

“BANK RESPUBLIKA” OJSC

**Consolidated Financial Statements and
Independent Auditor’s Report**

31 December 2023

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Independent Auditor's Report

To the Shareholders and Board of Directors of Bank Respublika OJSC:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bank Respublika OJSC (the "Bank") and its subsidiary (together – the "Group") as at 31 December 2023, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023;
- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

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

Our audit approach

Overview



- Overall Group materiality: AZN 2,489 thousand, which represents 5% of profit before tax.
- We conducted audit work at 1 reporting unit in 1 country.
- We have audited the financial statements of the Bank, as well as the material balances and transactions of subsidiary included in the consolidated financial statements of the Group.
- Assessment of expected credit losses (ECL) allowance for loans to customers in accordance with IFRS 9, Financial Instruments.

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

Materiality

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

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

Overall Group materiality	AZN 2,489 thousand
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above AZN 249 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of expected credit losses (ECL) allowance for loans to customers in accordance with IFRS 9, Financial Instruments.</p> <p>Measurement of ECL is a significant estimate that involves determination of methodology, models and material data inputs.</p> <p>We considered the impairment of loans to customers, as a key audit matter due to the significance of loans to customer balance and a complex financial reporting standard, which requires significant judgement to determine the ECL allowance. The Group uses the collective impairment assessment approach for over 99% of its gross loans to customers.</p> <p>Key areas of judgement in determining the ECL allowance included:</p> <ul style="list-style-type: none"> • Classification of loans to customers into stages in accordance with IFRS 9; • Key estimates and modelling assumptions used to estimate key risk parameters – probability of default, loss given default and exposure at default. <p>Note 3 "Material Accounting Policies", Note 20 "Loans to Customers" and Note 34 "Risk Management Policies" to the consolidated financial statements provide detailed information on the credit loss allowance.</p>	<p>We obtained an understanding of the Group's process for estimating ECL, judgments that are significant to the ECL estimate, the sufficiency of the information to support those judgments and the degree of estimation uncertainty inherent in those judgments.</p> <p>We assessed the appropriateness of the methodology and models used for calculating ECL allowance developed by the Group to evaluate their compliance with the requirements of IFRS 9.</p> <p>As more than 99% of gross loans by value have their ECL allowance determined on a collective basis the below is how we addressed the ECL allowance calculated on such a basis.</p> <p>With regard to the controls relating to the credit loss allowance calculation process, we assessed and tested on a sample basis the design and operating effectiveness of the key controls over credit loss data and calculations. These key controls included those over loan authorization and accuracy of input of customer data into loan system, including authorization of loan standing data amendments, allocation of cash received from customers to respective loans to customers' accounts, overdue days count on delinquent loans and automated calculation of risk parameters and ECL figures.</p> <p>We assessed the systems and tested on a sample basis the underlying data, which is used by the Group in determining the ECL estimate.</p>

Key audit matter	How our audit addressed the key audit matter
	<p>We evaluated and tested the reasonableness of the ECL methodology developed and applied by management such as:</p> <ul style="list-style-type: none">• the appropriateness of the Group's approach to the segmentation of the loan portfolio;• the appropriateness of the statistical methodology;• tested, on a sample basis, the accuracy of allocation of loans to the different "stages" and the completeness of identified restructured credit-impaired loans;• validation of model risk parameters (PD, LGD and EAD), forward-looking information, associated weighting and the ECL calculation;• back-testing of probabilities of default (PD) and loss given default (LGD) risk parameters. <p>In our work we were supported by our IT risk experts in validation of the ECL outputs from the calculation engine implemented by the Group for expected credit loss calculations.</p> <p>We assessed the adequacy and appropriateness of disclosures made in the consolidated financial statements regarding the expected credit loss allowance for loans to customers in accordance with IFRS.</p>



How we tailored our Group audit scope

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern 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.

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

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

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

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

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



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers Audit Azerbaijan LLC

Baku, the Republic of Azerbaijan

01 May 2024

Bank Respublika OJSC**Consolidated Statement of Profit or Loss and Other Comprehensive Income***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	2023	2022 (restated)
Interest income calculated using the effective interest method	7	183,284	136,378
Interest expense	7	(63,991)	(44,506)
Net interest income before expected credit losses on interest		119,293	91,872
Credit loss allowance release for assets carried at amortised cost	8	954	2,084
Net interest income		120,247	93,956
Fee and commission income	10	29,634	23,435
Fee and commission expense	11	(22,812)	(17,906)
Net gain on foreign exchange operations	9	11,138	16,081
Losses less gains from financial derivatives	22	(7,946)	(10,943)
Other income	12	1,572	889
Net non-interest income		11,586	11,556
Operating income from banking activity		131,833	105,512
Non-banking activities			
Revenue from insurance contracts	15	5,449	5,052
Expenses under insurance contracts	15	(4,735)	(4,118)
Expenses under reinsurance contracts held		(438)	(381)
Income from reinsurance contracts held		156	43
Finance expenses from insurance contracts issued		(250)	(109)
Finance income from reinsurance contracts held		20	7
Other income and expenses		184	(84)
Net insurance result		386	410
Operating expenses	16	(82,445)	(71,695)
Profit before income tax		49,774	34,227
Income tax expense	17	(10,959)	(9,997)
Profit for the year		38,815	24,230
Other comprehensive income/loss			
<i>Items that will not be reclassified to profit or loss</i>			
Revaluation of buildings		3,811	-
Income tax for revaluation of buildings		(762)	-
Other comprehensive income/(loss) for the year		3,049	-
Total comprehensive income for the year		41,864	24,230
Profit attributable to:			
- Owners of the Group		38,771	24,142
- Non-controlling interests	37	44	88
Profit for the year		38,815	24,230
Total comprehensive income attributable to:			
- Owners of the Group		41,820	24,142
- Non-controlling interests	37	44	88
Total comprehensive income for the year		41,864	24,230
Basic and diluted earnings per share (AZN)		1.284	0.805

The consolidated financial statements as set out on pages 5 to 102 were approved by management on 30 April 2024 and were signed on its behalf by:



Mr. Tariyel Ismayilov
Chairman of the Management Board



Mr. Javid Rzayev
Head of Finance Department

Bank Respublika OJSC**Consolidated Statement of Financial Position***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	31 December 2023	31 December 2022 (restated)	1 January 2022
ASSETS				
Cash and cash equivalents	18	593,360	309,036	287,502
Loans to banks	19	146,056	68,412	32,477
Loans to customers	20	1,150,200	959,544	715,180
Investment securities	21	63,843	51,176	37,895
Derivative financial assets	22	3,825	2,945	1,961
Property and equipment	23	48,098	43,749	43,154
Intangible assets	23	3,311	2,018	1,966
Repossessed collateral	26	2,963	4,244	4,763
Deferred income tax assets	17	1,023	1,546	2,052
Other financial assets	24	16,354	14,887	8,119
Other assets	24	4,938	5,886	4,721
Reinsurance contract assets		270	258	285
Goodwill		467	467	467
Total assets		2,034,708	1,464,168	1,140,542
LIABILITIES				
Amounts due to credit institutions	25	5,009	7,870	1,180
Current accounts and deposits from customers	27	1,472,969	999,725	822,850
Other borrowed funds	29	322,819	245,913	174,524
Lease liabilities	23	4,232	3,954	3,240
Derivative financial liabilities	22	2,943	2,102	1,157
Other financial liabilities	32	9,168	5,295	8,747
Other liabilities	32	13,154	16,450	6,814
Current income tax liability		2,880	8,132	984
Bonds issued	30	35,719	45,758	10,038
Subordinated borrowings	28	29,899	26,072	20,646
Insurance contract liabilities	13	2,559	3,419	3,382
Deferred income tax liabilities		62	81	-
Total liabilities		1,901,413	1,364,771	1,053,562
EQUITY				
Share capital	31	73,961	73,461	73,461
Revaluation reserve for buildings		10,682	7,633	7,633
Retained earnings		47,304	14,529	2,293
Insurance finance reserve		1	3	-
Total equity attributable to owners of the Group		131,948	95,626	83,387
Non-controlling interests	37	1,347	3,771	3,593
Total equity		133,295	99,397	86,980
Total liabilities and equity		2,034,708	1,464,168	1,140,542


Mr. Tariyel Ismayilov
Chairman of the Management Board


Mr. Javid Rzayev
Head of Finance Department

Bank Respublika OJSC**Consolidated Statement of Cash Flows***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	2023	2022 (restated)
Cash flows from operating activities			
Interest received		183,360	134,798
Interest paid		(30,833)	(25,220)
Fees and commissions received		29,634	23,435
Fees and commissions paid		(22,812)	(18,769)
Realized gains less losses from exchange transactions in		10,464	16,081
Personnel expenses paid		(56,984)	(51,011)
Administrative expenses paid		(18,982)	(18,784)
Net losses on operations with foreign currency derivatives		(7,985)	(10,943)
Revenue from insurance contract received		4,790	5,917
Expense under held reinsurance contract paid		(583)	(411)
Expense under insurance contract paid		(5,005)	(2,456)
Other operating income received		1,168	1,159
Income from held reinsurance contract received		138	54
Income tax paid		(16,469)	(2,262)
Cash flows from operating activities before changes in operating assets and liabilities		69,901	51,588
<i>Net (increase)/decrease in operating assets</i>			
Loans to banks		(77,559)	(35,959)
Loans to customers		(191,752)	(242,344)
Repossessed collateral		1,281	519
Other assets		(722)	(7,678)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions		(3,962)	6,544
Current accounts and deposits from customers		467,016	185,152
Other liabilities		615	5,853
Net cash flows from/(used in) operating activities		264,818	(36,325)
Cash flows from investing activities			
Purchase of property and equipment		(7,489)	(2,719)
Acquisition of intangible assets		(1,578)	(312)
Investment in equity securities at fair value through profit or loss		(2,468)	-
Proceeds from disposal of property and equipment		4,242	-
Purchase of investment securities		(150,012)	(71,024)
Proceeds from sale and redemption of Investment securities		137,406	47,231
Interest income received on investments in debt securities		1,827	1,861
Net cash used in investing activities		(18,072)	(24,963)
Cash flows from financing activities			
Proceeds from other borrowed funds	29	177,280	151,530
Repayment of other borrowed funds	29	(103,728)	(82,249)
Interest expense paid on other borrowed funds	29	(14,708)	(8,716)
Issue of ordinary shares		500	-
Proceeds from subordinated borrowings	28	3,699	5,100
Interest expense paid on subordinated borrowings	28	(2,862)	(1,210)
Repayment of principal lease liabilities		(3,455)	(761)
Proceeds from bonds issue	30	-	35,000
Redemption of issued bonds		(10,000)	-
Interest expense paid on issued bond	30	(3,825)	(2,338)
Dividends paid	31	(5,997)	(12,000)
Net cash from financing activities		36,904	84,356
Net increase in cash and cash equivalents		283,650	23,068
Effect of changes in exchange rates on cash and cash equivalents		674	(1,534)
Cash and cash equivalents, beginning		309,036	287,502
Cash and cash equivalents, ending	18	593,360	309,036

The accompanying notes on pages 5 to 102 are an integral part of these consolidated financial statements.

Bank Respublika OJSC**Consolidated Statement of Changes in Equity***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)*

	Note	Attributable to owners of the Group				Total	Non-controlling interests	Total equity
		Share capital	Revaluation reserve of buildings	Retained earnings	Insurance finance reserve			
Balance as at 1 January 2022		73,461	7,633	2,897	-	83,991	4,174	88,165
Effects of adoption of new or revised standards	5	-	-	(604)	-	(604)	(581)	(1,185)
Balance - 1 January 2022 (restated)		73,461	7,633	2,293	-	83,387	3,593	86,980
Profit for the year		-	-	24,015	-	24,015	(35)	23,980
Other comprehensive income		-	-	-	2	2	1	3
Total comprehensive income for 2022		-	-	24,015	2	24,017	(34)	23,983
Dividends declared	31	-	-	(12,000)	-	(12,000)	-	(12,000)
Balance as at 31 December 2022		73,461	7,633	14,308	2	95,404	3,559	98,963
Effects of adoption of new or revised standards	5	-	-	221	1	222	212	434
Restated Balance as at 1 January 2023		73,461	7,633	14,529	3	95,626	3,771	99,397
Profit for the year		-	-	38,771	-	38,771	44	38,815
Other comprehensive income		-	-	-	(2)	(2)	-	(2)
Total comprehensive income for 2023		-	-	38,771	(2)	38,769	44	38,813
Share issue	31	500	-	-	-	500	-	500
Dividend declared	31	-	-	(5,997)	-	(5,997)	-	(5,997)
Acquisition of non-controlling interest in subsidiaries		-	-	-	-	-	(2,468)	(2,468)
Revaluation of property and equipment, net of deferred tax liabilities	23	-	3,049	-	-	3,049	-	3,049
Balance as at 31 December 2023	-	73,961	10,682	47,304	1	131,948	1,347	133,295

The accompanying notes on pages 5 to 102 are an integral part of these consolidated financial statements.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023**

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

1. Introduction

These consolidated financial statements comprise the financial statements of Bank Respublika OJSC (the Bank) and its subsidiary (together, the Group).

The Bank was incorporated in the Republic of Azerbaijan in 1992. The Bank is regulated by the Central Bank of the Republic of Azerbaijan (the "CBAR") and conducts its business under general license number 83.

Principal activity. The Bank's principal business activity is commercial and retail banking operations within the Republic of Azerbaijan. The Bank has 33 branches and twelve service points in Azerbaijan as at 31 December 2023 (31 December 2022: 31 branches and three service points).

Registered address and place of business. The Bank's registered office and place of business is 21, Khagani Street, Baku AZ 1000, Azerbaijan.

The only subsidiary of the Bank is as follows:

Name	Country of incorporation	Principal activities	Ownership %	
			2023	2022
Baki Sigorta OJSC	The Republic of Azerbaijan	Insurance	79.4	51

Tural Insurance Open Joint Stock Company was registered on 8 February 1994, subsequently it was renamed to Baki Sigorta Open Joint Stock Company (the Company) which was registered in the Republic of Azerbaijan on 28 August 2007. The principal activity of the Company is non-life insurance services. The Company operates under insurance licenses issued by the Ministry of Finance of the Republic of Azerbaijan dated 12 February 2004.

Registered address and place of business: The Insurance company's registered office and place of business is 21, Khagani Street, Baku AZ 1000, Azerbaijan.

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

	2023, %	2022, %
Guliyev Natig Saday oglu	63.32	63,29
Guliyev Elchin Saday oglu	18.46	18.46
Guliyev Namig Saday oglu	8.47	8.47
Rahimov Shakir Khayyam oglu	5.45	5.45
SIDT (Sparkassen International Development Trust GmbH)	4.22	4.25
Others	0.08	0.08
Total	100	100

The Group is ultimately controlled by a single individual, Guliyev Natig Saday oglu.

2. Operating Environment of the Group

The Republic of Azerbaijan displays certain characteristics of an emerging market. Current and future growth and stability of the economy is largely dependent upon the effective implementation of economic, fiscal and monetary measures undertaken by government as well as crude oil and natural gas prices and stability of Azerbaijani manat.

The rebound in economic activity in 2022 continued in 2023, fuelled by strong activity in non-energy sectors. Real GDP increased by 1.1 percent in 2023. Economic growth in the non-oil sector continued to be the main driver of the economy, increasing by 3.7 percent in real terms and accounting for 56 percent of GDP.

2023 is marked with higher geo-political tension, rise in inflation in trade partners, lingering problems in the global value chain and impact of these developments on the global economy at the time when the world is gradually leaving the pandemic behind. Global demand recovering faster than supply, sharp volatility of global commodity prices and inflation in trade partners, as well as higher transportation-logistic costs weighed on inflation in Azerbaijan. The annual inflation rate in December 2023 was 8.8%. To counter inflation, the Central Bank of Azerbaijan Republic (CBAR) increased the policy rate three times, raising it by 75 basis points in total up to 9.0% and then decreased twice by 100 basis points in total down to 8.0% during 2023. The refinancing rate was 8.0% at the end of 2023.

Although uncertainties related to the global geopolitical and geoeconomic situation, and a high global inflation rate remain a risk, foreign trade surplus and the rise in strategic foreign exchange reserves allow to safeguard macroeconomic stability. So, the adequate monetary and fiscal policy reduces macroeconomic stability risks. As a result of the correct policy pursued by the Azerbaijani state, the Azerbaijani Manat (AZN) remained stable throughout 2023.

During 2023 global rating agencies have reaffirmed their previous positive foreign and local currency sovereign credit ratings on Azerbaijan. In February 2024, Fitch Ratings has affirmed Azerbaijan's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB+' with a Positive Outlook. The rating is supported by a very strong external balance sheet, the lowest public debt in the peer group, and financing flexibility from large sovereign wealth fund assets.

The Banking Sector has remained resilient as the lending activity of the Banking Sector has risen by 19% in 2023 (2022: 18%), providing support to the economic growth. Consumer and mortgage loans to individuals rose 21% (2022: 26%).

The ongoing effects of the political and economic situation are difficult to predict, but they may have further effects on the economy of Azerbaijan.

The Bank's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to ensure the sustainability and development of the Bank's business in the foreseeable future.

The Bank's Management is taking necessary measures to ensure sustainability of the Bank's operations and support its customers and employees consider listing the measures taken, for example:

- The bank re-examined the processes that affect the customers and took important steps towards the optimization of these processes;
- The Bank continued to increase penetration of clients in e-banking and had a chance to optimise products/services offered via this channel;
- As a result of the actions taken, the bank increased its loan portfolio by 22%, mainly micro loans by 34% and mortgage loans to individuals by 49%;
- The total deposit portfolio of the bank has increased by 47%, including 22% increase in time deposits and 73% increase in demand deposits.

In the following years, the Bank will continue its growth by taking steps in the direction of efficiency and digitalization.

2 Operating Environment (Continued)

Assessment of ESG-related risks and opportunities and climate change: During 2023 the Group has made an assessment of the ESG-related risks and opportunities in the context of the sustainable development and the plans for environmental and governance factors are detailed below.

Environmental and safety (E&S):		
	Description of the current situation	Description of the target situation
	<ul style="list-style-type: none"> • E&S policy updated in January 2023 to include an exclusion list, a categorized risk list and Environmental and Social assessment reports. The exclusion List is aligned with the International Financial Institutions' (IFI) requirements; • Exclusion List industries comprise approximately 0.1% of the loan portfolio, highlighting responsible lending focus; • E&S training sessions were held for sales staff (SME and Corporate Sales Department (CSD)) to bolster their comprehension and application of E&S standards, highlighting their crucial role in lending decisions; • E&S monitoring protocols have been updated to reflect current best practices in environmental and social governance; • The SME credit evaluation team now adopts an integrated approach, evaluating both financial metrics and the environmental and social impact of business operations; 	<ul style="list-style-type: none"> • <i>Increasing lending to environmentally friendly production.</i> Primarily supporting entrepreneurs engaged in sustainable plastic door and window manufacturing; • <i>Adopting an environmentally friendly office space.</i> Implementing paper and battery recycling programs, and using energy-efficient lighting solutions; • <i>Financing water-efficient agriculture projects.</i> Focusing on water conservation in high-intensity horticulture and farming sectors; • <i>Digitalization initiatives:</i> <ul style="list-style-type: none"> ✓ Launching a digital lending campaign in 2024 catering to micro-businesses; ✓ Improving "Mobile Shobe" mobile application; ✓ Introducing an online sales channel; ✓ Aiming to fully digitalize SME lending by the end of 2024;
Governance		
	<ul style="list-style-type: none"> • The Code of Conduct was revised in May 2023 to reflect evolving best practices and ensure alignment with our corporate values • Disciplinary procedures were also updated in May 2023 to foster a culture of accountability and integrity within the organization • The Environmental, Social, and Governance (ESG) Responsibility has been assigned to a dedicated member of the Risk Management Department, enhancing the Bank's commitment to sustainable and responsible business practices • The Bank has implemented European Bank for Reconstruction and Development (EBRD) and Asian Development Bank (ADB) standards in governance • The policy, exclusion list, E&S reports, and monitoring actions have been updated in consultation with EBRD and ADB to ensure alignment with best practices • Analysis of portfolio impact is prepared, including a detailed portfolio segmentation breakdown with E&S risk categories. 	<ul style="list-style-type: none"> • The procurement policy is slated for an update, ensuring alignment with best practices; • An individual responsible for ESG is to be appointed within the underwriting department of the Bank, bolstering the department's commitment to sustainable practices; • Establishment of an ESG reporting system, facilitating structured documentation and communication of ESG metrics; • Development of an ESG risk management policy, ensuring systematic identification, assessment, and mitigation of ESG-related risks; • Formation of a Motivation and Discipline Committee, tasked with promoting interests of employees • Introduction of an Environmental and Social Management System (ESMS), streamlining processes and practices for environmental sustainability.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***2 Operating Environment (Continued)**

The Bank has developed an industry heatmap to assess its climate-related credit risk concentration on a sectoral basis, as presented in the table below:

	2023		2022	
	Amount	%	Amount	%
High climate risk sectors				
Manufacturing	7,582	0.66	4	-
Mining and quarrying	344	0.03	-	-
Agriculture	60	0.01	90	-
Construction	27,730	2.41	42,940	4.5
Total high climate risk sectors	35,716	3.11%	43,034	4.5%
Manufacturing	41,608	3.62	55,877	5.82
Transportation	38,134	3.32	7,862	0.82
Service	8,075	0.70	15,916	1.66
Telecommunications	2,411	0.21	-	-
Real estate	1,326	0.12	3,648	0.38
Mortgage	84,473	7.34	70,266	7.27
Agriculture	230,465	20.03	170,027	17.72
Construction	14,378	1.25	146	0.02
Information and communication	1,391	0.12	3,982	0.41
Total moderate climate risk sectors	422,261	36.71%	327,724	34.10%
Consumer goods	242,618	21.09	220,417	23.00
Manufacturing	3,938	0.34	-	-
Transportation	6,761	0.59	23,706	2.50
Trade	261,814	22.76	221,631	23.10
Service	173,285	15.07	117,860	12.30
Agriculture	3,807	0.33	5,172	0.50
Total low climate risk sectors	692,223	60.18%	588,786	61.40%
Total loans to customers carried at AC	1,150,200	100%	959,544	100%

The long-term effects of the current and future economic situation are difficult to assess, and management's current expectations and estimates could differ from the actual results.

