaijan manats)

Investment properties

Investment property comprises land or buildings, which are held in order to earn rentals or for capital appreciation or both, and which are not occupied by the companies in the Group or otherwise held for sale. Property held under operating lease is classified as investment property if, and only if, it meets the definition of an investment property. Investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the property. If this information is not available, the Group uses alternative valuation methods such as discounted cash flow projections. Changes in the fair value of investment property are recorded in the income statement.

Premises, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation of property, equipment and amortization of intangible assets is charged on their historical cost and is designed to write off assets over their useful lives. It is calculated on a straight line basis at the following annual rates:

Building	3.3%
Furniture and equipment	25%
Computers	25%
Vehicles	15%
Other equipment	20%
Intangible assets	10%

The carrying amounts of property, equipment and intangible assets are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts, and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. Impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

Taxation

Income tax expense comprises current and deferred taxation. Income tax expense for the current period is determined on the basis of the taxable profit received in the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's current tax expense is calculated using tax rates that have been enacted during the reporting period.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Deferred tax is reported using the balance sheet liability method and represents income tax assets and liabilities on the temporary difference between the carrying value of assets and liabilities and the respective tax accounting data used to arrive at the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the respective deferred tax assets can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in transactions that affect neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that a related tax benefit will be realized sufficient for full or partial recovery of the asset.

Deferred tax assets and liabilities are offset by the Group with the resulting difference reported in the financial statements if:

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

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

Amounts due to banks and customer accounts

Amounts due to banks and customer accounts are initially recognized at fair value. Subsequently amounts due are stated at amortized cost and any difference between carrying and redemption value is recognized in the consolidated income statement over the period of the borrowings using the effective interest method.

Contingencies

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

Share capital

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

Dividends on ordinary shares are recognized in equity as a reduction in the period in which they are declared. Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 "Events after the reporting period" ("IAS 10") and disclosed accordingly.

Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Retirement and other benefit obligations

In accordance with the requirements of the legislation of the Republic of Azerbaijan, the Group withholds amounts of pension contributions from employee salaries and pays them to the state pension fund. Such expense is charged in the period the related salaries are earned. Upon retirement all retirement benefit payments are made by the state pension fund. The Group does not have any pension arrangements separate from the state pension system of Azerbaijan, which requires current contributions by employer calculated as a percentage of current gross salary payments. In addition, the Group has no post-retirement benefits or other significant compensated benefits requiring accrual.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

The Group calculates interest income on debt financial assets measured at amortized cost or at FVOCI by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest revenue or expense.

When a financial asset becomes credit-impaired, the Group calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Group calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

Interest income on all financial assets at FVPL is recognised using the contractual interest rate.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income on guarantees and letters of credit. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Fee income earned at a point in time

Fees arising from settlement and cash operations are recognized upon completion of the underlying transactions. Each cash operation and settlement operation is treated as a separate performance obligation.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Azerbaijan Manats at the appropriate spot rates of exchange ruling at the reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Profits and losses arising from these translations are included in net gain on foreign exchange operations.

Rates of exchange

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

31 December 2022	31 December 2021
USD 1 = AZN 1.7000	USD 1 = AZN 1.7000
EUR 1 = AZN 1.8114	EUR 1 = AZN 1.9265
GBP 1 = AZN 2.0477	GBP 1 = AZN 2.2925

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

4. Adoption of new or revised standards and interpretations

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

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 *Financial Instruments: Recognition and Measurement*.

In accordance with the transitional provisions, the Group applies the amendment to financial instruments that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the consolidated financial statements of the Group as the fees paid or received by the Group upon contract renegotiations were very insubstantial for each renegotiated financial instrument.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Group applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued)
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Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. These amendments had no impact on the consolidated financial statements of the Group, as there were no such onerous contracts identified during the period.

5. Net interest income

Net interest income comprise:

	Year ended 31 December 2022	Year ended 31 December 2021
Interest income comprises		
Interest on loans to customers	97,856,888	83,985,513
Interest on debt securities	8,088,343	7,441,292
Interest on due from banks	7,077,066	301,543
Interest on guarantees	1,758,393	839,779
Interest on other operations	221,592	294,670
Total interest income on financial assets recorded at amortized cost	<u>115,002,282</u>	<u>92,862,797</u>
Interest expense comprises:		
Interest on customer accounts	(13,899,541)	(13,799,817)
Interest on due to banks and government agencies	(6,857,530)	(5,577,991)
Interest on lease liabilities	(95,976)	(161,362)
Interest on other operations	(897,382)	(216,925)
Total interest expense on financial assets recorded at amortized cost	<u>(21,750,429)</u>	<u>(19,756,095)</u>
Net interest income before provision for impairment losses on interest bearing assets	<u>93,251,853</u>	<u>73,106,702</u>

6. Credit loss expense and other impairment and provisions

The movements in credit loss expense on interest earning assets were as follows:

	Investment securities	Due from banks	Loans to customers	Total
31 December 2020	(651,016)	-	(108,172,800)	(108,823,816)
(Provision) / recovery of provision	(1,512,637)	-	10,675,850	9,163,213
Write-off of assets	-	-	36,502,675	36,502,675
31 December 2021	(2,163,653)	-	(60,994,275)	(63,157,928)
(Provision) / recovery of provision	(357,695)	(557,403)	(19,820,155)	(20,735,253)
Write-off of assets	-	-	850,917	850,917
Recoveries of amounts previously written off	-	(164)	(46,432)	(46,596)
31 December 2022	<u>(2,521,348)</u>	<u>(557,567)</u>	<u>(80,009,945)</u>	<u>(83,088,860)</u>

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

The movements in provision for impairment losses on guarantees and other commitments were as follows:

	Guarantees and other commitments
31 December 2020	(1,106,226)
Recovery of provision	637,680
31 December 2021	(468,546)
Provision	(769,821)
Write-off	-
31 December 2022	(1,238,367)

7. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December 2022	Year ended 31 December 2021
Fee and commission income:		
Settlements	6,133,588	3,081,772
Plastic cards operations	5,960,692	3,148,123
Cash operations	2,784,906	3,275,814
Guarantee letters	112,532	109,995
Letters of credit	69,836	44,774
Other	735,194	346,963
Total fee and commission income	15,796,748	10,007,441
Fee and commission expense:		
Plastic cards operations	(6,286,581)	(4,845,628)
Settlements	(1,097,217)	(846,305)
Cash operations	(247,902)	(222,379)
Guarantee letters	(33,692)	(28,225)
Letters of credit	(24,023)	(10,249)
Other	(492,457)	(353,244)
Total fee and commission expense	(8,181,872)	(6,306,030)
Net fee and commission income	7,614,876	3,701,411

8. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2022	Year ended 31 December 2021
Dealing differences, net	6,423,591	3,058,186
Translation differences, net	(1,504)	31,200
Total net gain on foreign exchange operations	6,422,087	3,089,386

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

9. Net gain / (loss) on precious metals operations

Net gain / (loss) on precious metals operations comprise:

	Year ended 31 December 2022	Year ended 31 December 2021
Net gain on precious metals operations	24,047	4,619
Translation difference on precious metals	176,753	(950,465)
Total net gain / (loss) on precious metals operations	200,800	(945,846)

10. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprises:

	Year ended 31 December 2022	Year ended 31 December 2021
Salaries and bonuses	(24,464,754)	(22,271,081)
Social security costs	(4,378,060)	(3,738,539)
Other employee related expenses	(564,390)	(610,333)
Total personnel expenses	(29,407,204)	(26,619,953)
Payments to the Deposit Insurance Fund of the Republic of Azerbaijan	(5,365,967)	(4,774,257)
Professional services fees	(3,853,120)	(3,311,342)
Taxes, other than income tax	(2,391,988)	(3,032,754)
Security expenses	(1,311,984)	(1,276,185)
Repairs and maintenance expenses	(1,157,432)	(948,632)
Advertising and marketing expenses	(875,584)	(692,201)
Communications	(558,741)	(606,757)
Utilities	(814,300)	(560,694)
Transportation and business trip expenses	(762,620)	(452,096)
Insurance	(404,380)	(435,684)
Stationery expenses	(389,076)	(363,015)
Operating leases	(349,863)	(277,419)
Loss on disposal of property, equipment and intangible assets	(326,806)	-
Entertainment	(247,063)	(272,548)
Other expenses	(738,128)	(1,746,508)
Total general and administrative expenses	(19,547,052)	(18,750,092)

11. Income taxes

The Group provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of countries where the Group and its subsidiaries operate and which may differ from International Financial Reporting Standards.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain expenses and a tax free regime for certain income. The statutory income tax rate is 20%.

