

**NATIONAL BANK OF PAKISTAN**  
**BAKU BRANCH**

Financial Statements  
For the year ended December 31, 2020

**National Bank of Pakistan Baku Branch  
Financial Statements**

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**Independent auditors' report  
To the shareholder of National Bank of Pakistan Baku Branch**

**Report on the audit of the financial statements**

**Qualified opinion**

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

In our opinion, except for the effects of the matter described in the Basis for qualified opinion section of our report, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for qualified opinion**

The Bank has recorded a provision against loans and advances to customers amounting to AZN 607,534 and provision against immovables received in satisfaction of non-performing loans amounting to AZN 125,632, as at December 31, 2020, however, the recorded provision was not as per the regulatory requirements of Central Bank of Azerbaijan as mentioned in note 8 and note 12 to the financial statements. Further, the Bank has not adopted IFRS 9 'Financial Instruments' from its applicable date January 1, 2018. Therefore, the Bank has not recorded the provision against loans and advances to customers as required by IFRS 9 'Financial Instruments' which constitutes a material departure from IFRS, however, considering the age of Bank's loan portfolio, the provision as per IFRS 9 'Financial Instruments' is not expected to be materially different as required by the local regulations. We were unable to obtain sufficient appropriate audit evidence about the net carrying amounts of these financial assets at amortised cost as at December 31, 2020 and its impact on the Bank's net income for the year and retained earnings because we were not provided the impact assessment of IFRS 9 by the management. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

**Emphasis of matter paragraphs**

We draw attention to note 2 of the financial statements which states that the Board of Directors of National Bank of Pakistan ("Parent Bank") has decided to close the Bank. Therefore, use of the going concern basis of accounting is not appropriate in these circumstances. Accordingly, these financial statements have not been prepared on a going concern basis. Therefore, these financial statements have been prepared on modified IFRS basis where assets were tested for impairment. Our opinion is not qualified in respect of this matter.

We draw attention to note 25 of the financial statements which states that the Bank does not comply with the minimum capital requirements as per the applicable local regulations. Our opinion is not qualified in respect of this matter.

## Independent auditors' report (continued)

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

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

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

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

### Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



Grant Thornton  
Baku, Republic of Azerbaijan

Date: February 18, 2021

**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Statement of financial position**  
**As at December 31, 2020**

	Notes	2020 AZN	2019 AZN
<b>Assets</b>			
Cash and balances with Central Bank	5	2,674,649	2,037,163
Balances with other banks	7	263,188	341,971
Loans and advances to customers	8	1,614,221	1,637,847
Investments held to maturity	9	6,981,280	5,390,466
Property, equipment and right-of-use assets	10	37,368	121,069
Intangible assets	11	12,752	14,625
Other assets	12	701,829	685,603
<b>Total assets</b>		<b>12,285,287</b>	<b>10,228,744</b>
<b>Liabilities</b>			
Due to banks and other financial institution	13	360	360
Customers' accounts	14	2,911,915	406,817
Other liabilities	15	10,829	97,197
<b>Total liabilities</b>		<b>2,923,104</b>	<b>504,374</b>
<b>Equity</b>			
Share capital	16	9,420,000	9,420,000
Other reserves		722,812	722,812
Accumulated losses		(780,629)	(418,442)
<b>Total equity</b>		<b>9,362,183</b>	<b>9,724,370</b>
<b>Total equity and liabilities</b>		<b>12,285,287</b>	<b>10,228,744</b>

These financial statements for the year ended December 31, 2020 were approved by the Management Board on February 18, 2021 and were signed by:

Mr. Zar Wali Khan  
 General Manager

Baku, Azerbaijan Republic



Mr. Sahib Guliyev  
 Deputy of General Manager

The accompanying notes 1 to 29 form an integral part of these financial statements.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Statement of comprehensive income

For the year ended December 31, 2020

	Notes	2020 AZN	2019 AZN
Interest income	17	389,841	413,390
Interest expense	17	-	-
<b>Net interest income</b>		<b>389,841</b>	413,390
Reversal of provision on loans and advances to customers - net	8	1,113	129,946
<b>Net interest income after provision</b>		<b>390,954</b>	543,336
Other income - net		796	2,207
Gain/(Loss) from foreign exchange operations – net	18	17,497	(497)
Fees and commission income	19	44,940	18,580
Fees and commission expense	20	(9,840)	(21,991)
<b>Operating profit</b>		<b>444,347</b>	541,635
Operating expenses	21	(806,534)	(951,626)
<b>Loss before income tax</b>		<b>(362,187)</b>	(409,991)
Income tax expense	22	-	-
<b>Net loss for the year</b>		<b>(362,187)</b>	(409,991)
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>		<b>(362,187)</b>	(409,991)

The accompanying notes 1 to 29 form an integral part of these financial statements.

**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Statement of changes in equity**  
**For the year ended December 31, 2020**

	Share capital AZN	Other reserves AZN	Accumulated losses AZN	Total equity AZN
Balance at January 1, 2019	9,420,000	722,812	(8,451)	10,134,361
Net loss for the year	-	-	(409,991)	(409,991)
Total comprehensive loss for the year	-	-	(409,991)	(409,991)
Balance at December 31, 2019	9,420,000	722,812	(418,442)	9,724,370
Net loss for the year	-	-	(362,187)	(362,187)
Total comprehensive loss for the year	-	-	(362,187)	(362,187)
Balance at December 31, 2020	<b>9,420,000</b>	<b>722,812</b>	<b>(780,629)</b>	<b>9,362,183</b>

The accompanying notes 1 to 29 form an integral part of these financial statements.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Statement of cash flows

For the year ended December 31, 2020

	Notes	2020 AZN	2019 AZN
<b>OPERATING ACTIVITIES</b>			
Loss before tax		(362,187)	(409,991)
<b>Adjustments for non-cash and non-operating items:</b>			
Reversal of provision for impairment loss at balances with other banks	7	(796)	(270)
Reversal of provision for impairment losses – net	8	(1,113)	(129,946)
Depreciation of property, equipment and right-of-use assets	10	86,647	87,715
Amortization of intangible assets	11	3,673	4,900
Provision on immovable properties acquired	21	-	51,729
Finance cost on lease liability	21	7,215	22,500
Loss on revaluation of foreign currency operations		(3,193)	200
		<b>(269,754)</b>	<b>(373,163)</b>
<b>Changes in operating assets and liabilities:</b>			
Loans and advances to customers		24,739	479,154
Investments held to maturity		(1,590,814)	1,588,285
Other assets		(24,466)	17,368
Customers' accounts		2,505,098	(975,284)
Other liabilities		(2,751)	(7,138)
Cash inflow from operating activities before taxation		645,752	729,222
Income tax paid		(3,700)	(10,000)
Net cash generated from operating activities		<b>642,052</b>	<b>729,222</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	10	(2,946)	(359)
Purchase of intangible asset	11	(1,800)	-
Net cash used in investing activities		<b>(4,746)</b>	<b>(359)</b>
<b>FINANCING ACTIVITIES</b>			
Payment of finance cost on lease liability		(7,215)	(22,500)
Payment of lease liability		(83,617)	(71,100)
Net cash used in investing activities		<b>(90,832)</b>	<b>(93,600)</b>
Effect of changes in foreign exchange rates on cash and cash equivalents		3,193	(200)
<b>Net change in cash and cash equivalents</b>		<b>549,667</b>	<b>635,063</b>
Cash and cash equivalents, beginning of year		2,378,428	1,743,365
<b>Cash and cash equivalents, end of year</b>	6	<b>2,928,095</b>	<b>2,378,428</b>

The accompanying notes 1 to 29 form an integral part of these financial statements.



# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements

#### For the year ended December 31, 2020

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#### 1 Legal status and nature of operations

National Bank of Pakistan Baku Branch (the “Bank”) was incorporated in Azerbaijan in 2005 and regulated by the Central Bank of the Republic of Azerbaijan (the “CBAR”) and conducting its business under general license number 248. As at December 31, 2020 the registered address of the Bank is located at Nobel Ave. 9A, AZ 1001, Baku, the Republic of Azerbaijan.

The principal activities of the Bank are to provide commercial and retail banking services to legal entities and physical persons. The Bank has 22 employees (2019: 24 employees) as at December 31, 2020.

As at December 31, 2020 and 2019, the following shareholder owned the issued share capital of the Bank.