For the purpose of measurement of expected credit losses ("ECL") the Group uses supportable forward-looking information, including forecasts of macroeconomic variables. As with any economic forecast, however, the projections and likelihoods of their occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different from those projected. Notes 4 and 34 provide more information of how the Group incorporated forward-looking information in the ECL models.

3. Material Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of financial instruments categorised at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”). The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. Refer to Note 5.

These financial statements are directed to primary users, being investors who lend or provide equity capital to the reporting entity. These financial statements assume that the primary users have a reasonable knowledge of business and economic activities and review and analyse the information diligently.

These financial statements aim disclosing only information that management considers is material for the primary users. Management seeks not to reduce the understandability of these financial statements by obscuring material information with immaterial information. Hence, only material accounting policy information is disclosed, where relevant, in the related disclosure notes.

Presentation currency. These consolidated financial statements are presented in AZN, unless otherwise stated.

Consolidated financial statements. Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and its subsidiary use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests that are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group’s equity.

Foreign currency translation. The financial statements are presented in Azerbaijani Manat, which is the Bank’s functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognised in the statement of profit or loss and other comprehensive income as net gains (losses) from foreign currency translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the CBAR exchange rate on the date of the transaction are included in gains/ losses from dealing operations.

The Bank used the following official exchange rates at 31 December in the preparation of these financial statements:

	<u>2023</u>	<u>2022</u>
1 US dollar	AZN 1.7000	AZN 1.7000
1 Euro	AZN 1.8766	AZN 1.8114

3 Material Accounting Policies (Continued)

Interest and similar income and expense. Interest income and expense are recorded for all debt instruments, other than those at FVTPL, on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision.

Other fee and commission income – including fee and commission income on plastic cards services, settlement fees, and cash operations – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

For cross currency basis swaps interest component calculation, notional amount is multiplied by contractual interest rate for respective period. While making allocation of an interest income/(expense) from FX Swaps transactions, annualized spread earned interest income/(expense) is calculated and distributed linearly throughout the lifetime of the contract.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies
Retail and corporate banking service	The Group provides banking services to retail and corporate customers, provision of overdraft facilities, foreign currency transactions, credit cards and servicing fees.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
	Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	
	The Group charges commission fee to the customers for the guarantee letters issued.	Revenue from fees on issuance of guarantees and letters of credit is recognised over the period until maturity date of such contracts.

Staff costs and related contributions. Wages, salaries, contributions to the Azerbaijan Republic state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Bank. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3 Material Accounting Policies (Continued)

Segment reporting. Segments are reported in a manner consistent with the internal reporting provided to the Bank's management. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Initial recognition of financial instruments. Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs.

Financial assets – classification and subsequent measurement – measurement categories.

The Group classifies financial assets in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – reclassification. Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Financial assets - Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different (referred to as 'substantial modification'), then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

Changes in cash flows on existing financial assets or financial liabilities are not considered as modification, if they result from existing contractual terms, e.g. changes in interest rates initiated by the Group due to changes in the CBAR key rate, if the loan agreement entitles the Group to do so.

The Group evaluates modifications to financial assets based on quantitative and qualitative factors to determine if the cash flows are substantially different from the original asset. If so, the original asset's contractual rights to cash flows are deemed to have expired. Qualitative factors include changes in currency, collateral, or terms leading to non-compliance with certain criteria. A quantitative test compares original and revised expected cash flows, with a 10% change considered significant.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases. The Group further performs qualitative evaluation of whether the modification is substantial.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

3 Material Accounting Policies (Continued)

For fixed-rate loans, where the borrower has an option to prepay the loan at par without significant penalty, the Group treats the modification of an interest rate to a current market rate using the guidance on floating-rate financial instruments. This means that the effective interest rate is adjusted prospectively.

Financial assets – Impairment: See also Note 34 (Credit risk).

The Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 34 (Credit risk)).

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1' financial instruments.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised are referred to as 'Stage 2' financial instruments (if the credit risk has increased significantly since initial recognition, but the financial instruments are not credit-impaired) and 'Stage 3' financial instruments (if the financial instruments are credit-impaired).

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *financial guarantee contracts:* the present value of expected payments to reimburse the holder less any amounts that the Group expects to recover.

Credit-impaired financial assets. At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

3 Material Accounting Policies (Continued)

- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, all loans that are overdue for 90 days or more are considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: as a provision within "Other liabilities" line;
- *where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component*: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- *debt instruments measured at FVTOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Financial assets – Derecognition. The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'expected credit losses on interest bearing assets' in the consolidated statements of profit or loss and other comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3 Material Accounting Policies (Continued)

Financial liabilities

Financial liabilities – measurement categories. Financial liabilities are classified as subsequently measured at AC, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g., short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

Financial liabilities – derecognition / modification. The Group derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

Group performs a quantitative and qualitative evaluation of whether the modification is substantial considering qualitative factors, quantitative factors and combined effect of qualitative and quantitative factors. The Group concludes that the modification is substantial as a result of the following qualitative factors:

- change the currency of the financial liability;
- change in collateral or other credit enhancement;
- inclusion of conversion option;
- change in the subordination of the financial liability.

For the quantitative assessment the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Offsetting. Financial assets and liabilities are offset, and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Group currently has a legally enforceable right to set off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the Group and all counterparties.

Cash and cash equivalents. The mandatory reserve deposit with the CBAR is not considered to be a cash equivalent, due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks. Amounts due from other banks are carried at AC when: (i) they are held for the purposes of collecting contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at fair value through profit or loss (FVTPL). Otherwise, they are carried at fair value (FV).

Loans to customers. ‘Loans to customers’ caption in the consolidated statement of financial position include:

- loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3 Material Accounting Policies (Continued)

Financial guarantees and loan commitments. Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The Group has issued no loan commitments that are measured at FVTPL. For other loan commitments the Group recognises a loss allowance.

Investments in debt securities. Based on the business model and the cash flow characteristics, the Group classifies investments in debt securities as carried at AC, fair value through other comprehensive income (FVOCI) or FVTPL. Debt securities are carried at AC if they are held for collection of contractual cash flows and where those cash flows represent SPPI, and if they are not voluntarily designated at FVTPL in order to significantly reduce an accounting mismatch.

Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, forward rate agreements, currency and interest rate swaps are carried at their fair value.

The Bank also enters into agreements with its counterparty banks, which are offset for IFRS purposes, to swap deposits or loans in different currencies. Such agreements, while legally separate, are aggregated and accounted for as a single derivative financial instrument on a net basis where (i) the loans are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

“Gains less Losses from Financial Derivatives” line in the consolidated statement of profit or loss and other comprehensive income includes interest expense on deposit swap agreement.

All derivative instruments are carried as assets when fair value is positive, and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year under “Gains less losses from financial derivatives” line. The fair values are estimated based on quoted market prices or pricing models that take into account the current market and contractual prices of the underlying instruments and other factors.

Customer accounts, other borrowed funds, and subordinated borrowings. Amounts due to credit institutions, current accounts and deposits from customers, subordinated borrowings and other borrowed funds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Debt securities in issue. Debt securities in issue include bonds issued by the Bank. Debt securities are stated at AC. If the Bank purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from early retirement of debt.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group to settle overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or repossessed collateral within other assets depending on their nature and the Group’s intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Repossessed assets are recorded at the lower of cost or net realisable value.

3 Material Accounting Policies (Continued)

Accounting for leases by the Bank as a lessee. The Bank leases office premises.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Property and equipment

(i) Owned assets. Items of property and equipment are stated at cost less accumulated depreciation and impairment losses, except for buildings, which are stated at revalued amounts as described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation. Buildings are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity.

(iii) Depreciation. Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. Land is not depreciated. The estimated useful lives and residual values are as follows:

	Years	Residual value, % of historical cost
- Buildings	50-70	20%
- Furniture and equipment	5-10	-
- Computers	5-7	-
- Vehicles	7-10	10%
- Other equipment	5-10	-
- Leasehold improvements	shorter of useful life and the term of the underlying lease	-

Intangible assets

(i) Intangible assets acquired separately. Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives of ten years. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(ii) Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

3 Material Accounting Policies (Continued)

(iii) Impairment of non-financial assets. At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets, other than investment property and deferred tax assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Provisions. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. Provisions are recognized when the Bank 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 amount of obligation can be made.

Non-life insurance operations. The Group considers the contract as the minimum unit of account, encompassing all insurance components, except in cases where the Group has made a reasonable decision to use a different level of detail as the minimum unit of account.

The Group consolidates issued contracts into groups of insurance contracts (GIC) for the purpose of their subsequent evaluation using the PAA (Premium Allocation Approach).

GIC within a portfolio of insurance contracts (PIC) are grouped based on certain characteristics at initial recognition and are not subsequently moved from one group to another. These groups are the following:

- a) onerous contracts:
 - AATPL (Compulsory Motor Insurance);
 - MI (Motor Vehicle Insurance- leasing)

Onerous contracts imply calendar combined ratio of more than 100% or stabilization reserve formation at the end of the year.

- b) Other GIC:
 - BBB - Employee fraud insurance
 - CI – cargo (transport) insurance
 - DE - Compulsory Property Insurance
 - PA - Personal Accident Insurance
 - MI – Motor Vehicle Insurance other than leasing
 - PI – Property Insurance
 - TI – Travel Insurance
 - Other liability – Other insurance contracts other than indicated above.

3 Material Accounting Policies (Continued)

Due to the small volume of business, insufficient accumulated statistics, youth and high variability of the insurance market of Azerbaijan, the group of “contracts not characterized by a significant risk of becoming onerous”, i.e., “profitable” GIC, is not used by the Group.

The Group assumes that contracts evaluated using the Premium Allocation Approach are not onerous at initial recognition unless facts and circumstances indicate otherwise.

The Group establishes the groups of insurance contracts (GIC) annually based on the contract inception date. The Group considers the contract inception date as equivalent to the contract's commencement date. Furthermore, the Group does not include insurance contracts issued more than one year apart in the same GIC.

Due to the following characteristics of the insurance portfolio, the Group adopted PAA as assessment model:

1. GIC consisting of contracts with coverage periods of one year or less; or
2. GIC for which the Group reasonably expects that the measurement of the liability for the remaining coverage under this GIC under the PAA will not differ significantly from the measurement made by applying the General Model requirements (for contracts without direct participation).

The Group has determined that the measurement made in accordance with PAA does not differ materially from the measurement made in accordance with GMM when, for a group of contracts at the time of initial recognition, the difference in GMM between the two approaches does not exceed 5% of what was expected on the initial recognition of the volume of insurance premiums for the group for each considered point in time in the future.

The Group's GIC with a coverage period of 1 year or less automatically meets the first criterion for PAA applicability. The condition for applying the PAA for GIC containing contracts with a coverage period of 1 year or less remains valid in cases where the expected settlement period exceeds 1 year.

For GIC subject to the PAA, the Group decides whether to use a simplified approach on an individual basis depending on the complexity of cash flow construction and the quality of the initial data.

If a GIC contains number of insurance contracts with a coverage period exceeding 1 year, the Group evaluates the LRC on both a PAA and GMM basis to confirm the potential use of the PAA.

Insurance revenue - represents compensation for services rendered under the contract. It's the amount of premiums paid to the organization, adjusted for the effect of financing, and excluding all investment components.

Insurance service expenses are the costs incurred in fulfilling service obligations as per the contract in current and previous periods. These expenses may also include expected claims and their subsequent recoveries. Insurance service expenses encompass incurred insurance claims, other expenses related to insurance services (included in the liability for incurred insurance claims or paid upon occurrence) as a separate item in the income statement, reflecting the outcome of providing insurance services.

The liability for insurance contracts (or a positive value: asset for insurance contracts) consists of the following components: the liability for the remaining coverage (including the loss component recognized using GMM or the additional liability for onerous contracts recognized using PAA), and the liability for incurred insurance claims. If the sum of these components results in a negative value at the level of the PIC, it represents an asset for insurance contracts, which must be presented separately from the liability for insurance contracts.

3 Material Accounting Policies (Continued)

Liability for incurred claims (LIC)

Under the Premium Allocation Approach, liabilities for incurred insurance losses are recognized as part of the cash flows for the fulfillment of contracts related to the incurred losses. The Group incorporates expected future cash flows, including payments for reported incurred losses as well as incurred but not reported losses.

Liability for remaining coverage (LRC)

The Group consistently releases amounts from the liability for the remaining part of the insurance coverage and recognizes them in the Consolidated statement of profit or loss as insurance revenue. The total expected premium income is allocated to insurance revenue for each period of providing services under the insurance contract:

- based on the passage of time; however,
- if the expected risk release pattern during the coverage period significantly differs from the pattern reflecting the passage of time, based on the expected recognition periods for incurred expenses related to insurance services.

Insurance acquisition cash flows arising before the recognition of the related group of contracts are recognized as an asset. Insurance acquisition cash flows arise when they are paid or when a liability is required to be recognized under a standard other than IFRS 17. Such an asset is recognized for each group of contracts to which the insurance acquisition cash flows are allocated. The asset is derecognized, fully or partially, when the insurance acquisition cash flows are included in the measurement of the group of contracts.

The Group does not recognize any insurance acquisition cash flows as expenses when it incurs those costs. The Group allocates insurance acquisition cash flows to groups of insurance contracts using a systematic and rational method based on analysis of nature of expenses and selected drivers such as gross premiums written.

The loss component is a segment of the liability for the remaining coverage, reflecting recognized losses when a group of contracts becomes onerous (either initially recognized or subsequent evaluations). This component increases when a group of contracts becomes more onerous during subsequent assessments and decreases with subsequent systematic releases. It represents an estimation of future services within the group of contracts that won't be covered by premiums.

Share Capital. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction from the proceeds in equity.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings in the period when they are declared.

Dividend income is recognised in profit or loss on the date that the dividend is declared.

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 statement of financial position but disclosed when an inflow of economic benefits is probable.

Taxation. Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax. Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from dividends.

3 Material Accounting Policies (Continued)

Tax legislation in Azerbaijan is subject to varying interpretations, and changes can occur frequently. Management interpretation of such legislation and changes, as applied to the transactions and activity of the Group may be challenged by the relevant authorities. As such, additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three years including the year of review. Management believes that as of 31 December 2023 its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

(ii) Deferred tax. Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is recognised on tax losses, which can be utilised during five years.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Presentation of consolidated statement of financial position in order of liquidity. The Group does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 34 for analysis of financial instruments by their maturity. The following table below provides information on amounts expected to be recovered or settled before and after twelve months after the reporting period for items that are not analysed in Note 34.

	Note	31 December 2023			31 December 2022		
		Amounts expected to be recovered or settled			Amounts expected to be recovered or settled		
		Within 12 months after the reporting period	After 12 months after the reporting period	Total	Within 12 months after the reporting period	After 12 months after the reporting period	Total
ASSETS							
Property and equipment	23	-	48,098	48,098	-	43,749	43,749
Intangible assets	23	-	3,311	3,311	-	2,018	2,018
Deferred income tax asset	17	-	1,023	1,023	-	1,546	1,546
Other non-financial assets	24	4,798	140	4,938	5,766	120	5,886
Repossessed collateral	26	2,963	-	2,963	4,244	-	4,244
Goodwill		-	467	467	-	467	467
LIABILITIES							
Current income tax liability		2,880	-	2,880	8,132	-	8,132
Other non-financial liabilities	32	13,154	-	13,154	16,450	-	16,450

3 Material Accounting Policies (Continued)

Changes in Presentation. The effect of restatement related to IFRS 17 implementation for presentation purposes was as follows on amounts as at 31 December 2022. Where necessary, corresponding figures have been adjusted to conform to the presentation of the current year amounts.

