

Consolidated financial statements

***OJSC Xalq Bank and its subsidiaries***  
for the year ended 31 December 2020

*with independent auditor's report*

# Open Joint Stock Company Xalq Bank

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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 2020, 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 2020, 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



24 May 2021  
Baku, the Republic of Azerbaijan

# Open Joint Stock Company Xalq Bank

## Consolidated statement of profit or loss for the year ended 31 December 2020 (in Azerbaijan manats)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Interest income	5	103,302,096	110,720,135
Interest expense	5	(19,712,681)	(19,626,342)
<b>Net interest income</b>		<b>83,589,415</b>	<b>91,093,793</b>
Credit loss expense on interest bearing assets	6	(14,697,529)	(27,750,133)
<b>Net interest income after credit loss expense</b>		<b>68,891,886</b>	<b>63,343,660</b>
Net fee and commission income	7	2,945,414	5,300,948
Net gain on foreign exchange operations	8	9,569,401	6,873,521
Net gain on precious metals operations	9	4,663,158	2,621,882
Net gain on sale of investment securities		3,346,013	-
Other income		2,777,355	2,151,315
<b>Non-interest income</b>		<b>23,301,341</b>	<b>16,947,666</b>
Personnel expenses	10	(26,951,370)	(24,201,913)
General and administrative expenses	10	(13,990,368)	(13,361,147)
Depreciation and amortisation	17,19	(7,123,818)	(6,230,398)
(Provision) / recovery of provision for impairment losses on non-interest bearing assets	20	(11,462,789)	258,801
(Provision) / recovery of provision for impairment losses on guarantees and other commitments	6	(1,066,076)	21,553
<b>Non-interest expense</b>		<b>(60,594,421)</b>	<b>(43,513,104)</b>
<b>Profit before income tax</b>		<b>31,598,806</b>	<b>36,778,222</b>
Income tax expense	11	(6,502,849)	(7,468,005)
<b>Net profit for the year</b>		<b>25,095,957</b>	<b>29,310,217</b>
Attributable to:			
- shareholders of the Bank		25,094,206	29,304,206
- non-controlling interest		1,751	6,011
		<u>25,095,957</u>	<u>29,310,217</u>
<b>EARNINGS PER SHARE</b>			
<i>Basic and diluted (AZN)</i>	12	<u>6.912</u>	<u>8.072</u>

Approved for issue and signed on behalf of the Management Board on 24 May 2021.

Chairman  
Mr. Kamran Majidov



Chief Accountant  
Mrs. Tamilla Asadova

# Open Joint Stock Company Xalq Bank

Consolidated statement of financial position as at 31 December 2020  
(in Azerbaijan manats)

	Notes	31 December 2020	31 December 2019
<b>Assets</b>			
Cash and cash equivalents	13	556,155,077	363,973,758
Precious metals		21,089,602	17,515,867
Amounts due from credit institutions	14	30,370,631	36,385,755
Loans to customers	15	1,419,664,964	1,766,799,111
Investment securities	16	156,241,153	110,161,296
Property, equipment and right-of-use assets	17	69,446,614	69,365,695
Investment properties	18	7,510,000	7,315,000
Intangible assets	19	6,834,131	2,034,792
Other assets	20	63,584,992	56,927,395
<b>Total assets</b>		<b>2,330,897,164</b>	<b>2,430,478,669</b>
<b>Liabilities</b>			
Amounts due to banks and government agencies	21	351,882,138	383,805,333
Customer accounts	22	1,549,817,380	1,636,351,672
Current income tax liability		2,603	306,531
Deferred income tax liability	11	1,734,426	1,144,632
Other liabilities	23	13,448,925	12,694,166
<b>Total liabilities</b>		<b>1,916,885,472</b>	<b>2,034,302,334</b>
<b>Equity</b>			
Share capital	24	364,772,544	364,772,544
Retained earnings		49,128,129	31,294,523
Non-controlling interest		111,019	109,268
<b>Total equity</b>		<b>414,011,692</b>	<b>396,176,335</b>
<b>Total liabilities and equity</b>		<b>2,330,897,164</b>	<b>2,430,478,669</b>

Approved for issue and signed on behalf of the Management Board on 24 May 2021.

  
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 2020 (in Azerbaijan manats)

	Share capital	Retained earnings	Non-controlling interest	Total equity
1 January 2019	225,078,600	41,671,137	110,047	266,859,784
Share capital increase	107,999,784	-	-	107,999,784
Capitalization of retained earnings	31,694,160	(31,694,160)	-	-
Dividends to shareholders of Bank	-	(7,986,660)	-	(7,986,660)
Total income for the year	-	29,304,206	6,011	29,310,217
Change in ownership interest in subsidiary	-	-	(6,790)	(6,790)
<b>31 December 2019</b>	<b>364,772,544</b>	<b>31,294,523</b>	<b>109,268</b>	<b>396,176,335</b>
Dividends to shareholders of Bank	-	(7,260,600)	-	(7,260,600)
Total income for the year	-	25,094,206	1,751	25,095,957
<b>31 December 2020</b>	<b>364,772,544</b>	<b>49,128,129</b>	<b>111,019</b>	<b>414,011,692</b>

Approved for issue and signed on behalf of the Management Board on 24 May 2021.





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 2020 (in Azerbaijan manats)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax		31,598,806	36,778,222
Adjustments for:			
Provision for impairment losses on interest bearing assets	6	14,697,529	27,750,133
Provision / (recovery of provision) for guarantees and other commitments		1,066,076	(21,553)
Provision / (recovery of provision) for impairment losses on non-Interest bearing assets		11,462,789	(258,801)
Net unrealized loss / (gain) arising from changes in foreign currency exchange rates		(5,118,657)	(4,086,781)
Depreciation and amortization	17,19	7,123,818	6,230,710
Gain on revaluation of investment property	18	(19,454)	(277,791)
Gain on disposal of property and equipment		(84,190)	(204,533)
Change in interest accruals, net		22,832,592	(7,881,053)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>		<b>83,559,309</b>	<b>58,028,553</b>
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Precious metals		(3,573,735)	(2,526,456)
Amounts due from credit institutions		5,947,616	30,190,800
Loans to customers		310,505,276	(454,041,843)
Other assets		(18,118,593)	2,126,345
Increase/(decrease) in operating liabilities:			
Amounts due to banks and government agencies		(32,123,885)	7,642,577
Customer accounts		(86,243,393)	301,166,407
Other liabilities		(311,317)	1,013,583
<b>Cash inflow / (outflow) from operating activities before taxation</b>		<b>259,641,278</b>	<b>(56,400,034)</b>
Income tax paid		(6,216,983)	(12,563,893)
<b>Net cash inflow / (outflow) from operating activities</b>		<b>253,424,295</b>	<b>(68,963,927)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, equipment and intangible assets	17,19	(12,005,386)	(4,527,623)
Proceeds on disposal of property and equipment		85,500	207,250
Net changes in investment securities		(47,005,601)	54,965,394
Investment property improvements	18	(175,546)	(9,963)
Acquisition of subsidiary, net of cash acquired		-	(6,790)
<b>Net cash (outflow) / inflow from investing activities</b>		<b>(59,101,033)</b>	<b>50,628,268</b>



# Open Joint Stock Company Xalq Bank

## Consolidated statement of cash flows for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid to shareholders of the Bank		(7,260,600)	(7,986,660)
Increase in share capital		-	107,999,784
<b>Net cash (outflow) / inflow from financing activities</b>		<b>(7,260,600)</b>	<b>100,013,124</b>
Effect of foreign exchange rate changes on cash and cash equivalents		5,118,657	4,086,781
Net increase in cash and cash equivalents		192,181,319	85,764,246
Cash and cash equivalents, beginning of year		363,973,758	278,209,512
<b>Cash and cash equivalents, end of year</b>	13	<b>556,155,077</b>	<b>363,973,758</b>

Interest paid and received by the Group in cash during the year ended 31 December 2020 amounted to AZN 19,802,890 and AZN 126,224,897, respectively.

Interest paid and received by the Group in cash during the year ended 31 December 2019 amounted to AZN 19,470,740 and AZN 102,683,480, respectively.

Approved for issue and signed on behalf of the Management Board on 24 May 2021.

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 2020 (in Azerbaijan manats)

### 1. Background

Xalq Bank is a 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 Financial Market Supervision Authority of Azerbaijan Republic (the "FIMSA") and conducts its business under the general banking license number 246. The Bank had 30 and 30 branches in Azerbaijan as at 31 December 2020 and 2019 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 2020 and 2019 was 753 and 693, 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
		2020	2019	
<i>Xalq Kapital LLC</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>	98.41%	98.41%	<i>Dormant</i>

"Xalq Kapital" LLC is a limited liability 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 a 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.

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

	31 December 2020	31 December 2019
	Ownership interest, %	Ownership interest, %
Ideal Biznes Ko LLC	50.00	50.00
Yevro Standart LLC	33.85	33.85
AMAL Invest Group LLC	16.15	16.15
<b>Total</b>	<b>100</b>	<b>100</b>

As at 31 December 2020 and 2019 the Bank is ultimately owned by Mrs. Leyla Aliyeva and Mrs. Arzu Aliyeva, 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 2020 (Continued) (in Azerbaijan manats)

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### 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 2020 (Continued) (in Azerbaijan manats)

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### 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 2020 (Continued) (in Azerbaijan manats)

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#### *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 2020 (Continued) (in Azerbaijan manats)

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#### *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 2020 (Continued) (in Azerbaijan manats)

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#### *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 2020.