	2020	2019
	%	%
National Bank of Pakistan (Incorporated in Islamic Republic of Pakistan)	100	100

#### 2 Statement of compliance with International Financial Reporting Standards (IFRS)

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Board of Directors of National Bank of Pakistan (“Parent Bank”) in its 302 meeting have approved business strategy for the international operations of the Parent Bank. As part of its future strategy, the Board of Directors of Parent Bank has decided to close operations of the Bank. Therefore, the use of going concern basis of accounting is not appropriate in the circumstances. Accordingly, these financial statements have not been prepared on going concern basis. Therefore, modified IFRS basis has been adopted by the Bank and accordingly all assets have been tested for impairment.

#### 3 Standards, interpretations and amendments to existing standards

##### 3.1 Standards, interpretations and amendments to existing standards that are effective in 2020

Following relevant new standards, revisions and amendments to existing standards were issued by the IASB, which are effective for the accounting period beginning on or after January 1, 2020 and have been adopted by the Bank, where applicable except IFRS 9 which has not been adopted. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current year but may affect the accounting for the Bank’s future transactions or arrangements.

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020
Definition of a Business – Amendments to IFRS 3 Business Combinations	January 1, 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	January 1, 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 1, 2020
Covid-19-Related Rent Concessions (Amendment to IFRS 16)	January 1, 2020

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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- 3 Standards, interpretations and amendments to existing standards (continued)
- 3.2 Standards, interpretations and amendments to existing standards that are not yet effective and have not been adopted early by the Bank (continued)

At the date of authorisation of these financial statements, the following relevant new standards, interpretations and amendments to existing standards have been published but are not yet effective and have not been adopted early by the Bank. Information on the relevant new standards, amendments and interpretations that are not yet effective has been given below.

<b>New and revised IFRSs</b>	<b>Effective for annual periods beginning on or after</b>
IFRS 17 Insurance Contracts	January 1, 2023

Management anticipates that all the relevant pronouncements will be adopted in the Bank's accounting policies for the first period beginning after the effective date of the pronouncement. The Bank's management has yet to assess the impact of these changes on the Bank's financial statements.

#### 4 Summary of significant accounting policies

##### 4.1 Overall considerations

These financial statements have been prepared using the modified measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

##### 4.2 Basis of preparation

The accounting policies applied in the preparation of these financial statements are consistent with those applied in the annual financial statements for the year ended December 31, 2019, except that these financial statements have not been prepared on going concern basis and assets of the Bank have been tested for impairment.

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical management judgments in applying accounting policies and changes in estimation uncertainty and critical management judgments that have the most significant effect on the amounts recognised in the financial statements are described in note 4.26 and 4.27.

##### 4.3 Foreign currency translation

###### Functional and presentation currency

These financial statements are presented in Azerbaijan Manat (AZN), which is also the functional currency of the Bank.

###### Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in statement of comprehensive income.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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#### 4 Summary of significant accounting policies (continued)

##### 4.3 Foreign currency translation (continued)

##### Foreign currency transactions and balances (continued)

Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. For the purpose of translation of financial assets and financial liabilities denominated in foreign currencies the following year-end exchange rates have been used:

	<b>2020</b>	2019
AZN/1 USD	<b>1.7000</b>	1.7000
AZN/1 EURO	<b>2.0890</b>	1.9035

##### 4.4 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand and balances with CBAR with original maturities of three months or less from the date of acquisition. Cash and cash equivalents are carried at amortized cost less impairment.

##### 4.5 Mandatory cash balances with the CBAR

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

##### 4.6 Balances with other banks

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

##### 4.7 Loans and advances to customers

Loans and advances to customers are recorded when the Bank advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. They are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method, less impairment.

##### 4.8 Credit related commitments

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

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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4 Summary of significant accounting policies (continued)

4.9 Impairment of financial assets

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. For amounts due to the Bank, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognized in the statements of comprehensive income. Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognized. The write back is recognised in the statement of comprehensive income. Where financial assets are impaired through use of an allowance account, the amount of the loss is recognized in the statement of comprehensive income. When such assets are written-off, the write-off is made against the relevant allowance account.

#### **Impairment of loans and advances**

Losses on impaired loans are recognised promptly when there is objective evidence that impairment of a loan has occurred. Impairment losses are calculated on individual loans and on group of loans assessed collectively. Impairment losses are recorded as charges to the statement of comprehensive income. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised. Impairment losses are recognised promptly when there is an objective evidence that impairment of a financial asset has occurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Bank determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Along with the prudential regulations of the primary factors that the Bank considers whether a financial asset is impaired are its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the realisable value of security (or other credit mitigations) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation; or
- the adverse change in the payment status of the borrower as a result of changes in the international or local economic conditions that impact the borrower.

#### **Write-offs of loans and advances and guarantees**

A loan and guarantee (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realising the security have been received.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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#### 4 Summary of significant accounting policies (continued)

##### 4.10 Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the management has an intention and ability to hold till maturity. Investments held to maturity are measured at amortized cost using the effective interest method, less any identified impairment losses.

##### 4.11 Property, equipment and right-of-use assets

All items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The Bank does not own any premises in the current and in prior year. The costs of minor repairs and maintenance are expensed out when incurred. The cost of replacing major parts or components of property and equipment items are capitalized and the replaced part is retired.

If impaired, property and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to statement of comprehensive income. An impairment loss recognized for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount and recognized in statement of comprehensive income from disposal of fixed assets. Depreciation on items of property, equipment and right-of-use assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

- |   |                                   |
|---|-----------------------------------|
| • Furniture and fixtures                | 25%                               |
| • Computers and communication equipment | 25%                               |
| • Vehicles                              | 15%                               |
| • Other fixed assets                    | 15%                               |
| • Right-of-use asset                    | Over the term of the lease period |

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

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

##### 4.12 Intangible assets

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

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

- |                     |     |
|---------------------|-----|
| • Computer software | 10% |
|---------------------|-----|

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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#### 4 Summary of significant accounting policies (continued)

##### 4.13 Impairment of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

##### 4.14 Other assets

Other assets are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

##### 4.15 Due to other banks

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

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

##### 4.16 Customers' accounts

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

##### 4.17 Other borrowed funds

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

##### 4.18 Other liabilities

Other liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

##### 4.19 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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#### 4 Summary of significant accounting policies (continued)

##### 4.20 Equity and reserves

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Retained earnings/accumulated losses include all current and prior period retained profits/losses. All transactions with owners are recorded separately within equity.

##### 4.21 Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Bank and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations. Expected recoveries are recognized by debiting customer accounts. Charge to statement of comprehensive income is stated net of expected recoveries. Provisions are not recognised for future operating losses.

Provisions are discounted to their present values, where the time value of money is material.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognised, unless it was assumed in the course of a business combination.

##### 4.22 Income and expense recognition

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

##### 4.23 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or at the date of their origin.

##### 4.24 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.

As required by Azerbaijan legislation, the Bank withholds amounts of pension contributions from the salaries of employees and pays them to the state pension fund along with its own share of contribution. Upon retirement all retirement benefit payments are made by the state pension fund. Further, in accordance with amendments in the Tax Code of the Republic of Azerbaijan, these rates have been set as 15% and 10% for the Bank and employees respectively which were applicable from January 1, 2019.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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4 Summary of significant accounting policies (continued)

4.25 Taxation

Income tax expense represents current and deferred tax expense/income.

Current taxation

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's current tax expense is calculated using tax rates that have been enacted or substantively enacted in the Azerbaijan Republic during the reporting period.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date 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. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Bank has a legally enforceable right to set off current income tax assets against current income tax liabilities: and
- Deferred tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Azerbaijan Republic also has various other taxes, which are assessed on the Bank's activities. These taxes are included as a component of operating expenses in the statement of comprehensive income.

4.26 Significant management judgement in applying accounting policies

The preparation of the financial statements requires management to make certain judgements, estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired loans to customers. Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.



# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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4 Summary of significant accounting policies (continued)

4.26 Significant management judgement in applying accounting policies (continued)

#### Recognition of deferred tax assets

The extent to which deferred tax asset can be recognised is based on an assessment of the probability of the Bank's future taxable expenses against which the deductible temporary differences can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties (see note 4.25).

#### Valuation of financial instruments

As described in note 27, no financial instruments are fair valued rather are carried at cost or amortised cost. Management believes that the carrying values of financial instruments reported approximate their fair values as at December 31, 2020.

#### Impairment of loans and advances to customers

The Bank regularly reviews its loans and receivables to assess for impairment. The Bank's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Bank considers accounting estimates related to allowance for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Bank's estimated losses and actual losses would require the Bank to record provisions which could have a material impact on its financial statements in future periods.