The income tax expense comprises:

	Year ended 31 December 2022	Year ended 31 December 2021
Current tax charge	(7,410,914)	(13,101,060)
Deferred tax credit / (charge) – origination and reversal of temporary differences	(85,865)	4,566,780
Less: deferred tax recognised in other comprehensive income	-	21,000
Income tax expense	(7,496,779)	(8,513,280)

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

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

	Year ended 31 December 2022	Year ended 31 December 2021
Net gain on equity instruments designated at fair value through OCI	-	(21,000)
Income tax charged to other comprehensive income	-	(21,000)

The effective income tax rate differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	Year ended 31 December 2022	Year ended 31 December 2021
Profit before income tax	36,384,407	36,417,376
Statutory tax rate	20%	20%
Theoretical income tax expense at the statutory rate	(7,276,881)	(7,283,475)
Tax effect of items which are not deductible or assessable for taxation purposes		
Non-deductible expenditures	(279,148)	(1,256,208)
Other	59,250	26,403
Income tax expense	(7,496,779)	(8,513,280)

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

	<i>Origination and reversal of temporary differences</i>			<i>Origination and reversal of temporary differences</i>			
	2020	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	2021	<i>In the statement of profit or loss</i>	<i>In other comprehensive income</i>	2022
Tax effect of deductible temporary differences							
Loans to customers	7,267,392	(2,884,785)	-	4,382,607	(274,377)	-	4,108,230
Amounts due from credit institutions	-	-	-	-	111,514	-	111,514
Intangible assets	111,648	58,627	-	170,275	73,181	-	243,456
Investment securities	-	303,513	-	303,513	200,757	-	504,270
Provision for impairment losses on other operations	147,659	(147,659)	-	-	247,673	-	247,673
Other assets	-	3,214,160	-	3,214,160	(977,026)	-	2,237,134
Other liabilities	1,512,916	(748,149)	-	764,767	86,489	-	851,256
Deferred tax asset	9,039,615	(204,293)	-	8,835,322	(531,789)	-	8,303,533
Tax effect of taxable temporary differences							
Precious metals	(2,905,678)	200,778	-	(2,704,900)	(10,394)	-	(2,715,294)
Premises, equipment and right-of-use assets	(3,431,734)	311,930	-	(3,119,804)	299,054	-	(2,820,750)
Amounts due from credit institutions	(46,756)	(96,156)	-	(142,912)	142,912	-	-
Investment securities	(594)	594	(21,000)	(21,000)	-	-	(21,000)
Provision for impairment losses on other operations	-	(14,352)	-	(14,352)	14,352	-	-
Other assets	(4,389,279)	4,389,279	-	-	-	-	-
Deferred tax liability	(10,774,041)	4,792,073	(21,000)	(6,002,968)	445,924	-	(5,557,044)
Net deferred income tax (liability) / asset	(1,734,426)	4,587,780	(21,000)	2,832,354	(85,865)	-	2,746,489

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued)
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12. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2022	31 December 2021
Cash on hand	78,944,839	116,631,241
Correspondent accounts with the Central Bank of Azerbaijan Republic	41,473,540	208,715,798
Correspondent accounts with other banks	136,878,031	284,965,197
Time deposits with other credit institutions up to 90 days	70,551,353	-
Time deposits with Central Bank of Azerbaijan Republic up to 90 days	25,008,681	-
Total cash and cash equivalents	352,856,444	610,312,236

As at 31 December 2022 and 2021 accrued interest income included in cash and cash equivalents amounted to AZN 829,010 and AZN 8,939, respectively.

For the purpose of ECL measurement cash and cash equivalent balances are included in Stage 1. The ECL for these balances represents an insignificant amount, therefore the Group did not create any credit loss allowance for cash and cash equivalents.

13. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2022	31 December 2021
Loans and time deposits with other banks	118,659,752	-
Obligatory reserve with the Central Bank of Azerbaijan Republic	69,283,582	10,332,742
Restricted deposits	30,623,114	29,532,742
	218,566,448	39,865,484
Less: allowance for impairment	(557,567)	-
Total amounts due from credit institutions	218,008,881	39,865,484

As at 31 December 2022 and 2021 the Bank had restricted deposits blocked in support of guarantees issued and plastic cards operations and money transfers totaling AZN 30,623,114 and AZN 29,532,742, respectively.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2022 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross carrying value as at 1 January 2022	39,865,484	-	-	39,865,484
New assets originated	397,162,560	-	-	397,162,560
Assets repaid				
- <i>Principal</i>	(218,980,959)	-	(164)	(218,981,123)
- <i>Interest</i>	(1,473,091)	-	-	(1,473,091)
Recognised interest income	2,833,710	-	-	2,833,710
Recoveries	-	-	164	164
Amounts written off	-	-	-	-
Foreign exchange adjustments	(841,256)	-	-	(841,256)
At 31 December 2022	218,566,448	-	-	218,566,448

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2022	-	-	-	-
New assets originated	(907,890)	-	-	(907,890)
Assets repaid				
- <i>Principal</i>	357,893	-	164	358,057
- <i>Interest</i>	12,397	-	-	12,397
Recognised interest income	(15,414)	-	-	(15,414)
Changes to models and inputs used for ECL calculations	(5,117)	-	-	(5,117)
Recoveries	-	-	(164)	(164)
Amounts written off	-	-	-	-
Foreign exchange adjustments	564	-	-	564
At 31 December 2022	(557,567)	-	-	(557,567)

An analysis of changes in gross carrying value on amounts due from credit institutions during the year ended 31 December 2021 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross carrying value as at 1 January 2021	30,370,631	-	-	30,370,631
New assets originated	18,233,626	-	-	18,233,626
Assets repaid				
- <i>Principal</i>	(7,933,044)	-	-	(7,933,044)
- <i>Interest</i>	(23,801)	-	-	(23,801)
Recognised interest income	25,114	-	-	25,114
Amounts written off	-	-	-	-
Foreign exchange adjustments	(807,042)	-	-	(807,042)
At 31 December 2021	39,865,484	-	-	39,865,484

As at 31 December 2021 the ECL for amounts due from credit institutions balances represents an insignificant amount, therefore the Group did not create any credit loss allowance.

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(in Azerbaijan manats)

14. Loans to customers

Loans to customers comprise:

	31 December 2022	31 December 2021
Loans to corporate customers	1,207,436,156	940,117,831
Loans to individuals	581,295,918	491,206,377
Gross loans to customers at amortised cost	1,788,732,074	1,431,324,208
Less allowance for impairment	(80,009,945)	(60,994,275)
Total loans to customers at amortised cost	1,708,722,129	1,370,329,933

As at 31 December 2022 and 2021 accrued interest income included in loans to customers amounted to AZN 14,482,526 and AZN 12,242,506, respectively.

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to corporate customers during the year ended 31 December 2022 is as follows:

<i>Corporate customers</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross carrying value as at 1 January 2022	878,119,299	227,618	61,770,914	940,117,831
New assets originated	621,462,993	-	-	621,462,993
Assets repaid				
- Principal	(345,233,634)	(63,814)	(5,665,946)	(350,963,394)
- Interest	(58,761,599)	(23,446)	(1,510,294)	(60,295,339)
Transfers to Stage 1	139,766	-	(139,766)	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	(2,214,579)	(164,224)	2,378,803	-
Recognised interest income	59,287,102	23,866	3,381,867	62,692,835
Recoveries	-	-	-	-
Amounts written off	-	-	(291,702)	(291,702)
Foreign exchange adjustments	(5,210,578)	-	(76,490)	(5,287,068)
At 31 December 2022	1,147,588,770	-	59,847,386	1,207,436,156

<i>Corporate customers</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2022	(7,216,341)	(10,769)	(37,070,892)	(44,298,002)
New assets originated	(4,766,733)	-	-	(4,766,733)
Assets repaid				
- Principal	2,464,546	8,471	3,335,248	5,808,265
- Interest	686,550	3,112	1,009,006	1,698,668
Transfers to Stage 1	(1,144)	-	1,144	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	358,045	21,799	(379,844)	-
Impact on period end ECL of exposures transferred between stages during the period	(437,721)	(19,445)	35,183	(421,983)
Recognised interest income	(703,200)	(3,168)	(2,798,188)	(3,504,556)
Changes to models and inputs used for ECL calculations	(2,826,637)	-	(15,372,715)	(18,199,352)
Recoveries	-	-	-	-
Amounts written off	-	-	291,702	291,702
Foreign exchange adjustments	48,601	-	40,147	88,748
At 31 December 2022	(12,394,034)	-	(50,909,209)	(63,303,243)

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

An analysis of changes in the gross carrying value and corresponding ECL in relation to loans to individuals during the year ended 31 December 2022 is as follows:

<i>Individuals</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Gross carrying value as at 1 January 2022	468,827,288	1,139,357	21,239,732	491,206,377
New assets originated	229,926,727	-	-	229,926,727
Assets repaid				
- <i>Principal</i>	(135,334,498)	(323,702)	(4,019,188)	(139,677,388)
- <i>Interest</i>	(32,893,013)	(88,639)	(1,697,971)	(34,679,623)
Transfers to Stage 1	1,458,626	(128,613)	(1,330,013)	-
Transfers to Stage 2	(1,303,538)	1,303,538	-	-
Transfers to Stage 3	(2,532,180)	(698,045)	3,230,225	-
Recognised interest income	33,719,214	105,708	1,339,131	35,164,053
Recoveries	-	-	46,432	46,432
Amounts written off	-	-	(559,214)	(559,214)
Foreign exchange adjustments	(131,380)	(2)	(64)	(131,446)
At 31 December 2022	561,737,246	1,309,602	18,249,070	581,295,918

<i>Individuals</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2022	(2,422,097)	(163,484)	(14,110,692)	(16,696,273)
New assets originated	(731,828)	-	-	(731,828)
Assets repaid				
- <i>Principal</i>	525,959	48,419	2,978,092	3,552,470
- <i>Interest</i>	181,058	13,595	1,413,199	1,607,852
Transfers to Stage 1	(103,685)	617	103,068	-
Transfers to Stage 2	187,622	(187,622)	-	-
Transfers to Stage 3	472,101	234,211	(706,312)	-
Impact on period end ECL of exposures transferred between stages during the period	(549,184)	(109,536)	473,836	(184,884)
Recognised interest income	(192,608)	(25,381)	(1,091,260)	(1,309,249)
Changes to models and inputs used for ECL calculations	964,777	1,233	(4,423,215)	(3,457,205)
Recoveries	-	-	(46,432)	(46,432)
Amounts written off	-	-	559,214	559,214
Foreign exchange adjustments	(430)	-	63	(367)
At 31 December 2022	(1,668,315)	(187,948)	(14,850,439)	(16,706,702)