#### **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 2020 (Continued) (in Azerbaijan manats)

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#### 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 2020 (Continued) (in Azerbaijan manats)

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### 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.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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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 2020 (Continued)  
(in Azerbaijan manats)

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### 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.

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (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 2020	31 December 2019
USD 1 = AZN 1.7000	USD 1 = AZN 1.7000
EUR 1 = AZN 2.0890	EUR 1 = AZN 1.9035
GBP 1 = AZN 2.3021	GBP 1 = AZN 2.2284
RUR 1 = AZN 0.0231	RUR 1 = AZN 0.0274

### 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 2020, but did not have any material impact on the Group:*

**Amendments to the Conceptual Framework for Financial Reporting** (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

**Definition of a business – Amendments to IFRS 3** (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

**Definition of material – Amendments to IAS 1 and IAS 8** (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

**Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7** (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020). The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other interbank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform.

#### 5. Net interest income

Net interest income comprise:

	Year ended 31 December 2020	Year ended 31 December 2019
<b>Interest income comprises</b>		
Interest on loans to customers	91,636,127	92,886,035
Interest on debt securities	7,160,538	11,071,433
Interest on due from banks	3,814,806	5,714,928
Interest on guarantees	677,064	948,138
Interest on other operations	13,561	99,601
Total interest income on financial assets recorded at amortized cost	<u>103,302,096</u>	<u>110,720,135</u>
<b>Interest expense comprises:</b>		
Interest on customer accounts	(14,701,482)	(13,654,392)
Interest on due to banks and government agencies	(4,772,528)	(5,719,692)
Interest on lease liabilities	(222,106)	(252,258)
Interest on other operations	(16,565)	-
Total interest expense on financial assets recorded at amortized cost	<u>(19,712,681)</u>	<u>(19,626,342)</u>
<b>Net interest income before provision for impairment losses on interest bearing assets</b>	<u><b>83,589,415</b></u>	<u><b>91,093,793</b></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
<b>31 December 2018</b>	(85,791)	(132,316)	(118,274,889)	(118,492,996)
(Provision) / recovery of provision	(3,723)	120,177	(27,866,587)	(27,750,133)
Write-off of assets	-	-	7,955,921	7,955,921
<b>31 December 2019</b>	(89,514)	(12,139)	(138,185,555)	(138,287,208)
(Provision) / recovery of provision	(561,502)	11,959	(14,147,986)	(14,697,529)
Write-off of assets	-	180	44,160,741	44,160,921
<b>31 December 2020</b>	<u>(651,016)</u>	<u>-</u>	<u>(108,172,800)</u>	<u>(108,823,816)</u>

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (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 2018	(61,703)
Recovery of provision	21,553
Write-off	-
31 December 2019	(40,150)
Provision	(1,066,076)
Write-off	-
31 December 2020	<u>(1,106,226)</u>

### 7. Fee and commission income and expense

Fee and commission income and expense comprise:

	Year ended 31 December 2020	Year ended 31 December 2019
<b>Fee and commission income:</b>		
Settlements	2,518,534	3,327,920
Plastic cards operations	2,470,331	2,270,894
Cash operations	1,865,004	2,419,900
Guarantee letters	73,863	69,160
Letters of credit	10,965	75,508
Other	310,452	272,978
<b>Total fee and commission income</b>	<u>7,249,149</u>	<u>8,436,360</u>
<b>Fee and commission expense:</b>		
Plastic cards operations	(3,441,150)	(1,758,313)
Settlements	(429,954)	(566,555)
Cash operations	(198,270)	(97,521)
Guarantee letters	(44,976)	(9,413)
Letters of credit	(1,606)	(36,995)
Other	(187,779)	(666,615)
<b>Total fee and commission expense</b>	<u>(4,303,735)</u>	<u>(3,135,412)</u>
<b>Net fee and commission income</b>	<u>2,945,414</u>	<u>5,300,948</u>

## Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued)  
(in Azerbaijan manats)

### 8. Net gain on foreign exchange operations

Net gain on foreign exchange operations comprise:

	Year ended 31 December 2020	Year ended 31 December 2019
Dealing differences, net	4,450,744	2,786,740
Translation differences, net	<u>5,118,657</u>	<u>4,086,781</u>
<b>Total net gain on foreign exchange operations</b>	<b><u>9,569,401</u></b>	<b><u>6,873,521</u></b>

### 9. Net gain on precious metals operations

Net gain on precious metals operations comprise:

	Year ended 31 December 2020	Year ended 31 December 2019
Net gain on precious metals operations	(164,092)	11,041
Translation difference on precious metals	<u>4,827,250</u>	<u>2,610,841</u>
<b>Total net gain on precious metals operations</b>	<b><u>4,663,158</u></b>	<b><u>2,621,882</u></b>

### 10. Personnel, general and administrative expenses

Personnel, general and administrative expenses comprises:

	Year ended 31 December 2020	Year ended 31 December 2019
Salaries and bonuses	(22,852,577)	(20,443,427)
Social security costs	(3,641,845)	(3,269,464)
Other employee related expenses	<u>(456,948)</u>	<u>(489,022)</u>
<b>Total personnel expenses</b>	<b><u>(26,951,370)</u></b>	<b><u>(24,201,913)</u></b>
Payments to the Deposit Insurance Fund of the Republic of Azerbaijan	(3,609,066)	(3,655,722)
Professional services fees	(2,125,656)	(1,463,825)
Taxes, other than income tax	(1,957,929)	(1,211,779)
Security expenses	(1,284,711)	(1,158,192)
Entertainment	(865,844)	(528,223)
Repairs and maintenance expenses	(760,584)	(770,289)
Communications	(501,047)	(445,082)
Insurance	(466,291)	(430,155)
Advertising and marketing expenses	(446,890)	(658,791)
Transportation and business trip expenses	(401,393)	(541,642)
Stationery expenses	(334,345)	(340,916)
Utilities	(309,175)	(371,383)
Operating leases	(236,886)	(262,319)
Membership fees	(233,192)	(902,692)
Other expenses	<u>(457,359)</u>	<u>(620,137)</u>
<b>Total general and administrative expenses</b>	<b><u>(13,990,368)</u></b>	<b><u>(13,361,147)</u></b>

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

### 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%.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Temporary differences as at 31 December 2020 and 2019 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as at 31 December 2020 and 2019 comprise:

	31 December 2020	31 December 2019
<b>Deductible temporary differences:</b>		
Loans to customers	36,336,959	32,369,443
Provision for impairment losses on other operations	738,295	-
Intangible assets	558,239	696,780
Investment securities	-	89,514
Other liabilities	7,564,580	7,615,055
<b>Total deductible temporary differences</b>	<b>45,198,073</b>	<b>40,770,792</b>
<b>Taxable temporary differences:</b>		
Premises, equipment and right-of-use assets	(17,158,669)	(16,956,895)
Precious metals	(14,528,389)	(10,755,542)
Amounts due from credit institutions	(233,782)	(379,437)
Investment securities	(2,970)	-
Provision for impairment losses on other operations	-	(546,489)
Other assets	(21,946,395)	(17,855,588)
<b>Total deductible temporary differences</b>	<b>(53,870,205)</b>	<b>(46,493,951)</b>
Net deferred (taxable) / deductible temporary differences	(8,672,132)	(5,723,159)
Net deferred tax liability at the statutory tax rate (20%)	(1,734,426)	(1,144,632)
<b>Net deferred tax liability</b>	<b>(1,734,426)</b>	<b>(1,144,632)</b>

Relationships between tax expenses and accounting profit for the years ended 31 December 2020 and 2019 are explained as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
<b>Profit before income tax</b>	<b>31,598,806</b>	<b>36,778,222</b>
Tax at the statutory tax rate of 20%	6,319,761	7,355,644
Tax effect of permanent differences	183,088	112,361
<b>Income tax expense</b>	<b>6,502,849</b>	<b>7,468,005</b>
Current income tax expense	5,913,055	8,711,293
Deferred income tax expense	589,794	(1,243,288)
<b>Income tax expense</b>	<b>6,502,849</b>	<b>7,468,005</b>



## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

	31 December 2020	31 December 2019
Deferred income tax liability		
Beginning of the period	(1,144,632)	(2,387,920)
Change in the income tax assets for the period charged to profit	<u>(589,794)</u>	<u>1,243,288</u>
End of the period	<u><u>(1,734,426)</u></u>	<u><u>(1,144,632)</u></u>

#### 12. Earnings per share

The earnings per share are calculated as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
<b>Profit:</b>		
Net profit for the year	25,094,206	29,304,206
Weighted average number of ordinary shares for basic earnings per share	<u>3,630,300</u>	<u>3,630,300</u>
Earnings per share – basic and diluted (AZN)	<u><u>6.912</u></u>	<u><u>8.072</u></u>

#### 13. Cash and cash equivalents

Cash and cash equivalents comprise:

	31 December 2020	31 December 2019
Cash on hand	55,021,758	86,239,162
Correspondent accounts with the Central Bank of Azerbaijan Republic	121,291,715	72,097,863
Correspondent accounts with other banks	357,299,431	175,467,239
Time deposits with Central Bank of Azerbaijan Republic up to 90 days	<u>22,542,173</u>	<u>30,169,494</u>
<b>Total cash and cash equivalents</b>	<u><u>556,155,077</u></u>	<u><u>363,973,758</u></u>

As at 31 December 2020 and 2019 accrued interest income included in cash and cash equivalents amounted to AZN 35,333 and AZN 114,585, 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.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

#### 14. Amounts due from credit institutions

Amounts due from credit institutions comprise:

	31 December 2020	31 December 2019
Restricted deposits	19,996,959	9,044,991
Obligatory reserve with the Central Bank of Azerbaijan Republic	10,373,672	10,677,416
Loans and time deposits with other banks	-	16,675,487
	<u>30,370,631</u>	<u>36,397,894</u>
Less: allowance for impairment	-	(12,139)
<b>Total amounts due from credit institutions</b>	<u><b>30,370,631</b></u>	<u><b>36,385,755</b></u>

As at 31 December 2020 and 2019 accrued interest income included in due from credit institutions amounted to zero and AZN 79,467, respectively.