Consolidated Statement of Profit or loss and Other Comprehensive Income:

	As originally presented	Restatement	As restated at 31 December 2022
Interest income calculated using the effective interest method	136,378	-	136,378
Interest expense	(44,506)	-	(44,506)
Net interest income before expected credit losses on interest bearing assets	91,872	-	91,872
Credit loss allowance release for assets carried at amortised cost	2,270	(186)	2,084
Net interest income	94,142	(186)	93,956
Net gain on foreign exchange operations	16,081	-	16,081
Losses less gains from financial derivatives	(10,943)	-	(10,943)
Fee and commission income	23,435	-	23,435
Fee and commission expense	(18,769)	863	(17,906)
Other income	889	-	889
Net non-interest income	10,693	863	11,556
Operating income from banking activity	104,835	677	105,512
Non-banking activities			-
Gross premiums written	5,917	(5,917)	-
Premium ceded on reinsurance	(411)	411	-
Claims paid, gross	(2,456)	2,456	-
Claims ceded on reinsurance	54	(54)	-
Change in Insurance reserves	(1,115)	1,115	-
Other income	300	(300)	-
Revenue from insurance contracts	-	5,052	5,052
Expenses under insurance contracts:	-	(4,118)	(4,118)
Expenses under held reinsurance contracts:	-	(381)	(381)
Income from reinsurance contracts held:	-	43	43
Finance expenses from insurance contracts issued	-	(109)	(109)
Finance income from reinsurance contracts held	-	7	7
Other income and expenses	-	(84)	(84)
Operating income from non-banking activities	2,289	(1,879)	410
Operating expenses	(73,228)	1,533	(71,695)
Profit before income tax	33,896	331	34,227
Income tax expense	(9,916)	(81)	(9,997)
Profit for the year	23,980	250	24,230
Other comprehensive income, net of income tax	-	-	-
Total comprehensive income for the year	23,980	250	24,230
Profit attributable to:			-
- Owners of the Group	24,015	127	24,142
- Non-controlling interests	(35)	123	88
Profit for the year	23,980	250	24,230
Total comprehensive income attributable to:			-
- Owners of the Group	24,015	127	24,142
- Non-controlling interests	(35)	123	88
Total comprehensive income for the year	23,980	250	24,230
Basic and diluted earnings per share (AZN)	0.801	0.004	0.805

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***3 Material Accounting Policies (Continued)**

Consolidated Statement of Financial Position:

	As originally presented	Restatement	As restated at 31 December 2022
ASSETS			
Cash and cash equivalents	309,036	-	309,036
Loans to banks	68,412	-	68,412
Loans to customers	959,544	-	959,544
Investment securities	51,176	-	51,176
Derivative financial assets	2,945	-	2,945
Property and equipment	43,737	12	43,749
Intangible assets	2,018	-	2,018
Assets held for sale	20	(20)	-
Repossessed collateral	4,244	-	4,244
Deferred tax assets	1,546	-	1,546
Other financial assets	15,375	(488)	14,887
Other assets	6,434	(548)	5,886
Reinsurance contract assets	-	258	258
Goodwill	467	-	467
Total assets	1,464,954	(786)	1,464,168
LIABILITIES			
Amounts due to credit institutions	7,870	-	7,870
Current accounts and deposits from customers	999,725	-	999,725
Other borrowed funds	245,913	-	245,913
Lease liabilities	4,009	(55)	3,954
Derivative financial liabilities	2,102	-	2,102
Other financial liabilities	5,723	(428)	5,295
Other liabilities	19,501	(3,051)	16,450
Current income tax liability	8,132	-	8,132
Bonds issued	45,758	-	45,758
Subordinated borrowings	26,072	-	26,072
Insurance contract liabilities	-	3,419	3,419
Deferred tax liabilities	-	81	81
Total liabilities	1,364,805	(34)	1,364,771
EQUITY			
Share capital	73,461	-	73,461
Revaluation reserve for buildings	7,633	-	7,633
Retained earnings	14,912	(383)	14,529
Insurance finance reserve	-	3	3
Total equity attributable to owners of the Group	96,006	(380)	95,626
Non-controlling interests	4,139	(368)	3,771
Total equity	100,145	(748)	99,397
Total liabilities and equity	1,464,950	(782)	1,464,168

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***3 Material Accounting Policies (Continued)**

Consolidated Statement of Cash Flow:

	As originally presented	Restatement	As restated at 31 December 2022
Cash flows from operating activities			
Interest received	134,798	-	134,798
Interest paid	(25,220)	-	(25,220)
Fees and commissions received	23,435	-	23,435
Fees and commissions paid	(18,769)	-	(18,769)
Realized gains less losses from exchange transactions in foreign currencies	16,081	-	16,081
Personnel expenses paid	(51,011)	-	(51,011)
Administrative expenses paid	(18,784)	-	(18,784)
Net losses on operations with foreign currency derivatives	(10,943)	-	(10,943)
Gross premiums received	5,917	(5,917)	-
Ceded premiums paid	(411)	411	-
Net claims paid	(2,456)	2,456	-
Other operating income received	1,159	-	1,159
Claims ceded on reinsurance	54	(54)	-
Revenue from insurance contract received	-	5,917	5,917
Expense under held reinsurance contract paid	-	(411)	(411)
Expense under insurance contract paid	-	(2,456)	(2,456)
Income from held reinsurance contract received	-	54	54
Income tax paid	(2,262)	-	(2,262)
Cash flows from operating activities before changes in operating assets and liabilities	51,588	-	51,588
<i>Net (increase)/decrease in operating assets</i>			
Loans to banks	(35,959)	-	(35,959)
Loans to customers	(242,344)	-	(242,344)
Repossessed collateral	519	-	519
Other assets	(7,678)	-	(7,678)
<i>Net increase/(decrease) in operating liabilities</i>			
Amounts due to credit institutions	6,544	-	6,544
Current accounts and deposits from customers	185,152	-	185,152
Other liabilities	5,853	-	5,853
Net cash flows used in operating activities	(36,325)	-	(36,325)

4. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Going concern. The Group prepared these financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources, and analysed the impact of recent macro-economic developments on future operations of the Group.

ECL measurement. Measurement of ECL is a significant estimate that involves determination of methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 34 "Risk Management Policies" (a). The following components have a major impact on credit loss allowance: definition of default, SICR and its assessment criteria, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios, segmentation of financial assets for the ECL assessment purposes, determination of a level of ECL assessment on a collective basis. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience. Impact of forward-looking assumptions correlated with ECL level, and their assigned weight is not significant.

The Group used supportable forward-looking information for measurement of ECL, primarily an outcome of its own macro-economic forecasting model. Details about the most significant forward-looking assumptions that correlate with ECL level and further information is disclosed in Note 34 "Risk Management Policies".

ECL related sensitivity results are disclosed in Note 20 "Loans to Customers".

Determination of collateral value. Management monitors market value of collateral on a regular basis. Management uses its experienced judgement or independent opinion to adjust the fair value to reflect the current circumstances. The amount and collateral required depends on the assessment of credit risk of the counterparty.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group uses the following criteria:

- compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition;
- backstop of 30 days past due (DPD). DPD value is the maximum of DPD interest and DPD principal of the loan taking into account any delay in repayment;
- total probability of default in the next year exceeds certain threshold dependent on the loan segment.

The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward-looking information available without undue cost and effort, which includes a range of factors, including behavioural aspects of particular customer portfolios. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward-looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 34 (Credit risk).

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

Business model assessment. The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Group assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Group’s control, is not recurring and could not have been anticipated by the Group, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

The Group classifies its debt securities as held to collect based on the assumption that these securities would only be sold in a stress case scenario.

Assessment whether cash flows are solely payments of principal and interest (“SPPI”). Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement. In making this judgement, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group’s claim to the cash flows from specified assets (e.g., non-recourse financing);
- Features that modify consideration of the time value of money element (e.g., periodical reset of interest rates);

The Group continuously analyzes contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset’s principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

4 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

The Group's loan arrangements sometimes may include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Group or achieving certain criteria, such as maintaining a minimum turnover on current Group accounts held with the Group. The cash flows are SPPI if such clauses merely reduce the Group's overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Group's loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

5. Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2023:

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023). IFRS 17 is applicable for the Insurance subsidiary of the Group with a transition date of January 1, 2022. As part of the IFRS 17 implementation, certain restatements were made to the period ended 31 December 2022, as detailed in note 3, "Change in presentation".

Banking activity

The Group does not expect to apply the standard to the guarantees that it issues as part of its banking activity. There are no insurance products embedded in loans and similar instruments issued by the Group. The Group issues financial guarantee contracts which are initially recognised and subsequently measured under IFRS 9 (Note 3). Therefore, the Group considers the IFRS 17 scope exclusion relating to financial guarantees. The Group does not issue performance guarantees, combined contracts with insurance companies, or other instruments that meet the definition of insurance contract under IFRS 17.

Insurance activity

Insurance business is not material for the Group. Major insurance products are related to vehicle insurance, compulsory insurance of civil liability of motor vehicle owners, property insurance with most of the insurance policies having coverage period less than one year (refer to Note 3). The Group adopted the standard effective 1 January 2023 with transition date on 1 January 2022 using modified retrospective approach (refer to information under the title of "Transition option for insurers applying IFRS 17" included in this Note).

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023). The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The amendments were made to the following areas in IFRS 17:

- *Effective date;*
- *Expected recovery of insurance acquisition cash flows;*
- *Contractual service margin attributable to investment services;*
- *Reinsurance contracts held – recovery of losses;*

5 Adoption of New or Revised Standards and Interpretations (Continued)

- *Other amendments:* Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Group applied the standard to Insurance subsidiary. The Group does not hold any performance guarantees. The adoption of the standard is reflected on these consolidated financial statements.

Transition option for insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment relates to insurers' transition to IFRS 17 only and does not affect any other requirements in IFRS 17.

The Group adopted IFRS 9 on January 1, 2018, which included insurance subsidiary as well. Therefore, no transition disclosures are provided in respect of the IFRS 9.

The Group has adopted IFRS 17 by applying the modified retrospective approach to all its portfolio of insurance contracts.

The Group has determined that it would be impracticable to apply the full retrospective approach, due to the following conditions:

- a) The effects of the full retrospective application were not determinable. Some reasonable and supportable information about actual historical cash flows may have been available from the insurance subsidiary's systems, but in many cases such information was only available at higher levels or different levels of aggregation compared to the groups required by IFRS 17. This lack of information makes it impracticable to accurately calculate the FCF on a retrospective basis and segregate groups based on profitability.
- b) The Insurance subsidiary had limited or no information required for the allocation of acquisition costs and other overhead expenses to respective groups under IFRS 17. Systems have not been tracking or allocating acquisition costs as previous accounting policies did not require this. In addition, the allocation of applicable overheads to groups of contracts could require information that has not historically been tracked/recorded.

Judgements in applying the modified retrospective approach.

The Group has determined that transactional level data and annual actuarial assumptions are available as far as three years prior to the IFRS 17 transition date. The Group has used that threshold to apply the modified retrospective approach to all groups of contracts in force as at transition and originated within five to three years prior to the transition date, where the full retrospective approach has not been applied as it was impracticable, but the closest possible outcome could have been achieved using reasonable and supportable information. The modified retrospective approach was applied as follows:

5 Adoption of New or Revised Standards and Interpretations (Continued)

<p>Aggregation of contracts</p>	<p>Groups of contracts were divided into annual cohorts. Aggregation of insurance contracts by expected profitability was assessed as at the transition date to the extent that reasonable and supportable information was not available to perform this assessment as at initial recognition. For this assessment, the Group estimated the FCF at the initial recognition as described below. Further, to aggregate non-onerous insurance contracts issued into groups of contracts that had no significant possibility of becoming onerous subsequently or groups of remaining contracts, the Group assessed the likelihood of changes in insurance, financial and other exposures on the FCF prospectively as at the transition date.</p>
<p>Risk adjustment for non-financial risk</p>	<p>Similar to the cash flow simplification above, the risk adjustment for non-financial risk was estimated at the transition date by adjusting the risk adjustment for non-financial risk at the transition date by the expected release of risk before the transition date. In estimating the release of risk, reference was made to the release of risk for similar insurance contracts that were issued at the transition date.</p> <p>The non-financial risk adjustment for GIC determines the compensation size that the Group would require for assuming uncertainties regarding the amount and timing of cash flows arising from non-financial risk.</p> <p>The following risks are considered in the non-financial risk adjustment: insurance risk, termination risk, and risk of increased claims settlement expenses.</p> <p>For calculating the non-financial risk adjustment, the Group applies a confidence level-based method.</p>
<p>Insurance acquisition cash flows</p>	<p>Under the modified retrospective approach, the Group identified any insurance acquisition cash flows arising before 1 January 2022 that did not relate to contracts that had ceased to exist before that date. These cash flows are allocated, using the same systematic and rational methods to:</p> <ul style="list-style-type: none"> — groups of contracts recognised at 1 January 2022 and — groups of contracts expected to be recognised after 1 January 2022 (which were recognised as assets for insurance acquisition cash flows). <p>In some cases, the Group did not have reasonable and supportable information to identify the relevant insurance acquisition cash flows.</p>
<p>Discount rates</p>	<p>The Group applied the modification for discount rates determination. The Group estimated the discount rates by determining an average spread between an observable yield curve and the yield curve estimated applying IFRS 17 requirements, and applied that spread to an observable yield curve. That spread is an average over at least three years immediately before the transition date.</p> <p>The yield curves that were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items. For insurance contracts without direct participation conditions discounts rates for AZN are as follows:</p> <ul style="list-style-type: none"> -2.07 % - 3.67% for January 1, 2022 - 5.61% - 6.8% for December 31, 2022 - 5.16% - 6.45 % for December 31, 2023

5 Adoption of New or Revised Standards and Interpretations (Continued)

Methods used to measure insurance liabilities in relation to claims incurred.

The Group estimates insurance liabilities in relation to claims incurred for automobile insurance separately for property damage and third-party liability coverage. Estimates are performed on an accident quarter basis. The most common methods used to estimate liabilities in relation to claims incurred are the chain-ladder and the Bornhuetter-Ferguson methods, which are the industry standards for this type of claims.

The Group has not changed the methods used to estimate incurred claims in 2022 and 2023 with the exception of a small number of policy groups where the Group now has sufficient claims statistics to apply the chain-ladder method instead of the Bornhuetter-Ferguson method, which was previously used. The change in method applied had no significant impact on the consolidated financial statements of the Group.

Methods used to measure the risk adjustment for non-financial risk.

The Group uses Confidence level (VaR) approach with the confidence level 75%. Based on loss development triangles the Group used bootstrap technique for calculation of the set of possible Claim reserve values and select 75% percentile in ordered list of these values. The methods and assumptions used to determine the risk adjustment for non-financial risk were not changed in 2023 and 2022.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments resulted in changes in presentation of these consolidated financial statements, primarily by removing significant accounting policies that do not represent material accounting policy information.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

The adoption of the amendments did not have a material impact on these consolidated financial statements.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

The amendment did not have a material impact on these consolidated financial statements.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023). The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules, released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendment did not have a material impact on these consolidated financial statements.

The application of the above amendments other than IFRS 17 and IAS 1 had no significant impact on the Group's consolidated financial statements.

6. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2024 or later, and which the Bank has not early adopted.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023). Amendments to IAS 7 and IFRS 7 require disclosure about entity's supplier finance arrangements (SFAs). These amendments require the disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

7. Net Interest Income

	2023	2022
Interest income calculated using the effective interest method		
Loans to customers	162,199	129,429
Cash and cash equivalents	17,832	3,145
Investment securities measured at amortised cost	1,994	1,857
Loans to banks	1,259	1,947
	183,284	136,378
Interest expense		
Current accounts and deposits from customers	(38,016)	(27,644)
Other borrowed funds	(14,913)	(11,068)
Subordinated borrowings	(5,364)	(2,055)
Lease liabilities	(992)	(641)
Issued bonds	(3,786)	(3,058)
Amounts due to credit institutions	(920)	(40)
	(63,991)	(44,506)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023**

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

8. Expected Credit Losses on Interest Bearing Assets

Expected credit losses amount on interest bearing assets recognised in the consolidated statement of profit or loss and other comprehensive income is comprised of the following:

	2023	2022
Loans to customers	811	2,120
Release of ECL on Loans to banks	143	(36)
Release of Expected credit losses on interest bearing assets, total	954	2,084
	2023	2022
Impairment expense (net) on loans to customers	(3,307)	(3,276)
Recoveries from written off loans	4,118	5,396
Expected credit losses on loans to customers, total	811	2,120

9. Net gain on Foreign Exchange Operations

	2023	2022
Dealing, net	10,768	15,936
Translation differences, net	370	145
	11,138	16,081

10. Fee and Commission Income

	2023	2022
Plastic cards services	16,769	12,414
Settlements	6,948	6,534
Cash operations	4,357	2,947
Guarantee letters	562	413
Other operations	998	1,127
	29,634	23,435

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***11. Fee and Commission Expense**

	2023	2022
Plastic cards services	12,300	9,489
Payment systems	6,390	5,088
Settlements	2,474	1,875
Cash operations	1,047	758
Guarantees	251	88
Other operations	350	608
	22,812	17,906

12. Other Income, Net

	2023	2022
Dividend income	450	281
Other income	1,122	608
	1,572	889

13. Insurance Contract Liabilities

The following table presents movement of LRC and LIC for the year ended 31 December 2023:

Analytics of movements of liabilities under insurance contracts, broken down by LRC and LIC	LRC		LIC	Total
	Excluding Loss Component	Loss Component		
Liabilities under insurance contracts at the beginning of the period	2,212	570	637	3,419
Insurance Revenue	(5,654)	-	-	(5,654)
Insurance service expenses	1,601	(297)	3,431	4,735
Losses incurred and expenses incurred			3,739	3,739
Amortization of acquisition assets	1,601			1,601
Losses and recovery of losses under onerous contracts		(297)		(297)
Changes in liabilities for incurred losses			(308)	(308)
The result of providing insurance services	(4,054)	(297)	3,432	(919)
Financial expenses for insurance	215	27	9	251
Effect of changes in exchange rates	-	-	-	-
Total changes in the income statement and OCI	(3,839)	(270)	3,441	(668)
Cash flows	3,216		(3,408)	(192)
Premium received	4,725			4,725
Paid losses and other cash flows			(3,408)	(3,408)
Acquisition cash flows	(1,509)			(1,509)
Transferred contracts	-	-	-	-
Liabilities under insurance contracts at the end of the period	1,589	300	670	2,559

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***13 Insurance Contract Liabilities (Continued)**

The following table presents movement of LRC and LIC for the year ended 31 December 2022:

Analytics of movements of liabilities under insurance contracts, broken down by LRC and LIC	LRC		LIC	Total
	Excluding Loss Component	Loss Component		
Liabilities under insurance contracts at the beginning of the period	1,755	1,024	603	3,382
Insurance Revenue	(5,327)	-	-	(5,327)
Insurance service expenses	1,511	(474)	3,110	4,147
Losses incurred and expenses incurred	-	-	3,657	3,657
Amortization of acquisition assets	1,511	-	-	1,511
Losses and recovery of losses under onerous contracts	-	(474)	-	(474)
Changes in liabilities for incurred losses	-	-	(547)	(547)
The result of providing insurance services	(3,816)	(474)	3,110	(1,180)
Financial expenses for insurance	88	20	(2)	106
Effect of changes in exchange rates	-	-	-	-
Total changes in the income statement and OCI	(3,728)	(454)	3,108	(1,074)
Cash flows	4,186	-	(3,074)	1,112
Premium received	6,077	-	-	6,077
Paid losses and other cash flows	-	-	(3,074)	(3,074)
Acquisition cash flows	(1,891)	-	-	(1,891)
Transferred contracts	-	-	-	-
Liabilities under insurance contracts at the end of the period	2,212	570	637	3,419

14. Insurance Assets and Liabilities Balances

<i>In Azerbaijani Manats</i>	2023	2022
Liabilities for remaining coverage other than the loss component, including:	1,589	2,212
- liabilities measured using the premium allocation approach	1,589	2,212
Loss Component	300	570
Liabilities for incurred claims	670	637
Total insurance liability	2,559	3,419

15. Insurance Revenue and Insurance Service Result

<i>In Azerbaijani Manats</i>	2023	2022
Amounts associated with the provision of insurance services, including:	5,449	5,052
insurance revenue from insurance contracts valued using the premium allocation approach	5,449	5,052
Total insurance revenue	5,449	5,052

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***15 Insurance Revenue and Insurance Service Result (Continued)**

<i>In Azerbaijani Manats</i>	2023	2022
Losses and recovery of losses under onerous contracts	297	474
Amortization of acquisition cash flows	(1,601)	(1,511)
Change in the amount of liabilities for incurred claims	308	547
Incurred claims and other expenses for insurance services	(3,739)	(3,628)
Total insurance costs	(4,735)	(4,118)

16. Operating Expenses

	2023	2022
Staff costs	48,952	44,623
Payments to Social Pension Fund	6,980	5,349
Fees paid to Deposit Insurance Fund	4,381	3,176
Depreciation	3,934	3,098
Software costs	1,959	1,564
Advertising and marketing	1,775	1,428
Professional services fees	1,706	1,260
Taxes other than income tax	1,570	1,010
Communication expenses	1,466	1,154
Office expenses	1,203	1,259
Security costs	976	811
Repairs and maintenance	635	708
Losses on disposal of fixed assets	569	1,318
Transportation and travel	437	358
Amortization	285	260
Membership fees	236	192
Lease expense (short-term and low value items)	114	128
Other operating expenses	5,267	3,999
	82,445	71,695

The annual fee for the audit of the Group's consolidated financial statements for 2023 is AZN 212 thousand, net of VAT.

17. Income Taxes

	2023	2022
Current income tax charge	(11,218)	(8,554)
Reassessment of income tax charge in prior years	-	(856)
Deferred income tax charge	259	(587)
Income tax expense for the year	(10,959)	(9,997)

Deferred tax charge for the year ended 31 December 2023 in the amount of AZN 1,021 thousand is comprised of the AZN 259 thousand charge presented in the table above and AZN 762 thousand, which is the deferred tax charged on the revaluation of the Group's buildings and presented net of the revaluation reserve amount in other comprehensive income in the consolidated statement of profit or loss and other comprehensive income.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***17 Income Taxes (Continued)**

In 2023, the applicable tax rate for current and deferred tax is 20% (2022: 20%).

	2023	2022
Profit before tax	49,774	34,227
Income tax at the applicable tax rate	(9,955)	(6,787)
Tax effect of non-deductible expenses	(472)	(595)
Unrecognised deferred tax asset on tax losses of subsidiary	-	(44)
Reassessment of income tax charge in prior years	-	(856)
Effect of tax act adoption on deduction of provision	-	(1,599)
Other	(532)	(116)
Income tax expense for the year	(10,959)	(9,997)

Deferred tax assets and liabilities

Deferred tax assets and liabilities represent the potential income tax benefit and charge respectively, arising from temporary differences between the carrying values of assets and liabilities in the consolidated statement of financial position in accordance with IFRS and their values for tax accounting purposes reported in accordance with the local tax regulations.