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

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

<i>Corporate customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2021	908,796,648	10,898,514	163,124,322	1,082,819,484
New assets originated	259,671,792	-	300,545	259,972,337
Assets repaid				
- <i>Principal</i>	(336,758,073)	(330,236)	(29,266,416)	(366,354,725)
- <i>Interest</i>	(50,243,374)	(761,924)	(5,316,341)	(56,321,639)
Transfers to Stage 1	74,955,862	(10,001,667)	(64,954,195)	-
Transfers to Stage 2	(227,618)	227,618	-	-
Transfers to Stage 3	(22,674,107)	(447,396)	23,121,503	-
Recognised interest income	51,201,534	642,709	7,959,248	59,803,491
Recoveries	-	-	-	-
Amounts written off	-	-	(33,197,777)	(33,197,777)
Foreign exchange adjustments	(6,603,365)	-	25	(6,603,340)
At 31 December 2021	878,119,299	227,618	61,770,914	940,117,831

<i>Corporate customers</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2021	(3,032,237)	(1,005,021)	(85,143,157)	(89,180,415)
New assets originated	(5,326,729)	-	(36,288)	(5,363,017)
Assets repaid				
- <i>Principal</i>	1,675,552	37,991	27,666,924	29,380,467
- <i>Interest</i>	549,573	32,027	1,374,168	1,955,768
Transfers to Stage 1	(1,527,268)	88,390	1,438,878	-
Transfers to Stage 2	10,769	(10,769)	-	-
Transfers to Stage 3	7,304,580	234,940	(7,539,520)	-
Impact on period end ECL of exposures transferred between stages during the period	(4,254,819)	637,397	10,262,740	6,645,318
Recognised interest income	(676,845)	(25,724)	(3,498,801)	(4,201,370)
Changes to models and inputs used for ECL calculations	(2,033,666)	-	(14,793,600)	(16,827,266)
Recoveries	-	-	-	-
Amounts written off	-	-	33,197,777	33,197,777
Foreign exchange adjustments	94,749	-	(13)	94,736
At 31 December 2021	(7,216,341)	(10,769)	(37,070,892)	(44,298,002)

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

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying value as at 1 January 2021	410,677,578	2,501,040	31,839,662	445,018,280
New assets originated	289,272,304	-	3,538	289,275,842
Assets repaid				
- <i>Principal</i>	(232,745,336)	(854,450)	(6,580,253)	(240,180,039)
- <i>Interest</i>	(21,400,804)	(230,166)	(1,983,677)	(23,614,647)
Transfers to Stage 1	5,132,803	(712,502)	(4,420,301)	-
Transfers to Stage 2	(1,091,378)	1,091,378	-	-
Transfers to Stage 3	(2,853,819)	(857,504)	3,711,323	-
Recognised interest income	22,008,792	201,483	1,971,747	24,182,022
Recoveries	-	-	-	-
Amounts written off	-	-	(3,304,898)	(3,304,898)
Foreign exchange adjustments	(172,852)	78	2,591	(170,183)
At 31 December 2021	468,827,288	1,139,357	21,239,732	491,206,377

<i>Individuals</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL as at 1 January 2021	(1,105,670)	(410,880)	(17,475,835)	(18,992,385)
New assets originated	(1,488,199)	-	(308)	(1,488,507)
Assets repaid				
- <i>Principal</i>	524,477	67,310	4,013,123	4,604,910
- <i>Interest</i>	264,033	40,959	1,029,646	1,334,638
Transfers to Stage 1	(119,165)	5,197	113,968	-
Transfers to Stage 2	159,629	(159,629)	-	-
Transfers to Stage 3	1,118,735	342,317	(1,461,052)	-
Impact on period end ECL of exposures transferred between stages during the period	(1,292,840)	(12,183)	1,126,416	(178,607)
Recognised interest income	(289,746)	(36,455)	(1,130,446)	(1,456,647)
Changes to models and inputs used for ECL calculations	(193,423)	(117)	(3,631,240)	(3,824,780)
Recoveries	-	-	-	-
Amounts written off	-	-	3,304,898	3,304,898
Foreign exchange adjustments	72	(3)	138	207
At 31 December 2021	(2,422,097)	(163,484)	(14,110,692)	(16,696,273)

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Loans to corporate customers are made in the following industry sectors:

Analysis by industry	31 December 2022	31 December 2021
Construction	320,690,453	317,254,519
Agriculture	279,511,530	254,081,845
Manufacturing	156,732,497	47,517,765
Energy	102,343,401	151,614,952
Trading	92,204,639	65,147,418
Telecommunication	74,743,555	10,275,628
Mining	44,506,366	-
Financing	33,688,826	9,655,791
Other	103,014,889	84,569,913
	1,207,436,156	940,117,831
Less allowance for impairment	(63,303,243)	(44,298,002)
Total loans to corporate customers	1,144,132,913	895,819,829

Loans to individuals comprise the following products:

	31 December 2022	31 December 2021
Mortgage loans	266,008,694	182,460,220
Business loans	224,368,552	267,806,957
Consumer loans	66,846,278	23,562,565
Auto loans	20,938,878	15,292,560
Credit cards	3,133,516	2,084,075
	581,295,918	491,206,377
Less allowance for impairment	(16,706,702)	(16,696,273)
Total loans to individuals	564,589,216	474,510,104

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

	31 December 2022	31 December 2021
Loans collateralized by real estate	1,072,715,020	966,105,192
Loans collateralized by cash	305,644,358	198,239,453
Loans collateralized by equipment	134,719,648	66,729,161
Loans collateralized by guarantees	79,903,286	61,418,222
Loans collateralized by vehicles	12,167,812	11,684,664
Loans collateralized by trade receivable	6,999,698	15,922,884
Loans collateralized by other collateral	1,140,011	1,540,119
Unsecured loans	175,442,241	109,684,513
	1,788,732,074	1,431,324,208
Less allowance for impairment	(80,009,945)	(60,994,275)
Total loans to customers	1,708,722,129	1,370,329,933

As at 31 December 2022 and 2021 the Bank granted 6 and 8 loans totaling AZN 446,706,741 and AZN 605,938,747, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2022 and 2021 loans to customers included loans in amount of AZN 482,445,639 and AZN 489,810,520, respectively, whose terms have been renegotiated.

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As at 31 December 2022 and 2021, 48% and 55% of total amount of loans to customers are given to 18 and 15 entities, respectively.

A significant amount of loans (100% of loans to customers) is granted to companies operating in the Republic of Azerbaijan, which represents significant geographical concentration in one region.

15. Investment securities

Investment securities comprise:

	31 December 2022	31 December 2021
Equity securities at FVOCI	554,548	552,212
Debt securities at amortised cost	<u>191,578,790</u>	<u>91,788,001</u>
Total investment securities	<u>192,133,338</u>	<u>92,340,213</u>

As at 31 December 2022 and 2021 accrued interest income included in investments securities amounted to AZN 1,055,293 and AZN 123,473, respectively.

Equity securities at FVOCI	Share %	31 December 2022	Share %	31 December 2021
Azerbaijan Credit Bureau LLC	12.5	250,000	12.5	250,000
Baku Stock Exchange CJSC	4.76	240,000	4.76	240,000
Millikart LLC	1.00	40,000	1.00	40,000
Boradigah Cay-2 OJSC	2.55	17,800	2.55	17,800
Other		<u>6,748</u>		<u>4,412</u>
Total equity securities		<u>554,548</u>		<u>552,212</u>

According to the general meeting of shareholders of Baku Stock Exchange CJSC dated 25 December 2020, it was decided to increase the nominal value of ordinary shares by means of retained earnings. As a result, the nominal value of 4.76% of shares owned by the Xalq Kapital Investment Company increased by AZN 105,000. This was treated as an increase in fair value of equity securities and recognised in other comprehensive income.

Debt securities at amortised cost	Coupon rate	31 December 2022	Coupon rate	31 December 2021
Bonds issued by SOCAR Polymer	5%	64,617,944	5%	64,608,972
Notes issued by Central Bank of Azerbaijan Republic	4-5%	51,131,446	6%	14,705,867
Eurobonds issued by CJSC Southern Gas Corridor	6.9%	17,459,563	-	-
Bonds issued by Ministry of Finance of the Republic of Azerbaijan	5-7%	14,406,089	7%	5,719,115
Foreign Government Bonds	5-7%	14,394,660	-	-
Bonds issued by SOCAR	4.5%	8,483,251	5%	8,483,251
Bonds issued by other financial institutions	5-6%	23,083,583	-	-
Notes issued by other organisations	6-12%	<u>523,602</u>	6-12%	<u>434,449</u>
		194,100,138		93,951,654
Less: allowance for impairment		<u>(2,521,348)</u>		<u>(2,163,653)</u>
Total debt securities		<u>191,578,790</u>		<u>91,788,001</u>

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An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost during the year ended 31 December 2022 is as follows:

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR and SOCAR Polymer</i>	<i>Bonds issued by other financial institutions</i>	<i>Southern Gas Corridor</i>	<i>Foreign Government Bonds</i>	<i>MF and others</i>	<i>Total</i>
Gross carrying value as at 1 January 2022	14,705,867	73,092,223	-	-	-	6,153,564	93,951,654
New assets purchased	408,789,909	-	56,720,988	17,372,164	14,080,329	61,420,171	558,383,561
Assets repaid	(333,209,980)	(3,608,905)	(34,195,688)	(350,625)	(225,250)	(51,243,183)	(422,833,631)
Assets sold	(41,181,951)	-	-	-	-	(2,272,184)	(43,454,135)
Recognised interest income	2,027,601	3,617,877	558,283	438,025	574,333	871,323	8,087,442
Amounts written off	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	(1)	(34,752)	-	(34,753)
At 31 December 2022	51,131,446	73,101,195	23,083,583	17,459,563	14,394,660	14,929,691	194,100,138

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR and SOCAR Polymer</i>	<i>Bonds issued by other financial institutions</i>	<i>Southern Gas Corridor</i>	<i>Foreign Government Bonds</i>	<i>MF and others</i>	<i>Total</i>
ECLs as at 1 January 2022	(4,431)	(2,139,359)	-	-	-	(19,863)	(2,163,653)
New assets purchased	(301,262)	-	(63,576)	(38,169)	(52,619)	(23,991)	(479,617)
Assets repaid	245,563	114,636	1,836	770	842	1,416	365,063
Assets sold	30,349	-	-	-	-	4,936	35,285
Recognised interest income	(1,494)	(114,952)	(3,340)	(962)	(2,146)	(1,396)	(124,290)
Changes to models and inputs used for ECL calculations	(6,407)	(155,678)	-	-	-	7,819	(154,266)
Amounts written off	-	-	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	130	-	130
At 31 December 2022	(37,682)	(2,295,353)	(65,080)	(38,361)	(53,793)	(31,079)	(2,521,348)

All balances of investment securities are allocated to Stage 1.

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An analysis of changes in the gross carrying values and associated ECLs in relation to debt securities at amortized cost during the year ended 31 December 2021 is as follows:

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR</i>	<i>SOCAR Polymer</i>	<i>MF and others</i>	<i>Total</i>
Gross carrying value as at 1 January 2021	63,897,237	27,444,867	64,608,972	493,509	156,444,585
New assets purchased	448,297,507	23,177,180	-	41,527,796	513,002,483
Assets repaid	(500,342,149)	(30,563,599)	(3,230,000)	(34,149,167)	(568,284,915)
Assets sold	-	(12,750,000)	-	(1,901,791)	(14,651,791)
Recognised interest income	2,853,272	1,174,803	3,230,000	183,217	7,441,292
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2021	14,705,867	8,483,251	64,608,972	6,153,564	93,951,654

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR</i>	<i>SOCAR Polymer</i>	<i>MF and others</i>	<i>Total</i>
ECLs as at 1 January 2021	(8,994)	(21,596)	(620,426)	-	(651,016)
New assets purchased	(135,080)	(46,934)	-	(25,042)	(207,056)
Assets repaid	150,762	61,892	106,094	306	319,054
Assets sold	-	25,819	-	5,331	31,150
Recognised interest income	(860)	(2,379)	(106,094)	(459)	(109,792)
Changes to models and inputs used for ECL calculations	(10,258)	(33,981)	(1,501,754)	-	(1,545,993)
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-
At 31 December 2021	(4,430)	(17,179)	(2,122,180)	(19,864)	(2,163,653)

All balances of investment securities are allocated to Stage 1.

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16. Premises, equipment and right-of-use assets	Land	Buildings	Computers	Vehicles	Furniture & Equipment	Other Equipment	Leasehold Improvements	Construction in progress	Right-of-use assets	Total
Cost at 31 December 2020	1,149,138	74,907,791	11,538,667	8,306,451	14,571,407	1,670,698	671,519	184,625	4,552,862	117,553,158
Additions	-	216,174	705,839	389,353	562,646	19,173	-	-	-	1,893,185
Disposals	-	(864,221)	(14,807)	(258,010)	(185,579)	(1,236)	-	-	-	(1,323,853)
Transfers	-	-	-	-	-	-	-	-	-	-
Cost at 31 December 2021	1,149,138	74,259,744	12,229,699	8,437,794	14,948,474	1,688,635	671,519	184,625	4,552,862	118,122,490
Additions	-	9,783,000	1,108,370	667,720	1,432,765	11,300	-	-	-	13,003,155
Disposals	-	-	(1,241,540)	(482,754)	(168,483)	(2,081)	-	-	-	(1,894,858)
Transfers	-	-	-	-	-	-	-	-	-	-
Cost at 31 December 2022	1,149,138	84,042,744	12,096,529	8,622,760	16,212,756	1,697,854	671,519	184,625	4,552,862	129,230,787
Accumulated depreciation at 31 December 2020	-	(22,137,119)	(5,284,892)	(4,346,180)	(13,058,457)	(1,180,294)	(335,760)	-	(1,763,842)	(48,106,544)
Charge for the year	-	(2,486,868)	(1,719,013)	(1,046,102)	(767,413)	(128,929)	(67,151)	-	(881,921)	(7,097,397)
Disposals	-	405,155	14,807	258,010	185,579	1,236	-	-	-	864,787
Transfers	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation at 31 December 2021	-	(24,218,832)	(6,989,098)	(5,134,272)	(13,640,291)	(1,307,987)	(402,911)	-	(2,645,763)	(54,339,154)
Charge for the year	-	(2,497,341)	(1,919,800)	(1,048,332)	(679,786)	(117,562)	(67,151)	-	(881,921)	(7,211,893)
Disposals	-	-	916,616	262,092	167,416	2,081	-	-	-	1,348,205
Transfers	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation at 31 December 2022	-	(26,716,173)	(7,992,282)	(5,920,512)	(14,152,661)	(1,423,468)	(470,062)	-	(3,527,684)	(60,202,842)
NBV at 31 December 2021	1,149,138	50,040,912	5,240,601	3,303,522	1,308,183	380,648	268,608	184,625	1,907,099	63,783,336
NBV at 31 December 2022	1,149,138	57,326,571	4,104,247	2,702,248	2,060,095	274,386	201,457	184,625	1,025,178	69,027,945

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17. Investment properties

Investment properties comprise:

	31 December 2022	31 December 2021
Investment property at fair value at beginning of the year	<u>7,730,000</u>	<u>7,510,000</u>
Additions (subsequent expenditure)	-	-
Re-measurement recognised in profit or loss (recognised in other income)	102,000	220,000
Investment properties at fair value at end of the year	<u><u>7,832,000</u></u>	<u><u>7,730,000</u></u>

The fair value of investment property as at 31 December 2022 was determined on 9 March 2023 by AIS Azintellektservice, who holds a recognized professional qualification. The basis used for the appraisal was market value.

	Year ended 31 December 2022	Year ended 31 December 2021
Rental income derived from investment properties	339,468	381,641
Direct operating expenses arising from investment property that generated rental income	(269,865)	(269,381)
Direct operating expenses arising from investment property that did not generate rental income	<u>(32,044)</u>	<u>(25,772)</u>
	<u><u>37,559</u></u>	<u><u>86,488</u></u>

18. Intangible assets

Intangible assets comprise:

	Licenses	Computer software	Other	Total
Cost at 31 December 2020	<u>3,373,199</u>	<u>6,965,426</u>	<u>3,125</u>	<u>10,341,750</u>
Additions	23,014	676,647	-	699,661
Cost at 31 December 2021	<u>3,396,213</u>	<u>7,642,073</u>	<u>3,125</u>	<u>11,041,411</u>
Additions	104,123	367,703	-	471,826
Cost at 31 December 2022	<u>3,500,336</u>	<u>8,009,776</u>	<u>3,125</u>	<u>11,513,237</u>
Accumulated amortization at 31 December 2020	<u>(930,416)</u>	<u>(2,576,265)</u>	<u>(938)</u>	<u>(3,507,619)</u>
Charge for the year	(349,565)	(752,202)	(313)	(1,102,080)
Accumulated amortization at 31 December 2021	<u>(1,279,981)</u>	<u>(3,328,467)</u>	<u>(1,251)</u>	<u>(4,609,699)</u>
Charge for the year	(352,211)	(788,876)	(313)	(1,141,400)
Accumulated amortization at 31 December 2022	<u>(1,632,192)</u>	<u>(4,117,343)</u>	<u>(1,564)</u>	<u>(5,751,099)</u>
NBV at 31 December 2021	<u><u>2,116,232</u></u>	<u><u>4,313,606</u></u>	<u><u>1,874</u></u>	<u><u>6,431,712</u></u>
NBV at 31 December 2022	<u><u>1,868,144</u></u>	<u><u>3,892,433</u></u>	<u><u>1,561</u></u>	<u><u>5,762,138</u></u>

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19. Other assets

Other assets comprise:

	31 December 2022	31 December 2021
Other financial assets		
Settlements on money transfers and plastic cards	5,050,615	4,271,673
Accrued interests on other operations	7,602	3,493
Other non-financial assets		
Collateral repossessed	84,446,990	95,344,697
Deferred expenses	3,063,254	2,393,263
Prepayments and receivables on other transactions	873,836	976,446
Prepaid operating taxes	496,227	2,952,733
Prepayments for purchase of property and equipment	420,313	517,506
Prepayments for purchases of intangible assets	234,223	3,044
Other	313,313	130,522
	<u>94,906,373</u>	<u>106,593,377</u>
Less: Provision for impairment of other non-financial assets	<u>(15,990,161)</u>	<u>(20,824,551)</u>
Total other assets	<u>78,916,212</u>	<u>85,768,826</u>

The movements in provision for impairment losses on other non-financial assets were as follows:

	Other non- financial assets
31 December 2020	(19,180,720)
Provision	(2,068,690)
Write-off	424,859
31 December 2021	(20,824,551)
Recovery of provision	4,832,229
Recoveries of amounts previously written off	(3,812)
Write-off	5,973
31 December 2022	<u>(15,990,161)</u>

20. Amounts due to banks and government agencies

Amounts due to banks and government agencies comprise:

	31 December 2022	31 December 2021
Amount due to Azerbaijan Mortgage Fund	128,551,948	104,579,435
Amount due to the National Fund for Support of Entrepreneurship	99,965,314	110,813,912
Amount due to State Oil Company of Azerbaijan Republic	86,485,166	86,485,166
Correspondent accounts of other banks	36,485,876	51,175,723
Long-term deposits from banks	3,500,681	3,520,417
Short-term deposits from banks	3,400,000	-
Amount due to other government agencies	722,351	-
Loans from the Central Bank of Azerbaijan Republic	600,827	901,238
Total amounts due to banks and government agencies	<u>359,712,163</u>	<u>357,475,891</u>

As at 31 December 2022 and 2021 accrued interest expense included in due to banks and government agencies amounted to AZN 505,139 and AZN 457,533, respectively.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

21. Customer accounts

Customer accounts comprise:

	31 December 2022	31 December 2021
Time deposits	934,589,917	920,565,643
Repayable on demand	<u>882,615,602</u>	<u>573,496,192</u>
Total customer accounts	<u>1,817,205,519</u>	<u>1,494,061,835</u>

As at 31 December 2022 and 2021 accrued interest expense included in customer accounts amounted to AZN 1,562,826 and AZN 926,521, respectively.

As at 31 December 2022 and 2021 customer accounts amounting to AZN 1,240,262,746 and AZN 1,087,680,514 were due to 17 and 16 customers representing a significant concentration, being approximately 68% and 73%, respectively.

An analysis of customer accounts by economic sector follows:

	31 December 2022	31 December 2021
Individuals	868,043,542	669,128,270
Investing	246,585,252	172,565,542
Construction	212,636,234	55,725,618
Trade	162,569,178	148,640,670
Energy	138,755,567	199,713,773
Insurance	52,432,817	48,067,304
Manufacturing	39,929,823	50,804,454
Transport and communication	21,483,686	53,440,357
Financing	18,545,791	58,791,180
Agriculture	5,493,514	3,636,903
Other	<u>50,730,115</u>	<u>33,547,764</u>
Total customer accounts	<u>1,817,205,519</u>	<u>1,494,061,835</u>

22. Other liabilities

Other liabilities comprise:

	31 December 2022	31 December 2021
Other financial liabilities		
Settlements on money transfers and plastic cards	5,708,855	1,841,217
Accrued expenses	919,604	506,870
Lease liability	717,122	1,586,677
Accrued interests on other operations	24,450	-
Other non-financial liabilities		
Payables to the employees	3,697,300	2,941,027
Payables to the Deposit Insurance Fund	1,418,383	1,242,656
Taxes other than income tax	1,017,652	1,105,309
Provisions for ECL for credit related commitments (Note 25)	1,238,367	468,546
Payables to the State Social Protection Fund	538,432	463,309
Deferred revenue	93,720	80,848
Other	<u>744,794</u>	<u>343,012</u>
Total other liabilities	<u>16,118,679</u>	<u>10,579,471</u>

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

Interest expense on lease liabilities for the year ended 31 December 2022 and 2021 comprised AZN 95,976 and AZN 161,362, respectively (Note 5).

Total cash outflow for leases for the year ended 31 December 2022 and 2021 was AZN 965,531 and AZN 1,185,533, respectively.

23. Share capital

As at 31 December 2022 and 2021 the Banks's authorized, issued and fully paid capital amounted to AZN 364,772,544 and comprising of 3,630,300 ordinary shares with a par value of AZN 100.48 per ordinary share. Each share entitles one vote to the shareholder.

On 12 January 2022 Shareholders of the Bank declared dividends in the amount of AZN 5,445,450 on ordinary shares which was paid as at 31 December 2022.

On 07 January 2021 Shareholders of the Bank declared dividends in the amount of AZN 5,699,571 on ordinary shares which was paid as at 31 December 2021.

24. Commitments and contingencies

In the normal course of business, the Group is a party to financial instruments with off-balance sheet risk in order to meet the needs of its customers. These instruments, involving varying degrees of credit risk, are not reflected in the consolidated statement of financial position.

As at 31 December 2022 and 2021, the Group's commitments and contingencies comprised the following:

	31 December 2022	31 December 2021
Credit related commitments		
Unused credit lines	94,795,687	186,285,286
Letters of credit	1,613,451	9,701,443
Financial guarantees	103,780,100	34,006,783
	<u>200,189,238</u>	<u>229,993,512</u>
Operating lease commitments		
Not later than 1 year	31,307	30,735
Later than 1 year but not later than 5 years	94,300	50,602
Later than 5 years	62,422	63,092
	<u>188,029</u>	<u>144,429</u>
Performance guarantees	<u>39,671,287</u>	<u>9,995,258</u>
Commitments and contingencies before deducting collateral and provision	<u>240,048,554</u>	<u>240,133,199</u>
Less: provisions for ECL for credit related commitments	(1,238,367)	(468,545)
Less: cash held as security against letters of credit and guarantees	(37,298,430)	(23,251,600)
Commitments and contingencies	<u>201,511,757</u>	<u>216,413,054</u>

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Notes to the consolidated financial statements for the year ended 31 December 2022 (Continued) (in Azerbaijan manats)

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

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2022	(216,757)	-	(251,788)	(468,545)
New exposures	(417,866)	-	-	(417,866)
Amounts paid	-	-	-	-
Exposures expired or derecognised	44,582	-	-	44,582
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(166,741)	-	(229,797)	(396,538)
Amounts written off	-	-	-	-
At 31 December 2022	(756,782)	-	(481,585)	(1,238,367)

An analysis of changes in the ECL allowance during the year ended 31 December 2021 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2021	(67,816)	(8,087)	(1,030,323)	(1,106,226)
New exposures	(121,979)	-	-	(121,979)
Amounts paid	-	-	-	-
Exposures expired or derecognised	12,522	-	62	12,584
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	251,787	-	(251,787)	-
Changes to models and inputs used for ECL calculations	(291,271)	8,087	1,030,260	747,076
Amounts written off	-	-	-	-
At 31 December 2021	(216,757)	-	(251,788)	(468,545)

Capital commitments – The Group had no material commitments for capital expenditures outstanding as at 31 December 2022.

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

Taxes - Azerbaijan commercial legislation and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result the Group may be assessed additional taxes, penalties and interest. Tax years remain open to review by the tax authorities for three years. Management believes that the Group has already made all tax payments that are due, and therefore no provisions have been made in these consolidated financial statements for any potential liabilities.

Pensions and retirement plans - Employees receive pension benefits from the Republic of Azerbaijan in accordance with the laws and regulations of the country. As at 31 December 2022 the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Operating environment - The Group's principal business activities are within Azerbaijan. Laws and regulations affecting the business environment in Azerbaijan are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

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25. Transactions with related parties

Related parties or transactions with related parties in the Group, as defined by IAS 24 "Related party disclosures", represent:

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

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The Group had the following transactions outstanding as at 31 December 2022 and 2021 with related parties:

	31 December 2022		31 December 2021	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers		1,788,732,074		1,431,324,208
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	-		33,591,153	
- <i>key management personnel of the entity</i>	1,410,388		1,026,610	
Allowance for impairment losses		(80,009,945)		(60,994,275)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	-		(288,068)	
- <i>key management personnel of the entity</i>	(709)		(4,732)	
Customer accounts		1,817,205,519		1,494,061,835
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	174,176,856		62,182,793	
- <i>key management personnel of the entity</i>	1,349,212		1,153,142	
Guarantees issued		143,451,387		44,002,041
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	108,417,570		21,110,124	
Unused loan commitments		94,795,687		186,285,286
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	-		22,100,000	
- <i>key management personnel of the entity</i>	74,238		123,280	

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Included in the consolidated income statement for the years ended 31 December 2022 and 2021 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2022		Year ended 31 December 2021	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income		115,002,282		92,862,797
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	42,179		336,265	
- <i>key management personnel of the entity</i>	235,972		74,000	
Interest expense		(21,750,429)		(19,756,095)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	(1,693,046)		(2,043,257)	
- <i>key management personnel of the entity</i>	(12,914)		(4,928)	
Fee and commission income		15,796,748		10,007,441
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	241,702		266,302	
- <i>key management personnel of the entity</i>	2,369		1,503	
Other income		2,835,413		3,183,063
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	348,217		435,648	
General and administrative expenses		(19,547,052)		(18,750,092)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	(1,874,259)		(758,929)	

	Year ended 31 December 2022		Year ended 31 December 2021	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
short-term employee benefits	(1,542,974)	(29,407,204)	(1,623,568)	(26,619,953)

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26. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Group's has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

	Level 1	Level 2	Level 3	31 December 2022 Total
Assets measured at fair value				
Investment securities	-	4,148	550,400	554,548
Investment property	-	7,832,000	-	7,832,000
Assets for which fair values are disclosed				
Cash and cash equivalents	352,856,444	-	-	352,856,444
Precious metals	20,064,285	-	-	20,064,285
Amounts due from credit institutions	-	218,008,881	-	218,008,881
Investment securities at amortised cost	41,795,848	149,782,942	-	191,578,790
Loans to customers	-	-	1,708,722,129	1,708,722,129
Other assets	-	-	5,058,217	5,058,217
Assets	414,716,577	375,627,971	1,714,330,746	2,504,675,294
Liabilities for which fair values are disclosed				
Amounts due to banks and government agencies	-	-	359,712,163	359,712,163
Customer accounts	-	-	1,817,205,519	1,817,205,519
Other liabilities	-	-	7,370,031	7,370,031
Liabilities	-	-	2,184,287,713	2,184,287,713