The Bank uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Bank estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Bank uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

The allowances for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Bank is not in a position to predict what changes in conditions will take place in the Republic of Azerbaijan and what effect such changes might have on the adequacy of the allowances for impairment of financial assets in future periods.

Along with the prudential regulations of CBAR the primary factors that the Bank considers whether a financial asset is impaired are its overdue status and realizability of related collateral, if any.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

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4 Summary of significant accounting policies (continued)

4.26 Significant management judgement in applying accounting policies (continued)

Impairment of loans and advances to customers (continued)

The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- the viability of the customer's business model and its capability to trade successfully out of financial difficulties and generate sufficient cash flow to service its debt obligations;
- the realizable value of security (or other credit mitigations) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- the adverse change in the payment status of the borrower because of changes in the international or local economic conditions that impact the borrower.

4.27 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may substantially differ.

Useful lives of depreciable and amortisable assets

Management reviews the useful lives of depreciable and amortisable assets which include property and equipment, and intangible assets at each reporting date, based on the expected utility of the assets to the Bank. Actual results, however, may vary due to technical obsolescence, particularly relating to software.

Impairment of property, equipment and intangible assets

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary and may cause significant adjustments to the Bank's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Provisions

Provisions are raised based on management's estimates from information available surrounding particular transactions. Prudence is exercised when estimating provisions so as not to materially overstate the Bank's reported net income and understates its liabilities.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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4 Summary of significant accounting policies (continued)

4.27 Estimation uncertainty (continued)

#### Going concern assumptions and carrying values

Based on the decision made by the Board of Directors of the Parent Bank, as per management's judgement these financial statements have not been prepared on a going concern basis. Management assumes that their request for the liquidation of the Bank will be accepted by the Central Bank of Azerbaijan and subject to their approvals the bank will wind up its operations. Accordingly, carrying values of the assets and liabilities have been assessed for any potential impairment. Management assume that the assets of the Bank will be realized in due course at least to their current carrying values, to discharge its liabilities.

#### Provision for impairment of loans and advances to customers

Loans and advances to customers are measured at amortized cost less allowance for impairment losses. The estimation of allowances for impairment involves the exercise of significant judgment and estimates. The Bank estimates allowances for impairment with the objective of maintaining provisions at a level believed by management to be sufficient to absorb losses incurred in the Bank's loan portfolio. The calculation of provisions is based on criteria determined by the applicable prudential regulations of CBAR.

#### Contingent liability arising from litigations

Due to the nature of its operations, the Bank may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

5	Cash and balances with Central Bank		
		<b>2020</b>	2019
		<b>AZN</b>	AZN
	Cash on hand	<b>134,880</b>	155,521
	Cash balances with CBAR other than mandatory reserve deposits	<b>2,527,369</b>	1,877,482
		<b>2,662,249</b>	2,033,003
	Mandatory reserve deposits with CBAR	<b>12,400</b>	4,160
	<b>Cash and cash equivalents</b>	<b>2,674,649</b>	2,037,163

Mandatory minimum reserve deposits are not available for use in the Bank's day-to-day operations. Cash on hand, balances with CBAR and mandatory minimum reserve deposits are non-interest-bearing.

### 6 Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows include the following components:

		<b>2020</b>	2019
		<b>AZN</b>	AZN
	Cash and balances with Central Bank (note 5)	<b>2,662,249</b>	2,033,003
	Balances with other banks (note 7)	<b>265,846</b>	345,425
	<b>Cash and cash equivalents</b>	<b>2,928,095</b>	2,378,428

### 7 Balances with other banks

		<b>2020</b>	2019
		<b>AZN</b>	AZN
	Correspondent accounts	<b>265,846</b>	345,425
	Less: allowance for impairment losses	<b>(2,658)</b>	(3,454)
		<b>263,188</b>	341,971

The following table show reconciliations from the opening to the closing balance of the allowance for impairment loss.

		<b>2020</b>	2019
		<b>AZN</b>	AZN
	Balance as at January 1,	<b>3,454</b>	3,724
	Reversal for the year	<b>(796)</b>	(270)
	Balance as at December 31,	<b>2,658</b>	3,454

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

#### 8 Loans and advances to customers

	2020	2019
	AZN	AZN
Loans and advances to customers, gross	2,221,755	2,246,494
Less: Provision for impairment loss	<u>(607,534)</u>	<u>(608,647)</u>
Loans and advances to customers, net	<u>1,614,221</u>	<u>1,637,847</u>

The Bank has recorded a provision against loans and advances to customers of AZN 607,534 (2019: AZN 608,647), however, the required provision as per Central Bank of Azerbaijan's regulations was AZN 2,187,544 (2019: AZN 2,212,257) as at December 31, 2020. The Bank has not recorded the additional provision based on verbal understanding with the local regulator.

Loans and advances to customers carry interest rates ranging from 8% to 20% (1% for restructured loans only) per annum (2019: 8% to 20% per annum).

	2020	2019
	AZN	AZN
Corporate loans	1,304,825	1,305,325
<b>Individuals loans</b>		
- Trade and Services	523,087	526,765
- Manufacturing	367,938	386,938
- Consumer Loans	25,905	27,466
- Construction	-	-
Less: Provision for impairment loss	<u>(607,534)</u>	<u>(608,647)</u>
	<u>1,614,221</u>	<u>1,637,847</u>

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

	Corporate Loans AZN	Trade and Services AZN	Manufacturing AZN	Consumer Loans AZN	Construction AZN	Total AZN
Provision for impairment loss at January 1, 2020	372,059	144,523	85,341	6,724	-	608,647
Reversal of provision during the year	(250)	(635)	(189)	(39)	-	(1,113)
<b>Provision for impairment loss at December 31, 2020</b>	<u>371,809</u>	<u>143,888</u>	<u>85,152</u>	<u>6,685</u>	<u>-</u>	<u>607,534</u>

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

	Corporate Loans AZN	Trade and Services AZN	Manufacturing AZN	Consumer Loans AZN	Construction AZN	Total AZN
Provision for impairment loss at January 1, 2019	370,489	203,375	142,114	18,644	3,971	738,593
Provision made during the year	9,000	-	-	-	-	9,000
Provision adjusted during the year	(7,430)	(58,852)	(56,773)	(11,920)	(3,971)	(138,946)
Reversal of provision on loans and advances to customers - net	1,570	(58,852)	(56,773)	(11,920)	(3,971)	(129,946)
<b>Provision for impairment loss at December 31, 2019</b>	<u>372,059</u>	<u>144,523</u>	<u>85,341</u>	<u>6,724</u>	<u>-</u>	<u>608,647</u>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

#### 8 Loans and advances to customers (continued)

Economic sector risk concentration within the loan to customers is as follows:

	2020 AZN	2020 %	2019 AZN	2019 %
<b>Corporate loans</b>				
Manufacturing	966,086	43.48	966,086	43.00
Construction	17,761	0.80	17,761	0.79
Trade and services	320,978	14.45	321,478	14.31
<b>Total corporate loans</b>	<b>1,304,825</b>	<b>58.73</b>	<b>1,305,325</b>	<b>58.10</b>
<b>Individuals</b>				
Trade and services	523,087	23.54	526,765	23.45
Manufacturing	367,938	16.56	386,938	17.22
Consumer loans	25,905	1.17	27,466	1.23
<b>Total individuals</b>	<b>916,930</b>	<b>41.27</b>	<b>941,169</b>	<b>41.90</b>
<b>Total loans and advances to customers before impairment</b>	<b>2,221,755</b>	<b>100.00</b>	<b>2,246,494</b>	<b>100.00</b>

The analysis by credit quality of loans at December 31, 2020 is as follow:

	Corporate Loans	Trade and Services	Manufacturing	Consumer Loans	Construction	Total
<b>Past due but not impaired</b>						
- Not overdue	-	9,937	-	12,616	-	22,553
<b>Total past due but not impaired</b>	-	9,937	-	12,616	-	22,553
<b>Loans individually determined to be impaired</b>						
- 90 to 180 days overdue	-	-	-	-	-	-
- more than 360 days overdue	1,304,825	513,150	367,938	13,289	-	2,199,202
<b>Total individually impaired loans</b>	<b>1,304,825</b>	<b>513,150</b>	<b>367,938</b>	<b>13,289</b>	<b>-</b>	<b>2,199,202</b>
<b>Gross carrying values</b>	<b>1,304,825</b>	<b>523,087</b>	<b>367,938</b>	<b>25,905</b>	<b>-</b>	<b>2,221,755</b>
Less provisions for impairment loss	(371,809)	(143,888)	(85,152)	(6,685)	-	(607,534)
<b>Total loans and advances to customers</b>	<b>933,016</b>	<b>379,199</b>	<b>282,786</b>	<b>19,220</b>	<b>-</b>	<b>1,614,221</b>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