Movements in temporary differences during the years ended 31 December 2023 and 2022 are presented as follows:

	Balance 1 January 2023	Recognised in profit or loss	Balance 31 December 2023
Deferred tax assets in relation to:			
Loans to customers	1,630	834	2,464
Loans to banks	(35)	2	(33)
Investment securities	(31)	1	(30)
Derivative financial assets	(605)	(160)	(765)
Property and intangible assets	93	(812)	(719)
Revaluation of premises and equipment	-	(762)	(762)
Right of use assets	(662)	(38)	(700)
Other assets	(65)	236	171
Amounts due to credit institutions	-	(116)	(116)
Other borrowed funds	(45)	86	41
Lease liabilities	748	23	771
Derivative financial liabilities	444	145	589
Insurance reserves	(81)	19	(62)
Other liabilities	41	71	112
Tax loss carry forwards	33	(33)	-
Net deferred tax asset	1,465	(504)	961
Recognised deferred tax asset	2,989	1,408	4,397
Recognised deferred tax liability	(1,524)	(1,912)	(3,436)
Net deferred tax asset	1,465	(504)	961

Deferred tax balance for insurance reserves relates to the Group's subsidiary and therefore disclosed separately in the consolidated statement of financial position, as it cannot be offset with net deferred tax balance of the Bank.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***17 Income Taxes (Continued)**

	Balance 1 January 2022	Recognised in profit or loss	Balance 31 December 2022
Deferred tax assets in relation to:			
Loans to customers	1,798	(168)	1,630
Loans to banks	(115)	80	(35)
Investment securities	(30)	(1)	(31)
Derivative financial assets	(392)	(213)	(605)
Property and intangible assets	364	(271)	93
Right of use assets	(586)	(76)	(662)
Other assets	(21)	(44)	(65)
Other borrowed funds	(172)	127	(45)
Lease liabilities	628	120	748
Derivative financial liabilities	231	213	444
Insurance reserves	-	(81)	(81)
Other liabilities	314	(273)	41
Tax loss carry forwards	33	-	33
Net deferred tax asset	2,052	(587)	1,465
Recognised deferred tax asset	3,368	(379)	2,989
Recognised deferred tax liability	(1,316)	(208)	(1,524)
Net deferred tax asset	2,052	(587)	1,465

18. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	31 December 2023	31 December 2022
Cash on hand	63,186	67,243
Nostro accounts with CBAR	149,217	190,895
Nostro accounts and overnight placements with other banks	299,520	11,205
Cash equivalents		
CBAR notes	5,410	14,684
Short-term deposits with CBAR	76,027	25,009
Total cash equivalents	81,437	39,693
Total cash and cash equivalents	593,360	309,036

As at 31 December 2023 the Group had outstanding balances with 2 banks (31 December 2022: 1 bank), whose balances exceed 10% of equity. These balances as at 31 December 2023 are AZN 519,422 thousand (31 December 2022: AZN 230,588 thousand).

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2023. Refer to Note 34 for the description of the Group's credit risk grading system.

	Cash balances with the CBAR, excluding mandatory reserves	Correspondent accounts and overnight placements	Total
- Excellent	-	293,177	293,177
- Good	5,410	231,218	236,628
- Satisfactory	-	48	48
- Special monitoring	-	320	320
- Default	-	1	1
Total cash and cash equivalents, excluding cash on hand	5,410	524,764	530,174

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***18 Cash and Cash Equivalents (Continued)**

The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2022. Refer to Note 34 for the description of the Group's credit risk grading system. Refer also to Note 39 for fair value disclosure.

	Cash balances with the CBAR, excluding mandatory reserves	Correspondent accounts and overnight placements	Total
- Excellent	-	2,278	2,278
- Good	14,684	224,744	239,428
- Satisfactory	-	87	87
Total cash and cash equivalents, excluding cash on hand	14,684	227,109	241,793

For the purpose of measuring Expected Credit Loss (ECL), cash and cash equivalents amounting to AZN 320 thousand are considered under Stage 2, while those falling under Stage 3 are deemed insignificant. All remaining balances are categorized under Stage 1. Given the minimal ECL associated with these balances, the Group decided not to recognize any credit loss allowance for cash and cash equivalents. Refer to Note 34 for the ECL measurement approach.

19. Loans to Banks

	31 December 2023	31 December 2022
Mandatory reserve with the CBAR	135,822	44,414
Loans and deposits	4,665	15,068
Blocked accounts	6,142	9,646
Loans to banks, gross	146,629	69,128
Loss allowance	(573)	(716)
Loans to banks, net of loss allowance	146,056	68,412

Mandatory reserve with the CBAR

The Bank is required to maintain a non-interest earning cash deposit (mandatory reserve) with the CBAR at 10% and 12% (2022: 4 % and 5 %) of the previous month average of funds attracted from customers by the Bank in local and foreign currency, respectively. For further information refer to Note 39.

As at 31 December 2023, Group had no outstanding balance related to blocked guarantee deposits placed by the Group for its plastic cards operations (2022: AZN 3,952 thousand).

As at 31 December 2023 and 2022 AZN equivalent AZN 3,905 thousand and 3,645 thousand are the amounts of deposits in 2 banks (2022: 2 banks) blocked against the Group's guarantees.

As at 31 December 2023 Group had no outstanding balance that (2022: AZN equivalent 850 thousand in one bank) blocked against the Group's swap contracts.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***19 Loans to Banks (Continued)**

As at 31 December 2023 AZN equivalent 2,227 thousand is the amount of deposit in one bank (2022: AZN equivalent 1,190 thousand in one bank) blocked against the Group's forward contracts.

Loss allowance	2023			2022		
	Stage 1	Stage 3	Total	Stage 1	Stage 3	Total
Loans to banks						
Balance at 1 January	192	524	716	156	524	680
Net remeasurement of loss allowance	(143)	-	(143)	36	-	36
Balance at 31 December	49	524	573	192	524	716

The following tables below contain an analysis of loans to banks balances by credit quality at 31 December 2023 and 31 December 2022 based on credit risk grades and discloses those balances by three stages for the purpose of ECL measurement. Refer to Note 34 for the description of credit risk grading system used by the Group and the approach to ECL measurement, including the definition of default and SICR as applicable to loans to banks balances. Refer to Note 34 for external ratings which they are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available.

	Stage 1 (12-months ECL)	Stage 3	Total
31 December 2023			
Placements with other banks			
- Excellent	3,905	-	3,905
- Good	140,793	-	140,793
- Satisfactory	1,407	-	1,407
- Default	-	524	524
Gross carrying amount	146,105	524	146,629
Credit loss allowance	(49)	(524)	(573)
Carrying amount	146,056	-	146,056
	Stage 1 (12-months ECL)	Stage 3	Total
31 December 2022			
Placements with other banks			
- Excellent	8,456	-	8,456
- Good	54,392	-	54,392
- Satisfactory	5,756	-	5,756
- Default	-	524	524
Gross carrying amount	68,604	524	69,128
Credit loss allowance	(192)	(524)	(716)
Carrying amount	68,412	-	68,412

Bank Respublika OJSC
Notes to the Consolidated Financial Statements -31 December 2023
(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)
20. Loans to Customers

	31 December 2023	31 December 2022
Micro loans	446,244	334,029
SME loans	407,074	359,103
Retail loans	233,880	214,952
Mortgage loans	83,903	70,289
Card loans	1,357	1,930
Gross loans to customers	1,172,458	980,303
Loss allowance	(22,258)	(20,759)
Net loans to customers	1,150,200	959,544

The following tables disclose the changes in the credit loss allowance and gross carrying amount for loans to customers carried at amortised cost between the beginning and the end of the reporting period and comparative periods:

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	856,233	108,741	15,329	980,303
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	1,307,053	-	-	1,307,053
Derecognised during the period	(973,725)	(133,895)	(5,734)	(1,113,354)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(142,421)	142,421	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(11,960)	(1,401)	13,361	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	20,324	(16,250)	(4,074)	-
- from Stage 3 to Stage 2	-	601	(601)	-
Amounts written off	-	-	(1,544)	(1,544)
At 31 December 2023	1,055,504	100,217	16,737	1,172,458
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(6,993)	(7,263)	(6,503)	(20,759)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(9,339)	-	-	(9,339)
Derecognised during the period	2,174	2,618	338	5,130
Other movement	720	1,337	419	2,476
Write-off additional charge (other movement)	(9)	(7)	(1,474)	(1,490)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	3,474	(4,138)	-	(664)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	2,161	84	(3,777)	(1,532)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(72)	831	1,204	1,963
- from Stage 3 to Stage 2	-	(6)	154	148
Total movements with impact on credit loss allowance charge for the period	(891)	719	(3,136)	(3,308)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	2,176	2,176
Unwinding of discount on present value of ECL	-	-	(367)	(367)
At 31 December 2023	(7,884)	(6,544)	(7,830)	(22,258)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	640,836	80,396	14,677	735,909
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	1,131,312	-	-	1,131,312
Derecognised during the period	(784,466)	(92,427)	(6,016)	(882,909)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(135,663)	135,663	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(12,574)	(475)	13,049	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	16,788	(16,422)	(366)	-
- from Stage 3 to Stage 2	-	2,006	(2,006)	-
Amounts written off	-	-	(4,009)	(4,009)
At 31 December 2022	856,233	108,741	15,329	980,303
	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(6,548)	(6,466)	(7,715)	(20,729)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(10,010)	-	-	(10,010)
Derecognised during the period	7,617	2,611	1,053	11,281
Other movement	299	1,726	(153)	1,872
Write-off additional charge (other movement)	-	(82)	(913)	(995)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	1,691	(5,625)	-	(3,934)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	68	28	(2,973)	(2,877)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(110)	570	102	562
- from Stage 3 to Stage 2	-	(25)	494	469
Total movements with impact on credit loss allowance charge for the period	(445)	(797)	(2,390)	(3,632)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	4,009	4,009
Unwinding of discount on present value of ECL	-	-	(407)	(407)
At 31 December 2022	(6,993)	(7,263)	(6,503)	(20,759)

Bank Respublika OJSC

Notes to the Consolidated Financial Statements -31 December 2023

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

20 Loans to Customers (Continued)

Micro loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	253,913	77,487	2,629	334,029
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	559,303	-	-	559,303
Derecognised during the period	(363,047)	(82,295)	(1,402)	(446,744)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(95,972)	95,972	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,002)	(449)	3,451	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	10,164	(9,914)	(250)	-
- from Stage 3 to Stage 2	-	25	(25)	-
Amounts written off	-	-	(344)	(344)
At 31 December 2023	361,359	80,826	4,059	446,244

Micro loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(2,200)	(6,171)	(1,290)	(9,661)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(5,453)	-	-	(5,453)
Derecognised during the period	1,305	2,326	(55)	3,576
Other movement	658	1,295	297	2,250
Write off additional charge (other movement)	-	-	(221)	(221)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	3,063	(3,695)	-	(632)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	511	48	(970)	(411)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(16)	679	105	768
- from Stage 3 to Stage 2	-	-	10	10
Total movements with impact on credit loss allowance charge for the period	68	653	(834)	(113)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	485	485
Unwinding of discount on present value of ECL	-	-	(164)	(164)
At 31 December 2023	(2,132)	(5,518)	(1,803)	(9,453)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

Micro loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	149,580	55,747	1,635	206,962
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	444,507	-	-	444,507
Derecognised during the period	(253,269)	(62,651)	(1,176)	(317,096)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(89,311)	89,311	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,415)	(213)	2,628	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	4,821	(4,733)	(88)	-
- from Stage 3 to Stage 2	-	26	(26)	-
Amounts written off	-	-	(344)	(344)
At 31 December 2022	253,913	77,487	2,629	334,029

Micro loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(1,702)	(5,485)	(1,109)	(8,296)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(7,448)	-	-	(7,448)
Derecognised during the period	5,081	2,410	(75)	7,416
Other movement	370	1,758	490	2,618
Write off additional charge (other movement)	-	(5)	(21)	(26)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	1,497	(5,167)	-	(3,670)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	28	12	(832)	(792)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(28)	309	37	318
- from Stage 3 to Stage 2	-	(1)	12	11
Total movements with impact on credit loss allowance charge for the period	(500)	(684)	(389)	(1,573)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	344	344
Unwinding of discount on present value of ECL	-	-	(136)	(136)
At 31 December 2022	(2,202)	(6,169)	(1,290)	(9,661)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

SME loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	330,293	17,760	11,050	359,103
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	396,161	-	-	396,161
Derecognised during the period	(308,337)	(36,677)	(3,033)	(348,047)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(31,159)	31,159	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(3,753)	(69)	3,822	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	7,036	(3,252)	(3,784)	-
- from Stage 3 to Stage 2		486	(486)	-
Amounts written off			(143)	(143)
At 31 December 2023	390,241	9,407	7,426	407,074

SME loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(2,790)	(618)	(4,328)	(7,736)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(2,757)	-	-	(2,757)
Derecognised during the period	454	189	813	1,456
Other movement	423	60	74	557
Write off additional charge (other movement)	-	(7)	(197)	(204)
Changes to ECL measurement model assumptions	-	-	-	-
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	236	(241)	-	(5)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	831	4	(909)	(74)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(41)	101	1,088	1,148
- from Stage 3 to Stage 2	-	(4)	111	107
Total movements with impact on credit loss allowance charge for the period	(854)	102	980	228
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	266	266
Unwinding of discount on present value of ECL	-	-	(97)	(97)
At 31 December 2023	(3,644)	(516)	(3,179)	(7,339)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

SME loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	292,855	22,560	11,960	327,375
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	330,340	-	-	330,340
Derecognised during the period	(271,291)	(21,134)	(2,949)	(295,374)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(25,902)	25,902	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(7,165)	(34)	7,199	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	11,456	(11,352)	(104)	-
- from Stage 3 to Stage 2	-	1,818	(1,818)	-
Amounts written off	-	-	(3,238)	(3,238)
At 31 December 2022	330,293	17,760	11,050	359,103
SME loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(3,788)	(843)	(6,055)	(10,686)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(1,615)	-	-	(1,615)
Derecognised during the period	1,970	172	962	3,104
Other movement	558	63	(600)	21
Write off additional charge (other movement)	-	-	(780)	(780)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	127	(224)	-	(97)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	34	1	(1,340)	(1,305)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(76)	236	26	186
- from Stage 3 to Stage 2	-	(23)	458	435
Total movements with impact on credit loss allowance charge for the period	998	225	(1,274)	(51)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	3,238	3,238
Unwinding of discount on present value of ECL	-	-	(237)	(237)
At 31 December 2022	(2,790)	(618)	(4,328)	(7,736)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

Retail loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	203,728	9,987	1,237	214,952
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	318,897	-	-	318,897
Derecognised during the period	(286,538)	(11,560)	(886)	(298,984)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(10,570)	10,570	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(4,597)	(823)	5,420	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	2,270	(2,230)	(40)	-
- from Stage 3 to Stage 2	-	70	(70)	-
Amounts written off	-	-	(985)	(985)
At 31 December 2023	223,190	6,014	4,676	233,880

Retail loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(1,899)	(339)	(524)	(2,762)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(1,033)	-	-	(1,033)
Derecognised during the period	396	42	(439)	(1)
Other movement	(353)	(23)	86	(290)
Write off additional charge (other movement)	(9)	-	(1,515)	(1,524)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	86	(103)	-	(17)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	818	28	(1,859)	(1,013)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(12)	30	11	29
- from Stage 3 to Stage 2	-	(1)	21	20
Total movements with impact on credit loss allowance charge for the period	(107)	(27)	(3,695)	(3,829)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	1,834	1,834
Unwinding of discount on present value of ECL	-	-	(99)	(99)
At 31 December 2023	(2,006)	(366)	(2,484)	(4,856)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

Retail loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	138,427	1,285	298	140,010
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	331,145	-	-	331,145
Derecognised during the period	(247,508)	(6,966)	(1,410)	(255,884)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(15,826)	15,826	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(2,633)	(175)	2,808	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	123	(16)	(107)	-
- from Stage 3 to Stage 2	-	33	(33)	-
Amounts written off	-	-	(319)	(319)
At 31 December 2022	203,728	9,987	1,237	214,952

Retail loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(930)	(73)	(167)	(1,170)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(897)	-	-	(897)
Derecognised during the period	516	10	119	645
Other movement	(633)	(99)	24	(708)
Write off additional charge (other movement)	-	(77)	(90)	(167)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	43	(110)	-	(67)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	3	9	(732)	(720)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1)	1	28	28
- from Stage 3 to Stage 2	-	-	8	8
Total movements with impact on credit loss allowance charge for the period	(969)	(266)	(643)	(1,878)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	319	319
Unwinding of discount on present value of ECL	-	-	(33)	(33)
At 31 December 2022	(1,899)	(339)	(524)	(2,762)

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2023	67,382	2,683	224	70,289
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	28,372	-	-	28,372
Derecognised during the period	(13,748)	(768)	(183)	(14,699)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(2,172)	2,172	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(284)	(36)	320	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	755	(755)	-	-
- from Stage 3 to Stage 2	-	-	-	-
Amounts written off	-	-	(59)	(59)
At 31 December 2023	80,305	3,296	302	83,903

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2023	(61)	(48)	(175)	(284)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(85)	-	-	(85)
Derecognised during the period	2	2	6	10
Other movement	(11)	(5)	23	7
Write off additional charge (other movement)	-	-	(71)	(71)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	73	(81)	-	(8)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	-	2	(19)	(17)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1)	15	-	14
- from Stage 3 to Stage 2	-	-	-	-
Total movements with impact on credit loss allowance charge for the period	(22)	(67)	(61)	(150)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	110	110
Unwinding of discount on present value of ECL	-	-	(7)	(7)
At 31 December 2023	(83)	(115)	(133)	(331)

During 2023 a mortgage portfolio valued at 20 million AZN was transferred from “Muganbank” OJSC to the Group pursuant to the decision of AMF, with the process being formalized by the signing of an amendment to the service agreement dated June 11, 2018.

The Group provides certain services such as issuing obligations on mortgage loans, changing mortgage subjects, restructuring mortgage loans and performing relevant work related to problematic mortgage loans, checking the condition of mortgaged property, monitoring monthly payments by borrowers and supervises the fulfillment of insurance obligations, analyzes problematic loans, informs the Fund about loans that do not comply with the requirements of the Regulation and the internal rules of the Fund, and takes other measures, to the Fund with respect to the transferred portfolio. The Group believes that it acts as an agent in respect of the transferred portfolio.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
Gross carrying value as at 1 January 2022	58,227	731	604	59,562
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	21,926	-	-	21,926
Derecognised during the period	(10,116)	(638)	(373)	(11,127)
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	(2,779)	2,779	-	-
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	(222)	(30)	252	-
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	346	(284)	(62)	-
- from Stage 3 to Stage 2	-	125	(125)	-
Amounts written off	-	-	(72)	(72)
At 31 December 2022	67,382	2,683	224	70,289

Mortgage loans	Stage 1	Stage 2	Stage 3	Total
ECL as at 1 January 2022	(70)	(37)	(211)	(318)
<i>Movements with impact on credit loss allowance charge for the period:</i>				
New assets originated or purchased	(6)	-	-	(6)
Derecognised during the period	6	2	17	25
Other movement	8	1	(18)	(9)
Write off additional charge (other movement)	-	-	(16)	(16)
Changes to ECL measurement model assumptions				
Transfers:				
- to lifetime (from Stage 1 to Stage 2)	1	(34)	-	(33)
- to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1	3	(39)	(35)
- to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	(1)	18	7	24
- from Stage 3 to Stage 2	-	(1)	14	13
Total movements with impact on credit loss allowance charge for the period	9	(11)	(35)	(37)
<i>Movements without impact on credit loss allowance charge for the period:</i>				
Amounts written off	-	-	72	72
Unwinding of discount on present value of ECL	-	-	(1)	(1)
At 31 December 2022	(61)	(48)	(175)	(284)

20 Loans to Customers (Continued)

The loss allowance in the tables above excludes ECL on loan commitments, because the Group can separately identify the ECL on the loan commitment component from those on the financial instrument component.

Credit quality analysis

The following table sets out information about the credit quality of loans to customers measured at amortised cost as at 31 December 2023 and as at 31 December 2022 based on days past due. Unless specially indicated, the amounts in the table represent gross carrying amounts.