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	Level 1	Level 2	Level 3	31 December 2021 Total
Assets measured at fair value				
Investment securities	-	4,412	547,800	552,212
Investment property	-	7,730,000	-	7,730,000
Assets for which fair values are disclosed				
Cash and cash equivalents	610,312,236	-	-	610,312,236
Precious metals	20,063,418	-	-	20,063,418
Amounts due from credit institutions	-	39,865,484	-	39,865,484
Investment securities at amortised cost	8,466,072	83,321,929	-	91,788,001
Loans to customers	-	-	1,370,329,933	1,370,329,933
Other assets	-	-	4,275,166	4,275,166
Assets	638,841,726	130,921,825	1,375,152,899	2,144,916,450
Liabilities for which fair values are disclosed				
Amounts due to banks and government agencies	-	-	357,475,891	357,475,891
Customer accounts	-	-	1,494,061,835	1,494,061,835
Other liabilities	-	-	3,934,764	3,934,764
Liabilities	-	-	1,855,472,490	1,855,472,490

Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

	31 December 2022			31 December 2021		
	Carrying amount	Fair value	Unrecognised loss	Carrying amount	Fair value	Unrecognised gain
Financial assets						
Cash and cash equivalents	352,856,444	352,856,444	-	610,312,236	610,312,236	-
Precious metals	20,064,285	20,064,285	-	20,063,418	20,063,418	-
Amounts due from credit institutions	218,008,881	218,008,881	-	39,865,484	39,865,484	-
Loans to customers	1,708,722,129	1,708,722,129	-	1,370,329,933	1,370,329,933	-
Investment securities	192,133,338	191,371,100	(762,238)	92,340,213	92,895,940	555,727
Other financial assets	5,058,217	5,058,217	-	4,275,166	4,275,166	-
Financial liabilities						
Amounts due to banks and government agencies	359,712,163	359,712,163	-	357,475,891	357,475,891	-
Customer accounts	1,817,205,519	1,817,205,519	-	1,494,061,835	1,494,061,835	-
Other financial liabilities	7,370,031	7,370,031	-	3,934,764	3,934,764	-
			(762,238)			555,727

The fair value of equity securities included in investment securities cannot be measured reliably. As at 31 December 2022 and 2021 the cost of them was AZN 554,548 and AZN 552,212, respectively. Since these shares are not publicly traded and the range of reasonable fair value estimates is significant, it is not possible to estimate their fair value.

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Valuation techniques and assumptions

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short-term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without a specific maturity.

Investment securities

Investment securities valued using a valuation technique or pricing models primarily consist of unquoted equity and debt securities. These securities are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Financial assets and financial liabilities carried at amortized cost

The fair value of unquoted instruments, loans to customers, customer deposits, amounts due from credit institutions and amounts due to banks and government organizations and other financial assets and liabilities, obligations under finance leases is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

27. Regulatory matters

Quantitative measures established by regulation to ensure capital adequacy require the Group to maintain minimum amounts and ratios (as set forth in the table below) of total (12%) and tier 1 capital (6%) to risk weighted assets.

As at 31 December 2022 the Group's total capital amount for Capital Adequacy purposes was AZN 472,061,251 and tier 1 capital amount was AZN 453,975,257 with ratios of 20.16% and 19.39%, respectively.

As at 31 December 2021 the Group's total capital amount for Capital Adequacy purposes was AZN 442,056,608 and tier 1 capital amount was AZN 429,863,505 with ratios of 24.08% and 23.42%, respectively.

In addition, the Group has to maintain a statutory capital adequacy ratio based on the Central Bank of Azerbaijan Republic requirements. During the years ended 31 December 2022 and 2021 the Group was in compliance with the minimum capital requirements imposed by the Central Bank of Azerbaijan Republic.

28. Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Management Board reviews the capital structure on a semi-annual basis. As a part of this review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Group balances its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group's overall capital risk management policy remains unchanged from 2021.

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29. Risk management policies

Management of risk is fundamental to the banking business and is an essential element of the Group's operations. The main risks inherent to the Group's operations are those related to credit exposures, liquidity and market movements in interest rates and foreign exchange rates. A description of the Group's risk management policies in relation to those risks follows. The Group manages the following risks:

Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated statement of financial position.

Credit-related commitments risks

The Group makes available to its customers guarantees which may require that the Group make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

The maximum exposure to credit risk for the components of the consolidated statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements, is best represented by their carrying amounts.

Where financial instruments are recorded at fair value, the carrying value represents the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Impairment assessment

The Group calculates ECL based on several probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD The *Probability of Default* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD The *Exposure at Default* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

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The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The 12mECL is the portion of LTECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. Based on the above process, the Group groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Group recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2 and Stage 3.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECL.
- Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECL are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Definition of default and cure

A financial instrument impairment event is determined at the borrower level for all portfolios except for the retail borrowers' portfolio. For retail borrowers, the impairment event is determined at the financial instrument level. The Group considers a financial asset to be in default when:

- More than 90 calendar days of overdue debt at the reporting date for all segments except transactions with financial institutions and issuers of securities;
- More than 7 working days of overdue debt at the reporting date for transactions with financial institutions and issuers of securities;
- The counterparty / issuer was declared bankrupt by the court, or the court introduced bankruptcy procedures in relation to the borrower. This criterion applies to all portfolios with the exception of the portfolio of retail borrowers;
- Assignment of a regulatory quality category 4 or 5 to the contract at the reporting date;
- Default / forced restructuring due to the financial difficulties of the borrower (applicable except for transactions with financial institutions and securities). Default / forced restructuring refers to a change in the terms of a contract recognized as a forced restructuring by the Group, which are a consequence of the borrower's inability to perform the obligations specified in the contract, and are caused by a deterioration in the credit quality of the borrower;
- Revocation of the license and the introduction of an interim administration (applicable to financial institutions and issuers of securities).

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency of forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrated good behaviour to provide evidence that its credit risk has declined sufficiently. Probation criteria for recovery and transfer of financial instruments to Stage 1 are as follows:

- No overdue debt (0 days overdue) for three consecutive reporting months for retail borrowers;
- No overdue debt or overdue indebtedness for twelve consecutive reporting months for corporate counterparties and individual entrepreneurs with annuity payments.

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Generating the term structure of PD

The Group collects performance and default information about its credit risk by type of product as well as by borrower's segment. For some portfolios, information purchased from external credit reference agencies is also used.

The Group employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Treasury and interbank relationships

The Group's treasury and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Group's credit risk department analyses publicly available information such as financial information and other external data, e.g., the external ratings, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Group. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond prices or press releases and articles.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Group and the complexity and size of the customer. Some of the less complex small business loans are rated within the Group's models for retail products.

Consumer lending and residential mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with residential mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by debt to income (DTI), loan to value (LTV) and payment to income (PTI) ratios.

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The Group's internal credit rating grades are as follows:

<i>Internal rating grade</i>	<i>International external rating agency (Fitch) rating</i>	<i>Internal rating description</i>	<i>Lifetime PD</i>
>13	AA+ to AAA AA A+ to AA- A- BBB+	High grade	0 - 0.13%
8-13	BBB BBB- BB+	Standard grade	0.13 - 2.09%
4-8	BB- to BB B- to B+ CCC	Sub-standard grade	2.09 - 100%
<4	CCC- D	Impaired	100%

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed above under the heading "Generating the term structure of PD".

The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider repayments of principal and interest amounts for defaulted customers in each segment. In corporate portfolio, recovery amounts are computed on a customer base, while it in credit cards and consumer loan portfolios it is calculated on a contract level. They are calculated on a discounted cash flow basis using first available contractual rate as the discounting factor, as it is considered as the best proxy of effective interest rate at origination. For mortgage loans, haircut was applied to the collaterals.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortization. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EAD is potential future amounts that may be drawn under the contract, which are estimated based on historical observations.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment.

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Significant increase in credit risk

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting period. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant will differ for different types of lending, in particular between corporate and retail.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's qualitative criteria:

- the presence of the fact of overdue debt for 31-90 days for all segments except transactions with financial institutions and issuers of securities;
- the presence of the fact of debt overdue by 1-7 working days for transactions with financial institutions and issuers of securities;
- the presence of the fact of overdue debt more than 90 days under other agreements of the borrower for the retail portfolio;
- reduction of financial support from the parent company or another affiliated enterprise;
- the Group receives reliable negative information about products issued to the borrower.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Quantitative criteria (are applied only in the presence of external ratings):

- The relative change in the external rating at the reporting date compared to the external rating at the recognition date according to the criteria given in table below.

Criteria for determining a significant increase in credit risk depending on the value of the external rating upon initial recognition.