For the year ended December 31, 2020

#### 8 Loans and advances to customers (continued)

The analysis by credit quality of loans at December 31, 2019 is as follow:

	Corporate Loans	Trade and Services	Manufacturing	Consumer Loans	Construction	Total
<b>Past due but not impaired</b>						
- Not overdue	-	11,126	-	14,177	-	25,303
<b>Total past due but not impaired</b>	-	11,126	-	14,177	-	25,303
<b>Loans individually determined to be impaired</b>						
- 90 to 180 days overdue	-	-	-	-	-	-
- more than 360 days overdue	1,305,325	515,639	386,938	13,289	-	2,221,191
<b>Total individually impaired loans</b>	1,305,325	515,639	386,938	13,289	-	2,221,191
<b>Gross carrying values</b>	1,305,325	526,765	386,938	27,466	-	2,246,494
Less provisions for impairment loss	(372,059)	(144,523)	(85,341)	(6,724)	-	(608,647)
<b>Total loans and advances to customers</b>	933,266	382,242	301,597	20,742	-	1,637,847

#### 9 Investments held to maturity

As at December 31, 2020 and December 31, 2019 the Bank's balances of investments held to maturity are as follows:

	Interest to nominal %	Interest to nominal %	2020 AZN	2019 AZN
Government securities	5.65 – 7.80	5.01 – 8.0	6,981,280	5,390,466
			<b>6,981,280</b>	<b>5,390,466</b>

The Bank has investment in Government securities with maturities ranging from 1 to 5 years (2019: 1 to 6 months). Further the investment includes accrued interest of AZN 103,520 as at December 31, 2020 (2019: AZN 69,351).

**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Notes to the financial statements (continued)**  
**For the year ended December 31, 2020**

**10 Property, equipment and right-of-use assets**

	Furniture and fixtures AZN	Computers and communication equipment AZN	Vehicles AZN	Other fixed assets AZN	Right-of-use asset AZN	Total AZN
<b>2020</b>						
<b>Cost</b>						
Balance as at January 1,	72,892	89,202	22,163	6,466	193,717	384,440
Additions	91	2,855	-	-	-	2,946
Balance as at December 31,	<u>72,983</u>	<u>92,057</u>	<u>22,163</u>	<u>6,466</u>	<u>193,717</u>	<u>387,386</u>
<b>Accumulated depreciation</b>						
Balance as at January 1,	66,430	88,153	22,163	6,466	80,159	263,371
Charge for the year (note 21)	5,913	575	-	-	80,159	86,647
Balance as at December 31,	<u>72,343</u>	<u>88,728</u>	<u>22,163</u>	<u>6,466</u>	<u>160,318</u>	<u>350,018</u>
<b>Net carrying amount as at December 31, 2020</b>	<u>640</u>	<u>3,329</u>	<u>-</u>	<u>-</u>	<u>33,399</u>	<u>37,368</u>

In prior year, the Bank has recorded a lease liability as per IFRS 16 ‘Leases’ at the present value of remaining lease payments in respect of the office building obtained on rent. The Bank has recorded a right-of-use asset equal to the lease liability on January 1, 2019.

During the year ended December 31, 2020, the Bank carried an internal exercise to revalue its owned property and equipment (except for Right-of-use asset) and consequently a revaluation gain of AZN 154,803 was identified. This revaluation gain was not recorded in these financial statements as Bank’s accounting policy is “cost model” as per IAS-16 “Property, Plant and Equipment”. However, the management recorded this revaluation gain and related increase in property and equipment in its prudential returns for regulatory reporting.



**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Notes to the financial statements (continued)**  
**For the year ended December 31, 2020**

10 Property, equipment and right-of-use assets (continued)

	Furniture and fixtures AZN	Computers and communication equipment AZN	Vehicles AZN	Other fixed assets AZN	Right-of-use asset AZN	Total AZN
2019						
Cost						
Balance as at January 1,	72,533	89,202	22,163	6,466	-	190,364
Recognition of right-of-use asset	-	-	-	-	193,717	193,717
Additions	359	-	-	-	-	359
Balance as at December 31,	72,892	89,202	22,163	6,466	193,717	384,440
Accumulated depreciation						
Balance as at January 1,	59,719	87,308	22,163	6,466	-	175,656
Charge for the year (note 21)	6,711	845	-	-	80,159	87,715
Balance as at December 31,	66,430	88,153	22,163	6,466	80,159	263,371
Net carrying amount as at December 31, 2019	6,462	1,049	-	-	113,558	121,069

In the opinion of the management, there has been no impairment in the carrying amount of property, equipment and right-of-use assets as at December 31, 2020 (2019: Nil).

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

11	Intangible asset		
		<b>2020</b>	2019
		<b>AZN</b>	AZN
	<b>Cost</b>		
	Balance as at January 1,	<b>87,178</b>	87,178
	Additions	<b>1,800</b>	-
	Balance as at December 31,	<b>88,978</b>	87,178
	<b>Accumulated amortization</b>		
	Balance as at January 1,	<b>72,553</b>	67,653
	Amortization for the year (note 21)	<b>3,673</b>	4,900
	Balance as at December 31,	<b>76,226</b>	72,553
	Carrying value as at December 31,	<b>12,752</b>	14,625
12	Other assets		
		<b>2020</b>	2019
		<b>AZN</b>	AZN
	<b>Financial assets</b>		
	Deposits	<b>10,686</b>	10,660
	<b>Non-financial assets</b>		
	Advances, prepayments and deposits	<b>204,024</b>	195,407
	Immovables received in satisfaction of non-performing loans - net*	<b>376,896</b>	376,896
	Deferred expenses	<b>63,574</b>	59,691
	Other tax receivables	<b>46,649</b>	42,949
	<b>Total other assets</b>	<b>701,829</b>	685,603
	* The Bank has recorded a provision of AZN 125,632 and there was no movement during the current year. However, the required provision as per Central Bank of Azerbaijan's regulations was AZN 347,343 as at December 31, 2020. The Bank has not recorded the additional provision based on verbal understanding with the local regulator.		
13	Due to banks and other financial institution		
		<b>2020</b>	2019
		<b>AZN</b>	AZN
	Other financial institution	<b>360</b>	360
		<b>360</b>	360
14	Customers' accounts		
		<b>2020</b>	2019
		<b>AZN</b>	AZN
	State owned enterprises and public organizations		
	- Current accounts	<b>186,035</b>	173,251
	Other legal entities		
	- Current accounts	<b>2,599,480</b>	28,991
	Individuals		
	- Current accounts	<b>126,400</b>	204,575
	<b>Total customers' accounts</b>	<b>2,911,915</b>	406,817

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

#### 14 Customers' accounts (continued)

Economic sector concentrations within customers' accounts are as follows:

	2020		2019	
	AZN	%	AZN	%
Construction and real estate	2,594,237	89.09	19,752	4.86
Embassies and consulate	185,954	6.39	173,171	42.57
Individuals	126,400	4.34	204,575	50.29
Trade and services	5,014	0.17	6,683	1.64
Manufacturing and industry	229	0.01	2,556	0.63
State owned enterprises	81	0.00	80	0.01
	<b>2,911,915</b>	<b>100.00</b>	<b>406,817</b>	<b>100.00</b>

#### 15 Other liabilities

	2020	2019
	AZN	AZN
<b>Financial liabilities</b>		
Items in course of settlement	9,268	12,902
Lease liability	-	83,617
	<b>9,268</b>	<b>96,519</b>
<b>Non-financial liabilities</b>		
Other tax payables	1,561	678
	<b>1,561</b>	<b>678</b>
<b>Total other liabilities</b>	<b>10,829</b>	<b>97,197</b>

#### Lease liability

In prior year, the Bank has recorded a lease liability as per IFRS 16 'Leases' at the present value of remaining lease payments in respect of an office building obtained on rent.

	2020	2019
	AZN	AZN
Non-current portion	-	-
Current portion	-	83,617
	<b>-</b>	<b>83,617</b>

December 31, 2020	Within 1 year	Above 1 year	Total
Minimum lease payments	-	-	-
Finance charges	-	-	-
<b>Net present value</b>	<b>-</b>	<b>-</b>	<b>-</b>
December 31, 2019	Within 1 year	Above 1 year	Total
Minimum lease payments	90,832	-	90,832
Finance charges	(7,215)	-	(7,215)
<b>Net present value</b>	<b>83,617</b>	<b>-</b>	<b>83,617</b>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

#### 16 Share capital

Total share capital of the Bank is amounting to AZN 9,420,000 as at December 31, 2020 (December 31, 2019: AZN 9,420,000). Refer to note 25 "Management of Capital".