As at 31 December 2020 and 2019 the Bank had restricted deposits blocked in support of guarantees issued and plastic cards operations and money transfers totaling AZN 19,996,959 and AZN 9,044,991, respectively.

An analysis of changes in gross carrying value and corresponding ECL allowance on amounts due from credit institutions during the year ended 31 December 2020 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 2020	36,397,894	-	-	36,397,894
New assets originated	10,648,813	-	-	10,648,813
Assets repaid				
- Principal	(16,714,050)	-	-	(16,714,050)
- Interest	(249,787)	-	-	(249,787)
Transfers to Stage 3	(171)	-	171	-
Recognised interest income	196,263	-	-	196,263
Amounts written off	-	-	(180)	(180)
Foreign exchange adjustments	91,669	-	9	91,678
<b>At 31 December 2020</b>	<u><b>30,370,631</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>30,370,631</b></u>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2020	(12,139)	-	-	(12,139)
New assets originated	(172)	-	-	(172)
Assets repaid				
- Principal	9,866	-	-	9,866
- Interest	19	-	-	19
Transfers to Stage 3	171	-	(171)	-
Recognised interest income	(10)	-	-	(10)
Changes to models and inputs used for ECL calculations	2,210	-	-	2,210
Amounts written off	-	-	180	180
Foreign exchange adjustments	55	-	(9)	46
<b>At 31 December 2020</b>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

As at 31 December 2020 the ECL for amounts due from credit institutions balances represents an insignificant amount, therefore the Group did not create any credit loss allowance.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (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 2019 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 2019	66,572,281	-	-	66,572,281
New assets originated	32,388,574	-	-	32,388,574
Assets repaid				
- <i>Principal</i>	(66,473,640)	-	-	(66,473,640)
- <i>Interest</i>	(383,119)	-	-	(383,119)
Recognised interest income	398,979	-	-	398,979
Amounts written off	-	-	-	-
Foreign exchange adjustments	3,894,819	-	-	3,894,819
<b>At 31 December 2019</b>	<b><u>36,397,894</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>36,397,894</u></b>

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2019	(132,316)	-	-	(132,316)
New assets originated	(11,621)	-	-	(11,621)
Assets repaid				
- <i>Principal</i>	132,072	-	-	132,072
- <i>Interest</i>	15	-	-	15
Recognised interest income	(20)	-	-	(20)
Changes to models and inputs used for ECL calculations	25	-	-	25
Amounts written off	-	-	-	-
Foreign exchange adjustments	(294)	-	-	(294)
<b>At 31 December 2019</b>	<b><u>(12,139)</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>(12,139)</u></b>

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

### 15. Loans to customers

Loans to customers comprise:

	31 December 2020	31 December 2019
Loans to corporate customers	1,082,819,484	1,294,799,422
Loans to individuals	445,018,280	610,185,244
<b>Gross loans to customers at amortised cost</b>	<b>1,527,837,764</b>	<b>1,904,984,666</b>
Less allowance for impairment	(108,172,800)	(138,185,555)
<b>Total loans to customers at amortised cost</b>	<b>1,419,664,964</b>	<b>1,766,799,111</b>

As at 31 December 2020 and 2019 accrued interest income included in loans to customers amounted to AZN 39,821,755 and AZN 62,302,640, 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 2020 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 2020	1,037,960,427	1,733,402	255,105,593	1,294,799,422
New assets originated	237,969,221	-	11,712,467	249,681,688
Assets repaid				
- Principal	(407,411,331)	-	(33,514,551)	(440,925,882)
- Interest	(53,076,065)	(59,585)	(7,356,073)	(60,491,723)
Transfers to Stage 1	67,123,885	-	(67,123,885)	-
Transfers to Stage 2	(10,898,514)	10,898,514	-	-
Transfers to Stage 3	(25,896,963)	(1,826,817)	27,723,780	-
Recognised interest income	54,353,747	153,000	15,258,346	69,765,093
Recoveries	-	-	-	-
Amounts written off	-	-	(39,429,676)	(39,429,676)
Foreign exchange adjustments	8,672,241	-	748,321	9,420,562
<b>At 31 December 2020</b>	<b>908,796,648</b>	<b>10,898,514</b>	<b>163,124,322</b>	<b>1,082,819,484</b>

<i>Corporate customers</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2020	(2,437,767)	(50,955)	(115,986,356)	(118,475,078)
New assets originated	(618,972)	-	(1,839,376)	(2,458,348)
Assets repaid				
- Principal	1,800,400	-	27,448,743	29,249,143
- Interest	334,540	9,884	2,287,040	2,631,464
Transfers to Stage 1	(1,235,344)	-	1,235,344	-
Transfers to Stage 2	1,005,021	(1,005,021)	-	-
Transfers to Stage 3	4,117,906	303,036	(4,420,942)	-
Impact on period end ECL of exposures transferred between stages during the period	(3,568,276)	(236,585)	5,602,688	1,797,827
Recognised interest income	(410,505)	(25,380)	(10,034,225)	(10,470,110)
Changes to models and inputs used for ECL calculations	(2,007,816)	-	(28,856,868)	(30,864,684)
Recoveries	-	-	-	-
Amounts written off	-	-	39,429,676	39,429,676
Foreign exchange adjustments	(11,424)	-	(8,881)	(20,305)
<b>At 31 December 2020</b>	<b>(3,032,237)</b>	<b>(1,005,021)</b>	<b>(85,143,157)</b>	<b>(89,180,415)</b>

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (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 2020 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 2020	578,408,986	448,311	31,327,947	610,185,244
New assets originated	242,196,105	41,459	41,227	242,278,791
Assets repaid				
- Principal	(399,450,131)	(120,549)	(4,388,211)	(403,958,891)
- Interest	(19,570,784)	(28,427)	(867,269)	(20,466,480)
Transfers to Stage 1	867,258	(160,736)	(706,522)	-
Transfers to Stage 2	(2,428,304)	2,428,304	-	-
Transfers to Stage 3	(8,988,650)	(133,378)	9,122,028	-
Recognised interest income	19,803,451	26,056	2,041,527	21,871,034
Recoveries	-	-	-	-
Amounts written off	-	-	(4,731,065)	(4,731,065)
Foreign exchange adjustments	(160,353)	-	-	(160,353)
<b>At 31 December 2020</b>	<b>410,677,578</b>	<b>2,501,040</b>	<b>31,839,662</b>	<b>445,018,280</b>

<i>Individuals</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2020	(295,474)	(62,342)	(19,352,661)	(19,710,477)
New assets originated	(683,290)	(136)	(13,004)	(696,430)
Assets repaid				
- Principal	780,385	11,388	3,144,932	3,936,705
- Interest	285,090	3,510	388,510	677,110
Transfers to Stage 1	(4,304)	1,132	3,172	-
Transfers to Stage 2	408,779	(408,779)	-	-
Transfers to Stage 3	2,307,310	50,704	(2,358,014)	-
Impact on period end ECL of exposures transferred between stages during the period	(2,812,471)	(1,824)	221,225	(2,593,070)
Recognised interest income	(362,437)	(3,513)	(1,525,791)	(1,891,741)
Changes to models and inputs used for ECL calculations	(729,234)	(1,020)	(2,715,269)	(3,445,523)
Recoveries	-	-	-	-
Amounts written off	-	-	4,731,065	4,731,065
Foreign exchange adjustments	(24)	-	-	(24)
<b>At 31 December 2020</b>	<b>(1,105,670)</b>	<b>(410,880)</b>	<b>(17,475,835)</b>	<b>(18,992,385)</b>

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (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 2019 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 2019	959,711,470	-	283,109,539	1,242,821,009
New assets originated	486,207,790	-	5,747,158	491,954,948
Assets repaid				
- <i>Principal</i>	(419,708,954)	-	(32,041,642)	(451,750,596)
- <i>Interest</i>	(51,848,211)	-	(6,070,899)	(57,919,110)
Transfers to Stage 1	14,331,316	-	(14,331,316)	-
Transfers to Stage 2	(1,733,402)	1,733,402	-	-
Transfers to Stage 3	(107,923)	-	107,923	-
Recognised interest income	51,509,465	-	23,995,979	75,505,444
Recoveries	-	-	-	-
Amounts written off	-	-	(3,895,083)	(3,895,083)
Foreign exchange adjustments	(401,124)	-	(1,516,066)	(1,917,190)
<b>At 31 December 2019</b>	<b><u>1,037,960,427</u></b>	<b><u>1,733,402</u></b>	<b><u>255,105,593</u></b>	<b><u>1,294,799,422</u></b>