	Counterparty external rating at initial recognition			Significant increase in credit risk assigned:
	Moody's	Fitch	S&P	
1	AAA	AAA	AAA	Low credit risk: criterion is not applied
2	Aa1	AA+	AA+	
3	Aa2	AA	AA	
4	Aa3	AA-	AA-	
5	A1	A+	A+	
6	A2	A	A	
7	A3	A-	A-	
8	Baa1	BBB+	BBB+	
9	Baa2	BBB	BBB	
10	Baa3	BBB-	BBB-	
11	Ba1	BB+	BB+	Decrease of rating by 2 notches
12	Ba2	BB	BB	
13	Ba3	BB-	BB-	
14	B1	B+	B+	Decrease of rating by 1 notch
15	B2	B	B	
16	B3	B-	B-	
17	Caa1	CCC-C	CCC-C	
18	Caa2			
19	Caa3			
20	Ca-C			
21	D	D	D	

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Forward-looking information and multiple economic scenarios

In its ECL models, the Group relies on a broad range of forward looking information as economic inputs, such as:

- Real GDP;
- Consumer Price Index;
- Oil price;

The Group formulates one economic scenario: a base case. The base case is aligned with information used by the Group for other purposes such as strategic planning and budgeting. The historical data of defaults use the statistics of CBAR on the share of overdue loans in total loans to individuals in the banking system. The assessment of the impact of macroeconomic information should be made at least on an annual basis.

The Group has identified and documented key drivers of credit risk and credit losses for the entire loan portfolio (including the securities portfolio, requirements for financial institutions), using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key driver is Real GDP growth forecast. The economic scenarios used as at 31 December 2022 included the following key indicators for the Republic of Azerbaijan for the years ending 31 December 2023 through 2027.

Years	Real GDP growth rate
2023	3.0%
2024	2.6%
2025	2.5%
2026	2.5%
2027	2.6%

Predicted relationships between the key indicator and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

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Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group internal credit ratings, as described above. The table below shows the credit quality by class of asset for loan-related lines in the consolidated statement of financial position, based on the Group's credit rating system.

31 December 2022	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	12	Stage 1	272,492,371	1,418,297	937	-	273,911,605
Amount due from credit institutions	13	Stage 1	176,048,724	28,877,875	13,639,849	-	218,566,448
Loans to customers at amortised cost	14						
-Loans to corporate customers		Stage 1	-	1,649,393	1,145,939,377	-	1,147,588,770
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	59,847,386	59,847,386
-Loans to individuals							
<i>Auto loans</i>		Stage 1	121,737	20,739,400	-	-	20,861,137
		Stage 2	-	-	16,896	-	16,896
		Stage 3	-	-	-	60,845	60,845
<i>Consumer loans</i>		Stage 1	-	1,100,698	62,553,208	-	63,653,906
		Stage 2	-	-	44,262	-	44,262
		Stage 3	-	-	-	3,148,110	3,148,110
<i>Mortgage loans</i>		Stage 1	909,493	260,955,350	1,250,552	-	263,115,395
		Stage 2	-	-	730,488	-	730,488
		Stage 3	-	-	-	2,162,811	2,162,811
<i>Credit cards</i>		Stage 1	-	756,881	2,318,248	-	3,075,129
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	58,387	58,387
<i>Business loans</i>		Stage 1	-	617,579	210,414,100	-	211,031,679
		Stage 2	-	-	517,956	-	517,956
		Stage 3	-	-	-	12,818,917	12,818,917
Investment securities							
- Debt securities at amortised cost	15	Stage 1	34,641,993	78,301,422	81,156,723	-	194,100,138
Financial guarantees	24	Stage 1	-	7,321,760	96,458,340	-	103,780,100
Letters of credit	24	Stage 1	-	1,613,451	-	-	1,613,451
Undrawn loan commitments	24	Stage 1	-	7,609,584	86,651,960	-	94,261,544
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	534,143	534,143
Total			484,214,318	410,961,690	1,701,692,896	78,630,599	2,675,499,503

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31 December 2021	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	12	Stage 1	454,696,391	38,789,134	195,470	-	493,680,995
Amount due from credit institutions	13	Stage 1	39,848,484	17,000	-	-	39,865,484
Loans to customers at amortised cost	14						
-Loans to corporate customers		Stage 1	-	139,323,703	738,795,596	-	878,119,299
		Stage 2	-	-	227,618	-	227,618
		Stage 3	-	-	-	61,770,914	61,770,914
-Loans to individuals							
<i>Auto loans</i>		Stage 1	-	14,785,038	270,168	-	15,055,206
		Stage 2	-	-	1,768	-	1,768
		Stage 3	-	-	-	235,586	235,586
<i>Consumer loans</i>		Stage 1	-	230,652	20,014,939	-	20,245,591
		Stage 2	-	-	101,403	-	101,403
		Stage 3	-	-	-	3,215,571	3,215,571
<i>Mortgage loans</i>		Stage 1	-	176,365,705	2,381,757	-	178,747,462
		Stage 2	-	-	456,022	-	456,022
		Stage 3	-	-	-	3,256,736	3,256,736
<i>Credit cards</i>		Stage 1	-	436,449	1,453,034	-	1,889,483
		Stage 2	-	1,585	-	-	1,585
		Stage 3	-	-	-	193,007	193,007
<i>Business loans</i>		Stage 1	-	4,411,255	248,478,291	-	252,889,546
		Stage 2	-	-	578,579	-	578,579
		Stage 3	-	-	-	14,338,832	14,338,832
Investment securities							
- Debt securities at amortised cost	15	Stage 1	14,705,867	9,061,812	70,183,975	-	93,951,654
Financial guarantees	24	Stage 1	-	7,157,733	26,849,050	-	34,006,783
Letters of credit	24	Stage 1	-	-	9,701,443	-	9,701,443
Undrawn loan commitments	24	Stage 1	-	53,947,801	131,803,343	-	185,751,144
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	534,142	534,142
Total			509,250,742	444,527,867	1,251,492,456	83,544,788	2,288,815,853

Financial guarantees, letters of credit and loan commitments are assessed and a provision for expected credit losses is calculated in similar manner as for loans.

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Geographical concentration

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

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

	The Republic of Azerbaijan	CIS and other countries	OECD countries	31 December 2022 Total
Assets				
Cash and cash equivalents	145,631,958	2,655,097	204,569,389	352,856,444
Precious metals	20,064,285	-	-	20,064,285
Amounts due from credit institutions	82,376,962	280,104	135,351,815	218,008,881
Loans to customers	1,708,722,129	-	-	1,708,722,129
Investment securities	159,675,948	-	32,457,390	192,133,338
Property, equipment and right-of-use assets	69,027,945	-	-	69,027,945
Investment property	7,832,000	-	-	7,832,000
Intangible assets	5,762,138	-	-	5,762,138
Deferred income tax asset	2,746,489	-	-	2,746,489
Other assets	77,295,489	598,692	1,022,031	78,916,212
Total assets	2,279,135,343	3,533,893	373,400,625	2,656,069,861
Liabilities				
Amounts due to banks and government agencies	356,312,163	3,400,000	-	359,712,163
Customer accounts	1,817,205,519	-	-	1,817,205,519
Current income tax liability	3,296,105	-	-	3,296,105
Other liabilities	15,957,668	11	161,000	16,118,679
Total liabilities	2,192,771,455	3,400,011	161,000	2,196,332,466
Net position	86,363,888	133,882	373,239,625	

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	The Republic of Azerbaijan	CIS and other countries	OECD countries	31 December 2021 Total
Assets				
Cash and cash equivalents	325,923,372	1,332,230	283,056,634	610,312,236
Precious metals	20,063,418	-	-	20,063,418
Amounts due from credit institutions	10,349,742	-	29,515,742	39,865,484
Loans to customers	1,370,329,933	-	-	1,370,329,933
Investment securities	92,335,801	-	4,412	92,340,213
Property, equipment and right-of-use assets	63,783,336	-	-	63,783,336
Investment property	7,730,000	-	-	7,730,000
Intangible assets	6,431,712	-	-	6,431,712
Deferred income tax asset	2,832,354	-	-	2,832,354
Other assets	84,273,049	324,999	1,170,778	85,768,826
Total assets	1,984,052,717	1,657,229	313,747,566	2,299,457,512
Liabilities				
Amounts due to banks and government agencies	357,475,891	-	-	357,475,891
Customer accounts	1,494,061,835	-	-	1,494,061,835
Current income tax liability	1,045,098	-	-	1,045,098
Other liabilities	10,519,771	11	59,689	10,579,471
Total liabilities	1,863,102,595	11	59,689	1,863,162,295
Net position	120,950,122	1,657,218	313,687,877	

Liquidity risk

Liquidity risk refers to the availability of sufficient funds to meet deposit withdrawals and other financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Group performs daily monitoring of expected future cash flows on clients' and banking operations, which is a part of the assets/liabilities management process. The Assets and Liabilities Management Committee sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

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

(i) The remaining contractual maturity of non-derivative financial liabilities based on the undiscounted cash flows of financial liabilities (both interest and principal cash flows) based on the earliest date on which the Group can be required to pay, and

(ii) The expected maturity for non-derivative financial assets based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