	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Micro Loans				
Not past due	361,309	73,134	327	434,770
Less than 30 days	50	2,520	3	2,573
31 to 90 days	-	5,172	13	5,185
91 to 180 days	-	-	538	538
181 to 360 days	-	-	1,036	1,036
Over 360 days	-	-	2,142	2,142
Total	361,359	80,826	4,059	446,244
Loss allowance	(2,132)	(5,518)	(1,803)	(9,453)
Carrying amount	359,227	75,308	2,256	436,791

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Micro Loans				
Not past due	253,857	77,038	883	331,778
Less than 30 days	53	265	77	395
31 to 90 days	2	185	121	308
91 to 180 days	-	-	301	301
181 to 360 days	-	-	572	572
Over 360 days	-	-	675	675
Total	253,912	77,488	2,629	334,029
Loss allowance	(2,202)	(6,169)	(1,290)	(9,661)
Carrying amount	251,710	71,319	1,339	324,368

	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
SME Loans				
Not past due	390,070	8,472	1,999	400,541
Less than 30 days	170	268	-	438
31 to 90 days	1	667	18	686
91 to 180 days	-	-	893	893
181 to 360 days	-	-	719	719
Over 360 days	-	-	3,797	3,797
Total	390,241	9,407	7,426	407,074
Loss allowance	(3,644)	(516)	(3,179)	(7,339)
Carrying amount	386,597	8,891	4,247	399,735

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
SME Loans				
Not past due	325,255	15,859	5,790	346,904
Less than 30 days	5,038	1,631	2,966	9,635
31 to 90 days	-	270	5	275
91 to 180 days	-	-	1,247	1,247
181 to 360 days	-	-	145	145
Over 360 days	-	-	897	897
Total	330,293	17,760	11,050	359,103
Loss allowance	(2,790)	(618)	(4,328)	(7,736)
Carrying amount	327,503	17,142	6,722	351,367

	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Retail Loans				
Not past due	220,972	2,795	263	224,030
Less than 30 days	2,218	2,250	13	4,481
31 to 90 days	-	969	32	1,001
91 to 180 days	-	-	925	925
181 to 360 days	-	-	1,752	1,752
Over 360 days	-	-	1,691	1,691
Total	223,190	6,014	4,676	233,880
Loss allowance	(2,006)	(366)	(2,484)	(4,856)
Carrying amount	221,184	5,648	2,192	229,024

	31 December 2022			
	Stage 1	Stage 2	Stage 3	Total
Retail Loans				
Not past due	201,764	6,546	190	208,500
Less than 30 days	1,964	2,213	64	4,241
31 to 90 days	-	1,228	56	1,284
91 to 180 days	-	-	448	448
181 to 360 days	-	-	407	407
Over 360 days	-	-	72	72
Total	203,728	9,987	1,237	214,952
Loss allowance	(1,899)	(339)	(524)	(2,762)
Carrying amount	201,829	9,648	713	212,190

	31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
Mortgage Loans				
Not past due	80,305	2,291	123	82,719
Less than 30 days	-	629	-	629
31 to 90 days	-	376	2	378
91 to 180 days	-	-	19	19
181 to 360 days	-	-	-	-
Over 360 days	-	-	158	158
Total	80,305	3,296	302	83,903
Loss allowance	(83)	(115)	(133)	(331)
Carrying amount	80,222	3,181	169	83,572

20 Loans to Customers (Continued)

	31 December 2022			Total
	Stage 1	Stage 2	Stage 3	
Mortgage Loans				
Not past due	67,382	2,177	45	69,604
Less than 30 days	-	385	2	387
31 to 90 days	-	121	11	132
91 to 180 days	-	-	2	2
181 to 360 days	-	-	32	32
Over 360 days	-	-	132	132
Total	67,382	2,683	224	70,289
Loss allowance	(61)	(48)	(175)	(284)
Carrying amount	67,321	2,635	49	70,005

Sensitivity**31 December 2023**

LGD increase. 10 percentage points increase in LGD estimates would result in an increase in total expected credit loss allowances of AZN 4,903 thousand at 31 December 2023.

A 10 percentage points increase in LGD estimates for the SME segment would result in an increase in total expected credit loss allowances of AZN 1,724 thousand at 31 December 2023. A 10 percentage points increase in LGD estimates for the Micro segment would result in an increase in total expected credit loss allowances of AZN 2,116 thousand at 31 December 2023. A 10 percentage points increase in LGD estimates for the Retail segment would result in an increase in total expected credit loss allowances of AZN 889 thousand at 31 December 2023. A 10 percentage points increase in LGD estimates for the Mortgage segment would result in an increase in total expected credit loss allowances of AZN 137 thousand at 31 December 2023. A 10 percentage points increase in LGD estimates for the Cards segment would result in an increase in total expected credit loss allowances of AZN 37 thousand at 31 December 2023.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL), the expected credit loss allowance would be higher by AZN 8,971 thousand as of 31 December 2023.

Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the SME segment, the expected credit loss allowance would be higher by AZN 3,592 thousand as of 31 December 2023. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Micro segment, the expected credit loss allowance would be higher by AZN 2,765 thousand as of 31 December 2023. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Retail segment, the expected credit loss allowance would be higher by AZN 1,621 thousand as of 31 December 2023. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Mortgage segment, the expected credit loss allowance would be higher by AZN 993 thousand as of 31 December 2023. Should ECL on all loans and advances to customers be measured at lifetime ECL (that is, including those that are currently in stage 1 measured at 12-months ECL) for the Cards segment, the expected credit loss allowance would have no effect as of 31 December 2023.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023**

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

20 Loans to Customers (Continued)

Collateral held and other credit enhancements.

The disclosure below represents the lower of the carrying value of the loan or fair value of collateral taken; the remaining part is disclosed within the “unsecured exposures”. The carrying value of loans was allocated based on carrying amount of the assets taken as collateral.

The Group obtains collateral valuation at the time of granting loans and updates it when a new loan is obtained for that collateral after six months depending on the significance of the loan exposure.

Description of collateral held for loans carried at amortised cost is as follows at 31 December 2023:

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- Real estate	292,974	118,755	5,882	83,073	5	500,689
- Cash and deposits	29,756	1,307	4,466	-	190	35,719
- Government fund guarantees	10,661	347	-	275	-	11,283
- Motor vehicles	12,146	47,472	364	20	-	60,002
- Precious metals	29,422	26,755	43,134	204	32	99,547
Total	374,959	194,636	53,846	83,572	227	707,240
Soft collaterals	6,198	152,503	147	-	-	158,848
Unsecured exposures (excluding soft)	18,578	89,652	175,031	-	851	284,112
Total carrying value of loans to customers at AC	399,735	436,791	229,024	83,572	1,078	1,150,200

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

Description of collateral held for loans carried at amortised cost is as follows at 31 December 2022:

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	241,989	90,251	5,748	69,285	20	407,293
- cash and deposits	25,376	1,284	3,895	-	226	30,781
- government fund guarantees	31,195	1,186	-	286	-	32,667
- motor vehicles	11,627	34,989	164	40	-	46,820
- precious metals	49	6,898	40,406	-	-	47,353
Total	310,236	134,608	50,213	69,611	246	564,914
Soft collaterals	27,589	123,660	259	-	-	151,508
Unsecured exposures (excluding soft)	13,542	66,100	161,718	394	1,368	243,122
Total carrying value of loans to customers at AC	351,367	324,368	212,190	70,005	1,614	959,544

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2023:

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	1,399	532	62	161	-	2,154
- cash and deposits	-	-	-	-	10	10
- government fund guarantees	-	-	-	-	-	-
- motor vehicles	403	861	20	-	-	1,284
- precious metals	-	-	-	-	-	-
Total	1,802	1,393	82	161	10	3,448
Soft collaterals	-	486	-	-	-	486
Unsecured exposures (excluding soft)	2,445	377	2,110	8	34	4,974
Total carrying value of loans to customers at AC	4,247	2,256	2,192	169	44	8,908

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***20 Loans to Customers (Continued)**

The following table sets out information on loans to customers that are credit-impaired and related collateral held in order to mitigate potential losses as at 31 December 2022:

	SME loans	Micro loans	Retail loans	Mortgage loans	Card loans	Total
Loans collateralised by:						
- real estate	3,604	648	104	44	-	4,400
- cash and deposits	-	-	8	-	1	9
- government fund guarantees	12	-	-	-	-	12
- motor vehicles	884	148	3	-	-	1,035
- precious metals	-	17	61	-	-	78
Total	4,500	813	176	44	1	5,534
Soft collaterals	697	344	-	-	-	1,041
Unsecured exposures (excluding soft)	1,525	182	537	5	3	2,252
Total carrying value of loans to customers at AC	6,722	1,339	713	49	4	8,827

Significant credit exposures

As at 31 December 2023, the Group had 74 borrowers (31 December 2022: 81) with gross loan balances exceeding AZN 1,000 thousand. The total gross value of these loans as at 31 December 2023 was AZN 208,769 thousand or 17% of the total loans to customers (31 December 2022: AZN 192,085 thousand or 19%)

Loan maturities

The maturity of the loan portfolio is presented in Note 34, which shows the remaining period from the reporting date to the contractual maturity of the loans.

21. Investment Securities

	2023	2022
Investment in debt securities at AC	63,053	50,387
Investment securities at FVOCI - equity instruments	1,088	1,087
Investment securities, gross	64,141	51,474
Loss allowance	(298)	(298)
Total investment securities	63,843	51,176

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***21 Investment Securities (Continued)**

The table below discloses investments in debt securities at 31 December 2023 by measurement categories and classes

	Investment in debt securities at AC	Total
Government bonds	28,280	28,280
Corporate bonds	34,773	34,773
Total investments in debt securities at 31 December 2023 (fair value or gross carrying value)	63,053	63,053
Credit loss allowance	(298)	(298)
Total investments in debt securities at 31 December 2023 (carrying value)	62,755	62,755

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

	Investment in debt securities at AC	Total
Government bonds	14,612	14,612
Corporate bonds	35,775	35,775
Total investments in debt securities at 31 December 2022 (fair value or gross carrying value)	50,387	50,387
Credit loss allowance	(298)	(298)
Total investments in debt securities at 31 December 2022 (carrying value)	50,089	50,089

The carrying amount of investment in debt securities at AC at 31 December 2023 below also represents the Group' maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)
Government bonds	
- Good	28,280
Corporate bonds	
- Good	34,773
Gross carrying amount	63,053
Credit loss allowance	(298)
Carrying amount	62,755

Bank Respublika OJSC**Notes to the Consolidated Financial Statements -31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***21 Investment Securities (Continued)**

The carrying amount of investment in debt securities at AC at 31 December 2022 below also represents the Group' maximum exposure to credit risk on these assets:

	Stage 1 (12-months ECL)
Government bonds	
- Good	14,612
Corporate bonds	
- Good	35,775
Gross carrying amount	50,387
Credit loss allowance	(298)
Carrying amount	50,089

Investment securities designated at FVOCI - equity instruments.

Investment securities designated at FVOCI consist of equity investments expected to be held for the long-term for strategic purposes. During 2023 dividend received from "Azerbaijan Credit Bureau LLC" in the amount of AZN 450 thousand, (2022: AZN 281 thousand). Refer to Note 12.

	Ownership, %	2023	Ownership, %	2022
Milli Kart LLC	8.3%	500	8.30%	500
Agrar Insurance Joint Insurance Company OJSC	14.29%	313	14.29%	313
Azerbaijan Credit Bureau LLC	12.5%	250	12.50%	250
SWIFT	-	25	-	24
		1,088		1,087

22. Derivative financial instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset or liability and is a basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of credit risk.

	Notional amount	31 December 2023		Notional amount	31 December 2022	
		Fair value			Fair value	
		Assets	Liabilities		Assets	Liabilities
Swaps – domestic	65,075	-	(2,433)	105,075	2,463	(1,702)
Swaps – foreign	39,100	3,825	-	8,500	-	(400)
Forward	9,964	-	(510)	9,964	482	-
Total derivative financial instruments	114,139	3,825	(2,943)	123,539	2,945	(2,102)

Respective changes in the fair value were as follows and presented within the 'Gains less losses from financial derivatives' line item in the consolidated statement of profit or loss and other comprehensive income:

	2023	2022
Interest expense on derivative financial instruments	(7,985)	(10,982)
Fair value gain from derivative financial instruments	39	39
Losses less gains from financial derivatives	(7,946)	(10,943)

Bank Respublika OJSC

Notes to the Consolidated Financial Statements -31 December 2023

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

23. Property and Equipment

	Land	Buildings	Right-of-use assets	Fixtures and equipment	Computers	Motor vehicles	Leasehold improvements	Other equipment	Computer software and licenses	Total
Cost/revalued amount										
Balance at 1 January 2022	5,638	26,545	5,156	9,861	12,405	1,859	1,280	822	7,588	71,154
Additions	-	272	1,524	1,486	1,560	169	376	-	312	5,699
Disposals	(1,095)	(488)	(731)	(24)	(77)	(188)	-	-	-	(2,603)
Reassessment and modification of right-of-use assets	-	-	230	-	-	-	-	-	-	230
Balance at 31 December 2022	4,543	26,329	6,179	11,323	13,888	1,840	1,656	822	7,900	74,480
Balance at 1 January 2023	4,543	26,329	6,179	11,323	13,888	1,840	1,656	822	7,900	74,480
Additions	-	1,191	1,989	1,873	2,993	610	725	125	1,578	11,084
Disposals	(4,507)	-	(1,275)	(13)	(97)	(63)	-	(1)	-	(5,956)
Reassessment and modification of right-of-use assets	-	-	50	-	-	-	-	-	-	50
Revaluation	-	2,853	-	-	-	-	-	-	-	2,853
Balance at 31 December 2023	36	30,373	6,943	13,183	16,784	2,387	2,381	946	9,478	82,511
Accumulated depreciation										
Balance at 1 January 2022	-	(493)	(2,227)	(6,998)	(7,580)	(1,320)	(1,063)	(724)	(5,622)	(26,027)
Depreciation for the year	-	(316)	(1,123)	(600)	(941)	(10)	(79)	(29)	(260)	(3,358)
Elimination on disposals	-	4	483	22	72	91	-	-	-	672
Balance at 31 December 2022	-	(805)	(2,867)	(7,576)	(8,449)	(1,239)	(1,142)	(753)	(5,882)	(28,713)
Depreciation for the year	-	(384)	(1,306)	(637)	(1,261)	(103)	(133)	(110)	(285)	(4,219)
Elimination on disposals	-	-	729	7	90	46	-	1	-	873
Revaluation	-	957	-	-	-	-	-	-	-	957
Balance at 31 December 2023	-	(232)	(3,444)	(8,206)	(9,620)	(1,296)	(1,275)	(862)	(6,167)	(31,102)
Carrying amount										
At 31 December 2022	4,543	25,524	3,312	3,747	5,439	601	514	69	2,018	45,767
At 31 December 2023	36	30,141	3,499	4,977	7,164	1,091	1,106	84	3,311	51,409

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***23 Property and Equipment (Continued)**

As at 31 December 2023 and 2022, included in property and equipment were fully depreciated assets of 12,533 AZN thousand and AZN 12,553 thousand, respectively.

Buildings owned by the Group are carried at revalued amounts based on the independent appraiser's report. As at 31 December 2023 and 2022, the carrying value of these buildings approximate their fair values. If the buildings were accounted at historical cost less accumulated depreciation and impairment losses, its carrying value would be AZN 18,035 thousand as at 31 December 2023 (31 December 2022: AZN 17,213 thousand).

The basis used for the appraisal is the market approach. The market approach is based on an analysis of the results of comparable sales of similar buildings. The key assumption used in applying the market approach is the selling price, in the absence of undue stress and if reasonable time is given.

In respect of right of use assets disclosed in table above, the Group recognised lease liabilities as follows:

	31 December 2023	31 December 2022
Short-term lease liabilities	(1,755)	(1,591)
Long-term lease liabilities	(2,477)	(2,363)
Total lease liabilities	(4,232)	(3,954)

Sensitivity

Useful lives are accounting estimates and 10% increase/decrease in useful lives would result in increase by 287 thousand AZN and decrease by 219 thousand AZN in depreciation expense for the year, (31 December 2022: increase by 264 thousand AZN and decrease by 177 thousand AZN) respectively.

Details of the Group's buildings and information about the fair value hierarchy as at 31 December 2023 and 2022 are as follows:

	31 December 2023		31 December 2022	
	Level 3	Fair value	Level 3	Fair value
Buildings	30,141	30,141	25,524	25,524
Total	30,141	30,141	25,524	25,524

24. Other Assets

	31 December 2023	31 December 2022
Settlements on money transfers	14,046	12,460
Receivables from the government	707	707
Other financial assets	1,601	1,720
Total other financial assets	16,354	14,887
Prepayments for property, equipment, and intangible assets	1,025	1,167
Deferred expenses	3,252	2,880
Other prepayments	208	397
Prepaid taxes	-	688
Deposits at Compulsory Insurance Bureau	400	400
Other	53	354
Total other non-financial assets	4,938	5,886
Total other assets	21,292	20,773

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023**

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

24 Other Assets (Continued)

Included in other assets as at 31 December 2023 and 31 December 2022 AZN 707 thousand represents compensations receivable from the government for impairment losses on loans denominated in foreign currency resulting from devaluation of the national currency in 2015. Compensations were made to customers in advance by the Bank on behalf of the government based on the decree of the President of the Republic of Azerbaijan signed on 28 February 2019 "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan.

25. Amounts Due to Credit Institutions

	31 December 2023	31 December 2022
Current accounts	2,935	2,096
Term deposits	2,074	5,774
	5,009	7,870

26. Repossessed Collateral

As of 31 December 2023, and 2022, repossessed collateral in the amount of AZN 2,963 thousand and AZN 4,244 thousand is represented by AZN 2,963 thousand and AZN 4,119 thousand of real estate (apartments, land and non-living area), respectively, which the Group took possession of, and is available for sale. As of 31 December 2023, the fair value of this property exceeds its carrying value by AZN 2,904 thousand (31 December 2022: by AZN 670 thousand).

27. Current Accounts and Deposits from Customers

	31 December 2023	31 December 2022
Current accounts and demand deposits		
- Retail	164,048	164,506
- Corporate	680,010	321,628
Term deposits		
- Retail	505,799	397,635
- Corporate	123,112	115,956
	1,472,969	999,725

Current accounts and deposits of entrepreneurs held with the Group are included in Corporate segment line in the table above.

As at 31 December 2023, the Group has 8 customers (2022: 3 customers), whose balances exceed 10% of equity. These balances as at 31 December 2023 total AZN 595,588 thousand (2022: AZN 193,821 thousand).

28. Subordinated Borrowings

	Currency	Placement period	2023 nominal interest rate	31 December 2023	2022 nominal interest rate	31 December 2022
Subordinated borrowings from foreign credit institutions - third parties	USD	2029-2031	7.80%-13.12%	29,899	7.80%-11.92%	26,072
Total subordinated borrowings				29,899		26,072

In the event of bankruptcy or liquidation of the Group, repayment of this debt is subordinate to the repayments of the Group's liabilities to all other creditors.

Dutch Entrepreneurial Development Bank (FMO). There are two active issuances of subordinated debt from FMO each with 27 September 2029 maturity date. The rate of interest on the loan facility for each interest period is the percentage rate per annum which is the aggregate of the applicable margin and reference rate.

EMF Microfinance Fund (EMF). There are two active issuances of subordinated debt from EMF with 02 June 2029 and 13 July 2030 maturity dates respectively. The rate on the loan facility as stipulated in the underlying agreement is fixed at certain time intervals until maturity.

On 28 March 2023, the Group entered into new synthetic USD subordinated loan agreement with INCOFIN CVSO CVBA SO, a Belgian investment company for 8 years in the amount of the equivalent in USD of EUR 2,000,000 at the fixed EUR interest rate of 8.01% per annum.

For liquidity disclosure refer to Note 34.