<i>Corporate customers</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2019	(861,366)	-	(91,861,290)	(92,722,656)
New assets originated	(417,221)	-	(2,712,448)	(3,129,669)
Assets repaid				
- <i>Principal</i>	676,081	-	4,806,429	5,482,510
- <i>Interest</i>	120,929	-	1,258,574	1,379,503
Transfers to Stage 1	(11,679)	-	11,679	-
Transfers to Stage 2	50,955	(50,955)	-	-
Transfers to Stage 3	16,389	-	(16,389)	-
Impact on period end ECL of exposures transferred between stages during the period	(55,954)	-	2,124,402	2,068,448
Recognised interest income	(126,856)	-	(13,873,384)	(14,000,240)
Changes to models and inputs used for ECL calculations	(1,829,280)	-	(19,637,315)	(21,466,595)
Recoveries	-	-	-	-
Amounts written off	-	-	3,895,083	3,895,083
Foreign exchange adjustments	235	-	18,303	18,538
<b>At 31 December 2019</b>	<b><u>(2,437,767)</u></b>	<b><u>(50,955)</u></b>	<b><u>(115,986,356)</u></b>	<b><u>(118,475,078)</u></b>

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (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 2019 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 2019	168,131,727	610,538	38,922,649	207,664,914
New assets originated	552,614,146	101,197	10,394	552,725,737
Assets repaid				
- <i>Principal</i>	(143,035,566)	(162,773)	(5,962,495)	(149,160,834)
- <i>Interest</i>	(13,422,266)	(44,486)	(1,008,815)	(14,475,567)
Transfers to Stage 1	983,877	(261,506)	(722,371)	-
Transfers to Stage 2	(359,133)	359,133	-	-
Transfers to Stage 3	(753,274)	(202,483)	955,757	-
Recognised interest income	14,136,500	48,692	3,195,399	17,380,591
Recoveries	-	-	-	-
Amounts written off	-	-	(4,060,838)	(4,060,838)
Foreign exchange adjustments	112,975	(1)	(1,733)	111,241
<b>At 31 December 2019</b>	<b>578,408,986</b>	<b>448,311</b>	<b>31,327,947</b>	<b>610,185,244</b>

<i>Individuals</i>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2019	(848,373)	(102,970)	(24,600,890)	(25,552,233)
New assets originated	(251,230)	(957)	(8,024)	(260,211)
Assets repaid				
- <i>Principal</i>	283,114	7,813	4,066,426	4,357,353
- <i>Interest</i>	53,461	4,114	409,291	466,866
Transfers to Stage 1	(2,749)	1,825	924	-
Transfers to Stage 2	56,679	(56,679)	-	-
Transfers to Stage 3	233,445	73,399	(306,844)	-
Impact on period end ECL of exposures transferred between stages during the period	(339,941)	11,658	259,111	(69,172)
Recognised interest income	(55,177)	(5,762)	(2,200,324)	(2,261,263)
Changes to models and inputs used for ECL calculations	575,296	5,217	(1,034,902)	(454,389)
Recoveries	-	-	-	-
Amounts written off	-	-	4,060,838	4,060,838
Foreign exchange adjustments	1	-	1,733	1,734
<b>At 31 December 2019</b>	<b>(295,474)</b>	<b>(62,342)</b>	<b>(19,352,661)</b>	<b>(19,710,477)</b>

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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

Analysis by industry	31 December 2020	31 December 2019
Construction	365,896,277	370,797,489
Energy	200,970,932	172,347,616
Agriculture	188,395,757	218,859,519
Trading	88,852,971	99,100,985
Manufacturing	78,977,801	97,371,296
Telecommunication	53,455,424	151,056,259
Financing	12,902,871	13,807,836
Mining	-	98,665,733
Other	93,367,451	72,792,689
	<b>1,082,819,484</b>	<b>1,294,799,422</b>
Less allowance for impairment	(89,180,415)	(118,475,078)
<b>Total loans to corporate customers</b>	<b>993,639,069</b>	<b>1,176,324,344</b>

Loans to individuals comprise the following products:

	31 December 2020	31 December 2019
Business loans	284,674,105	463,357,650
Mortgage loans	130,296,085	117,980,986
Consumer loans	15,362,198	16,425,552
Auto loans	13,268,512	10,233,765
Credit cards	1,417,380	2,187,291
	<b>445,018,280</b>	<b>610,185,244</b>
Less allowance for impairment	(18,992,385)	(19,710,477)
<b>Total loans to individuals</b>	<b>426,025,895</b>	<b>590,474,767</b>

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

	31 December 2020	31 December 2019
Loans collateralized by real estate	900,552,401	858,667,104
Loans collateralized by cash	253,588,186	436,281,912
Loans collateralized by equipment	101,331,818	241,809,397
Loans collateralized by guarantees	75,549,704	80,731,159
Loans collateralized by vehicles	14,348,764	14,624,724
Loans collateralized by trade receivable	8,590,722	9,942,355
Loans collateralized by other collateral	1,966,703	-
Unsecured loans	171,909,466	262,928,015
	<b>1,527,837,764</b>	<b>1,904,984,666</b>
Less allowance for impairment	(108,172,800)	(138,185,555)
<b>Total loans to customers</b>	<b>1,419,664,964</b>	<b>1,766,799,111</b>

As at 31 December 2020 and 2019 the Bank granted 9 and 10 loans totaling AZN 689,691,584 and AZN 983,195,132, respectively, which individually exceeded 10% of the Group's equity.

As at 31 December 2020 and 2019 loans to customers included loans in amount of AZN 354,244,090 and AZN 364,019,633, respectively, whose terms have been renegotiated.



## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

As at 31 December 2020 and 2019, 59% and 65% of total amount of loans to customers are given to 16 and 17 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.

#### 16. Investment securities

Investment securities comprise:

	31 December 2020	31 December 2019
Equity securities at FVOCI	447,584	447,159
Debt securities at amortised cost	<u>155,793,569</u>	<u>109,714,137</u>
<b>Total investment securities</b>	<b><u>156,241,153</u></b>	<b><u>110,161,296</u></b>

As at 31 December 2020 and 2019 accrued interest income included in investments securities amounted to AZN 302,079 and AZN 666,321, respectively.

Equity securities at FVOCI	Share %	31 December 2020	Share %	31 December 2019
Azerbaijan Credit Bureau LLC	12.5	250,000	12.5	250,000
Baku Stock Exchange CJSC	4.76	135,000	4.76	135,000
Millikart LLC	1	40,000	1	40,000
Boradigah Cay-2 OJSC	2.55	17,800	2.55	17,800
SWIFT SCRL		<u>4,784</u>		<u>4,359</u>
<b>Total equity securities</b>		<b><u>447,584</u></b>		<b><u>447,159</u></b>

Debt securities at amortised cost	Coupon rate	31 December 2020	Coupon rate	31 December 2019
Notes issued by Central Bank of Azerbaijan Republic	6%	63,897,237	6%	62,976,990
Bonds issued by SOCAR Polymer	5%	64,608,972	-	-
Bonds issued by SOCAR	5%	27,444,867	5%	27,448,641
Bonds issued by Ministry of Finance of the Republic of Azerbaijan	10%	478,389	5%	2,585,292
Notes issued by other organisations	12%	15,120	-	-
Eurobonds issued by CJSC Southern Gas Corridor (SGC)	-	-	7%	14,780,561
Notes Issued by the Azerbaijan Mortgage Fund	-	<u>-</u>	3%	<u>2,012,167</u>
		156,444,585		109,803,651
Less: allowance for impairment		<u>(651,016)</u>		<u>(89,514)</u>
<b>Total debt securities</b>		<b><u>155,793,569</u></b>		<b><u>109,714,137</u></b>

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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 2020 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>SGC and others</i>	<i>Total</i>
Gross carrying value as at 1 January 2020	62,976,990	27,448,641	-	19,378,020	109,803,651
New assets purchased	736,211,420	-	64,600,000	38,067,611	838,879,031
Assets repaid	(738,940,363)	(1,358,470)	(1,597,056)	(21,347,090)	(763,242,979)
Assets sold	-	-	-	(36,155,652)	(36,155,652)
Recognised interest income	3,649,190	1,354,698	1,606,028	550,622	7,160,538
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	-	(2)	-	(2)	(4)
<b>At 31 December 2020</b>	<b>63,897,237</b>	<b>27,444,867</b>	<b>64,608,972</b>	<b>493,509</b>	<b>156,444,585</b>

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR</i>	<i>SOCAR Polymer</i>	<i>SGC and others</i>	<i>Total</i>
ECLs as at 1 January 2020	(6,362)	(63,392)	-	(19,760)	(89,514)
New assets purchased	(103,638)	-	(620,340)	(24,362)	(748,340)
Assets repaid	104,022	1,069	15,336	2,698	123,125
Assets sold	-	-	-	41,937	41,937
Recognised interest income	(514)	(1,066)	(15,422)	(513)	(17,515)
Changes to models and inputs used for ECL calculations	(2,502)	41,793	-	-	39,291
Amounts written off	-	-	-	-	-
Foreign exchange adjustments	-	-	-	-	-
<b>At 31 December 2020</b>	<b>(8,994)</b>	<b>(21,596)</b>	<b>(620,426)</b>	<b>-</b>	<b>(651,016)</b>

All balances of investment securities are allocated to Stage 1.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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 2019 is as follows:

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR</i>	<i>SGC and others</i>	<i>Total</i>
Gross carrying value as at 1 January 2019	122,419,900	27,448,641	15,291,661	165,160,202
New assets purchased	1,598,352,231	-	37,120,150	1,635,472,381
Assets repaid	(1,646,464,100)	(1,358,470)	(26,491,742)	(1,674,314,312)
Assets sold	(20,008,556)	-	(7,577,494)	(27,586,050)
Recognised interest income	8,677,515	1,358,472	1,035,446	11,071,433
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	(2)	(1)	(3)
<b>At 31 December 2019</b>	<b>62,976,990</b>	<b>27,448,641</b>	<b>19,378,020</b>	<b>109,803,651</b>