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	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2022 Total
Assets								
Cash and cash equivalents	3.82%	208,990,005	-	-	-	-	-	208,990,005
Amounts due from credit institutions	4.22%	6,611,309	68,000,000	42,700,000	-	-	-	117,311,309
Loans to customers	6.39%	718,686	5,152,531	392,184,800	801,115,501	501,922,297	1,477,657	1,702,571,472
Investment securities	5.14%	7,068,898	15,748,845	43,069,046	119,536,708	5,100,000	-	190,523,497
Total interest bearing assets		223,388,899	88,901,376	477,953,846	920,652,209	507,022,297	1,477,657	2,219,396,283
Cash and cash equivalents		143,866,439	-	-	-	-	-	143,866,439
Precious metals		-	-	20,064,285	-	-	-	20,064,285
Amounts due from credit institutions		1,348,443	-	-	-	-	99,349,129	100,697,572
Loans to customers		6,063,980	-	-	-	-	86,676	6,150,657
Investment securities		64,089	875,205	115,999	-	-	554,548	1,609,841
Other assets		5,058,217	313,313	-	68,456,829	-	-	73,828,359
		379,790,068	90,089,893	498,134,129	989,109,038	507,022,297	101,468,010	2,565,613,436
Liabilities								
Amounts due to banks and government agencies	2.19%	10,000,000	2,803	78,813,663	53,615,074	176,889,607	-	319,321,147
Customer accounts	1.65%	24,770,990	157,319,547	497,584,661	253,351,915	-	-	933,027,113
Total interest bearing liabilities		34,770,990	157,322,350	576,398,324	306,966,989	176,889,607	-	1,252,348,260
Amounts due to banks and government agencies		36,485,878	505,138	3,400,000	-	-	-	40,391,016
Customer accounts		672,501,509	-	-	-	-	211,676,897	884,178,406
Current income tax liability		-	-	3,296,105	-	-	-	3,296,105
Other liabilities		7,880,664	1,208,280	5,622,216	169,151	-	-	14,880,312
Guarantees issued		20,087,162	16,577,115	60,816,054	45,971,056	-	-	143,451,387
Letters of credit		1,224,000	389,451	-	-	-	-	1,613,451
Undrawn loan commitments		72,098	6,721,546	14,404,597	64,936,171	8,661,275	-	94,795,687
		773,022,300	182,723,880	663,937,296	418,043,368	185,550,882	211,676,897	2,434,954,624
Liquidity gap		(393,232,233)	(92,633,986)	(165,803,166)	571,065,670	321,471,415		
Interest sensitivity gap		188,617,909	(68,420,974)	(98,444,478)	613,685,219	330,132,690		
Cumulative interest sensitivity gap		188,617,909	120,196,935	21,752,457	635,437,677	965,570,367		

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	Weighted average effective interest rate	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2021 Total
Assets								
Cash and cash equivalents	0.06%	229,500,000	-	-	-	-	-	229,500,000
Loans to customers	6.12%	1,789,576	6,092,938	169,510,127	822,905,593	360,389,797	4,314,326	1,365,002,357
Investment securities	5.25%	12,542,214	-	72,809	73,771,821	5,277,684	-	91,664,528
Total interest bearing assets		243,831,790	6,092,938	169,582,936	896,677,414	365,667,481	4,314,326	1,686,166,885
Cash and cash equivalents		380,812,236	-	-	-	-	-	380,812,236
Precious metals		-	20,063,418	-	-	-	-	20,063,418
Amounts due from credit institutions		-	-	-	-	-	39,865,484	39,865,484
Loans to customers		4,996,488	-	-	-	-	331,088	5,327,576
Investment securities		64,066	56,096	3,311	-	-	552,212	675,685
Other assets		4,275,166	114,480	-	74,520,146	-	-	78,909,792
		633,979,745	26,326,933	169,586,247	971,197,560	365,667,481	45,063,110	2,211,821,076
Liabilities								
Amounts due to banks and government agencies	2.05%	10,010,390	10,434	80,707,516	55,491,735	159,622,560	-	305,842,635
Customer accounts	1.68%	96,409,139	175,661,271	532,830,820	114,737,893	-	-	919,639,122
Total interest bearing liabilities		106,419,529	175,671,705	613,538,336	170,229,628	159,622,560	-	1,225,481,757
Amounts due to banks and government agencies		51,175,723	457,533	-	-	-	-	51,633,256
Customer accounts		447,583,917	-	-	-	-	126,838,796	574,422,713
Current income tax liability		-	-	1,045,098	-	-	-	1,045,098
Other liabilities		3,391,509	1,304,543	4,697,751	717,122	-	-	10,110,925
Guarantees issued		-	3,697,580	9,126,509	22,313,202	8,864,750	-	44,002,041
Letters of credit		-	1,627,511	8,073,932	-	-	-	9,701,443
Undrawn loan commitments		42,719	3,857,481	9,155,937	160,357,325	12,871,824	-	186,285,286
		608,613,396	186,616,353	645,637,563	353,617,276	181,359,134	126,838,796	2,102,682,519
Liquidity gap		25,366,349	(160,289,421)	(476,051,316)	617,580,283	184,308,347	-	-
Interest sensitivity gap		137,412,261	(169,578,767)	(443,955,399)	726,447,786	206,044,921	-	-
Cumulative interest sensitivity gap		137,412,261	(32,166,506)	(476,121,905)	250,325,881	456,370,802	-	-

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Market Risk

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

The Group is exposed to interest rate risks as entities in the Group borrow funds at both fixed and floating rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings.

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

The majority of the Group's loan contracts and other financial assets and liabilities that bear interest are either variable or contain clauses enabling the interest rate to be changed at the option of the lender. The Group monitors its interest rate margin and consequently does not consider itself exposed to significant interest rate risk or consequential cash flow risk.

Interest rate risk

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

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

Impact on profit before tax:

	As at 31 December 2022		As at 31 December 2021	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Assets:				
Cash and cash equivalents	2,089,900	(2,089,900)	2,295,000	(2,295,000)
Amounts due from credit institutions	1,173,113	(1,173,113)	-	-
Loans to customers	17,025,715	(17,025,715)	13,650,024	(13,650,024)
Investment securities	1,905,235	(1,905,235)	916,645	(916,645)
Liabilities:				
Amounts due to banks and government agencies	(3,193,211)	3,193,211	(3,058,426)	3,058,426
Customer accounts	(9,330,271)	9,330,271	(9,196,391)	9,196,391
Net impact on profit before tax	9,670,481	(9,670,481)	4,606,852	(4,606,852)

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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 Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Management Board sets limits on the level of exposure by currencies. These limits also comply with the minimum requirements of the CBAR. The Group's exposure to foreign currency exchange rate risk is presented in the table below:

	AZN	USD	EUR	Other currencies	31 December 2022 Total
Assets					
Cash and cash equivalents	86,834,308	135,809,572	46,498,650	83,713,914	352,856,444
Precious metals	-	-	-	20,064,285	20,064,285
Amounts due from credit institutions	22,700,389	179,245,298	16,063,194	-	218,008,881
Loans to customers	960,853,908	660,664,908	87,203,313	-	1,708,722,129
Investment securities	69,115,189	113,768,216	9,249,933	-	192,133,338
Property, equipment and right-of-use assets	69,027,945	-	-	-	69,027,945
Investment property	7,832,000	-	-	-	7,832,000
Intangible assets	5,762,138	-	-	-	5,762,138
Deferred income tax asset	2,746,489	-	-	-	2,746,489
Other assets	77,311,863	1,561,724	32,802	9,823	78,916,212
Total assets	1,302,184,229	1,091,049,718	159,047,892	103,788,022	2,656,069,861
Liabilities					
Amounts due to banks and government agencies	271,443,098	88,254,163	14,902	-	359,712,163
Customer accounts	594,815,595	980,036,466	158,686,422	83,667,036	1,817,205,519
Current income tax liability	3,296,105	-	-	-	3,296,105
Other liabilities	14,543,870	1,288,589	283,846	2,374	16,118,679
Total liabilities	884,098,668	1,069,579,218	158,985,170	83,669,410	2,196,332,466
Net balance sheet position	418,085,561	21,470,500	62,722	20,118,612	

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	AZN	USD	EUR	Other currencies	31 December 2021 Total
Assets					
Cash and cash equivalents	256,610,737	285,684,218	51,092,392	16,924,889	610,312,236
Precious metals	-	-	-	20,063,418	20,063,418
Amounts due from credit institutions	1,880,597	29,620,407	8,364,480	-	39,865,484
Loans to customers	585,755,482	711,598,711	72,975,740	-	1,370,329,933
Investment securities	19,243,578	73,092,223	4,412	-	92,340,213
Property, equipment and right-of-use assets	63,783,336	-	-	-	63,783,336
Investment property	7,730,000	-	-	-	7,730,000
Intangible assets	6,431,712	-	-	-	6,431,712
Deferred income tax asset	2,832,354	-	-	-	2,832,354
Other assets	84,682,817	1,031,128	54,771	110	85,768,826
Total assets	<u>1,028,950,613</u>	<u>1,101,026,687</u>	<u>132,491,795</u>	<u>36,988,417</u>	<u>2,299,457,512</u>
Liabilities					
Amounts due to banks and government agencies	254,499,909	102,960,181	15,801	-	357,475,891
Customer accounts	466,716,266	878,246,035	132,283,819	16,815,715	1,494,061,835
Current income tax liability	1,045,098	-	-	-	1,045,098
Other liabilities	9,648,392	847,966	82,938	175	10,579,471
Total liabilities	<u>731,909,665</u>	<u>982,054,182</u>	<u>132,382,558</u>	<u>16,815,890</u>	<u>1,863,162,295</u>
Net balance sheet position	<u>297,040,948</u>	<u>118,972,505</u>	<u>109,237</u>	<u>20,172,527</u>	

Currency risk sensitivity

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

	As at 31 December 2022		As at 31 December 2021	
	AZN / USD +10%	AZN / USD -10%	AZN / USD +10%	AZN / USD -10%
Impact on profit or loss	2,147,050	(2,147,050)	11,897,251	(11,897,251)

	As at 31 December 2022		As at 31 December 2021	
	AZN / EURO +10%	AZN / EURO -10%	AZN / EURO +10%	AZN / EURO -10%
Impact on profit or loss	6,272	(6,272)	10,924	(10,924)

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Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

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

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

30. Events after the reporting period

On 05 January 2023 Shareholders of the Bank declared dividends in the amount of AZN 5,445,450 on ordinary shares which was paid on 27 January 2023.