Reconciliation of movements of liabilities to cash flows arising from financing activities:

	Subordinated borrowings
Balance at 1 January 2022	20,646
Proceeds from subordinated borrowings, principal	5,100
Repayments of subordinated borrowings, principal	-
Interest expense	1,536
Interest paid	(1,210)
Balance at 1 January 2023	26,072
Proceeds from subordinated borrowings, principal	3,699
Repayments of subordinated borrowings, principal	-
Interest expense	2,990
Interest paid	(2,862)
Balance at 31 December 2023	29,899

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023**

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

29. Other Borrowed Funds

	31 December 2023	31 December 2022
Loans from local credit institutions:		
The Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan	81,802	68,329
Entrepreneurship Development Fund of the Republic of Azerbaijan	82,464	67,000
Agrarian Credit and Development Agency	13,299	13,153
The Central Bank of the Republic of Azerbaijan	3,547	6,461
Total loans from local credit institutions	181,112	154,943
Loans from foreign credit institutions:		
IFC	62,139	-
FMO	31,979	45,672
Asian Development Bank	14,607	-
European Bank for Reconstruction and Development	12,969	24,806
EFSE	10,238	20,492
INCOFIN CVSO CVBA SO	9,775	-
Total loans from foreign credit institutions	141,707	90,970
Total loans received from local and foreign credit institutions	322,819	245,913

Mortgage and Credit Guarantee Fund of the Republic of Azerbaijan. Under this program, funds made available to the Group at interest rates of 1-4% p.a. and the Group further lends these funds to eligible borrowers at rates not higher than 8% p.a. These loans have maturity periods from 3 to 30 years.

Entrepreneurship Development Fund of the Republic of Azerbaijan. Under this program, funds made available to the Group at an interest rate of 1-2% p.a. and the Group further lends these funds to eligible borrowers at rates not higher than 6% p.a. These loans have maturity periods up to 10 years.

Agrarian Credit and Development Agency under the Ministry of Agriculture. Under this program, funds made available to the Group at an interest rate of 2% and 2.5% p.a. and the Group further lends these funds to eligible borrowers at rates 5% and 12% p.a. respectively. The loans are repayable within 3 years from issue date.

The Central Bank of the Republic of Azerbaijan. During 2020 and 2019, the CBAR issued loans to the Group in the amount of AZN 2,699 thousand and AZN 10,674 thousand respectively with annual interest rate of 0.1% for restructuring problem loans based on the decree "On the additional measures related to the solution of problem loans of individuals in the Republic of Azerbaijan" signed by the President of the Republic of Azerbaijan. These loans were recorded at fair value on initial recognition. As at 31 December 2023 and 31 December 2022 amortized carrying amount of these loans was AZN 3,547 thousand and AZN 6,461 thousand respectively.

29 Other Borrowed Funds (Continued)

In estimating the effective interest rates for term borrowings from National Fund for Entrepreneurship Support of Azerbaijan Republic, Azerbaijan Mortgage and Credit Guarantee Fund and Agrarian Credit and Development Agency under the Ministry of Agriculture the Group considers this market as a separate market from other commercial borrowing business as these loans are issued to the whole banking sector of Azerbaijan at the same terms, purposes, conditions and credit risk exposures.

Included in loans received from foreign credit institutions are AZN and synthetic AZN loans from third party foreign credit institutions. These loans have original maturity periods from 12 months to 3 years. (31 December 2022: original maturity periods from 12 months to 3 years). Interest rates on these loans are fixed on disbursement date and range from 9.1 % to 11.45% as at 31 December 2023 (31 December 2022: fixed and range from 9 to 11.45%).

International Finance Corporation (IFC). The Bank shall pay on outstanding principal amount at fixed 9.85% per annum in AZN.

The Bank shall pay on outstanding principal amount at the sum of relevant spread and SOFR rate per annum in USD.

Dutch Entrepreneurial Development Bank (FMO). The Bank shall pay interest on the AZN loan at a fixed rate equal to the sum of the margin of 2.65% per annum and the base rate for such LCY Loan. "Base rate" means in relation to each LCY Loan the Local Currency fixed rate equivalent of SOFR as determined by FMO on the basis of the Hedging Arrangements or if FMO deems SOFR no longer appropriate for the purpose of calculating the Base Rate for the relevant LCY Loan, such other rate as determined by FMO and notified to the Bank.

Asian Development Bank (ADB). The Bank shall pay on outstanding principal amount at fixed 9.48% per annum in AZN.

Loans from European Bank for Reconstruction and Development and EFSE are synthetic AZN loans, denominated in USD. For loans from EFSE interest rate is equal to the sum of a spread of 8.6% p.a. and applicable swap rate.

European Bank for Reconstruction and Development (EBRD). The Bank shall pay interest on synthetic AZN loans at a rate equal to the sum of the relevant margin and the applicable Fixed Interest Rate. "Fixed interest rate" means, with respect to each disbursement, a fixed rate available to EBRD from whatever sources EBRD may select no later than the date of such disbursement, taking into account the principal repayment and interest payment schedules for such disbursement, as such sum may be adjusted to take into account the creditworthiness of the Bank. The margin is fixed in the agreement at a rate of 2.75% and 3.90% for relevant tranche.

INCOFIN CVSO CVBA SO. The Bank shall pay on outstanding principal amount at fixed 9.5% per annum in AZN.

As at 31 December 2023 and 2022, loans received from local and foreign credit institutions did not include loans from related party foreign credit institutions.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***29 Other Borrowed Funds (Continued)**

The Group is obligated to comply with financial covenants in relation to loans received from foreign credit institutions. These covenants include debt to equity ratios and various other financial performance ratios. The Group's compliance with these financial covenants is disclosed in Note 36. Reconciliation of movements of liabilities to cash flows arising from financing activities:

	<u>Other borrowed funds</u>
Balance at 1 January 2022	174,524
Financing cash flows:	
Proceeds from other borrowed funds, principal	151,530
Repayments of other borrowed funds, principal	(82,249)
Interest expense	10,824
Interest paid	(8,716)
Balance at 1 January 2023	245,913
Financing cash flows:	
Proceeds from other borrowed funds, principal	177,280
Repayments of other borrowed funds, principal	(103,728)
Interest expense	18,062
Interest paid	(14,708)
Balance at 31 December 2023	322,819

30. Bonds Issued

One of the bonds matured during 2023. There are 3 active bonds as at 31 December 2023 and all are listed on the Baku Stock Exchange. These bonds have a maturity date of two years, with 15,000, 15,000, and 5,000 bonds respectively. The nominal rate is AZN 1,000. The coupons on the bond issued in June 2022 are payable quarterly, while the others are payable semi-annually, all with a coupon rate of 8.5%. These issuances were made through public placement and fully purchased by several investors.

	<u>31 December 2023</u>	<u>31 December 2022</u>
Bonds issued on domestic market	35,719	45,758
Total debt securities in issue	35,719	45,758

31. Share Capital

The Group issued 204 thousand new shares in December 2023. Shares issued in December 2023 with the total nominal value of AZN 500 thousand were purchased by the existing shareholders and fully paid.

As at 31 December 2023, share capital consists of 30,188 thousand ordinary shares (31 December 2022: 29,984 thousand) with par value of AZN 2,45 each.

The dividends per ordinary shares are as follows:

	<u>2023</u>	<u>2022</u>
Dividends payable at 1 January		-
Dividends declared during the year	5,997	12,000
Dividends paid during the year	(5,997)	(12,000)
Dividends payable at 31 December	-	-
Dividends per share declared during the year	0.20	0.40

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023**

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

32. Other Liabilities

	31 December 2023	31 December 2022
Settlements on money transfers and plastic card operations	7,214	1,526
Items in course of settlement	1,574	3,384
Payables arising out of insurance operations	198	204
Professional fees payable	169	158
Other	13	23
Total other financial liabilities	9,168	5,295
Salary and Other Payables to Employees	10,745	14,191
Payable to the Deposit Insurance Fund	1,204	694
Other non-financial liabilities	1,205	1,565
Total other non-financial liabilities	13,154	16,450
Total other liabilities	22,322	21,745

33. Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by respective Executive Director (ED) (Business and Retail) and CFO (Treasury), and for which discrete financial information is available. The ED and CFO allocate resources and assess the performance of the segments for the Bank. The functions of ED are performed by members of the Management Board.

(a) Description of products and services from which each reportable segment derives its revenue

The Group is organised on the basis of four main business segments:

- Corporate banking – loan and other credit facilities, current accounts, deposits, dealing operations and other banking products with entrepreneurs (legal entities and individual entrepreneurs);
- Retail banking – representing private banking services, private customer current accounts, savings, deposits, investment savings products, custody, credit and debit cards, consumer loans and mortgages;
- Treasury – interbank lending and borrowings, investment and securities trading activities, foreign exchange services, issuance of bonds and other treasury activities;
- Insurance.

(b) Factors that management used to identify the reportable segments

The Group's segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service level and different expertise.

Segment financial information reviewed by the Management Board includes operating results and the statement of financial position.

Management, therefore, applied the core principle of IFRS 8 "Operating Segments", in determining which of the overlapping financial information sets should form the basis of operating segments.

33 Segment Analysis (Continued)

(c) Measurement of operating segment profit or loss, assets and liabilities

The ED reviews financial information prepared based on IFRS, adjusted to meet the requirements of internal reporting. Such financial information differs in certain aspects from IFRS:

- (i) income taxes are not allocated to segments;
- (ii) loan provisions are recognised based on IFRS 9 with recoveries and cost of recoveries presented on gross basis and allocated between segments;
- (iii) interest expense is allocated between segments based on internal transfer pricing practice of the Group. This line includes allocation of losses less gains from financial derivatives, considering its nature and hedge purpose. Interest expenses are allocated to segments based on the respective loans to customers portfolio, followed by remuneration of respective segments based on attracted funding of the related segment;
- (iv) liquidity management activities, including risk hedging, are included under “treasury” segment.

As stated above, the differences are of allocation, not of measurement nature. The ED evaluates performance of each segment based on net segment result, derived from the activities directly attributable to the responsibilities of the segment.

The ED evaluates performance of each segment based on net segment result, derived from the activities directly attributable to the responsibilities of the segment.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023**

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

33 Segment Analysis (Continued)**(d) Information about reportable segment profit or loss, assets and liabilities**

Segment information for the reportable segments for the year ended 31 December 2023 is set out below:

	Corporate banking	Retail banking	Treasury	Insurance	Eliminations	Total
Interest income	109,578	48,593	24,612	716	(215)	183,284
Fee and commission income	12,865	16,769	-	-	-	29,634
Revenue from insurance contracts	-	-	-	5,654	(205)	5,449
Total revenues	122,443	65,362	24,612	6,370	(420)	218,367
Interest expense	(45,825)	(14,237)	(11,165)	67	215	(70,945)
Fee and commission expense	(6,783)	(14,453)	(672)	(904)	-	(22,812)
Operating expenses	(48,890)	(30,129)	(2,868)	(1,233)	174	(82,946)
Net gain on foreign exchange operations	6,438	5,689	(989)	-	-	11,138
Expenses under insurance contracts	-	-	-	(4,735)	-	(4,735)
Expenses under held reinsurance contracts held	-	-	-	(438)	-	(438)
Income from reinsurance contracts held	-	-	-	156	-	156
Financial expenses for insurance contracts issued	-	-	-	(250)	-	(250)
Financial income from reinsurance contracts held	-	-	-	20	-	20
Other income/(expense)	257	594	450	184	-	1,485
Credit loss allowances release for assets carried at amortised cost	673	228	-	53	-	954
Net segment result	28,313	13,054	9,368	(710)	(31)	49,994
Net segment result	49,994					
Interest expense	(992)					
Other income/(expense)	271					
Operating expenses	501					
Income tax charge	(10,959)					
Profit for the year	38,815					

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***33 Segment Analysis (Continued)**

Segment information for the reportable segments for the year ended 31 December 2022 is set out below:

	Corporate banking	Retail banking	Treasury	Insurance	Eliminations	Total
Interest income	89,423	41,721	4,721	731	(218)	136,378
Fee and commission income	9,776	12,905	754	-	-	23,435
Revenue from insurance contracts	-	-	-	5,327	(275)	5,052
Total revenues	99,199	54,626	5,475	6,058	(493)	164,865
Interest expense	(30,868)	(7,959)	(16,199)	-	218	(54,808)
Fee and commission expense	(4,513)	(12,708)	(685)	-	-	(17,906)
Operating expenses	(44,051)	(24,293)	(2,546)	(1,044)	239	(71,695)
Net gain on foreign exchange operations	8,120	8,115	(154)	-	-	16,081
Expenses under insurance contracts:	-	-	-	(4,147)	29	(4,118)
Expenses under reinsurance contracts held:	-	-	-	(381)	-	(381)
Income from reinsurance contracts held:	-	-	-	43	-	43
Financial expenses for insurance contracts issued	-	-	-	(109)	-	(109)
Financial income from reinsurance contracts held	-	-	-	7	-	7
Other income/(expense)	281	316	345	(108)	(29)	805
Credit loss allowance release for assets carried at amortised cost	1,940	114	-	(6)	36	2,084
Net segment result	30,108	18,211	(13,764)	313	-	34,868
Net segment result	34,868					
Interest expense	(641)					
Income tax charge	(9,997)					
Profit for the year	24,230					

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***33 Segment Analysis (Continued)**

Segment assets:

	Segment assets	Corporate banking	Retail banking	Treasury	Insurance	Elimination
31 December 2023						
Cash and cash equivalents	491	-	-	-	566	(75)
Loans to banks	146,056	-	-	141,979	6,484	(2,407)
Loans to customers	1,150,200	836,526	313,674	-	-	-
Investment securities	63,843	-	-	62,212	1,631	-
Derivative financial assets	3,825	-	-	3,825	-	-
Other assets	1,015	-	-	-	1,015	-
Total segment assets	1,365,430	836,526	313,674	208,016	9,696	(2,482)

Cash and cash equivalents	592,869
Property and equipment	48,098
Intangible assets	3,311
Deferred tax assets	1,023
Other assets	20,547
Repossessed collateral	2,963
Goodwill	467

Total assets as per consolidated financial statements	2,034,708
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Segment liabilities:

	Segment liabilities	Corporate banking	Retail banking	Treasury	Insurance	Elimination
31 December 2023						
Current accounts and deposits from customers	1,472,969	805,604	669,847	-	-	(2,482)
Other borrowed funds	322,819	-	-	322,819	-	-
Lease liabilities	377	-	-	-	377	-
Derivative financial liabilities	2,943	-	-	2,943	-	-
Deferred tax liabilities	62	-	-	-	62	-
Insurance contract liabilities	2,559	-	-	-	2,559	-
Other liabilities	305	-	-	-	305	-
Bonds issued	35,719	-	-	35,719	-	-
Subordinated borrowings	29,899	-	-	29,899	-	-
Total segment liabilities	1,867,652	805,604	669,847	391,380	3,303	(2,482)

Amounts due to credit institutions	5,009
Lease liabilities	3,855
Other liabilities	22,017
Current income tax liability	2,880

Total liabilities as per consolidated financial statements	1,901,413
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Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***33 Segment Analysis (Continued)**

Segment assets:

31 December 2022	Segment assets	Corporate banking	Retail banking	Treasury	Insurance	Elimination
Cash and cash equivalents	364	-	-	-	509	(145)
Loans to banks	68,412	-	-	63,560	7,258	(2,406)
Loans to customers	959,544	693,132	266,412	-	-	-
Investment securities	51,176	-	-	49,962	1,214	-
Derivative financial assets	2,945	-	-	2,945	-	-
Other assets	1,312	-	-	-	1,312	-
Total segment assets	1,083,753	693,132	266,412	116,467	10,293	(2,551)

Cash and cash equivalents	308,672
Property and equipment	43,749
Intangible assets	2,018
Deferred tax assets	1,546
Other assets	19,719
Reposessed collateral	4,244
Goodwill	467

Total assets as per consolidated financial statements	1,464,168
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Segment liabilities:

31 December 2022	Segment liabilities	Corporate banking	Retail banking	Treasury	Insurance	Elimination
Current accounts and deposits from customers	999,725	440,135	562,141	-	-	(2,551)
Other borrowed funds	245,913	-	-	245,913	-	-
Lease liabilities	212	-	-	-	212	-
Derivative financial liabilities	2,102	-	-	2,102	-	-
Deferred tax liabilities	81	-	-	-	81	-
Insurance contract liabilities	3,419	-	-	-	3,419	-
Other liabilities	303	-	-	-	303	-
Bonds issued	45,758	-	-	45,758	-	-
Subordinated borrowings	26,072	-	-	26,072	-	-
Total segment liabilities	1,323,585	440,135	562,141	319,845	4,015	(2,551)

Amounts due to credit institutions	7,870
Lease liabilities	3,742
Other liabilities	21,442
Current income tax liability	8,132

Total liabilities as per consolidated financial statements	1,364,771
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34. Risk Management Policies

The risk management function within the Group is carried out with respect to financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary function of financial risk management is to establish risk limits and to ensure that any exposure to risk stays within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to meet an obligation.

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Group's Management Board.

Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved, or amendments made to loan agreements, etc.) are reviewed and approved by the branch risk-manager or the Risk Management Department. Daily risk management is performed by the Head of Credit Departments and Branch Credit Divisions.

The Group structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Limits on the level of credit risk by a borrower and a product (by industry sector) are approved quarterly by the Management Board. The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on and off-balance sheet exposures which are set by the Credit Committee. Actual exposures against limits are monitored daily.

Where appropriate, and in the case of most loans, the Group obtains collateral and corporate and personal guarantees. Certain portion of loans is personal lending, where no such facilities can be obtained. Such risks are monitored on a continuous basis and subject to annual or more frequent reviews.

Commitments to extend credit represent unused portions of credit in the form of loans, guarantees or letters of credit. The credit risk on off-balance sheet financial instruments is defined as a probability of losses due to the inability of counterparty to comply with the contractual terms and conditions. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of the loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group applies the same credit policy to the credit-related commitments as it does to the consolidated statement of financial position financial instruments, i.e., the one based on the procedures for approving the granting of loans, using limits to mitigate the risk, and current monitoring. The Group monitors the term to maturity of off-balance sheet commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Maximum exposure to credit risk

The Group's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off-balance sheet commitments. For financial assets in the consolidated statement of financial position, the maximum exposure is equal to the carrying amount of those assets.

The Group's maximum exposure to credit risk under credit-related commitments to extend credit, in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amounts of those instruments.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

	31 December 2023	31 December 2022
Cash equivalents	593,360	241,793
Loans to banks	146,056	68,412
Loans to customers	1,150,200	959,544
Investment securities	63,843	50,089
Derivative financial assets	3,825	2,945
Other financial assets	16,354	14,887
Commitments on loans and unused credit lines	13,205	19,067
Guarantees issued and similar commitments	72,293	42,598

Geographical concentration. The geographical concentration of the Group's financial assets and liabilities at 31 December 2023 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
31 December 2023				
Non-derivative financial assets:				
Cash and cash equivalents	299,641	293,381	338	593,360
Loans to banks	139,922	6,134	-	146,056
Loans to customers	1,150,200	-	-	1,150,200
Investment securities	63,818	25	-	63,843
Other financial assets	16,354	-	-	16,354
Total non-derivative financial assets	1,669,935	299,540	338	1,969,813
Non-derivative financial liabilities:				
Amounts due to credit institutions	3,041	1,968	-	5,009
Current accounts and deposits from customers	1,392,270	6,566	74,133	1,472,969
Issued bonds	35,719	-	-	35,719
Subordinated borrowings	-	29,899	-	29,899
Other borrowed funds	181,113	141,706	-	322,819
Lease liabilities	4,232	-	-	4,232
Other financial liabilities	9,168	-	-	9,168
Total non-derivative financial liabilities	1,625,543	180,139	74,133	1,879,815
Net position	44,392	119,401	(73,795)	89,998

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

The geographical concentration of the Group's financial assets and liabilities at 31 December 2022 is set out below:

	The Republic of Azerbaijan	OECD countries	Other non-OECD countries	Total
31 December 2022				
Non-derivative financial assets:				
Cash and cash equivalents	304,656	2,421	1,959	309,036
Loans to banks	58,832	9,580	-	68,412
Loans to customers	959,544	-	-	959,544
Investment securities	51,152	24	-	51,176
Other financial assets	14,887	-	-	14,887
Total non-derivative financial assets	1,389,071	12,025	1,959	1,403,055
Non-derivative financial liabilities:				
Amounts due to credit institutions	7,870	-	-	7,870
Current accounts and deposits from customers	925,385	3,943	70,397	999,725
Issued bonds	45,758	-	-	45,758
Subordinated borrowings	-	26,072	-	26,072
Other borrowed funds	154,944	90,969	-	245,913
Lease liabilities	3,954	-	-	3,954
Other financial liabilities	5,295	-	-	5,295
Total non-derivative financial liabilities	1,143,206	120,984	70,397	1,334,587
Net position	245,865	(108,959)	(68,438)	68,468

Credit quality by class of financial asset

External ratings. External ratings are assigned to counterparties by independent international rating agencies, such as S&P, Moody's and Fitch. These ratings are publicly available.