<i>Debt securities at amortised cost</i>	<i>Central Bank of the AR</i>	<i>SOCAR</i>	<i>SGC and others</i>	<i>Total</i>
ECLs as at 1 January 2019	(12,385)	(63,392)	(10,013)	(85,790)
New assets purchased	(161,477)	-	(11,649)	(173,126)
Assets repaid	166,337	3,137	1,084	170,558
Assets sold	2,021	-	9,072	11,093
Recognised interest income	(877)	(3,137)	(993)	(5,007)
Changes to models and inputs used for ECL calculations	19	-	(7,261)	(7,242)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
<b>At 31 December 2019</b>	<b>(6,362)</b>	<b>(63,392)</b>	<b>(19,760)</b>	<b>(89,514)</b>

All balances of investment securities are allocated to Stage 1.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijani manats)

#### 17. 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 2018	1,095,138	74,454,539	5,073,318	6,970,186	13,275,774	1,556,075	671,519	740,316	-	103,836,865
IFRS 16 transition effect	-	-	-	-	-	-	-	-	-	-
Additions	-	(4,540)	1,079,413	1,554,972	844,787	41,683	-	-	4,552,862	4,552,862
Disposals	-	-	(1,411)	(612,104)	-	-	-	72,220	-	3,588,535
Transfers	54,000	457,792	421	-	100,674	14,263	-	(627,150)	-	(614,276)
Cost at 31 December 2019	1,149,138	74,907,791	6,151,741	7,913,054	14,221,235	1,612,021	671,519	184,625	4,552,862	111,363,986
Additions	-	-	5,386,926	727,231	350,172	58,677	-	-	-	6,523,006
Disposals	-	-	-	(333,834)	-	-	-	-	-	(333,834)
Transfers	-	-	-	-	-	-	-	-	-	-
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
Accumulated depreciation at 31 December 2018	-	(17,157,939)	(4,169,036)	(3,476,909)	(10,872,732)	(917,019)	(201,456)	-	-	(36,795,091)
Charge for the year	-	(2,488,331)	(245,036)	(836,237)	(1,166,262)	(129,819)	(67,152)	-	(881,921)	(5,814,758)
Disposals	-	-	1,411	610,147	-	-	(67,152)	-	-	611,558
Transfers	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation at 31 December 2019	-	(19,646,270)	(4,412,661)	(3,702,999)	(12,038,994)	(1,046,838)	(268,608)	-	(881,921)	(41,998,291)
Charge for the year	-	(2,490,849)	(872,231)	(975,705)	(1,019,463)	(133,456)	(67,152)	-	(881,921)	(6,440,777)
Disposals	-	-	-	332,524	-	-	-	-	-	332,524
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)
NBV at 31 December 2019	1,149,138	55,261,521	1,739,080	4,210,055	2,182,241	565,183	402,911	184,625	3,670,941	69,365,695
NBV at 31 December 2020	1,149,138	52,770,672	6,253,775	3,960,271	1,512,950	490,404	335,759	184,625	2,789,020	69,446,614

## Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued)  
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### 18. Investment properties

Investment properties comprise:

	31 December 2020	31 December 2019
Investment property at fair value at beginning of the year	<u>7,315,000</u>	<u>7,027,246</u>
Additions (subsequent expenditure)	175,546	9,963
Re-measurement recognised in profit or loss (recognised in other income)	19,454	277,791
Investment properties at fair value at end of the year	<u><u>7,510,000</u></u>	<u><u>7,315,000</u></u>

The fair value of investment property as at 31 December 2020 was determined on 12 March 2021 by AIS Azintellektservice, who holds a recognized professional qualification. The basis used for the appraisal was market value.

	Year ended 31 December 2020	Year ended 31 December 2019
Rental income derived from investment properties	407,368	419,368
Direct operating expenses arising from investment property that generated rental income	(314,216)	(305,654)
Direct operating expenses arising from investment property that did not generate rental income	<u>(32,063)</u>	<u>(23,250)</u>
	<u><u>61,089</u></u>	<u><u>90,464</u></u>

### 19. Intangible assets

Intangible assets comprise:

	Licenses	Computer software	Other	Total
Cost at 31 December 2018	<u>1,031,249</u>	<u>2,889,033</u>	<u>-</u>	<u>3,920,282</u>
Additions	403,584	532,379	3,125	939,088
Cost at 31 December 2019	<u>1,434,833</u>	<u>3,421,412</u>	<u>3,125</u>	<u>4,859,370</u>
Additions	1,938,366	3,544,014	-	5,482,380
Cost at 31 December 2020	<u>3,373,199</u>	<u>6,965,426</u>	<u>3,125</u>	<u>10,341,750</u>
Accumulated amortization at 31 December 2018	<u>(588,713)</u>	<u>(1,819,914)</u>	<u>-</u>	<u>(2,408,627)</u>
Charge for the year	(129,393)	(285,933)	(625)	(415,951)
Accumulated amortization at 31 December 2019	<u>(718,106)</u>	<u>(2,105,847)</u>	<u>(625)</u>	<u>(2,824,578)</u>
Charge for the year	(212,310)	(470,418)	(313)	(683,041)
Accumulated amortization at 31 December 2020	<u>(930,416)</u>	<u>(2,576,265)</u>	<u>(938)</u>	<u>(3,507,619)</u>
NBV at 31 December 2019	<u><u>716,727</u></u>	<u><u>1,315,565</u></u>	<u><u>2,500</u></u>	<u><u>2,034,792</u></u>
NBV at 31 December 2020	<u><u>2,442,783</u></u>	<u><u>4,389,161</u></u>	<u><u>2,187</u></u>	<u><u>6,834,131</u></u>

## Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued)  
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### 20. Other assets

Other assets comprise:

	31 December 2020	31 December 2019
<b>Other financial assets</b>		
Settlements on money transfers and plastic cards	3,239,724	3,998,109
Accrued interests on other operations	1,793	-
<b>Other non-financial assets</b>		
Collateral repossessed	72,064,571	47,787,479
Prepaid operating taxes	3,007,753	1,199,547
Deferred expenses	2,406,304	646,405
Prepayments and receivables on other transactions	1,555,343	4,186,557
Prepayments for purchases of intangible assets	221,306	3,178,150
Prepayments for purchase of property and equipment	132,724	3,547,181
Other	136,194	101,898
	<u>82,765,712</u>	<u>64,645,326</u>
Less: Provision for impairment of other non-financial assets	<u>(19,180,720)</u>	<u>(7,717,931)</u>
<b>Total other assets</b>	<u><b>63,584,992</b></u>	<u><b>56,927,395</b></u>

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

	Other non- financial assets
<b>31 December 2018</b>	<b>(7,976,732)</b>
Recovery of provision	<u>258,801</u>
<b>31 December 2019</b>	<b>(7,717,931)</b>
Recovery of provision	<u>(11,462,789)</u>
<b>31 December 2020</b>	<u><b>(19,180,720)</b></u>

### 21. Amounts due to banks and government agencies

Amounts due to banks and government agencies comprise:

	31 December 2020	31 December 2019
Amount due to the National Fund for Support of Entrepreneurship	122,291,650	121,179,479
Amount due to State Oil Company of Azerbaijan Republic	86,485,166	114,618,199
Amount due to Azerbaijan Mortgage Fund	77,081,599	62,138,012
Correspondent accounts of other banks	51,121,102	71,496,048
Long-term deposits from banks	13,700,964	13,700,000
Loans from the Central Bank of Azerbaijan Republic	1,201,657	673,595
<b>Total amounts due to banks and government agencies</b>	<u><b>351,882,138</b></u>	<u><b>383,805,333</b></u>

As at 31 December 2020 and 2019 accrued interest expense included in due to banks and government agencies amounted to AZN 440,093 and AZN 239,403, respectively.

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

#### 22. Customer accounts

Customer accounts comprise:

	31 December 2020	31 December 2019
Time deposits	1,005,863,468	1,111,491,707
Repayable on demand	<u>543,953,912</u>	<u>524,859,965</u>
<b>Total customer accounts</b>	<b><u>1,549,817,380</u></b>	<b><u>1,636,351,672</u></b>

As at 31 December 2020 and 2019 accrued interest expense included in customer accounts amounted to AZN 635,133 and AZN 926,032, respectively.

As at 31 December 2020 and 2019 customer accounts amounting to AZN 1,220,653,145 and AZN 1,270,653,005 were due to 16 and 15 customers representing a significant concentration, being approximately 79% and 78%, respectively.

An analysis of customer accounts by economic sector follows:

	31 December 2020	31 December 2019
Individuals	727,323,100	762,038,627
Energy	294,925,173	390,563,710
Trade	203,711,891	21,036,954
Investing	134,119,097	240,635,291
Transport and communication	52,710,782	48,128,642
Insurance	39,109,488	32,640,221
Manufacturing	38,794,592	60,768,213
Construction	25,814,040	60,725,538
Financing	13,060,059	7,219,055
Agriculture	4,821,268	2,395,542
Other	<u>15,427,890</u>	<u>10,199,879</u>
<b>Total customer accounts</b>	<b><u>1,549,817,380</u></b>	<b><u>1,636,351,672</u></b>

#### 23. Other liabilities

Other liabilities comprise:

	31 December 2020	31 December 2019
<b>Other financial liabilities</b>		
Lease liability	2,610,848	3,543,472
Settlements on money transfers and plastic cards	1,963,652	2,560,822
Accrued expenses	683,663	637,369
<b>Other non-financial liabilities</b>		
Payables to the employees	4,369,976	4,021,701
Taxes other than income tax	1,102,355	851,848
Provisions for ECL for credit related commitments (Note 25)	1,106,226	40,150
Payables to the Deposit Insurance Fund	906,654	880,132
Payables to the State Social Protection Fund	495,795	-
Deferred revenue	39,085	57,873
Other	<u>170,671</u>	<u>100,799</u>
<b>Total other liabilities</b>	<b><u>13,448,925</u></b>	<b><u>12,694,166</u></b>

Interest expense on lease liabilities for the year ended 31 December 2020 and 2019 comprised AZN 222,106 and AZN 252,258, respectively (Note 5).