#### 17 Net interest income

	2020	2019
	AZN	AZN
<b>Interest income</b>		
Interest income on loans and advances to customers	1,580	113
Placement with banks and other financial institutions	349	2,332
Investments held to maturity	387,912	410,945
	<u>389,841</u>	<u>413,390</u>
<b>Interest expense</b>		
Deposits and other financial institutions	-	-
	<u>-</u>	<u>-</u>
<b>Net interest income</b>	<u>389,841</u>	<u>413,390</u>

#### 18 Gain/(Loss) from foreign exchange operations – net

	2020	2019
	AZN	AZN
Gain/(Loss) on dealing in operations – net	14,304	(297)
Revaluation of foreign currency operations – net	3,193	(200)
<b>Total loss from foreign exchange operations – net</b>	<u>17,497</u>	<u>(497)</u>

#### 19 Fees and commission income

	2020	2019
	AZN	AZN
Settlements	13,715	10,945
Cash operations	7,058	6,415
Other operations	24,167	1,220
<b>Total</b>	<u>44,940</u>	<u>18,580</u>

#### 20 Fees and commission expense

	2020	2019
	AZN	AZN
Settlements	4,165	2,246
Cash operations	300	1,150
Other operations	5,375	18,595
<b>Total</b>	<u>9,840</u>	<u>21,991</u>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

21	Operating expenses	2020	2019
		AZN	AZN
	Salaries, wages and other benefits	407,107	425,996
	Communications expenses	114,684	140,663
	Depreciation for the year (note 10)	86,647	87,715
	Provision on immovable properties acquired	-	51,729
	Rent expense	48,573	48,573
	Premises security	29,010	25,561
	Repair and maintenance expenses	28,357	33,599
	Legal fees	24,216	24,000
	Professional services	17,000	20,700
	Finance cost on lease liability	7,215	22,500
	Amortisation for the year (note 11)	3,673	4,900
	Membership fees	745	703
	Taxes other than income tax	608	1,030
	Miscellaneous expenses	38,699	63,957
		<b>806,534</b>	<b>951,626</b>

#### 22 Taxation

Azerbaijan commercial and tax legislation in particular may give rise to varying interpretations and amendments. In addition, as management's interpretation of tax legislation may differ from that of the tax authorities, transaction may be challenged by the tax authorities, and as a result the Bank may be assessed for additional tax, penalties and interest. The management believes that the Bank is in substantial compliance of tax legislation.

##### Deferred tax asset

Deferred tax asset of AZN 125,165 (2019: AZN 81,998) for the year has not been recognised based on the management assumption that the Bank does not expect future taxable profits in order to realize the benefit, therefore, no deferred tax asset has been recorded.

##### Income tax expense

During the year and in prior years, the Bank has incurred taxable losses. Hence no profit tax or related reconciliation has been recognised in these financial statements. The effective tax rate for current and prior year was 20%.

#### 23 Related parties

The Bank in the normal course of business carries on business with other entities that fall within the definition of related party contained in IFRS as issued by the IASB. These transactions are carried out in the normal course of business and are measured at exchange amounts, being the amounts agreed by both the parties. For the purpose of these financial statements, entities are considered to be related to the Bank if it has the ability, directly or indirectly, to exercise significant influence over the entities in making financial and operating decisions, or vice versa, or where the Bank and other entity is subject to common control or significant influence, key management personnel and other related parties.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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#### 23 Related parties (continued)

Details of related party transactions entered into during the year are set out below.

#### Related party balances

	2020	2019
	AZN	AZN
<b>Balances with other banks</b>		
- entities with joint control or significant influence over the entity - net	<b>263,188</b>	<b>341,971</b>

#### Transactions with related parties

Salaries, wages and other benefits to key management personnel were as follows:

	2020	2019
	AZN	AZN
Short-term benefits – salaries and bonuses	<b>157,395</b>	<b>177,417</b>

#### 24 Contingencies and commitments

##### Operating environment

Emerging markets such as Azerbaijan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Azerbaijan and the Azerbaijan's economy in general.

Laws and regulations affecting businesses in Azerbaijan continue to change rapidly. Tax, currency and customs legislation within Azerbaijan are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Azerbaijan. The future economic direction of Azerbaijan is largely dependent upon economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments. There has been major devaluation in Azerbaijan Mannats against US dollars since February 21, 2015. The government has introduced a floating exchange rate since December 21, 2015, which was previously pegged against US dollars. Furthermore, the Govt. remove the restriction on maximum and minimum margin deviation from regulator exchange rate and now Bank can set their own exchange rate based on market supply and demand basis.

The global financial turmoil that has negatively affected Azerbaijan's financial and capital markets in 2009 and 2010 receded and Azerbaijan's economy returned to growth in 2011 and 2012. However significant economic uncertainties remain. Adverse changes arising from systemic risks in global financial systems, including any tightening of the credit environment or from decline in the oil and gas prices could slow or disrupt the Azerbaijan's economy, adversely affect the Bank's access to capital and cost of capital for the Bank and, more generally, its business, results of operations, financial condition and prospects. Because Azerbaijan produces and exports large volumes of oil and gas, Azerbaijan's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during the year.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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24 Contingencies and commitments (continued)

#### Operating environment

Due to rapid spread of COVID-19 pandemic in the early of 2020 many governments, including the Government of the Republic of Azerbaijan, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain area. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity.

It is expected that pandemic itself as well as measures for its consequences' minimization may influence the business of the entities in wide range of industries. Since March 2020 significant volatility in stock, currency and commodity markets exists, including decrease in crude oil prices and fluctuations in exchanges rates.

In order to prevent the widespread of COVID-19 pandemic, the Government of the Republic of Azerbaijan keeps taking comprehensive measures in all directions. As a response, in March 2020 the President of the Republic of Azerbaijan signed a decree for action plans to minimize the impact of the pandemic. In accordance with this decree, anti-crisis stimulus package of AZN 2,500,000 thousand is being developed to support individuals and various businesses in the country. Also, the CBAR continues its monetary policy to ensure stability of AZN exchange rates. The Bank continues to assess pandemic effect and changing micro- and macroeconomic conditions on its activities, financial position and financial results.

In the first half of 2020 the global economy was negatively impacted by coronavirus pandemic (COVID-19) spread. By June-July 2020 many countries have started to demonstrate signs of reduced spread of the pandemic. And the authorities started to gradually lift or ease restrictions. This tendency has supported a recovery in global financial and commodity markets. However, the peak of the pandemic in the countries was reached during the months of June-July 2020, and as a result the lock-down measures became even more stringent. These measures resulted in gradual reduction of novel coronavirus cases, and by August 2020 many governments, including the Government of the Republic of Azerbaijan started easing restrictions. In December 2020, second wave of COVID-19 hit the country. The Government of the Republic of Azerbaijan has again implemented few measures to control the pandemic.

Bank conducts all of its operations in the Republic of Azerbaijan. The economy of the Republic of Azerbaijan is particularly sensitive to oil and gas prices. During the recent years the Government of the Republic of Azerbaijan initiated major economic and social reforms to accelerate transition to a more balanced economy and reduce dependence on oil and gas sector.

In the year 2019 the CBAR continued easing monetary conditions while maintaining stability of the Azerbaijani manat. As a result, CBAR refinancing rate was reduced from 9.8% to 7.5% p.a. In addition, significant foreign currency sales were made to maintain stability of the Azerbaijani manat, which was kept flat at 1.7000 for 1 USD throughout the period

During period of March-June 2020 the increasingly restrictive lock-down measures to combat COVID-19 in the country were significantly reducing economic activity and aggregate spending levels. Social distancing and quarantine measures were resulting in the closure of retail, transport, travel, catering, hotel, entertainment and many other businesses. The activity of international trade was also significantly reduced. Finally, oil prices have tumbled to historical lows and moderately recovered by the end of the period. Support package was introduced by the Government of the Republic of Azerbaijan and the CBAR to counter the economic downturn caused by the COVID-19 pandemic. These measures include, but are not limited to, subsidized lending to affected industries, payments to unemployed individuals and easing of certain regulatory restrictions to help the financial sector maintain its capabilities to provide resources and help customers avoid liquidity shortages as a result of the COVID-19 containment measures. On 23 April 2020, the CBAR decided to reduce the minimum required capital adequacy ratio from 12.0% to 11.0% for banks of systematic importance, which include the Bank, and from 10.0% to 9.0% for all other banks.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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24 Contingencies and commitments (continued)

#### Legal proceedings

From time to time and in the normal course of business, claims against the Bank are received from customers and counterparties. However, there is no material case against the Bank as at December 31, 2020. The Bank has filed various legal cases against the defaulted customers for the recovery of outstanding amount or for the realization of the collateral.