Master scale credit risk grade	Corresponding ratings of external international rating agencies (Moody's)	Corresponding PD interval
Excellent	Aaa to Baa3	0,01% - 0,5%
Good	Ba1 to B1	0,51% - 3%
Satisfactory	B2, B3	3% - 10%
Special monitoring	Caa1+ to Ca	10% - 99,9%
Default	C	100%

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

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

Such ratings and the corresponding range of PD are applied for the financial instrument indicated in table below. Credit quality disclosure for each class of these financial assets for 31 December 2023 and 31 December 2022 is disclosed in each relevant note for the following lines:

Financial statement line item	Notes
Cash and cash equivalents (excluding cash on hand)	18
Loans to banks	19
Loans to customers	20
Investment securities	21
Other financial assets	24

34 Risk Management Policies (Continued)

Credit risk - Amounts arising from ECL.

Inputs, assumptions and techniques used for estimating impairment.

See accounting policy in Note 3.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses the following criteria for determining whether there has been a significant increase in credit risk.

- significant increase in probability of default since the origination date;
- backstop of 30 days past due (DPD). DPD value is the maximum of DPD interest and DPD principal of the loan taking into account any delay in repayment;
- total probability of default in the next year exceeds certain threshold dependent on the loan segment

As at 31 December 2023 and 2022, the Group estimated ECL for significant loans in Stage 3 based on an individual review of each loan and estimation of its future cash flows. This estimate of future cash flows is dependent on factors such as the estimated value of underlying collateral and delay of 12 to 48 months in obtaining proceeds from the foreclosure of collateral. The Group then calculates the net present value of these cash flows using a discount rate which equates to the original effective interest rate of the loan, in order to determine the required amount of ECL.

For the remaining portfolio of loans, the Group calculates ECL on a collective basis. The key areas of uncertainty and assumptions used in the calculation of collective impairment are:

- Macro data availability and portfolio data adequacy starting from 31 January 2012 was considered as valid;
- Only first default for each exposure was considered as valid (i.e., remaining data after default entry was cut off);
- All facilities which are in default at their first observation date were excluded from the sample;
- For each loan segment there was a cut-off on MOBs (months on book) where number of unique facilities was smaller than 100 – i.e., baseline hazard estimates obtained for MOBs greater than this cut-off point were considered as highly biased;
- Loss Given Default was estimated based on ten years' experience.

34 Risk Management Policies (Continued)

Generating the term structure of PD

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

Determining whether credit risk has increased significantly.

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. What is considered significant will differ for different types of lending, in particular between corporate and retail.

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria. Such qualitative factors are based on its expert judgement and relevant historical experience.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. 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.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on 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 demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes history of up-to-date payment performance against the modified contractual terms.

Definition of default

The Group considers a financial asset to be in default when:

- the borrower is past due more than 90 days on any material credit obligation to the Group.
- exposure is subject to restructuring; or
- in bankruptcy

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative – e.g., breaches of covenants;
- quantitative – e.g., overdue status and non-payment on another obligation of the same borrower to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

34 Risk Management Policies (Continued)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

Nominal effective exchange rate (NEER), oil price, home price and budget revenues variables are selected to be the main variables in the main modelling phase. These variables ought to be forecasted in different scenarios.

Oil price, home price and budget revenues variables are forecasted by applying Autoregressive Integrated Moving Average (p,d,q) (ARIMA) model. The reason for applying this model is its parsimonious nature and the ability to capture dependent variations of variables whose determinants are not well documented.

In oil price, baseline, optimistic and pessimistic scenarios are multiplied with 0.5, 0.25, 0.25 weights, respectively. The reason for choosing these weights is that global oil prices hugely suffered from historical negative shocks in the beginning of 2020 while the prices stabilized after the second quarter.

In the case of home price, baseline, optimistic and pessimistic scenarios are multiplied with 0.5, 0.35, 0.15 weights respectively. Unlike oil price, home price is not severely affected by pandemic, and it has an overall upward bias. It is expected that budget revenues as well as expenses will increase gradually in the upcoming years (mainly due to high oil prices and reconstructions going in Karabakh). Thus, optimistic and pessimistic scenarios are multiplied with equal weights.

Finally, NEER turned out to be the main macro variable which appeared to be statistically significant in all models. For baseline, optimistic and pessimistic scenarios the Group applies 0.4, 0.4 and 0.2 weights. Analysis of historical behaviour of this macro variable (NEER) leads to a conclusion that it is a very stable index – the volatility is limited and the only significant deviation from this pattern was observed in 2015 as a result of devaluation of Azerbaijan Manat. Due to the fact that it was a political decision of the authorities, it is assumed that nominal effective exchange rate will continue to follow flat trend. Therefore, for the purpose of ECL calculation the value of the macro variable was constant for the base scenario and equal to the value observed at ECL calculation date. Two remaining scenarios (optimistic and pessimistic) were obtained as an upside and downside divergence from the base scenario depending on historical standard deviation and average as well as on time that passes from the calculation date.

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

Modified financial assets.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

34 Risk Management Policies (Continued)

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as ‘forbearance activities’) to maximise collection opportunities and minimise the risk of default. Under the Group’s forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

For financial assets modified as part of the Group’s forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group’s ability to collect interest and principal and the Group’s previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower’s payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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 is calculated on a month-by-month basis using monthly PD, LGD and EAD. ECL for exposures in Stage 1 represents the sum of the 12-months ECL and for exposures in Stage 2 the sum of the lifetime ECL.

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

The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. Depending upon segment, time interval changes from 2012 to November 2023. Generally, LGD calculations were computed in the following sequence: Firstly, base recovery rate curves were built for portfolios, then they were separated into homogeneous group default pools in terms of recoveries. Also, the Group estimated remaining recovery for unfinished defaults based on closed cases. Generally, recovery rates depending on MID (month in default) were properly calculated.

34 Risk Management Policies (Continued)

Exposure at the time of default was calculated based on CCF (credit conversion factor) model and contractual repayment schedules. General approach per product type was estimated by:

For non-revolving loan products, the Group used full repayment schedule and simplified repayment schedule method, but off-balance items CCF was modelled. In the calculation of CCF values floors and caps were applied to reduce influence of outliers.

For revolving loan products, the Group used model-based EAD.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics. In order to reflect different characteristics of portfolio's segments in modelling process, exposures were divided into five major segments, four of which were included in source data and one additional was defined for credit card exposures, while guarantees were added to the SME segment. The logic of how final segmentation was determined is shown in the table below:

Source Loan Segment	Exposure type	Final Loan Segment
Retail	Card Loan	Credit card Retail
Micro	Loan	Micro
Mortgage	Loan	Mortgage
SME	Loan	SME
-	Guarantee	

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

Exposure	External benchmarks used	
	PD	LGD
Cash and cash equivalents	530,174	Moody's default study S&P recovery studies
Loans to banks	146,056	Moody's default study S&P recovery studies
Investment securities	63,843	Moody's default study S&P recovery studies

34 Risk Management Policies (Continued)

Offsetting financial assets and financial liabilities

The disclosure set out in the table below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the consolidated statement of financial position.

31 December 2023

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	62,013	62,013	-	62,013	-
Total financial assets	62,013	62,013	-	62,013	-
Current accounts and deposits from customers	(38,085)	(38,085)	62,013	-	23,928
Total financial liabilities	(38,085)	(38,085)	62,013	-	23,928

31 December 2022

Types of financial assets/liabilities	Gross amounts of recognised financial asset/liability	Net amount of financial assets/liabilities presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amount
			Financial instruments	Cash collateral received	
Loans to customers	46,537	46,537	-	46,537	-
Total financial assets	46,537	46,537	-	46,537	-
Current accounts and deposits from customers	(83,536)	(83,536)	46,537	-	(36,999)
Total financial liabilities	(83,536)	(83,536)	46,537	-	(36,999)

34 Risk Management Policies (Continued)

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.

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched, since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The Group maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Group seeks to actively support a diversified and stable funding base comprising long- and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and efficiently to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and taking into account the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- managing the concentration and profile of debts;
- maintaining debt financing plans;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring liquidity ratios against regulatory requirements.

The Treasury Department receives information from business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then provides for an adequate portfolio of short-term liquid assets to be maintained, largely made up of loans to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions, is performed by the Treasury Department. Under normal market conditions, liquidity reports covering the liquidity position are presented to senior management on a weekly basis. Decisions on liquidity management are made by the ALMC and implemented by the Treasury Department.

The following tables show the analysis, by contractual maturities of financial assets, liabilities and credit-related commitments on the basis of their earliest possible expected maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

34 Risk Management Policies (Continued)

The ALMC controls these types of risks by means of maturity analysis, determining the Group's strategy for the next financial period. Current liquidity is managed by the Treasury Department, which deals in the money markets for current liquidity support and cash flow optimization.

In order to manage liquidity risk, the Group performs daily monitoring of future expected cash flows on clients' and banking operations, which is a part of assets/liabilities management process. The Management Board sets limits on the minimum proportion of maturing funds available to meet deposit withdrawals and on the minimum level on 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 presentation below is based upon the information provided internally to key management personnel of the Group. Overdue interest of loans to customers is included in category 1 year to 5 years in the table below.

Bank Respublika OJSC

Notes to the Consolidated Financial Statements - 31 December 2023

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

34 Risk Management Policies (Continued)

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
31 December 2023								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents		81,437	-	-	-	-	-	81,437
Loans to banks	1.76%	1,152	329	3,706	1,036	81	-	6,304
Loans to customers	5-7% (USD) 14-21% (AZN)	63,003	111,562	443,454	466,547	65,634	-	1,150,200
Investment securities	6.24%	4,178	14,731	9,546	34,300	-	-	62,755
Total fixed interest-bearing financial assets		149,770	126,622	456,706	501,883	65,715	-	1,300,696
Non-interest-bearing financial assets								
Cash and cash equivalents		511,923	-	-	-	-	-	511,923
Loans to banks		139,733	19	-	-	-	-	139,752
Investment securities		-	-	-	-	-	1,088	1,088
Other financial assets		-	16,354	-	-	-	-	16,354
Total non-interest-bearing financial assets		651,656	16,373	-	-	-	1,088	669,117
Total non-derivative financial assets		801,426	142,995	456,706	501,883	65,715	1,088	1,969,813
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	7.25%	874	-	1,200	-	-	-	2,074
Current accounts and deposits from customers	7.11%	46,709	146,489	345,554	79,359	10,800	-	628,911
Issued bonds	8.50%	-	15,496	20,223	-	-	-	35,719
Other borrowed funds	5.40%	23,928	6,526	73,432	155,996	62,937	-	322,819
Lease liabilities	9.38%	146	293	1,316	2,477	-	-	4,232
Total fixed interest-bearing financial liabilities		71,657	168,804	441,725	237,832	73,737	-	993,755
Variable interest rate instruments								
Subordinated borrowings	10.70%	700	-	-	-	29,199	-	29,899
Total variable interest-bearing financial liabilities		700	-	-	-	29,199	-	29,899

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Non-interest-bearing financial liabilities								
Amounts due to credit institutions		2,935	-	-	-	-	-	2,935
Current accounts and deposits from customers		227,129	-	400,131	216,798	-	-	844,058
Other financial liabilities		9,168	-	-	-	-	-	9,168
Total non-interest-bearing financial liabilities		239,232	-	400,131	216,798	-	-	856,161
Total non-derivative financial liabilities		311,589	168,804	841,856	454,630	102,936	-	1,879,815
The effect of derivatives								
- inflow		-	10,000	20,000	84,139	-	-	
- outflow		(2,073)	(10,824)	(24,469)	(93,016)	-	-	
Net effect of derivatives		(2,073)	(824)	(4,469)	(8,877)	-	-	
Liquidity gap		487,764	(26,633)	(389,619)	38,376	(37,221)	-	
Cumulative liquidity gap		487,764	461,131	71,512	109,888	72,667	-	
Interest sensitivity gap		77,413	(42,182)	14,981	264,051	(37,221)	-	
Cumulative interest sensitivity gap		77,413	35,231	50,212	314,263	277,042	-	

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
31 December 2022								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	0.00%	35,239	4,454	-	-	-	-	39,693
Loans to banks	5.88%	1,644	2,331	5,261	7,500	3,698	-	20,434
Loans to customers	16.56%	54,989	85,514	374,497	391,061	53,483	-	959,544
Investment securities	4.92%	364	-	14,758	34,967	-	-	50,089
Total fixed interest-bearing financial assets		92,236	92,299	394,516	433,528	57,181	-	1,069,760
Non-interest-bearing financial assets								
Cash and cash equivalents		269,343	-	-	-	-	-	269,343
Loans to banks		45,012	1,246	1,314	406	-	-	47,978
Investment securities		-	-	-	-	-	1,087	1,087
Other financial assets		-	14,887	-	-	-	-	14,887
Total non-interest-bearing financial assets		314,355	16,133	1,314	406	-	1,087	333,295
Total non-derivative financial assets		406,591	108,432	395,830	433,934	57,181	1,087	1,403,055
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	7.16%	690	1,485	3,363	236	-	-	5,774
Current accounts and deposits from customers	6.76%	32,635	96,480	249,083	122,070	13,323	-	513,591
Issued bonds	8.5%	-	496	10,262	35,000	-	-	45,758
Other borrowed funds	5.11%	4,848	6,638	60,007	121,224	53,196	-	245,913
Lease liabilities	8.75%	181	265	1,193	2,315	-	-	3,954
Total fixed interest-bearing financial liabilities		38,354	105,364	323,908	280,845	66,519	-	814,990
Variable interest rate instruments								
Subordinated borrowings	10.19%	572	-	-	-	25,500	-	26,072
Total variable interest-bearing financial liabilities		572	-	-	-	25,500	-	26,072

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

	Weighted average effective interest rate	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Non-interest-bearing financial liabilities								
Amounts due to credit institutions		2,096	-	-	-	-	-	2,096
Current accounts and deposits from customers		336,134	-	25,000	100,000	25,000	-	486,134
Other financial liabilities		5,295	-	-	-	-	-	5,295
Total non-interest-bearing financial liabilities		343,525	-	25,000	100,000	25,000	-	493,525
Total non-derivative financial liabilities		382,451	105,364	348,908	380,845	117,019	-	1,334,587
The effect of derivatives								
- inflow		144	14	48,778	75,099	-	-	
- outflow		(1,193)	(1,186)	(53,845)	(79,724)	-	-	
Net effect of derivatives		(1,049)	(1,172)	(5,067)	(4,625)	-	-	
Liquidity gap		23,091	1,896	41,855	48,464	(59,838)	-	
Cumulative liquidity gap		23,091	24,987	66,842	115,306	55,468	-	
Interest sensitivity gap		53,310	(13,065)	70,608	152,683	(34,838)	-	
Cumulative interest sensitivity gap		53,310	40,245	110,853	263,536	228,698	-	

34 Risk Management Policies (Continued)

Interest rate gaps are managed principally through refinancing of interest-bearing liabilities maturing in respective maturity bands with liabilities at equal or lower interest rates.

In accordance with Azerbaijani legislation, individuals and legal entities can withdraw their term deposits at any time, forfeiting in most of the cases the accrued interest. These deposits are classified in accordance with their stated maturity dates. The Management of the Group does not expect that individuals and legal entities withdraw their term deposits before their stated maturity dates.

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

The maturity analysis does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than one month in the tables above. Management believes that in spite of a substantial portion of customer accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group indicates that these customer accounts provide a long-term and stable source of funding for the Group.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023**

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

34 Risk Management Policies (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
31 December 2023								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	81,437	-	-	-	-	-	81,437	81,437
Loans to banks	1,161	347	3,787	1,100	-	-	6,395	6,304
Loans to customers	70,964	141,990	542,253	558,278	112,691	-	1,426,176	1,150,200
Investment securities	3,321	16,183	11,113	35,205	-	-	65,822	62,755
Total fixed interest-bearing financial assets	156,883	158,520	557,153	594,583	112,691	-	1,579,830	1,300,696
Non-interest-bearing financial assets								
Cash and cash equivalents	511,923	-	-	-	-	-	511,923	511,923
Loans to banks	139,733	19	-	-	-	-	139,752	139,752
Investment securities	-	-	-	-	-	1,088	1,088	1,088
Other financial assets	-	16,354	-	-	-	-	16,354	16,354
Total non-interest-bearing financial assets	651,656	16,373	-	-	-	1,088	669,117	669,117
Total non-derivative financial assets	808,539	174,893	557,153	594,583	112,691	1,088	2,248,947	1,969,813

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	874	-	1,200	-	-	-	2,074	2,074
Current accounts and deposits from customers	48,350	149,916	359,117	89,360	10,800	-	657,543	628,911
Issued bonds	-	15,744	20,744	-	-	-	36,488	35,719
Other borrowed funds	21,306	9,157	84,554	177,943	82,212	-	375,172	322,819
Lease liabilities	148	296	1,333	2,449	-	-	4,226	4,232
Total fixed interest-bearing financial liabilities	70,678	175,113	466,948	269,752	93,012	-	1,075,503	993,755
Variable interest rate instruments								
Subordinated borrowings	260	521	2,344	12,501	29,177	-	44,803	29,899
Total variable interest-bearing financial liabilities	260	521	2,344	12,501	29,177	-	44,803	29,899
Non-interest-bearing instruments								
Amounts due to credit institutions	2,935	-	-	-	-	-	2,935	2,935
Current accounts and deposits from customers	844,058	-	-	-	-	-	844,058	844,058
Other financial liabilities	9,168	-	-	-	-	-	9,168	9,168
Guarantees issued and similar commitments	72,293	-	-	-	-	-	72,293	72,293
Commitments on loans and unused credit lines	13,205	-	-	-	-	-	13,205	13,205
Total non-interest-bearing financial liabilities and commitments	941,659	-	-	-	-	-	941,659	941,659
Total financial liabilities and commitments	1,012,597	175,634	469,292	282,253	122,189	-	2,061,965	1,965,313
The effect of derivatives held for risk management								
- inflow	-	10,000	20,000	84,139	-	-		
- outflow	(2,073)	(10,824)	(24,469)	(93,016)	-	-		
Net effect of derivatives held for risk management purposes	(2,073)	(824)	(4,469)	(8,877)	-	-		
Liquidity gap	(206,131)	(1,565)	83,392	303,453	(9,498)	-		
Cumulative liquidity gap	(206,131)	(207,696)	(124,304)	179,149	169,651	-		

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023**

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

34 Risk Management Policies (Continued)

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
31 December 2022								
Non-derivative assets								
Fixed interest rate instruments								
Cash and cash equivalents	35,283	4,477	-	-	-	-	39,760	39,693
Loans to banks	1,742	2,503	5,897	9,305	7,521	-	26,968	20,434
Loans to customers	59,857	106,245	446,761	480,945	84,099	-	1,177,907	959,544
Investment securities	205	410	16,567	37,945	-	-	55,127	50,089
Total fixed interest-bearing financial assets	97,087	113,635	469,225	528,195	91,620	-	1,299,762	1,069,760
Non-interest-bearing financial assets								
Cash and cash equivalents	269,343	-	-	-	-	-	269,343	269,343
Loans to banks	45,012	1,246	1,314	406	-	-	47,978	47,978
Investment securities	-	-	-	-	-	1,087	1,087	1,087
Other financial assets	-	14,887	-	-	-	-	14,887	14,887
Total non-interest-bearing financial assets	314,355	16,133	1,314	406	-	1,087	333,295	333,295
Total non-derivative financial assets	411,442	129,768	470,539	528,601	91,620	1,087	1,633,057	1,403,055

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total gross amount	Total carrying amount
Non-derivative liabilities								
Fixed interest rate instruments								
Amounts due to credit institutions	1,362	2,830	7,967	4,305	-	-	16,464	5,774
Current accounts and deposits from customers	33,996	99,345	260,087	127,850	13,621	-	534,899	513,591
Issued bonds	-	-	13,825	36,488	-	-	50,313	45,758
Other borrowed funds	72,857	4,897	41,586	87,458	68,648	-	275,446	245,913
Lease liabilities	155	309	1,344	2,781	-	-	4,589	3,954
Total fixed interest-bearing financial liabilities	108,370	107,381	324,809	258,882	82,269	-	881,711	814,990
Variable interest rate instruments								
Subordinated borrowings	26,072	-	-	-	-	-	26,072	26,072
Total variable interest-bearing financial liabilities	26,072	-	-	-	-	-	26,072	26,072
Non-interest-bearing instruments								
Amounts due to credit institutions	2,096	-	-	-	-	-	2,096	2,096
Current accounts and deposits from customers	486,134	-	-	-	-	-	486,134	486,134
Other financial liabilities	5,295	-	-	-	-	-	5,295	5,295
Guarantees issued and similar commitments	42,598	-	-	-	-	-	42,598	42,598
Commitments on loans and unused credit lines	19,067	-	-	-	-	-	19,067	19,067
Total non-interest-bearing financial liabilities and commitments	555,190	-	-	-	-	-	555,190	555,190
Total financial liabilities and commitments	689,632	107,381	324,809	258,882	82,269	-	1,462,973	1,396,252
The effect of derivatives held for risk management								
- inflow	144	14	48,778	75,099				
- outflow	(1,193)	(1,186)	(53,845)	(79,724)				
Net effect of derivatives held for risk management purposes	(1,049)	(1,172)	(5,067)	(4,625)				
Liquidity gap	(279,239)	21,215	140,663	265,094	9,351			
Cumulative liquidity gap	(279,239)	(258,024)	(117,361)	147,733	157,084			

34 Risk Management Policies (Continued)

As of December 31, 2023, the Group was in breach of certain covenants as detailed in Note 36 and related waivers were obtained before 31 December 2023.