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

Total cash outflow for leases for the year ended 31 December 2020 and 2019 was AZN 1,135,438 and AZN 965,531, respectively. During the year ended 31 December 2020 COVID-19 related rent concession was AZN 19,292.

#### 24. Share capital

As at 31 December 2020 and 2019 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.

Movements in ordinary shares outstanding, issued and fully paid were as follows:

	Nominal price of one share	Number of ordinary shares	Share capital AZN
31 December 2018	62.00	3,630,300	225,078,600
Increase in share capital	29.75	-	107,999,784
Capitalization of retained earnings	8.73	-	31,694,160
31 December 2019	100.48	3,630,300	364,772,544
Increase in share capital	-	-	-
31 December 2020	100.48	3,630,300	364,772,544

On 13 February 2020 Shareholders of the Bank declared dividends in the amount of AZN 7,260,600 on ordinary shares which was paid as at 31 December 2020.

On 11 February 2019 Shareholders of the Bank declared dividends in the amount of AZN 7,986,660 on ordinary shares which was paid as at 31 December 2019.

#### 25. 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 2020 and 2019, the Group's commitments and contingencies comprised the following:

	31 December 2020	31 December 2019
<b>Credit related commitments</b>		
Unused credit lines	182,668,465	171,600,226
Letters of credit	-	1,052,093
Financial guarantees	25,195,179	15,131,820
	<u>207,863,644</u>	<u>187,784,139</u>
<b>Operating lease commitments</b>		
Not later than 1 year	34,098	41,919
Later than 1 year but not later than 5 years	-	-
	<u>34,098</u>	<u>41,919</u>
<b>Performance guarantees</b>	9,844,694	30,013,211
	<u>9,844,694</u>	<u>30,013,211</u>
<b>Commitments and contingencies before deducting collateral and provision</b>	<u>217,742,436</u>	<u>217,839,269</u>
Less: provisions for ECL for credit related commitments	(1,106,226)	(40,150)
Less: cash held as security against letters of credit and guarantees	(11,409,098)	(1,019,851)
<b>Commitments and contingencies</b>	<u>205,227,112</u>	<u>216,779,268</u>



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### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

An analysis of changes in the ECL allowance during the year ended 31 December 2020 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2020	(38,797)	-	(1,353)	(40,150)
New exposures	(14,266)	-	-	(14,266)
Amounts paid	-	-	-	-
Exposures expired or derecognised	4,325	-	-	4,325
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	8,087	(8,087)	-	-
Transfers to Stage 3	62	-	(62)	-
Changes to models and inputs used for ECL calculations	(27,227)	-	(1,028,908)	(1,056,135)
Amounts written off	-	-	-	-
<b>At 31 December 2020</b>	<b>(67,816)</b>	<b>(8,087)</b>	<b>(1,030,323)</b>	<b>(1,106,226)</b>

An analysis of changes in the ECL allowance during the year ended 31 December 2019 is as follows:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
ECL as at 1 January 2019	(9,812)	-	(51,891)	(61,703)
New exposures	(25,059)	-	(1,353)	(26,412)
Amounts paid	-	-	-	-
Exposures expired or derecognised	298	-	51,891	52,189
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Changes to models and inputs used for ECL calculations	(4,224)	-	-	(4,224)
Amounts written off	-	-	-	-
<b>At 31 December 2019</b>	<b>(38,797)</b>	<b>-</b>	<b>(1,353)</b>	<b>(40,150)</b>

**Capital commitments** – The Group had no material commitments for capital expenditures outstanding as at 31 December 2020.

**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 2020 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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Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued)  
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### 26. 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 2020 and 2019 with related parties:

	31 December 2020		31 December 2019	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Loans to customers		1,527,837,764		1,904,984,666
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	36,337,225		-	
- <i>key management personnel of the entity</i>	801,727		811,832	
Allowance for impairment losses		(108,172,800)		(138,185,555)
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	(88,076)		-	
- <i>key management personnel of the entity</i>	(2,696)		(522)	
Customer accounts		1,549,817,380		1,636,351,672
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	48,610,398		63,274,830	
- <i>key management personnel of the entity</i>	639,034		799,976	
Guarantees issued		35,039,872		45,145,031
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	11,180,519		95,175	
Letters of credit		-		1,052,093
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	-		773,573	
Unused loan commitments		182,668,465		171,600,226
- <i>shareholders and entities in which a substantial interest is owned by shareholders of the Group</i>	39,100,000		121,890,000	
- <i>key management personnel of the entity</i>	136,897		143,789	



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### 27. 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 2020 Total
<b>Assets measured at fair value</b>				
Investment securities	-	4,784	442,800	447,584
Investment property	-	7,510,000	-	7,510,000
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	556,155,077	-	-	556,155,077
Precious metals	21,089,602	-	-	21,089,602
Amounts due from credit institutions	-	30,370,631	-	30,370,631
Investment securities at amortised cost	27,423,271	128,370,298	-	155,793,569
Loans to customers	-	-	1,419,664,964	1,419,664,964
Other assets	-	-	3,241,517	3,241,517
<b>Assets</b>	<b>604,667,950</b>	<b>166,255,713</b>	<b>1,423,349,281</b>	<b>2,194,272,944</b>
<b>Liabilities for which fair values are disclosed</b>				
Amounts due to banks and government agencies	-	-	351,882,138	351,882,138
Customer accounts	-	-	1,549,817,380	1,549,817,380
Other liabilities	-	-	5,258,163	5,258,163
<b>Liabilities</b>	<b>-</b>	<b>-</b>	<b>1,906,957,681</b>	<b>1,906,957,681</b>

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### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

	Level 1	Level 2	Level 3	31 December 2019 Total
<b>Assets measured at fair value</b>				
Investment securities	-	4,359	442,800	447,159
Investment property	-	7,315,000	-	7,315,000
<b>Assets for which fair values are disclosed</b>				
Cash and cash equivalents	363,073,758			363,073,758
Precious metals	17,515,867	-	-	17,515,867
Amounts due from credit institutions	-	36,385,755	-	36,385,755
Investment securities at amortised cost	42,148,680	67,565,457	-	109,714,137
Loans to customers	-	-	1,766,799,111	1,766,799,111
Other assets	-	-	3,998,109	3,998,109
<b>Assets</b>	<b>423,638,305</b>	<b>111,270,571</b>	<b>1,771,240,020</b>	<b>2,306,148,896</b>
<b>Liabilities for which fair values are disclosed</b>				
Amounts due to banks and government agencies	-	-	383,805,333	383,805,333
Customer accounts	-	-	1,636,351,672	1,636,351,672
Other liabilities	-	-	6,741,663	6,741,663
<b>Liabilities</b>	<b>-</b>	<b>-</b>	<b>2,026,898,668</b>	<b>2,026,898,668</b>

#### 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 2020			31 December 2019		
	Carrying amount	Fair value	Unrecognised gain	Carrying amount	Fair value	Unrecognised gain
<b>Financial assets</b>						
Cash and cash equivalents	556,155,077	556,155,077	-	363,973,758	363,973,758	-
Precious metals	21,089,602	21,089,602	-	17,515,867	17,515,867	-
Amounts due from credit institutions	30,370,631	30,370,631	-	36,385,755	36,385,755	-
Loans to customers	1,419,664,964	1,419,664,964	-	1,766,799,111	1,766,799,111	-
Investment securities	156,241,153	156,373,227	132,074	110,161,296	112,231,163	2,069,867
Other financial assets	3,241,517	3,241,517	-	3,998,109	3,998,109	-
<b>Financial liabilities</b>						
Amounts due to banks and government agencies	351,882,138	351,882,138	-	383,805,333	383,805,333	-
Customer accounts	1,549,817,380	1,549,817,380	-	1,636,351,672	1,636,351,672	-
Other financial liabilities	5,258,163	5,258,163	-	6,741,663	6,741,663	-
			<u>132,074</u>			<u>2,069,867</u>

The fair value of equity securities included in investment securities cannot be measured reliably. As at 31 December 2020 and 2019 the cost of them was AZN 447,584 and AZN 447,159, 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.

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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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.

### 28. 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 (11%) and tier 1 capital (6%) to risk weighted assets.

As at 31 December 2020 the Group's total capital amount for Capital Adequacy purposes was AZN 413,458,284 and tier 1 capital amount was AZN 407,177,561 with ratios of 21.46% and 21.13%, respectively.

As at 31 December 2019 the Group's total capital amount for Capital Adequacy purposes was AZN 397,129,883 and tier 1 capital amount was AZN 394,141,543 with ratios of 17.90% and 17.77%, 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 2020 and 2019 the Group was in compliance with the minimum capital requirements imposed by the Central Bank of Azerbaijan Republic.

### 29. 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 2019.

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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### 30. 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 <i>Probability of Default</i> 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 <i>Exposure at Default</i> 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 <i>Loss Given Default</i> 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.        |

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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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 behavior 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.



## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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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 analyze 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.