#### Taxation

Commercial legislation of the Republic of Azerbaijan, including tax legislation, may allow more than one interpretation. In addition, there is a risk of tax authorities making arbitrary judgments of business activities. If a treatment, based on management's judgment of the Bank's business activities, was to be challenged by the tax authorities, the Bank may be assessed for additional taxes, penalties and interest. Such uncertainty may relate to the valuation of financial instruments, valuation of provision for impairment losses and the market pricing of deals. Additionally, such uncertainty may relate to the valuation of temporary differences on the provision and recovery of the provision for impairment losses on loans and advances to customers and receivables, as an underestimation of the taxable profit.

Generally, taxpayers are subject to tax audits with respect to three calendar years preceding the year of the audit. However, completed audits do not exclude the possibility of subsequent additional tax audits performed by upper-level tax inspectorates reviewing the results of tax audits of their subordinate tax inspectorates.

25 Capital management

#### Compliance with regulatory ratios

Central Bank of Azerbaijan requires banks to maintain certain prudential ratios computed based on statutory financial statements. As at December 31, 2020, the management believes that the Bank was in compliance with these ratios except mentioned below.

#### Capital management policies and procedures

The Bank's objectives when managing capital are to comply with the capital requirements set by the CBAR, to safeguard the Bank's ability to continue as a going concern and to maintain a sufficient capital base to achieve a capital adequacy ratio of at least 11%.

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

Under the current capital requirements set by the CBAR, banks have to: (a) hold the minimum level of share capital of AZN 50,000,000; (b) maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") at or above a prescribed minimum of 11% 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%. As a result of verbal understanding between Presidents of the Islamic Republic of Pakistan and the Republic of Azerbaijan in 2015, the Bank got an exemption from the CBAR's requirement regarding the minimum level of share capital for twenty years. The Management believes that the Bank is in compliance with the rest of the statutory requirements of the CBAR as at December 31, 2020.



# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

#### 25 Capital management (continued)

##### Capital adequacy ratio

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain amounts and ratios of total and tier 1 capital to risk weighted assets. The capital to risk weighted assets ratio was calculated in accordance with the guidelines issued by regulator on capital adequacy using the principles employed by the Basel Committee by applying following risk estimates to the assets and off-balance sheet commitments net of allowances for impairment losses. The Capital ratios as per reports submitted by the management to the CBAR are as under:

	2020	2019
	AZN	AZN
Tier 1 capital before deductions	9,519,819	9,733,425
Less: Deductions	<u>(59,401)</u>	<u>(57,575)</u>
Tier 1 capital after deductions	9,460,418	9,675,850
Tier 2 capital	<u>12,460</u>	<u>13,470</u>
Total regulatory capital held	<u>9,472,878</u>	<u>9,689,320</u>
Total risk weighted assets	2,890,220	3,094,480
Total regulatory capital ratio (minimum requirement 11% (2019: 11%))	327.76%	313.12%
Tier 1 capital ratio (minimum requirement 6% (2019: 5%))	<u>327.33%</u>	<u>312.68%</u>

#### 26 Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of assets and liabilities:

	Notes	2020	2019
		AZN	AZN
<b>Financial assets</b>			
<b>Financial assets measured at amortized assets:</b>			
Cash and balances with Central Bank	5	2,674,649	2,037,163
Balances with other banks	7	263,188	341,971
Loans and advances to customers	8	1,614,221	1,637,847
Investments held to maturity	9	6,981,280	5,390,466
Other assets	12	<u>10,686</u>	<u>10,660</u>
Total		<u>11,544,024</u>	<u>9,418,107</u>
<b>Financial liabilities</b>			
<b>Financial liabilities measured at amortized assets:</b>			
Due to banks and other financial institutions	13	360	360
Customers' accounts	14	2,911,915	406,817
Other liabilities	15	<u>9,268</u>	<u>96,519</u>
Total		<u>2,921,543</u>	<u>503,696</u>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial instrument risk

27.1 Fair value measurement of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Differences can therefore arise between the carrying values under the historical cost method and fair value estimates. As per management's estimates fair value of the Bank's financial instruments that are not carried at fair value in the statement of financial position is stated below:

	2020		2019	
	Carrying value	Approximate Fair value	Carrying value	Approximate Fair value
	AZN	AZN	AZN	AZN
<b>Financial assets:</b>				
Cash and balances with Central Bank	2,674,649	2,674,649	2,037,163	2,037,163
Balances with other banks	263,188	263,188	341,971	341,971
Loans and advances to customers	1,614,221	1,614,221	1,637,847	1,637,847
Investments held to maturity	6,981,280	6,981,280	5,390,466	5,390,466
Other assets	10,686	10,686	10,660	10,660
<b>Total</b>	<b>11,544,024</b>	<b>11,544,024</b>	<b>9,418,107</b>	<b>9,418,107</b>
<b>Financial liabilities:</b>				
Due to banks and other financial institutions	360	360	360	360
Customers' accounts	2,911,915	2,911,915	406,817	406,817
Other liabilities	9,268	9,268	96,519	96,519
<b>Total</b>	<b>2,921,543</b>	<b>2,921,543</b>	<b>503,696</b>	<b>503,696</b>

Sufficient financial assets are available to meet the financial liabilities.

Assets and liabilities in the statement of financial position measured at fair value are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial instrument risk (continued)

27.1 Fair value measurement of financial instruments (continued)

The following table shows the Levels within the hierarchy of financial assets and liabilities as at December 31, 2020 and December 31, 2019:

	Level 1 AZN	Level 2 AZN	Level 3 AZN	Total AZN
<b>December 31, 2020</b>				
Assets for which fair values are disclosed:				
Cash and balances with Central Bank	-	-	2,674,649	2,674,649
Balances with other banks	-	-	263,188	263,188
Loans and advances to customers	-	-	1,614,221	1,614,221
Investments held to maturity	-	-	6,981,280	6,981,280
Other assets	-	-	10,686	10,686
Liabilities for which fair values are disclosed:				
Due to banks and other financial institutions	-	-	360	360
Customers' accounts	-	-	2,911,915	2,911,915
Other liabilities	-	-	9,268	9,268
<b>December 31, 2019</b>				
Assets for which fair values are disclosed:				
Cash and balances with Central Bank	-	-	2,037,163	2,037,163
Balances with other banks	-	-	341,971	341,971
Loans and advances to customers	-	-	1,637,847	1,637,847
Investments held to maturity	-	-	5,390,466	5,390,466
Other assets	-	-	10,660	10,660
Liabilities for which fair values are disclosed:				
Due to banks and other financial institutions	-	-	360	360
Customers' accounts	-	-	406,817	406,817
Other liabilities	-	-	96,519	96,519

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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27 Financial instrument risk (continued)

27.2 Risk management objectives and policies

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Bank's risk management is coordinated at its head office, in close cooperation with the board of directors (Board). The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of non-derivative financial instruments.

The Bank is exposed to various risks in relation to financial instruments. The Bank's financial assets and liabilities by category are summarised in note 26. The main types of risks are market risk, credit risk, liquidity risk and operational risk.

#### Market risk

Market risk is the risk that market prices and rates can change, and this can have an adverse effect on profitability and/or capital. The Bank is exposed to number of market risks relating to its daily operations, arising from open positions in interest rates and currency, all of which are exposed to general and specific market movements. For the purpose of market risk, management identifies its main market risk factors as equity position risk, interest rate risk and foreign currency risk. The predominant market risk is foreign currency risk and interest rate risk. The Bank is not exposed significantly to equity position risk as it has no capital market operations.

The Bank, as a matter of policy, seeks to identify, measure, monitor and control market risks in order to protect against adverse movement in market prices and rates and to optimize the risk / return profile of its open positions. The Board mainly oversees development and implementation of market risk policy and risk measuring / monitoring methodology and review and reporting of market risks against limits.

#### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk is the risk that the earnings and/or capital will fluctuate due to changes in foreign exchange rates. The Bank's foreign exchange exposure consists of foreign currency cash on hand, balances with CBAR, balances with other banks, and customers' accounts.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial Instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Foreign currency risk (continued)

The Bank manages its foreign exchange exposures by matching foreign currency assets and liabilities. Net open position and counterparty limits have been established to limit risk concentration.

Foreign currency denominated financial assets and liabilities which expose the Bank to currency risk are disclosed below.

	Foreign currency exposure		
	USD	EUR	Total
<b>December 31, 2020</b>	<b>AZN</b>	<b>AZN</b>	<b>AZN</b>
- Financial assets	217,716	115,645	333,361
- Financial liabilities	(266,739)	(36,777)	(303,516)
Total exposure – net	<b>(49,023)</b>	<b>78,868</b>	<b>29,845</b>
	Foreign currency exposure		
	USD	EUR	Total
December 31, 2019	AZN	AZN	AZN
- Financial assets	396,937	49,942	446,879
- Financial liabilities	(364,696)	(301)	(364,997)
Total exposure – net	32,241	49,641	81,882

The following table illustrates the sensitivity of profit/(loss) before tax and equity in regard to the Bank's financial assets and financial liabilities and the USD/AZN exchange rate and EUR/AZN exchange rate 'all other things being equal'. It assumes a  $\pm 10\%$  change of the USD/AZN exchange rate for the year ended at December 31, 2020 (2019:  $\pm 10\%$ ). A  $\pm 10\%$  change is considered for the EUR/AZN exchange rate (2019:  $\pm 10\%$ ). The sensitivity analysis is based on the Bank's foreign currency financial instruments held at each reporting date.

If the AZN had weakened against the USD by 10% (2019: 10%) and EUR by 10% (2019: 10%) respectively then this would have had the following impact:

	Profit/(loss) before tax		Equity	
	USD	EUR	USD	EUR
	AZN	AZN	AZN	AZN
<b>December 31, 2020</b>	<b>(4,902)</b>	<b>7,887</b>	<b>(3,922)</b>	<b>6,310</b>
December 31, 2019	3,224	4,964	2,579	3,971

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial Instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Foreign currency risk (continued)

If the AZN had strengthened against the USD by 10% (2019: 10%) and EUR by 10% (2019: 10%) respectively then this would have had the following impact:

	Profit/(loss) before tax		Equity	
	USD AZN	EUR AZN	USD AZN	EUR AZN
<b>December 31, 2020</b>	<b>4,902</b>	<b>(7,887)</b>	<b>3,922</b>	<b>(6,310)</b>
December 31, 2019	(3,224)	(4,964)	(2,579)	(3,971)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank sets limits on the level of mismatch of interest rate re-pricing and value at risk that may be undertaken, which is monitored daily by Risk Management Specialist.

The table below illustrates the sensitivity of profit/(loss) before tax and equity to a reasonably possible change in interest rates of  $\pm 1\%$  (2019:  $\pm 1\%$ ). These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the interest-bearing financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variables are held constant. There are no interest bearing deposits therefore sensitivity analysis related to interest expenses is not relevant.

	Profit/(loss) before tax		Equity	
	AZN	AZN	AZN	AZN
<b>December 31, 2020</b>	<b>+1%</b>	<b>-1%</b>	<b>+1%</b>	<b>-1%</b>
Net Interest Income	<b>85,955</b>	<b>(85,955)</b>	<b>68,764</b>	<b>(68,764)</b>
December 31, 2019				
Net Interest Income	70,283	(70,283)	56,226	(56,226)

**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Notes to the financial statements (continued)**  
**For the year ended December 31, 2020**

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Interest rate risk (continued)

The following table illustrates level of mismatch of interest rate re-pricing:

	Effective average interest rate	Within 1 month	More than 1 month but within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years	Non- interest bearing	Total
December 31, 2020	%	AZN	AZN	AZN	AZN	AZN	AZN	AZN
<b>Financial assets:</b>								
Cash and balances with Central Bank	-	-	-	-	-	-	2,674,649	2,674,649
<b>Balances with other banks</b>	-	-	-	-	-	-	263,188	263,188
<b>Loans and advances to customers</b>	15.68%	1,592,448	-	-	21,773	-	-	1,614,221
<b>Investments held to maturity</b>	5.65% – 7.8%	46,962	30,560	26,258	6,877,500	-	-	6,981,280
<b>Other assets</b>	-	-	-	-	-	-	10,686	10,686
		<b>1,639,410</b>	<b>30,560</b>	<b>26,258</b>	<b>6,899,273</b>	<b>-</b>	<b>2,948,523</b>	<b>11,544,024</b>
<b>Financial liabilities:</b>								
Due to banks and other financial	-	-	-	-	-	-	360	360
Customer accounts	-	-	-	-	-	-	2,911,915	2,911,915
Other liabilities	-	-	-	-	-	-	9,268	9,268
		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,921,543</b>	<b>2,921,543</b>
<b>Total interest re-pricing gap</b>		<b>1,639,410</b>	<b>30,560</b>	<b>26,258</b>	<b>6,899,273</b>	<b>-</b>	<b>26,980</b>	<b>8,622,481</b>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Interest rate risk (continued)

The following table illustrates level of mismatch of interest rate re-pricing:

	Effective average interest rate	Within 1 month	More than 1 month but within 3 months	More than 3 months but within 1 year	More than 1 year but within 5 years	More than 5 years	Non- interest bearing	Total
December 31, 2019	%	AZN	AZN	AZN	AZN	AZN	AZN	AZN
<b>Financial assets:</b>								
Cash and balances with Central Bank	-	-	-	-	-	-	2,037,163	2,037,163
Balances with other banks	-	-	-	-	-	-	341,971	341,971
Loans and advances to customers	15.68%	1,613,368	-	-	24,479	-	-	1,637,847
Investments held to maturity	5.01% – 8.0%	-	-	5,390,466	-	-	-	5,390,466
Other assets	-	-	-	-	-	-	10,660	10,660
		1,613,368	-	5,390,466	24,479	-	2,389,794	9,418,107
<b>Financial liabilities:</b>								
Due to banks and other financial	-	-	-	-	-	-	360	360
Customer accounts	-	-	-	-	-	-	406,817	406,817
Other liabilities	20.03%	-	-	83,617	-	-	12,902	96,519
		-	-	83,617	-	-	420,079	503,696
<b>Total interest re-pricing gap</b>		1,613,368	-	5,306,849	24,479	-	1,969,715	8,914,411



# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

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27 Financial Instrument risk (continued)

27.2 Risk management objectives and policies (continued)

#### Credit risk

Credit risk is the risk that arises from the potential that an obligor is either unwilling to perform an obligation or its ability to perform such obligation is impaired resulting in economic loss to the Bank. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties and continually assessing the creditworthiness of counter parties.

The focus of the Bank's commercial lending continues to be short-term trade related financing on a secured and self liquidating basis. The Bank will also continue its emphasis on diversification of its assets to avert large single industry or group exposure.

The Bank has developed an internal rating model, which allows it to determine the rating of counterparties. The rating of corporate borrowers is based on an analysis of the financial ratios of the borrower, and an analysis of the market and industry sector, in which the borrower operates. The model also takes into consideration various qualitative factors, such as management efficiency and borrower's market share.

The application of the internal rating model results in a standardized approach in the analysis of corporate borrowers and provides a quantitative assessment of the creditworthiness of a borrower that does not have a rating from an international rating agency. The model takes into account specific local market conditions.

The quality of the internal rating model is examined on a regular basis through an assessment of both its effectiveness and validity. The Bank revises the model when deficiencies are identified.

The Bank applies internal rating methodologies to specific corporate loans and groups of retail and small business loans, which incorporate various underlying master scales that are different from those used by international rating agencies. As a result, it is not possible to make a cross-product score comparison which would agree to the outstanding balance of loans and advances to customers per the statement of financial position. As such, more detailed information is not being presented.