However, the Group believes that the analysis by contractual maturities of financial assets, liabilities and credit-related commitments presented on the basis of their earliest possible expected maturity table disclosed herein under liquidity risk section of the consolidated financial statements of the Group represents the actual settlement schedule in respect of the other borrowed funds and subordinated borrowings from the subject foreign credit institutions.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Market risk

Market risk is the risk that the Group's earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices. Market risk covers interest rate risk, currency risk, credit spreads, commodity prices and equity prices that the Group is exposed to. There have been no changes as to the way the Group measures risk or to the risk it is exposed or the manner in which these risks are managed and measured.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ALMC on regular basis reviews the overall interest rate spreads by detailed analysis of the assets and liabilities interest rate structure. The Group is constantly monitoring interest rate gap. As of 31 December 2023, and 31 December 2022, the Group does not consider itself exposed to significant interest rate risk or consequential cash flow risk since most of the financial assets and liabilities are with fixed rates. For further information on interest rate for financial liabilities refer to Notes 25, 27, 28, 29 and 30.

(ii) 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 ALMC controls currency risk by management of the open currency position on the estimated basis of AZN devaluation and other macroeconomic indicators, which gives the Group an opportunity to minimize losses from significant currency rates fluctuations towards its national currency. The Treasury Department performs daily monitoring of the Group's open currency position with the aim to match the requirements of the Central Bank of the Republic of Azerbaijan.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***34 Risk Management Policies (Continued)**

The following table shows the foreign currency exposure structure of financial assets and financial liabilities as at 31 December 2023. The Group hedges currency risk position based on regulatory reporting.

	AZN	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	115,630	440,858	30,860	6,012	593,360
Loans to banks	66,811	78,682	563	-	146,056
Loans to customers	1,043,174	106,356	670	-	1,150,200
Investment securities	28,280	34,475	-	-	62,755
Other financial assets	9,382	4,914	1,222	836	16,354
Total assets	1,263,277	665,285	33,315	6,848	1,968,725
LIABILITIES					
Amounts due to credit institutions	1,513	3,451	45	-	5,009
Current accounts and deposits from customers	729,102	703,921	32,936	7,010	1,472,969
Issued bonds	35,719	-	-	-	35,719
Subordinated borrowings	-	29,899	-	-	29,899
Other borrowed funds	292,686	30,133	-	-	322,819
Lease liabilities	4,232	-	-	-	4,232
Other financial liabilities	5,439	3,057	555	117	9,168
Total liabilities	1,068,691	770,461	33,536	7,127	1,879,815
Net position	194,586	(105,176)	(221)	(279)	88,910
The effect of derivatives held for risk management	(114,139)	114,139	-	-	-
Net position after derivatives held for risk management purposes	80,447	8,963	(221)	(279)	88,910

The following table shows the foreign currency exposure structure of financial assets and financial liabilities as at 31 December 2022. The Group hedges currency risk position based on regulatory reporting:

	AZN	USD	EUR	Other currencies	Total
ASSETS					
Cash and cash equivalents	86,908	196,148	22,041	3,939	309,036
Loans to banks	24,031	43,864	517	-	68,412
Loans to customers	872,518	85,732	1,294	-	959,544
Investment securities	15,617	34,472	-	-	50,089
Other financial assets	10,003	3,996	179	709	14,887
Total assets	1,009,077	364,212	24,031	4,648	1,401,968
LIABILITIES					
Amounts due to credit institutions	7,651	156	63	-	7,870
Current accounts and deposits from customers	524,398	437,113	33,470	4,744	999,725
Issued bonds	45,758	-	-	-	45,758
Subordinated borrowings	-	26,072	-	-	26,072
Other borrowed funds	245,913	-	-	-	245,913
Lease liabilities	3,954	-	-	-	3,954
Other financial liabilities	1,429	2,232	1,453	181	5,295
Total liabilities	829,103	465,573	34,986	4,925	1,334,587
Net position	179,974	(101,361)	(10,955)	(277)	67,381
The effect of derivatives held for risk management	(123,539)	113,539	10,000	-	-
Net position after derivatives held for risk management purposes	56,435	12,178	(955)	(277)	67,381

34 Risk Management Policies (Continued)***Currency risk sensitivity analysis***

A weakening of AZN, as indicated below, against the following currencies at 31 December 2023 and 2022, would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on a net-of-tax basis and is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	<u>2023</u>	<u>2022</u>
30% (2022: 30%) appreciation of USD against AZN	2,689	3,653
30% (2022: 30%) appreciation of EUR against AZN	(67)	(287)

A strengthening of AZN against the above currencies at 31 December 2023 and 2022 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remained constant.

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 in the consolidated statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholders' 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.

35. Capital Risk Management

The Central Bank of Azerbaijan Republic (CBAR) requires banks to maintain certain regulatory ratios based on regulatory reporting standards.

The objectives of management when managing the Bank's and Group's capital are (i) to comply with the capital requirements set by the CBAR, (ii) to safeguard the Group's ability to continue as a going concern and (iii) to maintain a sufficient capital base to achieve a capital adequacy ratio based on Basel Capital Accord of at least 6.50%.

Under the current regulatory capital requirements set by the CBAR banks have to: (a) hold the minimum level of total statutory capital of AZN 50,000 thousand (31 December 2022: AZN 50,000 thousand); (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 10% (31 December 2022:10%) and (c) maintain a ratio of Tier-1 capital to the risk-weighted assets (the 'Tier-1 capital ratio') at or above the prescribed minimum of 5% (31 December 2022: 5%).

As at 31 December 2023, the Bank was in compliance with all these ratios except for maximum credit exposure of a Bank per a single borrower of the Bank's Tier 1 capital on "unsecured loan ratio", which was 37.48% (2022: 48.83%), whereas the ratio should not exceed 10%, and "total unsecured and secured loan ratio", which was 37.48% (2022: 48.83%), whereas the ratio should not exceed 25%. This was the result of investment to the bonds of government related company. However, waiver for that ratio was obtained from CBAR in 2020 for the lifetime of this investment.

The calculation of capital adequacy based on the prudential reports prepared by the Group in accordance with the prudential regulations set by the CBAR was as follows:

	31 December 2023	31 December 2022
Total statutory capital	165,910	127,468
Risk-weighted assets	1,389,718	1,070,581
Capital adequacy ratio (%)	11.94%	11.91%

The regulatory guidelines on capital adequacy are mostly based on Basel Capital Accord requirements with some differences related to inclusion of additional components into total capital as well as to calculation of allowance for impairment losses on loans to customers, which is determined per the prudential rules on loan loss provisioning.

36. 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.

The Group uses the same credit control and management policies in undertaking off-balance sheet commitments as it does for on-balance operations.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the reporting date if the counterparties failed completely to perform as contracted.

As at 31 December 2023 and 2022, credit-related commitments comprise:

	31 December 2023	31 December 2022
Credit-related commitments		
Commitments on loans and unused credit lines	13,205	19,067
Guarantees issued and similar commitments	72,293	42,598
Total credit-related commitments, gross	85,498	61,665
Less: provisions for credit related commitments	(272)	(136)
Total credit related commitments, net of provision	85,226	61,529

Legal proceedings

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

Taxation

The taxation system in Azerbaijan is relatively new and is characterized by frequent changes in legislation, official pronouncements, and court decisions, and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by various levels of authorities, which have the authority to impose severe fines and interest charges. A tax year generally remains open for review by the tax authorities for three subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Azerbaijani tax legislation, official pronouncements, and court decisions. However, the interpretations of the relevant authorities could differ and the effect on the financial position, if the authorities were successful in enforcing their interpretations, could be significant.

Operating environment

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and innovation. In all cases, the Group policy requires compliance with all applicable legal and regulatory requirements.

The Group manages operational risk by establishing internal controls that management determines to be necessary in each area of its operations.

36 Commitments and Contingencies (Continued)**Compliance with covenants**

The Group has agreed to comply with certain financial and business covenants in various financing and similar agreements.

As at 31 December 2023 the Group was in breach of certain covenant with three financing arrangements with outstanding balances amounting to AZN 72,687 thousand, for which waivers were obtained before 31 December 2023 (31 December 2022: the Group was in breach of certain covenants under three financing agreements with outstanding balances amounting to AZN 71,744 thousand and relevant waiver letters were obtained after the reporting period. Therefore, such balances were included as “payable on demand” as at 31 December 2022).

37. Non-Controlling Interest

The following table provides information about subsidiary that has non-controlling interest that is material to the Group:

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
Year ended 31 December 2023						
Baki Sigorta OJSC	The Republic of Azerbaijan	20.6%	20.6%	44	1,347	-
Year ended 31 December 2022						
Baki Sigorta OJSC	The Republic of Azerbaijan	49%	49%	88	3,771	-

The summarised financial information of the subsidiary was as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/(loss)	Total comprehensive income/(loss)	Cash flows
Year ended 31 December 2023								
Baki Sigorta OJSC	8,535	2,262	2,948	355	5,654	214	214	57
Baki Sigorta OJSC	1,758	466	607	73	1,165	44	44	12
Year ended 31 December 2022								
Baki Sigorta OJSC	8,619	2,632	3,887	128	5,327	179	179	182
Baki Sigorta OJSC	4,223	1,290	1,905	63	2,610	88	88	89

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***38. Related Party Transactions**

Transactions between entities in the Group have been eliminated on consolidation and are not disclosed in this Note. The outstanding balances and the related average effective interest rates as at 31 December 2023 and related profit or loss amounts of transactions for the year ended 31 December 2023 with related parties are as follows:

	Shareholders		Entities under common control		Key management personnel of the Group		Total amount
	Amount	Average effective interest rate, %	Amount	Average effective interest rate, %	Amount	Average effective interest rate, %	
Consolidated statement of financial position							
ASSETS							
Loans to customers							
Gross balance	-	-	3,658	6.7% FCY	1,598	10.4% LCY	5,256
Loss allowance	-	-	(7)	-	(9)	-	(16)
LIABILITIES							
Current accounts and deposits from customers	129	-	1,888	-	1,696	9.1% LCY 2.9% FCY	3,713
Items not recognised in the consolidated statement of financial position							
Guarantees given (expires in 3 months)	-	-	2	-	-	-	2
Commitments on loans and unused credit lines	-	-	595	-	93	-	688
Profit / (loss)							
Interest income	16	-	144	-	99	-	259
Interest expense	-	-	-	-	(19)	-	(19)
Fee and commission expense	(2)	-	(1)	-	(21)	-	(24)
Recovery of impairment/(Impairment losses)	9	-	96	-	(3)	-	102
Operating expenses	-	-	-	-	(4,181)	-	(4,181)

Shareholders with more than 20% ownership of the Group's shares have been disclosed in the table. Entities under common control are companies where key shareholders have control or significant influence.

Bank Respublika OJSC**Notes to the Consolidated Financial Statements - 31 December 2023***(Amounts are presented in thousands of Azerbaijani Manats, unless otherwise stated)***38 Related Party Transactions (Continued)**

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

	Share- holders	Entities under common control		Key management personnel of the Group		Total amount	
	Amount	Average effective interest rate, %	Amount	Average effective interest rate, %	Amount	Average effective interest rate, %	Amount
Consolidated statement of financial position							
ASSETS							
Loans to customers							
				13.9% LCY 5.2% FCY			
Gross balance	948	13%	3,650		490	8.4%	5,088
Loss allowance	(9)	-	(103)	-	(6)	-	(118)
LIABILITIES							
Current accounts and deposits from customers	25	-	1,307	-	832	9.3% LCY 2% FCY	2,164
Items not recognised in the consolidated statement of financial position							
Guarantees given (expires in 3 months)	-	-	50	-	-	-	50
Commitments on loans and unused credit lines	-	-	1,802	-	2	-	1,804
Profit (loss)							
Interest income	125	-	119	-	22	-	266
Interest expense	-	-	-	-	(12)	-	(12)
Fee and commission expense	-	-	-	-	3	-	3
Impairment losses	(9)	-	52	-	(1)	-	42
Operating expenses	-	-	-	-	(2,990)	-	(2,990)

Total remuneration included in personnel expenses for the years ended 31 December 2023 and 2022 is as follows:

	2023	2022
Short-term employee benefits	3,626	2,803
Pension and other contributions	555	187
	4,181	2,990

These amounts include cash and non-cash benefits in respect of members of the Supervisory Board and the Management Board.

39. Fair Values Disclosures

IFRS defines fair value as 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.

Fair value of the Group's financial assets and financial liabilities measured at fair value on a recurring basis.

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

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

The table below analyses financial instruments measured at fair value at 31 December 2023, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1	Level 3	Total
Investment securities designated as at FVOCI - equity instruments	-	1,087	1,087
Derivative assets	-	2,945	2,945
Derivative liabilities	-	(2,102)	(2,102)

The table below analyses financial instruments measured at fair value at 31 December 2022, by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognised in the consolidated statement of financial position:

	Level 1	Level 3	Total
Investment securities designated as at FVOCI - equity instruments	-	1,088	1,088
Derivative assets	-	3,825	3,825
Derivative liabilities	-	(2,943)	(2,943)

There were no transfers between Level 1 and 2 in the period.

39 Fair Values Disclosures (Continued)

The following table shows a reconciliation for the year ended 31 December 2023 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3			Total
	Financial instruments at fair value through profit or loss		Financial instruments at fair value through other comprehensive income	
	Derivative assets	Derivative liabilities	Equity investments	
Balance at beginning of the year	2,945	(2,102)	1,087	1,930
Gains or losses recognised in profit or loss for the year	880	(841)	-	39
Effect of changes in exchange rates			1	1
Balance at end of the year	3,825	(2,943)	1,088	1,970

The following table shows a reconciliation for the year ended 31 December 2022 for fair value measurements in Level 3 of the fair value hierarchy:

	Level 3			Total
	Financial instruments at fair value through profit or loss		Financial instruments at fair value through other comprehensive income	
	Derivative assets	Derivative liabilities	Equity investments	
Balance at beginning of the year	1,961	(1,157)	1,088	1,892
Gains or losses recognised in profit or loss for the year	984	(945)	-	39
Effect of changes in exchange rates	-	-	(1)	(1)
Balance at end of the year	2,945	(2,102)	1,087	1,930

As part of its trading activities, the Group enters into OTC-structured derivatives (primarily interest rate cross currency swaps indexed to credit spreads, foreign exchange rates and interest rates) with international financial institutions and domestic banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities, and expected correlations between different underlyings.

39 Fair Values Disclosures (Continued)

As at 31 December 2023, to determine the fair value of the swaps, management assumed interest rates within the range of 3.60%-7.83% and 3.77%-5.56% in AZN and USD, respectively (31 December 2022: within the range of 5.84%-8.92% and 1.71%-6.09% in AZN and USD, respectively).

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value.

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2023:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Investment securities	26,371	35,365	-	61,736	62,755
Loans to banks	-	146,737	-	146,737	146,056
Loans to customers	-	-	1,165,067	1,165,067	1,150,200
LIABILITIES					
Current accounts and deposits from customers:	-	-	-	1,472,969	1,472,969
- <i>Current accounts and demand deposits</i>	-	844,058	-	844,058	844,058
- <i>Term deposits</i>	-	-	628,911	628,911	628,911
Subordinated borrowings	-	-	31,813	31,813	29,899
Other borrowed funds	-	319,822	-	319,822	322,819

The following table analyses the fair value of financial instruments not measured at fair value, by the level in the fair value hierarchy into which each fair value measurement is categorized as at 31 December 2022:

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
ASSETS					
Investment securities	14,219	35,776	-	49,995	50,089
Loans to banks	-	69,127	-	69,127	68,412
Loans to customers	-	-	975,576	975,576	959,544
LIABILITIES					
Current accounts and deposits from customers:	-	-	-	999,725	999,725
- <i>Current accounts and demand deposits</i>	-	486,134	-	486,134	486,134
- <i>Term deposits</i>	-	-	513,591	513,591	513,591
Subordinated borrowings	-	-	25,900	25,900	26,072
Other borrowed funds	-	223,931	-	223,931	245,913

The Group uses the following information in calculation of fair value of financial instruments not measured at fair value based on the type of instrument and availability of observable data in the relevant market in the order of priority (from the most to the least observable data):

39 Fair Values Disclosures (Continued)

- Loans to banks and amounts due to credit institutions: analogical market rates disclosed in the statistical bulletin issued by the Central Bank of the Republic of Azerbaijan.
- Investment securities: depending on the measurement level, Group uses the price of the instrument as of reporting date based on daily quotations or applies income approach using identical assets.
- Loans to customers: expected present value technique, where risk premium is incorporated either into contractual cash flows or into discount rate, defined as the risk-free rate plus the risk premium determined for loan portfolios based on similar characteristics (from credit risk quality point of view). The Group also benchmarks discount rates to interest rates observable from the published regulatory statistics on loans based on relevant maturity.
- Current accounts and deposits from customers, other borrowed funds, current accounts are short-term non-interest-bearing liabilities and their carrying value approximate fair value.

Term-deposits, fair value of amount due to banks, credit institutions and government funds is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturity.

- Borrowings from government funds, where no observable rates are available a Bank will price those instruments at base rate (refinancing or government bond rates) adjusted for non-performance risk (credit risk premium) of the Bank.
- Bonds issued: those with daily quotations for identical assets are in Level 1 measurement category and the price as of reporting date would be taken as such for disclosure purpose. The price of the bond is estimated by comparing it to corporate bonds with an active market, and that have similar maturities, coupon rates, and credit rating. The discount rate is determined as the risk-free rate + credit risk premium of the Issuer.

As at 31 December 2023, to determine the fair value of financial instruments not measured at fair value, management used interest rates within the range of 15%-19% and 5%-6% in AZN and foreign currencies, respectively for loans to customers (31 December 2022: range of 12%-16% and 4%-6% in AZN and foreign currencies, respectively), and within the range of 6.5%-9.5% and 1%-3% in AZN and foreign currencies, respectively for deposits from customer (31 December 2022: within range of 6%-9% and 1%-3% in AZN and foreign currencies, respectively).

The estimates of fair value are intended to approximate the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or transfer of liabilities.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

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

39 Fair Values Disclosures (Continued)

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

40. Events after the End of the Reporting Period

Financing activities. On March 4, 2024, the Group initiated a new loan arrangement with the European Investment Bank, securing a sum of up to EUR 10,000,000. The loan terms offer flexibility, with two options available: a three-year duration with a lump-sum payment upon maturity, or a four-year duration with a one-year grace period followed by three years of semi-annual amortizing payments, with the possibility of quarterly payments for tranches denominated in USD.

On March 29, 2024, the Group established a Subordinated Loan agreement with the International Bank of Azerbaijan, securing USD 2,000,000 with a maturity period of seven years. The loan bears a fixed annual interest rate of 9%, payable quarterly.

Dividends. In February 2024 the Group declared and paid dividends in the amounts of AZN 10,415 thousand.

Increase in loan portfolio. After "Muganbank" OJSC's license was cancelled, ADIF, acting as its liquidator, transferred Muganbank" OJSC's lombard loan portfolio worth AZN 10,421 thousand to Bank Respublika for the same amount plus a 1 percent commission fee.