## Open Joint Stock Company Xalq Bank

Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued)  
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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+	Sub-standard grade	2.09 - 100%
<4	CCC 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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### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

#### 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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### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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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 2020 included the following key indicators for the Republic of Azerbaijan for the years ending 31 December 2021 through 2025.

<b>Years</b>	<b>Real GDP growth rate</b>
2021	2.32%
2022	1.69%
2023	1.71%
2024	1.72%
2025	1.73%

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

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

### 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 2020	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	13	Stago 1	408,690,048	2,431,943	11,328	-	601,133,319
Amount due from credit institutions	14	Stage 1	30,353,631	17,000	-	-	30,370,631
Loans to customers at amortised cost	15						
-Loans to corporate customers		Stage 1	-	217,949,865	690,846,783	-	908,796,648
		Stage 2	-	-	10,898,514	-	10,898,514
		Stage 3	-	-	-	163,124,322	163,124,322
-Loans to individuals							
<i>Auto loans</i>		Stage 1	-	456,492	12,249,394	-	12,705,886
		Stage 2	-	-	166,430	-	166,430
		Stage 3	-	-	-	396,196	396,196
<i>Consumer loans</i>		Stage 1	-	414,891	10,058,278	-	10,473,169
		Stage 2	-	-	296,355	-	296,355
		Stage 3	-	-	-	4,592,674	4,592,674
<i>Mortgage loans</i>		Stage 1	-	119,308,315	2,412,687	-	121,721,002
		Stage 2	-	-	1,824,353	-	1,824,353
		Stage 3	-	-	-	6,750,730	6,750,730
<i>Credit cards</i>		Stage 1	-	688,340	606,695	-	1,295,035
		Stage 2	-	21,026	2,423	-	23,449
		Stage 3	-	-	-	98,896	98,896
<i>Business loans</i>		Stage 1	-	6,236,283	258,246,203	-	264,482,486
		Stage 2	-	-	190,453	-	190,453
		Stage 3	-	-	-	20,001,166	20,001,166
Investment securities							
- Debt securities at amortised cost	16	Stage 1	64,375,626	27,444,868	64,624,091	-	156,444,585
Financial guarantees	25	Stage 1	-	9,425,284	15,769,895	-	25,195,179
Undrawn loan commitments	25	Stage 1	-	77,613,104	96,478,567	-	174,091,671
		Stage 2	-	-	350,630	-	350,630
		Stage 3	-	-	-	8,226,164	8,226,164
<b>Total</b>			<b>593,419,305</b>	<b>462,007,411</b>	<b>1,165,033,079</b>	<b>203,190,148</b>	<b>2,423,649,943</b>

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Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued)  
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31 December 2019	Note		High grade	Standard grade	Sub-standard grade	Impaired	Total
Cash and cash equivalents, except for cash on hand	13	Stage 1	277,669,208	65,218	170	-	277,734,596
Amount due from credit institutions	14	Stage 1	34,380,894	2,017,000	-	-	36,397,894
Loans to customers at amortised cost	15						
-Loans to corporate customers		Stage 1	-	982,541,788	55,418,639	-	1,037,960,427
		Stage 2	-	-	1,733,402	-	1,733,402
		Stage 3	-	-	-	255,105,593	255,105,593
-Loans to individuals							
<i>Auto loans</i>		Stage 1	-	9,615,648	535,023	-	10,150,671
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	83,094	83,094
<i>Consumer loans</i>		Stage 1	-	503,903	10,777,274	-	11,281,177
		Stage 2	-	-	12,489	-	12,489
		Stage 3	-	-	-	5,131,886	5,131,886
<i>Mortgage loans</i>		Stage 1	-	111,389,562	2,003,218	-	113,392,780
		Stage 2	-	-	412,278	-	412,278
		Stage 3	-	-	-	4,175,928	4,175,928
<i>Credit cards</i>		Stage 1	-	343,337	1,698,844	-	2,042,181
		Stage 2	-	-	23,544	-	23,544
		Stage 3	-	-	-	121,566	121,566
<i>Business loans</i>		Stage 1	-	31,802,246	409,739,931	-	441,542,177
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	21,815,473	21,815,473
Investment securities							
- Debt securities at amortised cost	16	Stage 1	65,562,282	27,448,641	16,792,728	-	109,803,651
Letters of credit	25	Stage 1	278,520	773,573	-	-	1,052,093
Financial guarantees	25	Stage 1	4,390,000	10,265,945	475,875	-	15,131,820
Undrawn loan commitments	25	Stage 1	27,535	168,390,674	3,168,413	-	171,586,622
		Stage 2	-	-	-	-	-
		Stage 3	-	-	-	13,604	13,604
<b>Total</b>			<b>382,308,439</b>	<b>1,345,157,535</b>	<b>502,791,828</b>	<b>286,447,144</b>	<b>2,516,704,946</b>

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 Group's Management Board sets up country limits, which mainly applies to banks of the Commonwealth of Independent States and Baltic countries.

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

	The Republic of Azerbaijan	CIS and other countries	OECD countries	31 December 2020 Total
<b>Assets</b>				
Cash and cash equivalents	198,998,151	2,078,030	355,078,896	556,155,077
Precious metals	21,089,602	-	-	21,089,602
Amounts due from credit institutions	10,390,672	-	19,979,959	30,370,631
Loans to customers	1,419,664,964	-	-	1,419,664,964
Investment securities	156,236,369	-	4,784	156,241,153
Property, equipment and right-of-use assets	69,446,614	-	-	69,446,614
Investment property	7,510,000	-	-	7,510,000
Intangible assets	6,834,131	-	-	6,834,131
Other assets	61,742,795	239,970	1,602,227	63,584,992
<b>Total assets</b>	<b>1,951,913,298</b>	<b>2,318,000</b>	<b>376,665,866</b>	<b>2,330,897,164</b>
<b>Liabilities</b>				
Amounts due to banks and government agencies	351,882,138	-	-	351,882,138
Customer accounts	1,549,817,380	-	-	1,549,817,380
Current income tax liability	2,603	-	-	2,603
Deferred income tax liability	1,734,426	-	-	1,734,426
Other liabilities	13,115,589	11	333,325	13,448,925
<b>Total liabilities</b>	<b>1,916,552,136</b>	<b>11</b>	<b>333,325</b>	<b>1,916,885,472</b>
<b>Net position</b>	<b>35,361,162</b>	<b>2,317,989</b>	<b>376,332,541</b>	

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	The Republic of Azerbaijan	CIS and other countries	OECD countries	31 December 2019 Total
<b>Assets</b>				
Cash and cash equivalents	214,137,967	433,789	149,402,002	363,973,758
Precious metals	17,515,867	-	-	17,515,867
Amounts due from credit institutions	13,940,094	-	22,445,661	36,385,755
Loans to customers	1,766,799,111	-	-	1,766,799,111
Investment securities	110,156,937	-	4,359	110,161,296
Property, equipment and right-of-use assets	69,365,695	-	-	69,365,695
Investment property	7,315,000	-	-	7,315,000
Intangible assets	2,034,792	-	-	2,034,792
Other assets	56,775,929	78,682	72,784	56,927,395
<b>Total assets</b>	<b>2,258,041,392</b>	<b>512,471</b>	<b>171,924,806</b>	<b>2,430,478,669</b>
<b>Liabilities</b>				
Amounts due to banks and government agencies	383,805,333	-	-	383,805,333
Customer accounts	1,636,351,672	-	-	1,636,351,672
Current income tax liability	306,531	-	-	306,531
Deferred income tax liability	1,144,632	-	-	1,144,632
Other liabilities	12,586,779	11,061	96,326	12,694,166
<b>Total liabilities</b>	<b>2,034,194,947</b>	<b>11,061</b>	<b>96,326</b>	<b>2,034,302,334</b>
<b>Net position</b>	<b>223,846,445</b>	<b>501,410</b>	<b>171,828,480</b>	

### 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.



# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

	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 2020 Total
<b>Assets</b>								
Cash and cash equivalents	0.52%	276,669,903	-	-	-	-	-	276,669,903
Loans to customers	5.71%	171,776	9,541,176	281,204,960	777,616,954	345,478,806	1,557,717	1,415,571,389
Investment securities	5.37%	63,246,220	-	27,184,400	65,060,869	-	-	155,491,489
<b>Total interest bearing assets</b>		<b>340,087,899</b>	<b>9,541,176</b>	<b>308,389,360</b>	<b>842,677,822</b>	<b>345,478,806</b>	<b>1,557,717</b>	<b>1,847,732,781</b>
Cash and cash equivalents		279,485,174	-	-	-	-	-	279,485,174
Precious metals		-	21,089,602	-	-	-	-	21,089,602
Amounts due from credit institutions		-	-	-	-	-	30,370,631	30,370,631
Loans to customers		3,925,261	-	-	-	-	168,314	4,093,575
Investment securities		-	302,080	-	-	-	447,584	749,664
Other assets		3,241,517	102,653	-	52,883,851	-	-	56,228,021
		<b>626,739,851</b>	<b>31,035,511</b>	<b>308,389,360</b>	<b>895,561,673</b>	<b>345,478,806</b>	<b>32,544,246</b>	<b>2,239,749,448</b>
<b>Liabilities</b>								
Amounts due to banks and government agencies	1.90%	10,150,000	2,127,223	89,215,093	45,663,605	153,165,023	-	300,320,944
Customer accounts	1.44%	46,289,896	236,814,077	567,101,386	155,021,824	-	-	1,005,227,184
<b>Total interest bearing liabilities</b>		<b>56,439,896</b>	<b>238,941,300</b>	<b>656,316,479</b>	<b>200,685,429</b>	<b>153,165,023</b>	<b>-</b>	<b>1,305,548,128</b>
Amounts due to banks and government agencies		51,561,194	-	-	-	-	-	51,561,194
Customer accounts		403,589,497	-	1,149	-	-	140,999,550	544,590,196
Current income tax liability		-	-	2,603	-	-	-	2,603
Other liabilities		3,289,577	1,366,747	6,099,698	1,586,677	-	-	12,342,699
Guarantees issued		446,222	10,911,389	18,806,139	4,876,122	-	-	35,039,872
Undrawn loan commitments		25,814	2,322,271	11,121,630	169,198,250	500	-	182,668,465
		<b>515,352,201</b>	<b>253,541,707</b>	<b>692,347,698</b>	<b>376,346,478</b>	<b>153,165,523</b>	<b>140,999,550</b>	<b>2,131,753,157</b>
Liquidity gap		111,387,650	(222,506,196)	(383,958,338)	519,215,196	192,313,282		
Interest sensitivity gap		283,648,003	(229,400,124)	(347,927,119)	641,992,393	192,313,782		
Cumulative interest sensitivity gap		283,648,003	54,247,879	(293,679,240)	348,313,153	540,626,935		