The banking industry is generally exposed to credit risk through its financial assets and contingent liabilities. The credit risk exposure of the Bank is concentrated within the Azerbaijan Republic. The exposure is monitored on a regular basis to ensure that the credit limits and credit worthiness guidelines established by the Bank's risk management policy are not breached.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Credit risk (continued)

The following table details the gross carrying value of financial assets and those that are impaired:

	Gross value	Impaired	Net carrying value
	AZN	AZN	AZN
<b>December 31, 2020</b>			
<b>Financial assets:</b>			
Cash and balances with Central Bank	2,674,649	-	2,674,649
Balances with other banks	265,846	(2,658)	263,188
Loans and advances to customers	2,221,755	(607,534)	1,614,221
Investments held to maturity	6,981,280	-	6,981,280
Other assets	10,686	-	10,686
	<b>12,154,216</b>	<b>(610,192)</b>	<b>11,544,024</b>
<b>December 31, 2019</b>			
<b>Financial assets:</b>			
Cash and balances with Central Bank	1,881,642	-	1,881,642
Balances with other banks	345,425	(3,454)	341,971
Loans and advances to customers	2,246,494	(608,647)	1,637,847
Investments held to maturity	5,390,466	-	5,390,466
Other assets	10,660	-	10,660
	<b>9,874,687</b>	<b>(612,101)</b>	<b>9,262,586</b>

#### Net exposure of credit risk

The Banks net exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the net exposure to credit risk of on-balance sheet and off-balance sheet financial assets. For financial assets in the statement of financial position, the net exposure is equal to the carrying amount of those assets prior to any collateral. The Bank's net exposure to credit risk under contingent liabilities and 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. While determining the reserves for doubtful debts, the Bank considers the pledges or mortgages in hand.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial Instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Credit risk (continued)

#### Net exposure of credit risk (continued)

	Net exposure AZN	Eligible collateral pledged AZN	Net exposure AZN
<b>December 31, 2020</b>			
Cash and balances with Central Bank	2,674,649	-	2,674,649
Balances with other banks	263,188	-	263,188
Loans and advances to customers	1,614,221	(18,188)*	1,596,033
Investments held to maturity	6,981,280	-	6,981,280
Other assets	10,686	-	10,686
	Net exposure AZN	Eligible collateral pledged AZN	Net exposure AZN
December 31, 2019			
Cash and balances with Central Bank	2,037,163	-	2,037,163
Balances with other banks	341,971	-	341,971
Loans and advances to customers	1,637,847	(18,188)	1,619,659
Investments held to maturity	5,390,466	-	5,390,466
Other assets	10,660	-	10,660

\* The total amount of gross collateral as at December 31, 2020 is AZN 3,158,600. AZN 18,188 includes only those eligible collateral where 100% haircut has not applied.

#### Off-balance sheet risk

The Bank applies fundamentally the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

#### Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

The Bank monitors the maintenance of statement of financial position liquidity ratios, depositors' concentration both in terms of the overall funding mix and avoidance of undue reliance on large individual deposits and liquidity contingency plans. Moreover, core retail deposits (current accounts and saving accounts) form a considerable part of the Bank's overall funding and significant importance is attached to the stability and growth of these deposits.

	Within 1 month AZN	More than 1 month but within 3 months AZN	More than 3 months but within 1 year AZN	More than 1 year but within 5 years AZN	More than 5 years AZN	Undefined maturity AZN	Total AZN
<b>December 31, 2020</b>							
<b>Financial assets:</b>							
Cash and balances with Central Bank	-	-	-	-	-	2,674,649	2,674,649
Balances with other banks	-	-	-	-	-	263,188	263,188
Loans and advances to customers	1,592,448	-	-	21,773	-	-	1,614,221
Investments held to maturity	46,962	30,560	26,258	6,877,500	-	-	6,981,280
Other assets	-	-	-	-	-	10,686	10,686
	<b>1,639,410</b>	<b>30,560</b>	<b>26,258</b>	<b>6,899,273</b>	<b>-</b>	<b>2,948,523</b>	<b>11,544,024</b>

**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Notes to the financial statements (continued)**  
**For the year ended December 31, 2020**

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Liquidity risk (continued)

	Within 1 month AZN	More than 1 month but within 3 months AZN	More than 3 months but within 1 year AZN	More than 1 year but within 5 years AZN	More than 5 years AZN	Undefined maturity AZN	Total AZN
<b>December 31, 2020</b>							
<b>Financial liabilities:</b>							
Due to banks and other financial institutions	-	-	-	-	-	360	360
Customers' accounts	-	-	-	-	-	2,911,915	2,911,915
Other liabilities	-	-	-	-	-	9,268	9,268
	-	-	-	-	-	2,921,543	2,921,543
On-balance sheet liquidity gap	1,639,410	30,560	26,258	6,899,273	-	26,980	8,622,481

**National Bank of Pakistan Baku Branch**  
**Financial Statements**

**Notes to the financial statements (continued)**  
**For the year ended December 31, 2020**

27 Financial instrument risk (continued)

27.2 Risk management objectives and policies (continued)

Liquidity risk (continued)

	Within 1 month AZN	More than 1 month but within 3 months AZN	More than 3 months but within 1 year AZN	More than 1 year but within 5 years AZN	More than 5 years AZN	Undefined maturity AZN	Total AZN
December 31, 2019							
<b>Financial assets:</b>							
Cash and balances with Central Bank	-	-	-	-	-	2,037,163	2,037,163
Balances with other banks	-	-	-	-	-	341,971	341,971
Loans and advances to customers	1,613,368	-	-	24,479	-	-	1,637,847
Investments held to maturity	-	-	5,390,466	-	-	-	5,390,466
Other assets	-	-	-	-	-	10,660	10,660
	1,613,368	-	5,390,466	24,479	-	2,389,794	9,418,107
<b>Financial liabilities:</b>							
Due to banks and other financial institutions	-	-	-	-	-	360	360
Customers' accounts	-	-	-	-	-	406,817	406,817
Other liabilities	-	-	83,617	-	-	12,902	96,519
	-	-	83,617	-	-	420,079	503,696
On-balance sheet liquidity gap	1,613,368	-	5,306,849	24,479	-	1,969,715	8,914,411

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

27 Financial Instrument risk (continued)

27.2 Risk management objectives and policies (continued)

#### Operational risk

The Bank's operational risk is related to possible losses which may be incurred as a result of failures occurring in the Bank's day-to-day operations, such as breakdown in electronic and telecommunication, routines or other systems - additional factors being insufficient levels of professional skills or human errors. In order to keep the Bank's operational risks to a minimum level, various tools are used to manage operational risk using a common categorization of risk.

The Bank's approach to operational risk is not designed to eliminate risk, rather, to contain it within the acceptable levels, as determined by senior management, and to ensure that they have sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses.

28 Concentration of financial instruments

The majority of concentration of financial assets and liabilities related to banking activities is within the boundaries of Azerbaijan Republic. The following is the detail of geographical concentration of financial instruments:

	Azerbaijan Republic	OECD Countries	Non- OECD countries	Total
December 31, 2020	AZN	AZN	AZN	AZN
<b>Financial assets:</b>				
Cash and balances with Central Bank	2,674,649	-	-	2,674,649
Balances with other banks	-	263,188	-	263,188
Loans and advances to customers	1,614,221	-	-	1,614,221
Investments held to maturity	6,981,280	-	-	6,981,280
Other assets	10,686	-	-	10,686
	<b>11,280,836</b>	<b>263,188</b>	-	<b>11,544,024</b>
<b>Financial liabilities:</b>				
Due to banks and other financial institutions	360	-	-	360
Customers' accounts	2,911,915	-	-	2,911,915
Other liabilities	9,268	-	-	9,268
	<b>2,921,543</b>	-	-	<b>2,921,543</b>
Net gap	<b>8,359,293</b>	<b>263,188</b>	-	<b>8,622,481</b>

# National Bank of Pakistan Baku Branch

## Financial Statements

### Notes to the financial statements (continued)

#### For the year ended December 31, 2020

#### 28 Concentration of financial instruments (continued)

	Azerbaijan Republic	OECD Countries	Non- OECD countries	Total
December 31, 2019	AZN	AZN	AZN	AZN
<b>Financial assets:</b>				
Cash and balances with Central Bank	2,037,163	-	-	2,037,163
Balances with other banks	-	341,971	-	341,971
Loans and advances to customers	1,637,847	-	-	1,637,847
Investments held to maturity	5,390,466	-	-	5,390,466
Other assets	10,660	-	-	10,660
	9,076,136	341,971	-	9,418,107
<b>Financial liabilities:</b>				
Due to banks and other financial institutions	360	-	-	360
Customers' accounts	406,817	-	-	406,817
Other liabilities	96,519	-	-	96,519
	503,696	-	-	503,696
Net gap	8,572,440	341,971	-	8,914,411

#### 29 Post-reporting date events and impact of COVID-19

The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for certain periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

Management of the Bank is closely observing the development of situation around outbreak of COVID-19 (Corona virus) and is taking all necessary precautions. Management believes that this will have no significant effect on Bank's operations.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government responses, remains unclear at this time. Due to the changing circumstances and extensions/changes in the quarantine regime, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the Bank's financial position and results of the Bank in future.