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

	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 2019 Total
<b>Assets</b>								
Cash and cash equivalents	2.88%	98,142,443	-	-	-	-	-	98,142,443
Amounts due from credit institutions	1.91%	-	-	16,596,020	-	-	-	16,596,020
Loans to customers	5.04%	24,972,903	34,155,145	400,243,789	929,872,802	368,526,771	-	1,757,771,410
Investment securities	5.69%	64,923,139	-	35,864	27,524,197	16,564,616	-	109,047,816
<b>Total interest bearing assets</b>		<b>188,038,485</b>	<b>34,155,145</b>	<b>416,875,673</b>	<b>957,396,998</b>	<b>385,091,387</b>	<b>-</b>	<b>1,981,557,689</b>
Cash and cash equivalents		265,831,315	-	-	-	-	-	265,831,315
Precious metals		17,515,867	-	-	-	-	-	17,515,867
Amounts due from credit institutions		79,467	-	-	-	-	19,710,268	19,789,735
Loans to customers		2,628,237	-	-	-	-	6,399,464	9,027,702
Investment securities		666,320	-	-	-	-	447,159	1,113,479
Other assets		3,998,109	50,858	-	40,069,548	-	-	44,118,515
		<b>478,757,800</b>	<b>34,206,003</b>	<b>416,875,673</b>	<b>997,466,546</b>	<b>385,091,387</b>	<b>26,556,891</b>	<b>2,338,954,302</b>
<b>Liabilities</b>								
Amounts due to banks and government agencies	1.77%	10,000,000	747,699	108,765,230	43,471,080	149,085,873	-	312,069,883
Customer accounts	1.37%	18,550,767	187,377,160	551,543,638	352,930,274	-	-	1,110,401,839
<b>Total interest bearing liabilities</b>		<b>28,550,767</b>	<b>188,124,859</b>	<b>660,308,868</b>	<b>396,401,354</b>	<b>149,085,873</b>	<b>-</b>	<b>1,422,471,722</b>
Amounts due to banks and government agencies		71,735,450	-	-	-	-	-	71,735,450
Customer accounts		386,607,972	-	-	200,000	-	139,141,861	525,949,833
Current income tax liability		-	-	306,531	-	-	-	306,531
Other liabilities		4,021,223	908,948	5,112,997	2,610,848	-	-	12,654,016
Guarantees issued		5,213,724	1,149,707	33,057,883	5,723,716	-	-	45,145,031
Letters of credit		278,520	773,573	-	-	-	-	1,052,093
Undrawn loan commitments		27,535	5,105,723	11,497,135	18,418,983	136,550,850	-	171,600,226
		<b>496,435,192</b>	<b>196,062,809</b>	<b>710,283,415</b>	<b>423,354,901</b>	<b>285,636,723</b>	<b>139,141,861</b>	<b>2,250,914,902</b>
Liquidity gap		(17,677,392)	(161,856,806)	(293,407,741)	574,111,646	99,454,663		
Interest sensitivity gap		159,487,718	(153,969,714)	(243,433,195)	560,995,645	236,005,513		
<b>Cumulative interest sensitivity gap</b>		<b>159,487,718</b>	<b>5,518,004</b>	<b>(237,915,191)</b>	<b>323,080,454</b>	<b>559,085,967</b>		

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

#### 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 2019.

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 2020		As at 31 December 2019	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>Assets:</b>				
Cash and cash equivalents	2,766,699	(2,766,699)	981,424	(981,424)
Amounts due from credit institutions	-	-	165,960	(165,960)
Loans to customers	14,155,714	(14,155,714)	17,577,714	(17,577,714)
Investment securities	1,554,915	(1,554,915)	1,090,478	(1,090,478)
<b>Liabilities:</b>				
Amounts due to banks and government agencies	(3,003,209)	3,003,209	(3,120,699)	3,120,699
Customer accounts	(10,052,272)	10,052,272	(11,104,018)	11,104,018
<b>Net impact on profit before tax</b>	<b>5,421,847</b>	<b>(5,421,847)</b>	<b>5,590,859</b>	<b>(5,590,859)</b>

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

#### 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 2020 Total
<b>Assets</b>					
Cash and cash equivalents	164,816,679	381,567,720	5,992,907	3,777,771	556,155,077
Precious metals	-	-	-	21,089,602	21,089,602
Amounts due from credit institutions	1,433,317	11,477,805	8,519,154	8,940,355	30,370,631
Loans to customers	419,731,543	900,880,090	99,053,331	-	1,419,664,964
Investment securities	64,182,530	92,053,839	4,784	-	156,241,153
Property, equipment and right-of-use assets	69,446,614	-	-	-	69,446,614
Investment property	7,510,000	-	-	-	7,510,000
Intangible assets	6,834,131	-	-	-	6,834,131
Other assets	61,898,481	1,373,336	313,175	-	63,584,992
<b>Total assets</b>	<b>795,853,295</b>	<b>1,387,352,790</b>	<b>113,883,351</b>	<b>33,807,728</b>	<b>2,330,897,164</b>
<b>Liabilities</b>					
Amounts due to banks and government agencies	238,760,494	113,104,510	17,134	-	351,882,138
Customer accounts	359,246,082	1,038,077,762	139,917,178	12,576,358	1,549,817,380
Current income tax liability	2,603	-	-	-	2,603
Deferred income tax liability	1,734,426	-	-	-	1,734,426
Other liabilities	12,068,474	975,535	393,256	11,660	13,448,925
<b>Total liabilities</b>	<b>611,812,079</b>	<b>1,152,157,807</b>	<b>140,327,568</b>	<b>12,588,018</b>	<b>1,916,885,472</b>
<b>Net balance sheet position</b>	<b>184,041,216</b>	<b>235,194,983</b>	<b>(26,444,217)</b>	<b>21,219,710</b>	

# Open Joint Stock Company Xalq Bank

## Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

	AZN	USD	EUR	Other currencies	31 December 2019 Total
<b>Assets</b>					
Cash and cash equivalents	126,300,276	201,450,981	10,392,134	25,830,367	363,973,758
Precious metals	-	-	-	17,515,867	17,515,867
Amounts due from credit institutions	3,651,506	1,272,593	16,786,169	14,675,487	36,385,755
Loans to customers	335,577,944	1,335,699,770	95,521,397	-	1,766,799,111
Investment securities	67,927,735	42,229,202	4,359	-	110,161,296
Property, equipment and right-of-use assets	69,365,695	-	-	-	69,365,695
Investment property	7,315,000	-	-	-	7,315,000
Intangible assets	2,034,792	-	-	-	2,034,792
Other assets	55,376,060	907,929	329,653	313,753	56,927,395
<b>Total assets</b>	<b>667,549,008</b>	<b>1,581,560,475</b>	<b>123,033,712</b>	<b>58,335,474</b>	<b>2,430,478,669</b>
<b>Liabilities</b>					
Amounts due to banks and government agencies	222,175,994	161,613,726	15,613	-	383,805,333
Customer accounts	338,624,694	1,152,892,950	129,740,538	15,093,490	1,636,351,672
Current income tax liability	306,531	-	-	-	306,531
Deferred income tax liability	1,144,632	-	-	-	1,144,632
Other liabilities	10,582,865	1,311,821	783,497	15,983	12,694,166
<b>Total liabilities</b>	<b>572,834,716</b>	<b>1,315,818,497</b>	<b>130,539,648</b>	<b>15,109,473</b>	<b>2,034,302,334</b>
<b>Net balance sheet position</b>	<b>94,714,292</b>	<b>265,741,978</b>	<b>(7,505,936)</b>	<b>43,226,001</b>	

### 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 2020		As at 31 December 2019	
	AZN / USD +10%	AZN / USD -10%	AZN / USD +10%	AZN / USD -10%
Impact on profit or loss	23,519,498	(23,519,498)	26,574,198	(26,574,198)

	As at 31 December 2020		As at 31 December 2019	
	AZN / EURO +10%	AZN / EURO -10%	AZN / EURO +10%	AZN / EURO -10%
Impact on profit or loss	(2,644,422)	2,644,422	(750,594)	750,594

## Open Joint Stock Company Xalq Bank

### Notes to the consolidated financial statements for the year ended 31 December 2020 (Continued) (in Azerbaijan manats)

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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.

#### **31. Events after the reporting period**

On 07 January 2021 Shareholders of the Bank declared dividends in the amount of AZN 5,699,571 on ordinary shares which was paid on 08 January 2021.